



QES Group Bhd

“Promising horizons await”

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

Main Board
Industrial Products
BUY
TP: RM0.70
Last Closing Price: RM0.60
Initiated Price: RM0.59

Valuation / Recommendation

Results were within expectations, achieving 47.6% and 44.6% of our full year revenue and profit forecasts for FY23F. Revenue for the quarter increased qoq (+16.8%) and yoy (+26.1%) due to increase in sales from both the distribution and manufacturing divisions.

We revise our revenue and earnings estimate for FY23F and FY24F by -6.1% and -5.4% as well as +0.2% and -1.0%, in line with the slowdown of the overall semiconductor industry. We maintain a BUY recommendation on QES Group Bhd with a TP of RM0.70 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 RM106 m as of Jul 2023 (vs RM113m as of Apr 2023) where RM15m and RM91m are from the manufacturing and distribution divisions respectively, which are expected to be recognised by FY24.

Factory expansion. The company is 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 the combined operations between QES Mechatronics, QES Vision, QES Distribution Penang, and AETM (JV between Applied Engineering Inc, USA; space division will be 70% for AETM and 30% for QES Group). 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 ~RM50m via the maintenance and service of large equipment installed base which contributes approximately 20%-25% to the group revenue.

Solid financial position. As at June 2023, the company has a cash position of RM42.5m, up RM9.2m (+27.6%) yoy. This presents a financial buffer which positions the company for potential lucrative investment opportunities.

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	260.8	292.1
EBITDA (RM m)	16.4	30.8	38.6	41.0	45.6
PATMI	8.7	19.9	26.4	26.1	29.3
Profit Margin (%)	5.6	9.0	10.0	10.0	10.0
EPS (sen)	1.0	2.4	3.2	3.1	3.5
EPS Growth (%)	150.0	130.3	32.5	-1.2	12.2
BV Per Share (sen)	14.3	16.5	19.5	21.0	23.9
PE (x)	51.5	22.4	16.9	17.1	15.2
Net Gearing (%)	-22.0	1.0	-6.3	1.4	-0.7
ROA (%)	4.5	8.7	10.5	9.7	9.2
ROE (%)	7.2	14.5	16.2	14.9	14.7

Sources: Company, Bloomberg, Mercury Securities

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)	1,451.53
Expected Share Return (%)	16.7
Expected Dividend Yield (%)	-
Expected Total Return (%)	16.7

Price Performance

	1M	3M	12M
Absolute (%)	-3.25	8.18	7.01
Relative to Index (%)	-5.14	5.35	9.11

Share Information

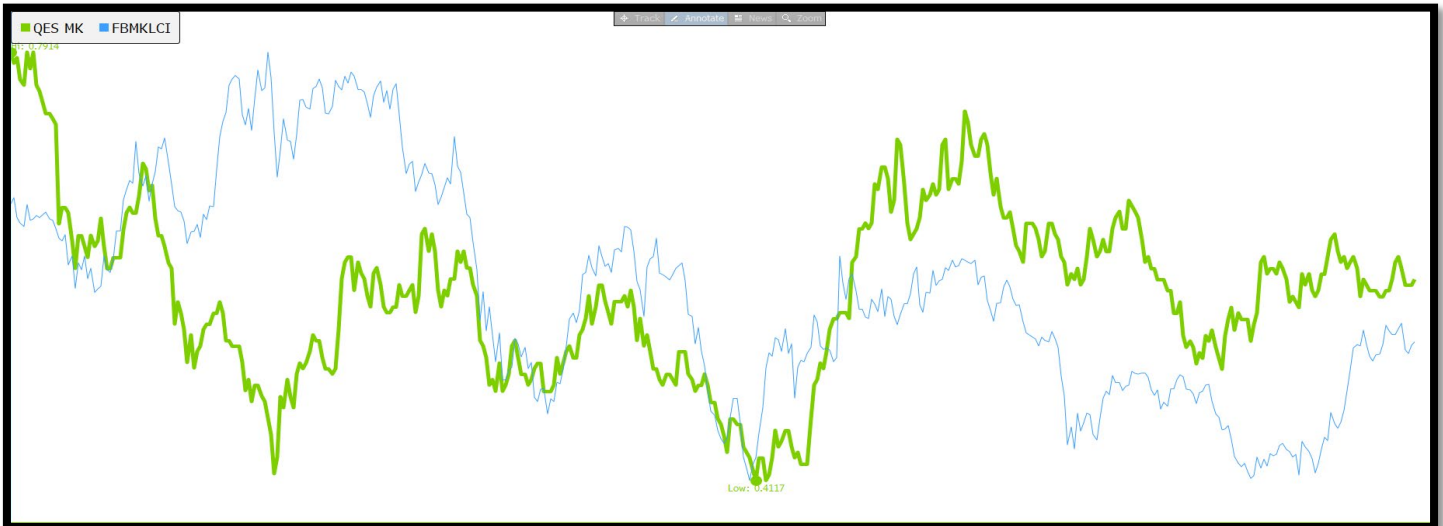
Market Cap (RM m)	492.1
Issued Shares (m)	834.1
52W High (RM)	0.765
52W Low (RM)	0.410
Estimated Free Float (%)	40.7
Beta vs FBM KLCI	0.97
3-month Average Vol. (m)	53.4

