



QES Group Bhd

“2Q22 within expectations”

Bloomberg: QES MK | Reuters: QESG.KL | Stock Code: 0196

ACE Board

Industrial Products

BUY

TP: RM0.63

Last Closing Price: RM0.56

Initiated Price: RM0.59

Valuation / Recommendation

Results were within expectations, achieving 49.0% and 52.6% of our full year revenue and profit forecasts for FY22. Revenue for the quarter decreased qoq (-19.9%) and yoy (-2.2%) mainly due to lower sales from the distribution business.

We maintain a BUY recommendation on QES Group Bhd with a revised TP of RM0.63 based on FY23F EPS 3.2 sen and peers average PE of 19.8x. We like the stock due to its attractive growth prospects, well-positioned to leverage on the growing semiconductor industry which is forecasted by IDC to grow at a 5-year CAGR of 4.93% from 2021 to 2026.

Investment Highlights

Distribution business recorded a decrease in revenue mainly due to lower deliveries of equipment in the current quarter. Lower contributions from the distribution business were partially offset by higher revenue from the manufacturing business due to higher sales of inspection and handling equipment to semiconductor customers.

Solid order book. The company has an order book of RM122m as of July 2022 (vs RM110m as of Apr 2022) where RM27m and RM95m is from the manufacturing and distribution segment respectively, which is expected to provide earnings visibility for the next 6 to 9 months.

Factory expansion. The company has completed the renovation of its Hicom-Glenmarie new factory at Shah Alam, with its manufacturing segment running at 90% utilisation rate. We expect the factory to be fully utilised by end of FY22 with the hiring of new workers. The new factory has an overall space of 81,000 sq ft, an increase from 39,000 sq ft, where 35,000 sq ft is allocated for manufacturing. With the increased space, the company is able to increase its capacity from 50-80 machines to approximately 80-100 machines a year.

The company is also building a new factory in Batu Kawan, Penang to leverage on the existing matured supply chain within Penang. The factory will have a manufacturing space of approximately 100,000 sq ft to house a combined QES Mechatronics, QES Vision, AETM (JV between Applied Engineering Inc, USA (70%) and QES Group (30%)), and QES Distribution Penang operations. Construction of the factory is expected to begin end of 2H22.

With the expansion of the manufacturing segment, we think that the company is able to diversify its geographic revenue stream apart from the ASEAN region, well-positioned to leverage on the growing semiconductor industry.

Stable recurring income. QES has a consistent annual recurring income of approximately RM40m via the maintenance and service of large equipment installed base which contributes approximately 25% to the group revenue.

Risk factors. (1.) Material supply chain disruption (2.) Labour shortages.

INVESTMENT STATISTICS	FY20	FY21	FY22F	FY23F	FY24F
Revenue (RM m)	155.2	222.8	243.7	266.9	292.6
EBITDA (RM m)	16.4	29.9	34.9	40.5	44.2
EBITDA Margin (%)	10.6	13.4	14.3	15.2	15.1
PATMI	8.7	19.0	22.1	26.5	29.2
EPS (sen)	1.0	2.3	2.6	3.2	3.5
EPS Growth (%)	150.0	119.2	16.3	19.9	10.2
BV Per Share (sen)	14.3	16.4	17.2	18.5	19.7
PE (x)	54.9	25.0	21.5	18.0	16.3
Net Gearing (%)	Net Cash	Net Debt	Net Debt	Net Debt	Net Debt
ROA (%)	4.5	8.2	8.6	9.4	9.4
ROE (%)	7.3	13.8	15.4	17.2	17.8

Sources: Mercury Securities, Company

RESULTS (RM m)	2Q22	1Q22	qoq %	2Q21	yoy %
FY Dec					
Revenue	53.1	66.3	-19.9	54.3	-2.2
Cost of sales	40.2	49.5	-18.8	41.7	-3.6
Gross profit	12.9	16.9	-23.7	12.6	2.4
Other income	1.5	0.7	114.3	0.3	400.0
Operating expenses	1.6	1.5	6.7	1.4	14.3
Admin expenses	5.0	4.6	8.7	4.5	11.1
Other expenses	1.1	1.6	-31.3	1.3	-15.4
Profits from operation	6.8	9.9	-31.3	5.7	19.3
Finance costs	0.3	0.2	50.0	0.3	-
Associate	0.2	0.3	-33.3	-	-
Profit before tax	6.3	9.4	-33.0	5.4	18.5
Tax	1.4	2.6	-46.2	1.6	-12.5
Net profit	4.8	6.8	-29.4	3.8	26.3
EPS (sen)	0.5	0.8	-37.5	0.5	-
Diluted EPS (sen)	0.5	0.8	-37.5	0.3	66.7

