

**Jayden Tan**

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<b>Recommendation:</b>	<b>BUY</b>
<b>Current Price:</b>	RM 0.67
<b>Previous Target Price:</b>	RM 0.725
<b>Target Price:</b>	RM 0.855 <span style="color: green;">↑</span>
<b>Upside/Downside:</b>	<span style="color: green;">27.6%</span>

**Stock information**

Board	MAIN
Sector	Technology
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)	558.9
52-Week Price Range (RM)	0.68-0.46
Beta (x)	1.3
Free float (%)	43.8
3M Average Volume (m)	4.1
3M Average Value (RM' m)	2.4

**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 (%)	19.6	34.0	25.2
Relative (%)	13.8	27.8	9.9

## QES Group Berhad

### Looking ahead for meaningful recovery in 2H24










#### Summary

- **1QFY24 core net profit at RM2.5m 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 2HFY24 alongside with industry's recovery.**
- **We maintain our BUY recommendation with higher target price of RM0.855 by pegging PE multiple of 20x to FY25F EPS of 4.3 sen.**

#### Results Review

- **Results review.** 1QFY24 net profit declined -47.3% yoy and -0.3% qoq to RM2.5m, dragged down by lower sales and margins due to an overall unfavorable product mix. Revenue for the quarter dropped 1.5% yoy and -9.4% qoq, attributed to lower contributions from the manufacturing segment and a seasonally weaker quarter.
- **Missed expectations.** QES's 1QFY24, core net profit at RM2.5m accounts for only 9% of our full year forecasted net profit, despite revenue meeting expectation. The variance was due to lower-than-expected profit margins, from lower sales of the Manufacturing division, which typically fetches higher margins.
- **Operations Highlights.** In 1QFY24, QES reported operating profits of RM3.6m from Equipment distribution (-50.9% yoy and -34% qoq) and loss of RM0.9m from the Manufacturing segment. Order book slightly lower at RM108m (Distribution:RM79m, Manufacturing: RM29m), compared to RM118m in 4QFY23.
- **Industry Highlights.** Despite recovery seen in global semiconductor demand, uncertainty in the industry persists due to significant CAPEX investment hesitancy by customers, particularly in China, which continues to cloud outlook.
- **Outlook.** The stagnant order book indicates that customers remain cautious over CAPEX spending amid industry uncertainties. However, we remain optimistic over QES's 2HFY24 performance, driven by the monetisation of the order book in the distribution segment, which has lengthy delivery lead times. We also expect the Manufacturing segment to post a turnaround with better sales performance. Additionally, China's manufacturing segment will be a key catalyst to monitor, supporting the company's growth in 2HFY24 and FY25.
- **Valuation.** Revised our earnings forecast for FY24F RM19.7m, from RM28.6m due to lower-than-expected manufacturing sales and margins after the Q1 profit fell short of our expectations and maintained our FY25F earnings forecast. Reiterate our **BUY** recommendation on QES with a higher target price of RM0.855, after rolling over our valuation metrics to FY25F.
- **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)	1QFY24	1QFY23	YoY (%)	4QFY23	QoQ (%)	5 Quarters Trend	Comments
Revenue	56.4	57.3	(1.5)	62.3	(9.4)		Lower sales from Manufacturing division and seasonally weaker due to festive season
Gross Profit	11.7	14.8	(20.9)	13.1	(10.8)		
Profit from operation	3.5	7.0	(50.1)	4.5	(21.3)		Lower margins were attributed to lower sales from the Manufacturing division, which typically offers a more favorable profit margin mix.
Profit before tax	3.3	6.4	(48.1)	3.8	(14.1)		
PATAMI	2.5	4.6	(45.7)	2.5	(0.3)		
Core EPS (sen)	0.3	0.6	(45.7)	0.3	(0.3)		
EBITDA margin (%)	20.7	25.8		21.0			
PBT margin (%)	6.2	12.3		7.1			
Core PATMI margin (%)	4.4	8.1		4.0			

Source: Company, Apex Securities

**Financial Highlights**
**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>298.3</b>	<b>361.2</b>
<b>Gross Profit</b>	<b>51.6</b>	<b>70.9</b>	<b>60.9</b>	<b>60.7</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>23.6</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>26.6</b>	<b>48.2</b>
Tax	-5.8	-6.6	-6.4	-5.9	-10.6
<b>Profit After Tax</b>	<b>19.6</b>	<b>27.8</b>	<b>19.2</b>	<b>20.8</b>	<b>37.6</b>
Minority Interest	0.6	1.3	0.7	1.0	1.9
<b>Net Profit</b>	<b>19.0</b>	<b>26.4</b>	<b>18.5</b>	<b>19.7</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>19.7</b>	<b>35.7</b>

**Key Ratios**

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
GP margin	23.2%	26.8%	25.3%	20.4%	23.9%
Operation margin	11.8%	13.8%	11.4%	7.9%	12.5%
PBT margin	11.4%	13.0%	10.6%	8.9%	13.4%
PAT margin	8.8%	10.5%	8.0%	7.0%	10.4%
NP margin	8.5%	10.0%	7.7%	6.6%	9.9%
Core NP margin	8.5%	10.0%	7.7%	6.6%	9.9%
Dividend yield	0.5%	0.0%	0.6%	0.7%	0.7%
ROE	13.8%	16.2%	10.4%	10.3%	16.1%
ROA	41.7%	45.2%	27.6%	26.6%	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	54	50	80
Distribution machine deliver (units)	598	816	729	765	804
Semiconductor contribution (%)	45%	51%	45%	49%	58%

**Valuations**

	FY24F
Core EPS (RM)	0.043
P/E multiple (x)	20.0
<b>Fair Value (RM)</b>	<b>0.855</b>

Source: Company, Apex Securities

**Balance Sheet**

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Cash	82.0	71.3	80.8	88.8	92.9
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	37.9	45.8
<b>Total Current Assets</b>	<b>184.6</b>	<b>192.5</b>	<b>208.9</b>	<b>236.4</b>	<b>264.6</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	187.8	218.6
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>191.5</b>	<b>222.2</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>26.6</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>27.0</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>7.3</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	88.1
<b>Ending cash</b>	<b>82.0</b>	<b>71.3</b>	<b>80.7</b>	<b>88.8</b>	<b>92.9</b>

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**APEX SECURITIES BHD**

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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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