



# QES Group Berhad

## Optimistic outlook in 2HFY24

Bloomberg: QES MK | Stock Code: 0196

Main Market  
Industrial Products  
BUY

TP: RM0.68  
Last Closing Price: RM0.56  
Initiated Price: RM0.59

### Valuation / Recommendation

Results were below expectations, achieving 96.4% and 74.5% of our full year revenue and profit forecasts for FY23 respectively. This shortfall is attributed to diminished equipment deliveries and decreased sales of the Optical Inspection System (OIS) series and Advanced Metrology System (AMS).

We maintain a BUY recommendation on QES Group Bhd with a TP of RM0.68 based on FY25F EPS 3.4 sen and a PE of 20x in line with the peer average. We like the stock for its attractive growth prospects, as it is well positioned to leverage the recovering semiconductor industry, forecasted by Statista to grow at a 3-year CAGR of 9.1% from 2024 to 2027.

### Investment Highlights

**Order book remains resilient.** The company has an order book of RM118m as of January 2024. RM96m is from the distribution division while RM22m is from the manufacturing division.

**Successful initiation of the plant's construction.** The company has concluded the groundbreaking event for its new QES2@BKIP plant. Spanning around 84,000 square feet, this facility is slated to double QES's manufacturing capacity and serve as the base for the joint venture, Applied Engineering Technology (M) Sdn. Bhd., partnering with Applied Engineering Inc. from the USA. Construction is projected to wrap up by 4Q2024, with operations planned to commence in 1Q2025.

With the expansion of the manufacturing segment, we anticipate that the company will be well-equipped to meet the rising capacity demands, aligning with the growth trajectory of the semiconductor industry.

**Researching potential areas within medical technology.** The Company's team in Penang is currently developing smart cabinets for the Internet of Things (IoT) applications and is scheduled to deliver two systems to clients in Penang, with an average selling price of RM370k, expected to be delivered in either May or June FY24. Additionally, these clients have shown interest in new automation products, which will be provided by QES Batu Kawan.

**Stable recurring income.** QES maintains a steady annual recurring revenue of around RM55 million by servicing and maintaining significant operational equipment. A quarter of this revenue comes from service contracts (renewable on an annual basis), and QES aims to encourage more customers to sign these contracts by offering incentives such as discounted prices on spare parts.

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

Investment Statistics	FY21	FY22	FY23	FY24F	FY25F
Revenue	222.8	264.4	240.7	266.4	289.4
EBITDA (RM m)	28.4	38.4	30.8	42.5	46.8
PATMI (RM m)	19.0	26.4	18.5	27.1	28.5
Profit Margin (%)	8.5	10.0	7.7	10.2	9.9
EPS (sen)	2.3	3.2	2.2	3.3	3.4
EPS Growth (%)	119.2	39.2	-30.1	47.0	5.1
BV Per Share (sen)	16.5	19.5	21.4	24.2	26.9
PE (x)	23.5	16.9	23.5	16.0	15.2
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Net Gearing (%)	1.0	-6.3	-1.2	-1.7	-1.6
ROA	8.2	10.5	6.7	8.8	8.8
ROE	13.8	16.2	10.4	13.5	12.7

#### 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 Information

KLCI (pts)	1531.5
Expected Share Return (%)	21.4
Expected Dividend Yield (%)	-
Expected Total Return (%)	21.4

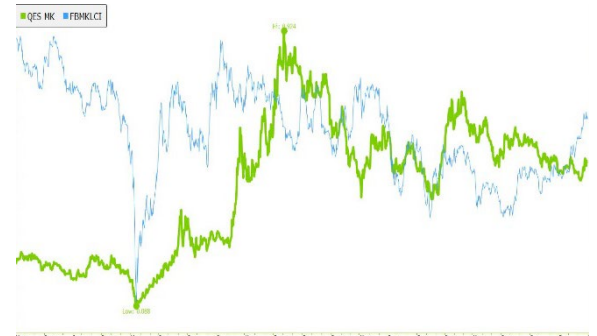
Price Performance	1M	3M	12M
Absolute (%)	16.8	11.0	-14.0
Relative to FBMKLCI (%)	15.6	5.1	-18.9

#### Stock Return Information

Market Cap (RM m)	462.9
Issued Shares (m)	834.1
52W High (RM)	0.67
52W Low (RM)	0.46
Estimated Free Float (%)	40.7
Beta vs FBM KLCI	1.36
3-month Average Vol. (m)	3.57

#### Top 3 Shareholders

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



Source: Mercury Securities, Bloomberg



# Quarter Results & Peer Comparisons

## Quarter Results Comparison (RM m)

FY Dec	4Q2023	3Q2023	QOQ%	4Q2022	YOY%
Revenue	62.3	54.2	15.0	73.0	-14.6
COGS	49.2	38.9	26.5	53.8	-8.6
Gross Profit	13.1	15.3	-14.2	19.1	-31.6
Other Income	0.3	0.5	-53.4	0.2	5.9
Selling & Distribution Expenses	2.6	2.6	-2.5	3.9	-34.7
Admin Expenses	5.6	5.5	1.3	7.4	-24.4
Other losses - net	0.7	2.3	-67.6	1.5	-49.1
Operating Profit	4.5	5.4	-17.2	6.1	-27.3
Finance Cost	0.4	0.4	7.2	0.4	7.2
Share of Result of an Associate, Net of Tax	0.2	0.5	-60.0	0.1	52.3
Profit Before Tax	3.8	5.5	-29.9	5.6	-31.5
Tax Expense	1.4	1.0	33.1	0.3	365.8
Net profit	2.5	4.4	-44.7	5.9	-58.5
Core net profit	2.5	4.4	-44.7	5.9	-58.5
EPS (sen)	0.5	0.3	0.7	-42.3	-53.8
Core EPS	0.5	0.3	0.7	-42.3	-53.8

