

Jayden Tan

(603) 7890 8888 (ext 2069)

kdtdan@apexsecurities.com.my

Recommendation:	BUY
Current Price:	RM 0.530
Previous Target Price:	RM 0.725
Target Price:	↔ RM 0.725
Upside/Downside:	36.8%

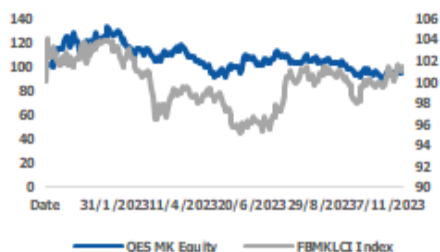
Stock information

Board	MAIN
Sector	Industrial Equipment
Bursa / Bloomberg Code	0196 / QES MK
Syariah Compliant	Yes
FTSE4Good Index	No
FTSE ESG Rating	N/A
Bloomberg ESG Rating	N/A
Shares issued (m)	834.1
Market Cap (RM' m)	442.1
52-Week Price Range (RM)	0.765-0.5
Beta (x)	1.1
Free float (%)	40.7
3M Average Volume (m)	2.3
3M Average Value (RM' m)	1.2

Top 3 Shareholders (%)

Chew Ne Weng	30.1
Liew Soo Keang	22.9
Estimated Free Float	47.0

Share Price Performance



	1M	3M	12M
Absolute (%)	1.0	-10.9	-5.4
Relative (%)	-0.3	-11.5	-2.2

QES Group Berhad

Looking towards recovery in 2H24

Summary

- **QES's 9MFY23 core net profit at RM16.0m missed our expectations dragged by the lower sales volume amid a softer market demand.**
- **Looking ahead, we are anticipating a meaningful rebound performance in 2H24 driven by the recovery of the industry.**
- **We maintain our BUY recommendation with an unchanged target price of RM0.725 by pegging PE multiple of 21.0x to FY24F EPS of 3.4 sen.**

Results Review

- **Results review.** 3QFY23 core net profit declined 54.7% yoy and -37.3% qoq to RM4.3m, dragged down by lower sales volume amid a softer market demand. Revenue for the quarter fell 24.8% yoy and -19.1% qoq to RM54.2m.
- **Missed expectations.** In 9MFY23, cumulative net profit at RM16.0m makes up to 63% of our forecasted net profit of RM25.4m. The variance was mainly due to lower-than-expected sales volumes and higher other operating expenses in 3QFY23.
- **Operations Highlights.** In 3QFY23, QES reported operating profits of RM3.9m from equipment distribution (-61.8% yoy and -47.7% qoq) and RM1.4m from the manufacturing segment (-63.8% yoy and -23.2% qoq). Still, order book remained solid at RM117m as at end-3QFY23 (RM97m for distribution, RM17m for manufacturing), compared to RM106m in the preceding quarter. Geographically, Malaysia, Thailand, and Indonesia showed improvement in topline qoq at +14.6%, +43.7%, and +102.2% respectively. However, other regions, including China, posted lackluster performances, in line with the challenging semiconductor industry.
- **Industry Highlights.** While the group is expecting recovery in semiconductor demand, especially in memory and microprocessors, cautiousness prevails over any potential substantial recovery. Uncertainty stems mainly from unclear landscape of significant CAPEX investments by customers in the industry. However, strategic diversification across customer segments has positioned the group well to navigate the downturn, especially continuous robust orders from automotive customers.
- **Outlook.** The group is currently operating in a challenging period, due to the slowdown in semiconductor outlook. Looking ahead, we expect an improved performance in 2H24 on the back of anticipation in (i) recovery of semiconductor industry and China market, (ii) monetising orderbook with lengthy delivery lead times and (iii) contribution kicking in from Batu Kawan plant and joint venture entity.
- **Valuation.** Cut our earnings forecast by 14.2% for FY23F, to adjust for the lower-than-expected sales volume but keeping our earnings forecast for FY24F at RM28.8m. Re-iterate our **BUY** recommendation on QES with an unchanged target price of RM0.725.
- **Risk.** Longer than anticipate on the recovery of semiconductor industry. Delay of the completion time on Batu Kawan facility.

Results Comparison

FYE Dec (RM m)	3QFY23	3QFY22	YoY (%)	2QFY23	QoQ (%)	9MFY22	9MFY23	YoY (%)	5 Quarters Trend	Comments
Revenue	54.2	72.0	(24.8)	67.0	(19.1)	191.4	178.4	(6.8)		lower sales volume amid a softer market demand
Gross Profit	15.3	21.9	(30.5)	17.8	(14.4)	51.7	47.8	(7.5)		
Profit from operation	5.4	13.5	(60.2)	10.5	(48.7)	30.3	23.0	(23.9)		
Profit before tax	5.5	13.1	(58.2)	9.7	(43.8)	28.8	21.7	(24.5)		
PATAMI	4.3	9.5	(54.7)	6.9	(37.3)	22.7	16.0	(29.9)		
Core EPS (sen)	0.5	1.1	(54.7)	0.8	(37.3)	2.7	1.9	(29.9)		
EBITDA margin (%)	28.2	30.5		26.6		27.0	26.8			
PBT margin (%)	9.9	18.8		15.7		15.8	12.9			
Core PATMI margin (%)	8.0	13.2		10.3		11.9	8.9			

