



# QES Group Bhd

## “Bright prospects ahead”

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

### Valuation / Recommendation

Results were below expectations, achieving 20.1% and 16.4% of our full year revenue and profit forecasts for FY23F. Revenue for the quarter decreased qoq (-21.4%) and yoy (-13.6%) mainly due to slower sales from the manufacturing and distribution business, and backlogs from the manufacturing segment.

We revise our revenue and earnings estimate for FY23F-FY24F downward by 2.8%-5.4% and 5.8%-8.4% due to lower contributions assumption from the manufacturing business, in line with the slowdown of the overall semiconductor industry. We maintain a BUY recommendation on QES Group Bhd with a lower TP of RM0.70 (down from RM0.81) based on FY24F EPS 3.5 sen and a PE of 20x which is in line with its peer's average. 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

**Solid order book.** The company has an order book of RM113m as of Apr 2023 (vs RM113m as of Jan 2023) where RM19m and RM94m is from the manufacturing and distribution segment respectively, which is expected to be fully recognised by FY24.

**Factory expansion.** The company has completed the renovation of its Hicom-Glenmarie new factory at Shah Alam, with its manufacturing segment running at 95% utilisation rate 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 2H23.

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-50m 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	FY22	FY23F	FY24F
Revenue (RM m)	155.2	222.8	264.4	277.6	291.5
EBITDA (RM m)	16.4	29.9	38.6	42.9	45.9
PATMI	8.7	19.0	26.4	27.5	29.6
Profit Margin (%)	5.6	9.0	10.0	9.9	10.1
EPS (sen)	1.1	2.3	3.2	3.3	3.5
EPS Growth (%)	150.0	119.2	32.5	4.0	7.7
BV Per Share (sen)	14.3	16.4	19.5	21.6	23.8
PE (x)	61.6	26.8	20.2	16.2	15.1
Net Gearing (%)	Net	Net	Net	Net	Net
	Cash	Debt	Cash	Debt	Cash
ROA (%)	4.5	8.2	10.5	9.8	9.6
ROE (%)	7.3	13.8	16.2	15.2	14.9

RESULTS (RM m)	1Q23	4Q22	qoq %	1Q22	yoy %
FY Dec					
Revenue	57.3	72.9	-21.4	66.3	-13.6
Cost of sales	-42.5	-53.8	-21.0	-49.5	-14.1
Gross profit	14.8	19.1	-22.5	16.9	-12.4
Other income	1.2	0.2	500.0	0.8	50.0
Operating expenses	-1.7	-3.9	-56.4	-1.5	13.3
Admin expenses	-5.0	-7.3	-31.5	-4.6	8.7
Other expenses	-2.0	-1.9	5.3	-1.6	25.0
Profits from operation	7.2	6.1	18.0	9.9	-27.3
Finance costs	-0.4	-0.4	-	-0.2	100.0
Associate	-0.3	-0.1	200.0	-0.3	-
Profit before tax	6.5	5.6	16.1	9.4	-30.9
Tax	-1.7	-0.3	466.7	-2.6	-34.6
Net profit	4.8	5.9	-18.6	6.8	-29.4
EPS (sen)	0.6	0.7	-14.3	0.8	-25.0
Diluted EPS (sen)	0.6	0.7	-14.3	0.8	-25.0

### 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)	1,428.54
Expected Share Return (%)	32.1
Expected Dividend Yield (%)	-
Expected Total Return (%)	32.1

### Price Performance

	1M	3M	12M
Absolute (%)	-8.5	-12.9	-12.9
Relative to Index (%)	-8.7	-10.5	-6.2

### Share Information

Market Cap (RM m)	446.3
Issued Shares (m)	834.14
52W High (RM)	0.765
52W Low (RM)	0.410
Estimated Free Float (%)	40.7
Beta vs FBM KLCI	0.8
3-month Average Vol. (m)	59.8