Top 3 Shareholders (%)

WA Capital	26.13
Liew Soo Keang	22.87
Chew Ne Weng	3.99

Sources: Mercury Securities, Company, Bloomberg

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Results (RM m)

FY Dec	2Q23	1Q23	qoq %	2Q22	yoy %
Revenue	67.0	57.3	16.8	53.1	26.1
Cost of sales	-49.1	-42.5	15.6	-40.2	22.2
Gross profit	17.8	14.8	20.5	12.9	38.2
Other income	2.2	1.2	80.1	1.5	44.1
Operating expenses	-2.8	-1.7	62.8	-1.6	73.0
Admin expenses	-5.5	-5.0	9.6	-5.0	9.6
Other expenses	-1.3	-2.0	-37.3	-1.1	14.0
Profits from operation	10.5	7.2	45.6	6.8	54.2
Finance costs	-0.5	-0.4	20.0	-0.3	60.0
Associate	-0.3	-0.3	-12.7	-0.2	31.0
Profit before tax	9.7	6.5	49.9	6.3	54.7
Tax	-2.3	-1.7	34.0	-1.4	62.7
Net profit	7.5	4.8	55.5	4.8	55.5
EPS (sen)	0.9	0.6	49.2	0.5	79.0
Diluted EPS (sen)	0.9	0.6	49.2	0.5	79.0

Peer 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	5.33	3770.0	36.4	29.7	14.7	18.0	19.1%	22.4%
MI Tech	MI MK	1.62	1424.2	23.2	16.5	6.9	9.7	-7.0%	40.6%
Kobay Tech	KOBAY MK	1.93	622.4	17.5	13.7	11.0	14.0	-11.6%	27.3%
Average				25.7	20.0				

Sources: Mercury Securities, Bloomberg



PROFIT & LOSS (RM m) FYE Dec	FY20A	FY21A	FY22A	FY23F	FY24F
Net revenue	155.2	222.8	264.4	260.8	292.1
Gross profit	36.2	51.6	70.9	69.4	77.7
Other operating income	3.3	3.8	2.6	7.8	8.8
EBIT	12.5	26.4	34.4	36.8	41.4
Operating and administrative expenses	27.6	29.2	37.1	37.8	42.4
Profit from operations	11.9	26.2	36.4	39.4	44.1
Interest expense	0.7	0.7	1.4	1.6	1.8
Other non-operating (income)/loss	-1.0	-0.9	0.0	0.0	0.0
Profit before tax	11.7	26.3	34.4	36.7	41.6
Exceptional items	-	-	-	-	-
Taxation	3.1	5.8	6.6	9.2	10.4
Minority interests	0.0	0.6	1.3	1.4	1.9
Profit after tax (PATMI)	8.7	19.9	26.4	26.1	29.3
Preferred dividends / adjustments	-	-	-	-	-
Recurring net profit	8.7	19.9	26.4	26.1	29.3
BALANCE SHEET (RM m) FYE Dec	FY20A	FY21A	FY22A	FY23F	FY24F
Cash & equivalents	55.0	25.5	33.3	37.6	39.5
Trade & other receivables	39.6	61.7	69.9	55.6	80.1
Inventories	18.9	20.7	27.3	21.3	34.3
Other current assets	54.6	76.7	61.9	76.6	65.8
Current assets	168.0	184.6	192.3	191.0	219.6
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
Non-current assets	23.3	45.5	58.4	78.4	98.1
Trade & other payables	29.2	45.7	48.3	37.8	66.6
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
Current liabilities	51.2	73.2	68.7	75.6	107.2
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	1.5
Non-current liabilities	21.5	19.1	19.5	18.6	11.5
Share capital	80.8	80.8	80.8	80.8	80.8
Other equity	38.7	57.1	81.9	94.4	118.2
Total equity	119.5	137.9	162.6	175.2	199.0
CASH FLOW (RM m) FYE Dec	FY20A	FY21A	FY22A	FY23F	FY24F
Profit before tax	11.7	25.4	34.4	36.7	41.6
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	-9.6	-11.0
Changes in working capital	-7.5	-1.6	-17.3	10.2	-9.9
Cashflow from operations	5.2	23.6	14.7	41.7	25.2
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
Cashflow from investing	17.9	-26.7	-15.7	-22.1	-21.1
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
Cashflow from financing	16.7	-2.3	-7.6	-1.8	-1.8

Sources: Mercury Securities, Bloomberg

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