

**Jayden Tan**

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<b>Recommendation:</b>	<b>BUY</b>
<b>Current Price:</b>	<b>RM 0.535</b>
<b>Previous Target Price:</b>	<b>RM 0.725</b>
<b>Target Price:</b>	↔ <b>RM 0.725</b>
<b>Upside/Downside:</b>	<b>35.5%</b>

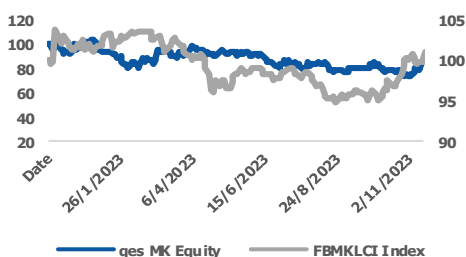
**Stock information**

Board	MAIN
Sector	Industrial Equipment
Bursa / Bloomberg Code	0196 / QES MK
Syariah Compliant	Yes
FTSE4Good Index	N/A
FTSE ESG Rating	N/A
Bloomberg ESG Rating	N/A
Shares issued (m)	834.1
Market Cap (RM' m)	446.3
52-Week Price Range (RM)	0.46-0.67
Beta (x)	1.2
Free float (%)	40.7
3M Average Volume (m)	1.8
3M Average Value (RM' m)	0.9

**Top 3 Shareholders (%)**

WA CAPITAL SDN BHD	26.1
Keang Liew Soo	22.9
Weng Chew Ne	4.0

**Share Price Performance**



	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute (%)	8.1	5.9	-17.1
Relative (%)	5.1	-0.6	-22.0

## QES Group Berhad

### Looking ahead for meaningful recovery in 2H24

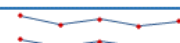

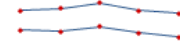

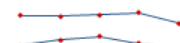



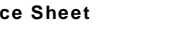
#### Summary

- **FY23 core net profit at RM18.5m missed our expectations dragged by the lower sales from Manufacturing division amid a softer market demand.**
- **Looking ahead, we are anticipating a meaningful rebound performance in 2H24 alongside with industry's recovery.**
- **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.** 4QFY23 core net profit declined -53.9% yoy and -41.7% QoQ to RM2.5m, dragged down by lower sales from Manufacturing division (higher margin segment) which offset higher revenue from Distribution division amid a softer market demand. Revenue for the quarter fell -14.6% yoy and -15% qoQ to RM62.3m. A final dividend of 0.5 sen per share was declared.
- **Missed expectations.** In FY23, cumulative net profit at RM18.5m only makes up to 85% of our forecasted net profit of RM21.8m, despite revenue meets expectation. The variance was due to lower-than-expected profit margin followed by the lower sales from delivered of machine in Manufacturing division in 4QFY23.
- **Operations Highlights.** In 4QFY23, QES reported operating profits of RM5.4m from Equipment distribution (+124% yoy and +36.9% qoq) and loss of -RM1.0m from the Manufacturing segment (-63.8% yoy and -23.2% qoq). The order book remained solid at RM118m (Distribution:RM96m, Manufacturing: RM22m), compared to RM117m in last quarter. Geographically, Malaysia, Vietnam, and Philippines showed improved qoq revenue of +21.2%, +61.1%, and +74.8%, respectively. China operation (revenue: RM0.5m) still remained lackluster.
- **Industry Highlights.** Despite the recovery in semiconductor demand, the uncertainty on the industry stemmed by uncertainty of significant CAPEX investments by customers in the industry especially in China continues to paint a cloudy landscape.
- **Outlook.** The Group is operating in challenging time due to the slowdown in semiconductor outlook. Still, we are penciling a recovery performance in 2H24 in anticipation of i) recovery of semiconductor industry and China market; ii) monetising of orderbook with lengthy delivery lead times; iii) contribution from Batu Kawan plant and Joint venture entity to kick in.
- **Valuation.** Kept our earnings forecast for FY24F at RM28.6m and introducing FY25F earning forecast at RM35.7m as we favour the long-term growth prospect of the Group especially in Manufacturing segment and prospects of recovery in China operation. We 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 and China economic. Delay of the completion time on Batu Kawan facility.