Business Overview

QES Group Berhad manufactures and distributes inspection, test, measuring, analytical, and automated handling equipment. The Company offers glow discharge analyser, 3D laser scanner and radar, adhesive tester, measuring machine and microscope, profile projector, grinding wheel, mold cleaning, rubber sheet, optical inspection systems, wafer tape remover, and digital camera.

Stock Return Information

KLCI (pts)	1,482.57
Expected Share Return (%)	12.5
Expected Dividend Yield (%)	-
Expected Total Return (%)	12.5

Price Performance

	1M	3M	12M
Absolute (%)	5.7	-9.7	-32.5
Relative to Index (%)	0.9	-3.9	-2.6

Share Information

Market Cap (RM m)	467.1
Issued Shares (m)	834.1
52W High (RM)	0.835
52W Low (RM)	0.400
Estimated Free Float (%)	15.2
Beta vs FBM KLCI	0.7
3-month Average Vol. (m)	73.9

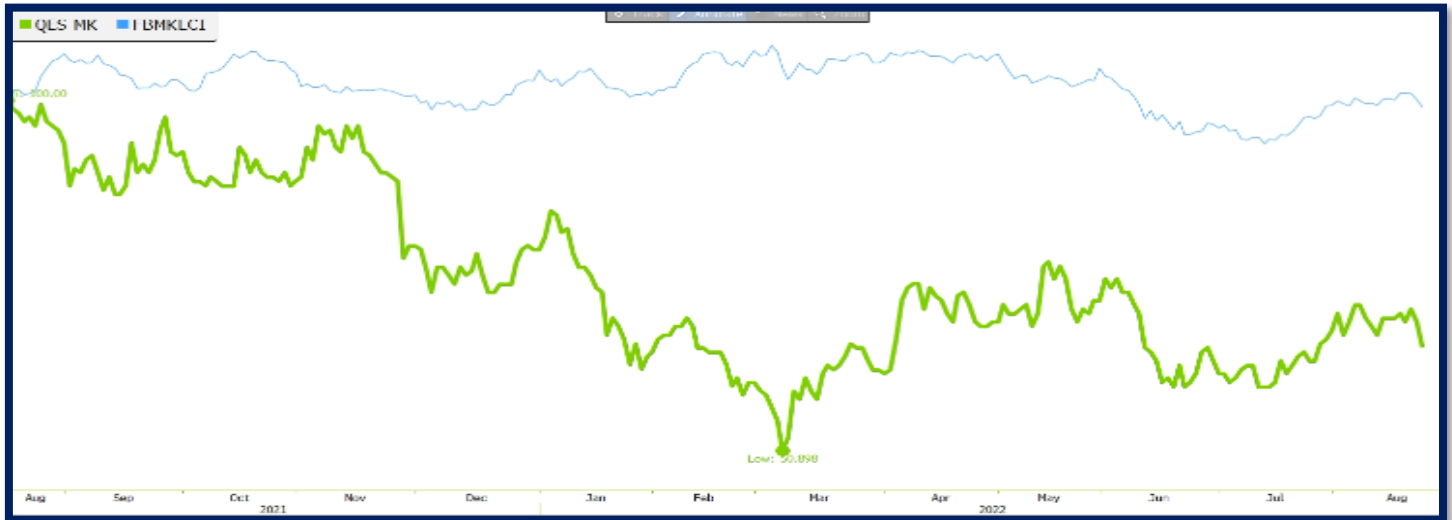
Top 3 Shareholders (%)