### Top 3 Shareholders (%)

Chew Ne Weng	30.12
Liew Soo Keang	22.87
Hong Leong Co Malaysia Bhd	1.88

Sources: Mercury Securities, Company, Bloomberg

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**Main Board**

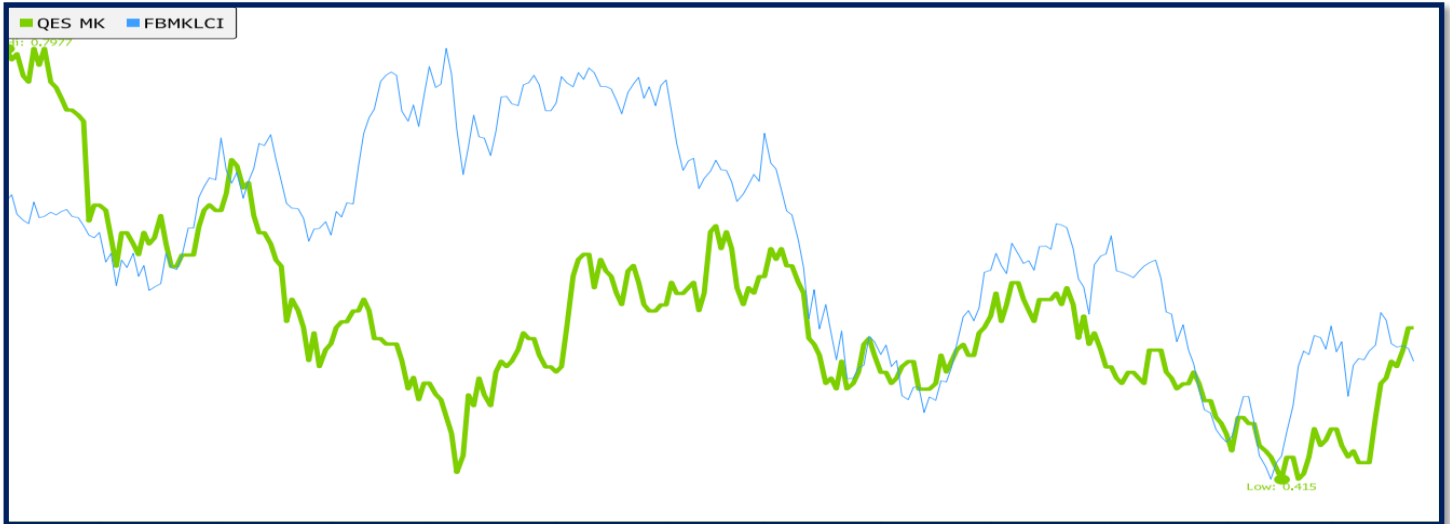
**Industrial Products**

**BUY**

**TP: RM0.70**

**Last Closing Price: RM0.53**

**Initiated Price: RM0.59**



### Peers Comparison

Company	Bloomberg Ticker	Share Price (RM)	Market Cap (RM'm)	PE (x)		EPS (sen)		EPS Growth	
				FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Pentamaster	PENT MK	4.85	3,414.3	32.3	26.5	15.0	18.3	29.5%	22.0%
MI Tech	MI MK	1.43	1,208.3	21.0	15.7	6.8	9.1	-11.6%	33.8%
Elsoft	ELSR MK	0.54	348.4	36.0	22.5	1.5	2.4	-76.3%	60.0%
Aemulus	AMLS MK	0.34	217.3	33.5	18.6	1.0	1.8	-50.0%	80.0%
Average				30.7	20.8				

