

**Jayden Tan**

(603) 7890 8888 (ext 2069)

[kdtan@apexsecurities.com.my](mailto:kdtan@apexsecurities.com.my)

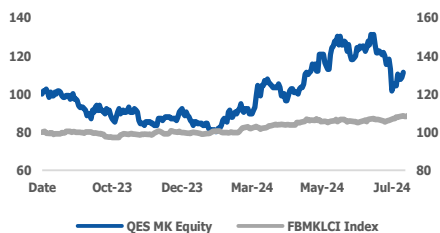
<b>Recommendation:</b>	<b>BUY</b>
<b>Current Price:</b>	<b>RM 0.655</b>
<b>Previous Target Price:</b>	<b>RM 0.855</b>
<b>Target Price:</b>	↔ <b>RM 0.855</b>
<b>Upside/Downside:</b>	<b>30.5%</b>

**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)	546.4
52-Week Price Range (RM)	0.46-0.78
Beta (x)	1.3
Free float (%)	43.8
3M Average Volume (m)	5.4
3M Average Value (RM' m)	3.8

<b>Top 3 Shareholders</b>	<b>(%)</b>
Chew Ne Weng	30.1
Liew Soo Keang	22.9
Estimated Free Float	47.0

**Share Price Performance**



	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute (%)	-7.1	0.8	10.1
Relative (%)	-7.8	0.0	-2.3

## QES Group Berhad

### Performance in line










#### Summary

- **2QFY24 core net profit at RM6.4m fell -7.4% yoy to RM6.4m, bringing 1HFY24 core net profit to RM8.9m came in line with our expectations.**
- **Looking ahead, anticipate better performance in 2H24, with a more substantial recovery expected in 2025, driven by industry-wide recovery.**
- **We maintain our BUY recommendation with unchanged target price of RM0.855 by pegging PE multiple of 20.0x to FY25F EPS of 4.3 sen.**

#### Results Review

- **Results review.** 2QFY24 net profit fell -7.4% yoy but more than doubled qoq, surging 153.9% to RM6.4m. The stronger qoq performance was primarily driven by the fulfilment of orders with lengthy delivery lead times for distribution machines and increased contributions from the higher-margin manufacturing segment. Revenue for the quarter grew 1.6% yoy and 20.5% qoq to RM56.4m.
- **Meet expectation.** QES's 1HFY24 core net profit at RM8.9m accounts 45% of our full-year forecast. We reckon the performance aligns with our expectations, as we anticipate a stronger 2H24, supported by a solid order book and improving industry outlook.
- **Operations Highlights.** In 2QFY24, the Equipment Distribution segment reported profit before tax (PBT) of RM6.4m, reflecting -15.5% yoy but a significant increase of 78.8% qoq. The Manufacturing segment PBT stood at RM1.3m, recovering from a loss of -RM0.9m in the previous quarter. Current order book stands at RM111.0m (Distribution: RM85.0m, Manufacturing: RM26.0m), vs 1Q24: RM108.0m.
- **Industry Highlights.** Despite the recovery in global semiconductor demand and improved sales, uncertainty lingers within the industry, primarily due to customers' hesitancy in committing significant CAPEX investments, especially in China. The prevailing cautiousness continues to cloud outlook.
- **Outlook.** The solid orderbook supports our FY24F forecast, with anticipated improvements in 2H24. However, we remain cautious over the potential meaningful recovery and growth, due to ongoing industry uncertainties. Looking ahead to FY25F, we expect stronger recovery and growth for QES, particularly post-commencement of the Batu Kawan plant in 1Q25. Growth is likely to be bolstered by stronger recovery within the industry, which could instill greater confidence in CAPEX spending and the global economy recovers.
- **Valuation.** We maintained our earnings forecasts, and introduced FY26F core net profit forecast of RM40.6m, reflecting potential 14% yoy growth. Growth is expected to be driven by expansion in the manufacturing division and increased contributions from semiconductor frontend machines, which offer better margins. We reiterate our **BUY** recommendation on QES with an unchanged target price of RM 0.855.
- **Risk.** Longer than anticipate on recovery of the industry. Further strengthening of Ringgit could negatively impact QES's ability to meet profit forecasts.