**Results Comparison**

FYE Dec (RM m)	4QFY23	4QFY22	YoY (%)	3QFY23	QoQ (%)	FY22	FY23	YoY (%)	5 Quarters Trend	Comments
Revenue	62.3	73.0	(14.6)	54.2	15.0	264.4	240.7	(9.0)		Higher sales from Distribution division
Gross Profit	13.1	19.1	(31.6)	15.3	(14.2)	70.9	60.9	(14.0)		
Profit from operation	4.5	6.1	(27.3)	5.4	(17.2)	36.4	27.5	(24.5)		
Profit before tax	3.8	5.6	(31.5)	5.5	(29.9)	34.4	25.6	(25.7)		Lower margins were attributed to lower sales from the Manufacturing division, which typically offers a more favorable profit margin mix.
PATAMI	2.5	5.5	(53.9)	4.3	(41.7)	26.4	18.5	(30.1)		
Core EPS (sen)	0.3	0.7	(53.9)	0.5	(41.7)	3.2	2.2	(30.1)		
EBITDA margin (%)	21.0	26.2		28.2		26.8	25.3			
PBT margin (%)	7.1	8.4		9.9		13.8	11.4			
Core PATMI margin (%)	4.0	7.5		8.0		10.0	7.7			

Source: Company, Apex Securities

**Income Statement**

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
<b>Revenue</b>	<b>222.8</b>	<b>264.4</b>	<b>240.7</b>	<b>305.9</b>	<b>361.2</b>
<b>Gross Profit</b>	<b>51.6</b>	<b>70.9</b>	<b>60.9</b>	<b>72.9</b>	<b>86.4</b>
Operation income / (expenses)	-25.4	-34.5	-33.4	-37.1	-41.2
<b>Profit from operations</b>	<b>26.2</b>	<b>36.4</b>	<b>27.5</b>	<b>35.8</b>	<b>45.2</b>
Finance costs	-0.7	-1.4	-1.7	-1.0	-1.0
Associates & JV	-0.2	-0.6	-0.2	4.0	4.0
<b>Pre-tax Profit</b>	<b>25.4</b>	<b>34.4</b>	<b>25.6</b>	<b>38.8</b>	<b>48.2</b>
Tax	-5.8	-6.6	-6.4	-8.5	-10.6
<b>Profit After Tax</b>	<b>19.6</b>	<b>27.8</b>	<b>19.2</b>	<b>30.2</b>	<b>37.6</b>
Minority Interest	0.6	1.3	0.7	1.5	1.9
<b>Net Profit</b>	<b>19.0</b>	<b>26.4</b>	<b>18.5</b>	<b>28.7</b>	<b>35.7</b>
Exceptionals	0.0	0.0	0.0	0.0	0.0
<b>Core Net Profit</b>	<b>19.0</b>	<b>26.4</b>	<b>18.5</b>	<b>28.7</b>	<b>35.7</b>

**Key Ratios**

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
GP margin	23.2%	26.8%	25.3%	23.8%	23.9%
Operation margin	11.8%	13.8%	11.4%	11.7%	12.5%
PBT margin	11.4%	13.0%	10.6%	12.7%	13.4%
PAT margin	8.8%	10.5%	8.0%	9.9%	10.4%
NP margin	8.5%	10.0%	7.7%	9.4%	9.9%
Core NP margin	8.5%	10.0%	7.7%	9.4%	9.9%
Dividend yield	0.6%	0.0%	0.7%	0.8%	0.8%
ROE	13.8%	16.2%	10.4%	14.3%	15.5%
ROA	41.7%	45.2%	27.6%	38.7%	31.6%
Net gearing		Net Cash	Net Cash	Net Cash	Net Cash