Sources: Mercury Securities, Bloomberg



<b>PROFIT &amp; LOSS (RM m) FYE Dec</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23F</b>	<b>FY24F</b>
Net revenue	155.2	222.8	264.4	277.6	291.5
Gross profit	36.2	51.6	70.9	75.1	80.0
Other operating income	3.3	3.8	2.8	5.6	5.8
EBIT	12.5	26.4	34.4	38.7	41.7
Operating and administrative expenses	27.6	29.2	37.1	40.3	42.3
Profit from operations	11.9	26.2	36.4	40.4	43.6
Interest expense	0.7	0.7	1.4	1.5	1.6
Other non-operating (income)/loss	-1.0	-0.9	0.0	0.0	0.0
<b>Profit before tax</b>	<b>11.7</b>	<b>26.3</b>	<b>34.4</b>	<b>38.9</b>	<b>42.0</b>
Exceptional items	-	-	-	-	-
Taxation	3.1	5.8	6.6	9.7	10.5
Minority interests	0.0	0.6	1.3	1.7	1.9
<b>Profit after tax (PATMI)</b>	<b>8.7</b>	<b>19.9</b>	<b>26.4</b>	<b>27.5</b>	<b>29.6</b>
Preferred dividends / adjustments	-	-	-	-	-
Recurring net profit	8.7	19.9	26.4	27.5	29.6
<b>BALANCE SHEET (RM m) FYE Dec</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23F</b>	<b>FY24F</b>
Cash & equivalents	55.0	25.5	33.3	38.5	40.6
Trade & other receivables	39.6	61.7	69.9	63.7	71.7
Inventories	18.9	20.7	27.3	24.1	30.7
Other current assets	54.6	76.7	61.9	76.6	65.8
<b>Current assets</b>	<b>168.0</b>	<b>184.6</b>	<b>192.5</b>	<b>202.8</b>	<b>208.8</b>
Property, plant & equipment	10.4	34.0	43.6	68.6	84.4
Other non-current assets	13.0	11.5	14.9	9.8	13.7
<b>Non-current assets</b>	<b>23.3</b>	<b>45.5</b>	<b>58.4</b>	<b>78.4</b>	<b>98.1</b>
Trade & other payables	29.2	45.7	48.3	44.2	55.9
Short-term borrowings	11.5	10.3	7.0	24.0	28.0
Other current liabilities	10.5	17.2	13.3	13.9	12.7
<b>Current liabilities</b>	<b>51.2</b>	<b>73.2</b>	<b>68.7</b>	<b>82.1</b>	<b>96.5</b>
Long-term borrowings	17.3	16.7	16.0	16.0	10.0
Other non-current liabilities	4.2	2.4	3.5	2.6	2.0
<b>Non-current liabilities</b>	<b>21.5</b>	<b>19.1</b>	<b>19.5</b>	<b>18.6</b>	<b>12.0</b>
Share capital	80.8	80.8	80.8	80.8	80.8
Other equity	38.7	57.1	81.9	99.7	117.6
<b>Total equity</b>	<b>119.5</b>	<b>137.9</b>	<b>162.6</b>	<b>180.5</b>	<b>198.4</b>
<b>CASH FLOW (RM m) FYE Dec</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23F</b>	<b>FY24F</b>
Profit before tax	11.7	25.4	34.4	38.9	42.0
Depreciation & amortization	4.0	4.5	4.9	4.5	4.5
Bad debts written off	0.1	0.0	0.1	0.0	0.0
Other operating cashflow	-3.0	-4.7	-6.8	-10.2	-11.1
Changes in working capital	-7.5	-1.6	-17.3	5.8	-4.3
<b>Cashflow from operations</b>	<b>5.2</b>	<b>23.6</b>	<b>14.7</b>	<b>39.0</b>	<b>31.1</b>
Purchase of PPE	-3.4	-28.1	-13.6	-23.0	-20.0
Other investing cashflow	21.3	1.4	-2.0	0.9	-1.1
<b>Cashflow from investing</b>	<b>17.9</b>	<b>-26.7</b>	<b>-15.7</b>	<b>-22.1</b>	<b>-21.1</b>
Dividends paid to non-controlling interest	0.0	-0.1	-1.0	0.0	0.0
Other financing cashflow	16.7	-2.1	-6.6	-1.8	-1.8
<b>Cashflow from financing</b>	<b>16.7</b>	<b>-2.3</b>	<b>-7.6</b>	<b>-1.8</b>	<b>-1.8</b>

Sources: Mercury Securities, Bloomberg

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