



QES Group Berhad

Riding the wave of automotive growth

Bloomberg: QES MK | Stock Code: 0196

Main Market

Industrial Products

BUY

TP: RM0.65

Last Closing Price: RM 0.50

Initiated Price: RM0.59

Valuation / Recommendation

Results were below expectations, achieving 68.4% and 61.1% of our full year revenue and profit forecasts for FY23 respectively. This shortfall is attributed to delayed revenue shipments and slowdown of China's semiconductor industry.

We revise our revenue and earnings estimate for FY23F and FY24F by -4.3% and -5.0% as well as -4.2% and -2.7%, in line with the slowdown of the overall semiconductor industry.

We maintain a BUY recommendation on QES Group Bhd with a TP of RM0.65 (down from RM0.70) based on FY24FEPS of 3.4 sen and a PE of 19x in line with the peer 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 4.5% from 2021 to 2026.

Investment Highlights

Solid order book. The company has an order book of RM126m as of 31 Oct 2023 (up from RM106m in July 2023) which is expected to be recognised in FY24. RM106m is from the distribution division while RM20m is from the manufacturing division respectively.

Factory expansion. The company is building a new factory in Batu Kawan, Penang, to leverage on the region's well-established and robust supply chain infrastructure. The factory will have a manufacturing space of approximately 100,000 sq ft to house the combined operations between QES Mechatronic, QES Vision, QES Distribution Penang, and AETM (JV with Applied Engineering Inc, USA; space division will be ~35% for AETM and ~65% for QES Group). Construction of the factory is expected to be completed by 4Q2024, with operations also targeted to start in that period.

With the expansion of the manufacturing segment, we believe the company can diversify its geographic revenue sources beyond the ASEAN region, strategically positioning itself to capitalise 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 installed base of >7,000 active equipment which contributes approximately 20%-25% to the group revenue.

Solid financial position. As at September 2023, the company has a cash position of RM42.9m, up RM10.8m (+33.6%) yoy. This presents a financial buffer which positions the company for potential lucrative investment opportunities.

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

Investment Statistics	FY20	FY21	FY22	FY23F	FY24F
Revenue	155.2	222.8	264.4	249.7	279.7
EBITDA (RM m)	16.4	30.8	38.6	39.2	44.4
PATMI (RM m)	8.7	19.9	26.4	24.8	28.5
Profit Margin (%)	5.6	9.0	10.0	9.9	10.2
EPS (sen)	1.0	2.4	3.2	3.0	3.4
EPS Growth (%)	150.0	130.3	32.5	-6.1	15.0
BV Per Share (sen)	14.3	16.5	19.5	21.6	24.3
PE (x)	51.5	22.4	16.9	18.0	15.6
Net Gearing (%)	Cash	Cash	Cash	Cash	Cash
ROA	4.5	8.7	10.5	9.1	9.0
ROE	7.2	14.5	16.2	13.7	14.1

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)	1,448.2
Expected Share Return (%)	30.0
Expected Dividend Yield (%)	-
Expected Total Return (%)	30.0

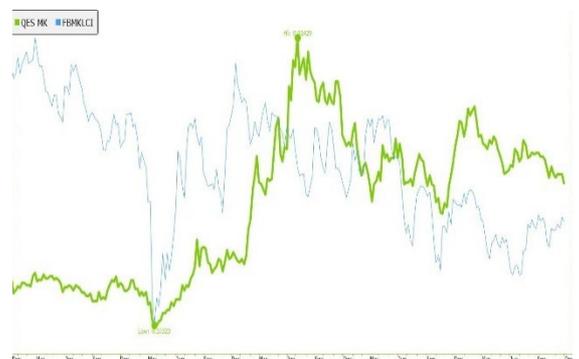
Price Performance	1M	3M	12M
Absolute (%)	-4.8	-13.9	-11.8
Relative to Index (%)	-5.2	-14.2	-9.8

Stock Return Information

Market Cap (RM m)	417.1
Issued Shares (m)	834.1
52W High (RM)	0.765
52W Low (RM)	0.49
Estimated Free Float (%)	40.7
Beta vs FBM KLCI	1.11
3-month Average Vol. (m)	46.5

Top 3 Shareholders

WA Capital Sdn Bhd	26.1
Keang Liew Soo	22.9
Weng Chew Ne	4.0



Source: Mercury Securities, Bloomberg



Quarter Results & Peer Comparisons

Quarter Results Comparison (RM m)