**Key Assumptions**

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Manufacturing machine deliver (units)	44	78	76	89	101
Distribution machine deliver (units)	598	816	714	821	944
Semiconductor contribution (%)	45%	51%	45%	49%	58%

**Valuations**

	FY24F
Core EPS (RM)	0.034
P/E multiple (x)	21.0
<b>Fair Value (RM)</b>	<b>0.725</b>

Source: Company, Apex Securities

**Balance Sheet**

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Cash	82.0	71.3	80.8	101.0	105.0
Receivables	52.6	60.0	60.8	65.7	70.9
Inventories	20.7	27.3	35.2	44.0	55.0
Other current assets	29.3	33.9	32.1	34.2	42.1
<b>Total Current Assets</b>	<b>184.6</b>	<b>192.5</b>	<b>208.9</b>	<b>244.9</b>	<b>273.1</b>
Fixed Assets	34.0	43.5	45.0	61.4	99.4
Intangibles	7.6	9.5	10.5	10.8	11.6
Other non-current assets	3.8	5.4	11.5	2.0	2.0
<b>Total Non-current assets</b>	<b>45.5</b>	<b>58.4</b>	<b>66.9</b>	<b>74.2</b>	<b>112.9</b>
Short-term Debt	10.3	7.0	16.7	30.0	54.0
Payables	26.6	24.0	20.6	24.1	28.2
Other Current Liabilities	37.1	37.8	38.2	30.3	30.3
<b>Total Current Liabilities</b>	<b>73.9</b>	<b>68.8</b>	<b>75.5</b>	<b>84.4</b>	<b>112.5</b>
Long-term Debt	16.7	16.0	17.7	19.1	20.7
Other non-current liabilities	2.4	3.5	4.2	15.6	22.2
<b>Total Non-current Liabilities</b>	<b>19.1</b>	<b>19.5</b>	<b>22.0</b>	<b>34.7</b>	<b>42.9</b>
Shareholder's equity	135.7	159.0	174.1	196.8	227.6
Minority interest	2.2	3.7	4.3	3.7	3.7
<b>Equity</b>	<b>137.9</b>	<b>162.6</b>	<b>178.4</b>	<b>200.5</b>	<b>231.2</b>

**Cash Flow**

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
<b>Pre-tax profit</b>	<b>25.4</b>	<b>34.4</b>	<b>25.6</b>	<b>38.8</b>	<b>48.2</b>
Depreciation & amortisation	3.0	4.0	6.0	7.8	10.2
Changes in working capital	-1.6	-17.3	-11.8	-0.7	-12.2
Others	-3.2	-6.3	-7.2	-6.8	-7.0
<b>Operating cash flow</b>	<b>23.6</b>	<b>14.7</b>	<b>12.5</b>	<b>39.1</b>	<b>39.2</b>
Net capex	-28.1	-13.6	-6.9	-12.5	-28.0
Others	1.4	-2.0	-2.9	0.3	0.2
<b>Investing cash flow</b>	<b>-26.7</b>	<b>-15.7</b>	<b>-9.7</b>	<b>-12.2</b>	<b>-27.8</b>
Dividends paid	-0.1	-3.3	-4.4	-5.0	-5.0
Others	-2.1	-4.3	10.6	-2.5	-2.5
<b>Financing cash flow</b>	<b>-2.3</b>	<b>-7.6</b>	<b>6.1</b>	<b>-7.5</b>	<b>-7.5</b>
<b>Net cash flow</b>	<b>-5.4</b>	<b>-8.6</b>	<b>8.9</b>	<b>19.4</b>	<b>3.9</b>
Forex	-0.6	0.1	0.9	0.1	0.1
Others	2.6	0.4	0.0	0.8	0.8
Beginning cash	85.4	79.4	70.9	80.7	100.2
<b>Ending cash</b>	<b>82.0</b>	<b>71.3</b>	<b>80.7</b>	<b>101.0</b>	<b>105.0</b>

**APEX SECURITIES BERHAD – CONTACT LIST**

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**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.

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