Source: Company, Apex Securities

Financial Highlights
Income Statement

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Revenue	155.2	222.8	264.4	247.8	311.3
Gross Profit	36.2	51.6	70.9	64.7	75.0
Operation income / (expenses)	-23.8	-25.4	-34.5	-35.5	-39.2
Profit from operations	12.5	26.2	36.4	29.2	35.8
Finance costs	-0.7	-0.7	-1.4	-1.0	-1.0
Associates & JV	0.0	-0.2	-0.6	0.5	4.0
Pre-tax Profit	11.7	25.4	34.4	28.7	38.8
Tax	-3.1	-5.8	-6.6	-5.7	-8.5
Profit After Tax	8.7	19.6	27.8	23.0	30.3
Minority Interest	0.0	0.6	1.3	1.1	1.5
Net Profit	8.7	19.0	26.4	21.8	28.8
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	8.7	19.0	26.4	21.8	28.8

Key Ratios

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
GP margin	23.3%	23.2%	26.8%	26.1%	24.1%
Operation margin	8.0%	11.8%	13.8%	11.8%	11.5%
PBT margin	7.6%	11.4%	13.0%	11.6%	12.5%
PAT margin	5.6%	8.8%	10.5%	9.3%	9.7%
NP margin	5.6%	8.5%	10.0%	8.8%	9.2%
Core NP margin	5.6%	8.5%	10.0%	8.8%	9.2%
Dividend yield	0.0%	0.6%	0.0%	0.7%	0.8%
ROE	7.3%	13.8%	16.2%	12.1%	14.1%
ROA	37.1%	41.7%	45.2%	33.0%	38.8%
Net gearing	-66.6%	-53.8%	-42.3%	-37.0%	-34.7%

Key Assumptions

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Manufacturing machine delivered (uni)	35	44	78	76	89
Distribution machine delivered (units)	614	598	816	714	821
Semiconductor contribution (%)	44%	45%	51%	45%	49%

Valuations

	FY24f
Core EPS (RM)	0.034
P/E multiple (x)	21.0
Fair Value (RM)	0.725

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Cash	89.2	82.0	71.3	68.6	78.6
Receivables	32.7	52.6	60.0	70.7	76.4
Inventories	18.9	20.7	27.3	31.3	39.2
Other current assets	27.3	29.3	33.9	33.0	33.2
Total Current Assets	168.0	184.6	192.5	203.6	227.4
Fixed Assets	10.4	34.0	43.5	44.3	61.4
Intangibles	6.9	7.6	9.5	10.0	10.8
Other non-current assets	6.0	3.8	5.4	11.9	2.0
Total Non-current assets	23.3	45.5	58.4	66.2	74.2
Short-term Debt	11.5	10.3	7.0	5.6	10.1
Payables	17.5	26.6	24.0	28.1	32.9
Other Current Liabilities	22.2	37.1	37.8	37.0	30.3
Total Current Liabilities	51.2	73.9	68.8	70.7	73.2
Long-term Debt	17.3	16.7	16.0	16.8	18.2
Other non-current liabilities	4.2	2.4	3.5	2.2	6.3
Total Non-current Liabilities	21.5	19.1	19.5	19.0	24.5
Shareholder's equity	117.3	135.7	159.0	176.5	200.2
Minority interest	1.4	2.2	3.7	3.7	3.7
Equity	118.7	137.9	162.6	180.1	203.9

Cash Flow

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Pre-tax profit	11.7	25.4	34.4	28.7	38.8
Depreciation & amortisation	2.5	3.0	4.0	5.2	6.7
Changes in working capital	-7.5	-1.6	-17.3	-11.8	-8.7
Others	-1.5	-3.2	-6.3	-8.5	-7.4
Operating cash flow	5.2	23.6	14.7	13.6	29.4
Net capex	-3.4	-28.1	-13.6	-5.4	-12.5
Others	21.3	1.4	-2.0	-5.0	0.3
Investing cash flow	17.9	-26.7	-15.7	-10.4	-12.2
Dividends paid	0.0	-0.1	-3.3	-4.2	-5.0
Others	16.7	-2.1	-4.3	-2.5	-2.5
Financing cash flow	16.7	-2.3	-7.6	-6.7	-7.5
Net cash flow	39.8	-5.4	-8.6	-3.4	9.7
Forex	-0.1	-0.6	0.1	0.5	0.1
Others	3.9	2.6	0.4	0.5	0.8
Beginning cash	45.7	85.4	79.4	70.9	68.0
Ending cash	89.2	82.0	71.3	68.6	78.6

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
<p>Head Office: 6th Floor, Menara Apex, Off Jalan Semenyih, Bukit Mewah 43000 Kajang, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 8736 1118</p>	<p>Head Office: Kong Ming Ming (ext 2002) Shirley Chang (ext 2026) Norisam Bojo (ext 2027) Ahmad Mujib (ext 2028)</p>	<p>Mutiara Damansara Office: Kenneth Leong (ext 2093) Lee Cherng Wee (ext 2067) Steven Chong (ext 2068) Jayden Tan (ext 2069)</p>
<p>Mutiara Damansara Office: 5th Floor Menara UAC, 12, Jalan PJU 7/5, Mutiara Damansara, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7890 8899</p>	<p>Institutional Dealing Team: Siti Nur Nadhirah (ext 2032)</p> <p>PJ Office: General Line: (603) 7620 1118 Azfar Bin Abdul Aziz (Ext 822)</p>	

RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
 *Capital gain + dividend yield

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

DISCLAIMER

Disclaimer: The report is for internal and private circulation only and shall not be reproduced either in part or otherwise without the prior written consent of Apex Securities Berhad. The opinions and information contained herein are based on available data believed to be reliable. It is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered by this report.

Opinions, estimates and projections in this report constitute the current judgment of the author. They do not necessarily reflect the opinion of Apex Securities Berhad and are subject to change without notice. Apex Securities Berhad has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

Apex Securities Berhad does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against Apex Securities Berhad. Apex Securities Berhad may from time to time have an interest in the company mentioned by this report. This report may not be reproduced, copied or circulated without the prior written approval of Apex Securities Berhad.