**Results Comparison**

FYE Dec (RM m)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	1HFY23	1HFY24	YoY (%)	5 Quarters Trend	Comments
Revenue	68.0	67.0	1.6	56.4	20.5	124.2	124.4	0.2		Fulfilment of orders with lengthy delivery lead times for distribution machines and increased contributions from the Manufacturing segment
Gross Profit	18.9	17.8	6.3	11.7	62.4	32.6	30.6	(6.0)		
Profit from operation	8.4	10.5	(19.8)	3.5	140.0	17.5	11.9	(32.0)		
Profit before tax	8.3	9.7	(15.3)	3.3	150.2	16.1	11.6	(28.2)		
PATAMI	6.4	6.9	(7.4)	2.5	153.9	11.5	8.9	(22.8)		
Core EPS (sen)	0.8	0.8	(7.4)	0.3	153.9	1.4	1.1	(22.8)		Higher QoQ margins with higher contribution from manufacturing segment fetching better margin
EBITDA margin (%)	27.9	26.6		20.7		26.2	24.6			
PBT margin (%)	12.4	15.7		6.2		14.1	9.6			
Core PATMI margin (%)	9.4	10.3		4.4		9.3	7.1			

Source: Company, Apex Securities

**Financial Highlights**
**Income Statement**

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
<b>Revenue</b>	<b>264.4</b>	<b>240.7</b>	<b>254.9</b>	<b>361.2</b>	<b>405.0</b>
<b>Gross Profit</b>	<b>70.9</b>	<b>60.9</b>	<b>63.6</b>	<b>86.4</b>	<b>96.7</b>
Operation income / (expenses)	-34.5	-33.4	-37.1	-41.2	-45.6
<b>Profit from operations</b>	<b>36.4</b>	<b>27.5</b>	<b>26.5</b>	<b>45.2</b>	<b>51.1</b>
Finance costs	-1.4	-1.7	-1.0	-1.0	-1.0
Associates & JV	-0.6	-0.2	1.0	4.0	4.7
<b>Pre-tax Profit</b>	<b>34.4</b>	<b>25.6</b>	<b>26.5</b>	<b>48.2</b>	<b>54.8</b>
Tax	-6.6	-6.4	-5.8	-10.6	-12.1
<b>Profit After Tax</b>	<b>27.8</b>	<b>19.2</b>	<b>20.7</b>	<b>37.6</b>	<b>42.7</b>
Minority Interest	1.3	0.7	1.0	1.9	2.1
<b>Net Profit</b>	<b>26.4</b>	<b>18.5</b>	<b>19.7</b>	<b>35.7</b>	<b>40.6</b>
Exceptionals	0.0	0.0	0.0	0.0	0.0
<b>Core Net Profit</b>	<b>26.4</b>	<b>18.5</b>	<b>19.7</b>	<b>35.7</b>	<b>40.6</b>

**Key Ratios**

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
GP margin	26.8%	25.3%	25.0%	23.9%	23.9%
Operation margin	13.8%	11.4%	10.4%	12.5%	12.6%
PBT margin	13.0%	10.6%	10.4%	13.4%	13.5%
PAT margin	10.5%	8.0%	8.1%	10.4%	10.6%
NP margin	10.0%	7.7%	7.7%	9.9%	10.0%
Core NP margin	10.0%	7.7%	7.7%	9.9%	10.0%
Dividend yield	0.0%	0.6%	0.7%	0.7%	0.7%
ROE	16.2%	10.4%	10.3%	16.1%	15.8%
ROA	45.2%	27.6%	26.5%	31.6%	29.5%
Net gearing		Net Cash	Net Cash	Net Cash	Net Cash