Chew Ne Weng	30.12
Liew Soo Keang	22.87
PMB Investment Bhd	1.36

Sources: Mercury Securities, Company, Bloomberg

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Peers Comparison

Company	Bloomberg Ticker	Share Price (RM)	Market Cap (RM'm)	PE (x)		EPS (sen)		EPS Growth	
				FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Elsoft	ELSR MK	0.73	493.6	42.1	22.3	1.7	3.2	37.9%	88.3%
Aemulus	AMLS MK	0.56	374.0	24.4	16.5	2.3	3.4	35.3%	47.9%
Pentamaster	PENT MK	4.08	2,902.2	31.9	25.5	13.0	16.0	30.0%	23.1%
MI Tech	MI MK	1.24	1,111.1	18.5	14.9	6.4	7.9	-14.7%	23.4%
Average				29.2	19.8				

Sources: Mercury Securities, Bloomberg



PROFIT & LOSS (RM m) FYE Dec	FY20A	FY21A	FY22F	FY23F	FY24F
Net revenue	155.2	222.8	243.7	266.9	292.6
Gross profit	36.2	51.6	58.0	66.2	72.7
Other operating income	3.3	3.8	5.1	5.6	6.1
EBIT	12.5	25.4	30.7	36.3	40.0
Operating and administrative expenses	27.6	30.2	32.9	36.0	39.5
Profit from operations	11.9	25.2	30.2	35.8	39.4
Interest expense	0.7	0.7	0.7	0.8	0.9
Other non-operating (income)/loss	-1.0	-0.9	-1.2	-1.3	-1.5
Profit before tax	11.7	25.4	30.7	36.3	40.0
Exceptional items	-	-	-	-	-
Taxation	3.1	5.8	7.9	9.1	10.0
Minority interests	0.0	0.6	0.7	0.8	0.8
Profit after tax (PATMI)	8.7	19.0	22.1	26.5	29.2
Preferred dividends / adjustments	-	-	-	-	-
Recurring net profit	8.7	19.0	22.1	26.5	29.2
BALANCE SHEET (RM m) FYE Dec	FY20A	FY21A	FY22F	FY23F	FY24F
Cash & equivalents	55.0	25.5	18.5	13.6	8.2
Trade & other receivables	39.6	61.7	78.2	84.4	91.9
Inventories	18.9	20.7	24.8	28.4	33.7
Other current assets	54.6	76.7	76.6	76.6	77.9
Current assets	168.0	184.6	198.1	203.0	211.6
Property, plant & equipment	10.4	34.0	49.8	68.6	84.4
Other non-current assets	13.0	11.5	9.9	9.8	13.7
Non-current assets	23.3	45.5	59.7	78.4	98.1
Trade & other payables	29.2	45.7	63.6	61.1	80.6
Short-term borrowings	11.5	10.3	15.0	24.0	28.0
Other current liabilities	10.5	17.2	19.7	23.6	25.2
Current liabilities	51.2	73.2	98.3	108.7	133.8
Long-term borrowings	17.3	16.7	13.0	16.0	10.0
Other non-current liabilities	4.2	2.4	2.7	2.6	2.0
Non-current liabilities	21.5	19.1	15.7	18.6	12.0
Share capital	80.8	80.8	80.8	80.8	80.8
Other equity	38.7	56.4	63.0	73.3	83.2
Total equity	119.5	137.1	143.8	154.0	163.9
CASH FLOW (RM m) FYE Dec	FY20A	FY21A	FY22F	FY23F	FY24F
Profit before tax	11.7	25.4	30.7	36.3	40.0
Depreciation & amortization	4.0	4.5	4.5	4.5	4.5
Bad debts written off	0.1	0.0	0.0	0.0	0.0
Other operating cashflow	4.8	23.6	17.5	14.1	10.9
Changes in working capital	-7.5	-0.5	-0.9	-8.3	8.3
Cashflow from operations	1.4	27.5	21.0	10.2	23.7
Purchase of PPE	-3.4	-28.1	-20.0	-23.0	-20.0
Other investing cashflow	21.3	1.4	1.8	1.3	-0.9
Cashflow from investing	17.9	-26.7	-18.2	-21.7	-20.9
Dividends paid to non-controlling interest	0.0	-0.1	0.0	0.0	0.0
Other financing cashflow	16.7	-2.1	-1.8	-1.8	-1.8
Cashflow from financing	16.7	-2.3	-1.8	-1.8	-1.8

Sources: Mercury Securities, Bloomberg

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SELL	Stock's total return is expected to be -10% or worse over the next 12 months (including dividend yield)

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