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)	
				FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Aurelius Technologies Bhd	ATECH MK	2.70	1064.0	20.0	19.8	10.9	15.9	5.2%	44.9%	-	-
MI Technovation Bhd	MI MK	1.86	1662.1	27.1	21.3	6.85	7.37	37.8%	21.2%	7.62	0.11
ECA Integrated Solutions	ECA MK	0.41	234.5	22.2	18.2	1.8	2.2	-3.7%	22.2%	0.1	0.1
Average				23.1	19.8						

Source: Mercury Securities, Bloomberg



## Key Financial Data

<b>PROFIT &amp; LOSS (RM m) FY Dec</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24F</b>	<b>FY25F</b>
Net Revenue	222.8	264.4	240.7	266.4	289.4
Gross Profit	51.6	70.9	60.9	72.5	78.7
Other Operating Income	3.8	2.8	4.1	6.7	7.2
EBIT	24.6	34.4	26.0	38.3	42.6
Operating & Administrative Expenses	29.2	37.2	37.5	38.6	42.0
Profit from operations	26.2	36.4	27.5	40.5	44.0
Interest Expense	0.7	1.4	1.7	1.6	1.7
Share of result from associates	-0.2	-0.6	-0.2	-0.8	-0.8
Profit Before Tax	<b>25.4</b>	<b>34.4</b>	<b>25.6</b>	<b>38.1</b>	<b>41.4</b>
Exceptional Items	-	-	-	-	-
Taxation	5.8	6.6	6.4	9.5	10.4
Minority Interests	0.6	1.3	0.7	1.4	1.6
Profit After Tax (PATMI)	<b>19.0</b>	<b>26.4</b>	<b>18.5</b>	<b>27.1</b>	<b>29.5</b>
Preferred Dividends / Adjustments	-	-	-	-	-
Recurring Net Profit	19.0	26.4	18.5	27.1	29.5
<b>BALANCE SHEET (RM m) FY Dec</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24F</b>	<b>FY25F</b>
Cash & Equivalents	101.1	91.8	102.0	104.3	109.0
Trade & Other Receivables	61.7	69.9	69.3	60.4	64.6
Inventories	20.7	27.3	35.2	49.8	42.5
Other Current Assets	1.1	3.4	2.4	3.0	3.0
Current Assets	<b>184.6</b>	<b>192.5</b>	<b>208.9</b>	<b>217.6</b>	<b>219.1</b>
Property, Plant & Equipment	34.0	43.5	45.0	67.7	83.5
Other Non-Current Assets	11.5	14.9	21.9	23.5	21.5
Non-Current Assets	<b>45.5</b>	<b>58.4</b>	<b>66.9</b>	<b>91.2</b>	<b>105.0</b>
Trade & Other Payables	45.7	48.4	43.3	49.0	35.4
Short-Term Borrowings	10.3	7.0	16.7	26.1	29.0
Other Current Liabilities	17.2	13.4	15.5	18.0	19.5
Current Liabilities	<b>73.2</b>	<b>68.8</b>	<b>75.5</b>	<b>93.1</b>	<b>83.9</b>
Long-Term Borrowings	16.7	16.0	17.7	10.0	11.7
Other Non-Current Liabilities	2.4	3.5	4.2	3.3	3.3
Non-Current Liabilities	<b>19.1</b>	<b>19.5</b>	<b>22.0</b>	<b>13.3</b>	<b>15.0</b>
Share Capital	80.8	80.8	80.8	80.8	80.8
Other Equity	57.1	81.9	97.6	120.9	142.8
Total Equity	<b>137.9</b>	<b>162.6</b>	<b>178.4</b>	<b>201.6</b>	<b>224.6</b>
<b>CASH FLOW (RM m) FY Dec</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24F</b>	<b>FY25F</b>
Profit Before Tax	25.4	34.4	25.6	38.1	41.4
Other Operating Cash Flow	-4.7	-6.8	-6.2	-7.4	-7.3
Changes in Working Capital	-1.6	-17.3	-11.8	2.5	-8.9
Cash Flow from Operations	<b>23.6</b>	<b>14.7</b>	<b>12.5</b>	<b>39.3</b>	<b>31.4</b>
Purchase of PPE	-28.1	-13.6	-6.9	-20.0	-20.0
Other Investing Cash Flow	1.4	-2.0	-2.9	-0.8	1.3
Cash Flow from Investing	<b>-26.7</b>	<b>-15.7</b>	<b>-9.7</b>	<b>-20.8</b>	<b>-18.7</b>
Other Financing Cash Flow	-2.1	-6.6	6.1	6.2	7.2
Cash Flow from Financing	<b>-2.3</b>	<b>-7.6</b>	<b>6.1</b>	<b>1.8</b>	<b>2.8</b>



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