**Valuations**

	FY25F
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)	FY22	FY23	FY24F	FY25F	FY26F
Cash	71.3	80.8	88.7	92.8	132.4
Receivables	60.0	60.8	65.7	70.9	76.6
Inventories	27.3	35.2	44.0	55.0	68.8
Other current assets	33.9	32.1	37.9	45.9	48.8
<b>Total Current Assets</b>	<b>192.5</b>	<b>208.9</b>	<b>236.3</b>	<b>264.6</b>	<b>326.6</b>
Fixed Assets	43.5	45.0	61.4	99.4	123.3
Intangibles	9.5	10.5	10.8	11.6	12.3
Other non-current assets	5.4	11.5	2.0	2.0	2.0
<b>Total Non-current assets</b>	<b>58.4</b>	<b>66.9</b>	<b>74.2</b>	<b>112.9</b>	<b>137.6</b>
Short-term Debt	7.0	16.7	30.0	54.0	97.1
Payables	24.0	20.6	24.1	28.2	33.0
Other Current Liabilities	37.8	38.2	30.3	30.3	30.3
<b>Total Current Liabilities</b>	<b>68.8</b>	<b>75.5</b>	<b>84.4</b>	<b>112.5</b>	<b>160.5</b>
Long-term Debt	16.0	17.7	19.1	20.7	22.3
Other non-current liabilities	3.5	4.2	15.6	22.2	23.6
<b>Total Non-current Liabilities</b>	<b>19.5</b>	<b>22.0</b>	<b>34.7</b>	<b>42.9</b>	<b>45.9</b>
Shareholder's equity	159.0	174.1	187.7	218.5	254.1
Minority interest	3.7	4.3	3.7	3.7	3.7
<b>Equity</b>	<b>162.6</b>	<b>178.4</b>	<b>191.4</b>	<b>222.1</b>	<b>257.8</b>

**Cash Flow**

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
<b>Pre-tax profit</b>	<b>34.4</b>	<b>25.6</b>	<b>26.5</b>	<b>48.2</b>	<b>54.8</b>
Depreciation & amortisation	4.0	6.0	7.8	10.2	13.2
Changes in working capital	-17.3	-11.8	-0.7	-12.2	0.0
Others	-6.3	-7.2	-6.8	-7.0	-6.9
<b>Operating cash flow</b>	<b>14.7</b>	<b>12.5</b>	<b>26.9</b>	<b>39.2</b>	<b>61.1</b>
Net capex	-13.6	-6.9	-12.5	-28.0	-28.0
Others	-2.0	-2.9	0.3	0.2	13.9
<b>Investing cash flow</b>	<b>-15.7</b>	<b>-9.7</b>	<b>-12.2</b>	<b>-27.8</b>	<b>-14.1</b>
Dividends paid	-3.3	-4.4	-5.0	-5.0	-5.0
Others	-4.3	10.6	-2.5	-2.5	-2.5
<b>Financing cash flow</b>	<b>-7.6</b>	<b>6.1</b>	<b>-7.5</b>	<b>-7.5</b>	<b>-7.5</b>
<b>Net cash flow</b>	<b>-8.6</b>	<b>8.9</b>	<b>7.2</b>	<b>3.9</b>	<b>39.5</b>
Forex	0.1	0.9	0.1	0.1	0.1
Others	0.4	0.0	0.8	0.8	0.8
Beginning cash	79.4	70.9	80.7	88.0	92.0
<b>Ending cash</b>	<b>71.3</b>	<b>80.7</b>	<b>88.7</b>	<b>92.8</b>	<b>132.4</b>

**APEX SECURITIES BERHAD – CONTACT LIST**

<b>APEX SECURITIES BHD</b>	<b>DEALING TEAM</b>	<b>RESEARCH TEAM</b>
<p><b>Head Office:</b> 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><b>Petaling Jaya Office:</b> 16th Floor, Menara Choy Fook Onn, No.1B Jalan Yong Shook Lin, 46050 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7620 1118</p>	<p><b>Head Office:</b> Kong Ming Ming (ext 2002) Lee Chen Ming (ext 2029) Shirley Chang (ext 2026) Ahmad Mujib (ext 2028) Azfar Bin Abdul Aziz (ext 2031) Aizzat Bin Mohd Daud (ext 2030)</p> <p><b>Institutional Dealing Team:</b> Low Jin Wu (ext 2109)</p> <p><b>PJ Office:</b> General Line: (603) 7620 1118</p>	<p><b>Head Office:</b> Kenneth Leong (ext 2093) Steven Chong (ext 2068) Jayden Tan (ext 2069) Chelsea Chew (ext 2070) Tan Sue Wen (ext 2095)</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.

All analyst(s) names appear in the front page, whom prepared this report, does not have any interest in the following securities covered in this report.

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.