FY Dec	3Q2023	2Q2023	QOQ%	3Q2022	YOY%
Revenue	54.2	67.0	-19.1	72.0	-24.8
COGS	38.9	49.1	-20.8	50.0	-22.3
Gross Profit	15.3	17.8	-14.4	21.9	-30.5
Other Income	0.5	2.2	-74.9	0.7	-23.2
Marketing & Distribution Expenses	2.6	2.8	-5.1	2.1	27.1
Admin Expenses	5.5	5.5	0.5	5.7	-2.8
Other expenses	2.3	1.3	82.4	1.4	63.6
Operating Profit	5.4	10.5	-48.7	13.5	-60.2
Finance Costs	0.4	0.5	-19.2	0.5	-17.8
Share of Result of an Associate, Net of Tax	0.5	-0.3	-286.3	0.1	787.3
Profit Before Tax	5.5	9.7	-43.8	13.1	-58.2
Tax Expense	1.0	2.3	-54.2	2.9	-63.8
Net profit	4.4	7.5	-40.6	10.2	-56.6
Core net profit	4.4	7.5	-40.6	10.2	-56.6
EPS (sen)	52	82	-36.6	114	-54.4
Core EPS	52	82	-36.6	114	-54.4

Source: Mercury Securities, Bloomberg

Peer Comparison

Company	Bloomberg Ticker	Share Price (RM)	Market Cap (RM m)	P/E (x)		EPS (sen)		EPS Growth		P/BV (x)	
				FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Aurelius Technologies Bhd	ATECH MK	2.67	1,064.0	22.5	16.9	12.0	16.0	15.4%	33.3%	-	-
MI Technovation Bhd	MI MK	1.89	1,688.2	30.3	21.7	6.2	8.5	-19.4%	37.1%	1.6	1.6
ECA Integrated Solutions	ECA MK	0.52	292.4	23.8	18.6	2.5	3.2	-	28.0%	6.0	6.0
Average				25.5	19.1						

Source: Mercury Securities, Bloomberg



Key Financial Data

PROFIT & LOSS (RM m) FY Dec	FY20	FY21	FY22	FY23F	FY24F
Net Revenue	155.2	222.8	264.4	249.7	279.7
Gross Profit	36.2	51.6	70.9	67.0	76.1
Other Operating Income	3.3	3.8	2.6	5.5	7.0
EBIT	12.5	26.4	34.4	35.0	40.2
Operating & Administrative Expenses	27.6	29.2	37.1	36.2	40.6
Profit from operations	11.9	26.2	36.4	36.3	42.5
Interest Expense	0.7	0.7	1.4	1.5	1.7
Other Non-Operating (Income)/Loss	-1.0	-0.9	0.0	0.0	0.0
Profit Before Tax	11.7	26.3	34.4	34.8	40.0
Exceptional Items	-	-	-	-	-
Taxation	3.1	5.8	6.6	8.7	10.0
Minority Interests	0.0	0.6	1.3	1.3	1.5
Profit After Tax (PATMI)	8.7	19.9	26.4	24.8	28.5
Preferred Dividends / Adjustments	-	-	-	-	-
Recurring Net Profit	8.7	19.9	26.4	24.8	28.5
BALANCE SHEET (RM m) FY Dec	FY20	FY21	FY22	FY23F	FY24F
Cash & Equivalents	55.0	25.5	33.3	50.7	52.1
Trade & Other Receivables	39.6	61.7	69.9	61.2	84.0
Inventories	18.9	20.7	27.3	27.8	34.7
Other Current Assets	54.6	76.7	61.9	61.3	65.5
Current Assets	168.0	184.6	192.3	201.0	236.2
Property, Plant & Equipment	10.4	34.0	43.6	51.3	67.1
Other Non-Current Assets	13.0	11.5	14.9	20.9	13.7
Non-Current Assets	23.3	45.5	58.4	72.2	80.8
Trade & Other Payables	29.2	45.7	48.3	42.8	60.7
Short-Term Borrowings	11.5	10.3	7.0	13.0	28.0
Other Current Liabilities	10.5	17.2	13.3	15.5	14.1
Current Liabilities	51.2	73.2	68.7	71.3	102.7
Long-Term Borrowings	17.3	16.7	16.0	17.9	10.0
Other Non-Current Liabilities	4.2	2.4	3.5	3.5	1.5
Non-Current Liabilities	21.5	19.1	19.5	21.4	11.5
Share Capital	80.8	80.8	80.8	80.8	80.8
Other Equity	38.7	57.1	81.9	99.7	122.0
Total Equity	119.5	137.9	162.6	180.5	202.8
CASH FLOW (RM m) FY Dec	FY20	FY21	FY22	FY23F	FY24F
Profit Before Tax	11.7	25.4	34.4	34.8	40.0
Other Operating Cash Flow	-3.0	-4.7	-6.8	9.9	-9.3
Changes in Working Capital	-7.5	-1.6	-17.3	4.7	-13.2
Cash Flow from Operations	5.2	23.6	14.7	54.8	23.6
Purchase of PPE	-3.4	-28.1	-13.6	-5.6	-20.0
Other Investing Cash Flow	21.3	1.4	-2.0	-3.1	-1.0
Cash Flow from Investing	17.9	-26.7	-15.7	-8.7	-21.0
Other Financing Cash Flow	16.7	-2.1	-6.6	6.2	6.2
Cash Flow from Financing	16.7	-2.3	-7.6	1.8	1.8

Source: Mercury Securities, Bloomberg



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Published & Printed By:

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