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Recommendation:	BUY
Current Price:	RM 0.520
Previous Target Price:	RM 0.855
Target Price:	↓ RM 0.770
Upside/Downside:	48.1%

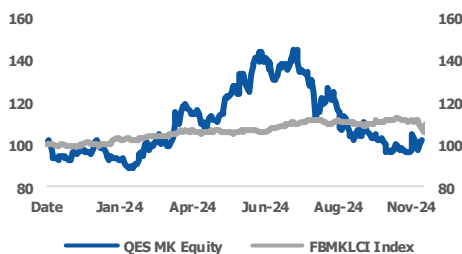
Stock information

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)	433.8
52-Week Price Range (RM)	0.46-0.78
Beta (x)	1.0
Free float (%)	43.8
3M Average Volume (m)	1.7
3M Average Value (RM' m)	1.0

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 (%)	2.0	-21.8	-1.9
Relative (%)	4.6	-19.6	-10.7

QES Group Berhad

Impacted by forex fluctuations










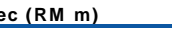
Summary

- **QES's 3QFY24 net profit stood at RM1.2m (-71.4% yoy, -80.6% qoq), impacted by RM4.4m forex losses. Excluding forex losses, CNP at RM5.7m (+31.8% yoy, -10.7% qoq), brings 9MFY24 CNP at RM14.6m (-7.9% yoy) met expectations at 74% of our forecast and 66% of consensus expectations.**
- **We anticipate flattish performance in 4QFY24, but a strong recovery is expected in FY25, driven by industry-wide led recovery.**
- **We maintain our BUY recommendation with lower target price of RM0.77 by pegging PE multiple of 18.0x to FY25F EPS of 4.3 sen.**

Results Review

- **Results review.** 3QFY24 net profit at RM1.2m, (-71.4% yoy, -80.6% qoq), was impacted by forex losses of RM4.4m. Excluding forex impact, core net profit (CNP) rose +31.8% yoy, -10.7% qoq to RM5.7m. Revenue for the quarter at RM58.4m (+7.8% yoy, -14.2% qoq). A dividend of 0.25 sen per share for the quarter was declared.
- **CNP meet expectation.** QES's 9M24 CNP stood at RM14.6m (-7.9% yoy), accounting for 74% of our full-year forecast and 66% of the street's estimates.
- **Operations Highlights.** In 3QFY24, the Equipment Distribution segment reported a PBT of RM5.1m, representing a 30% yoy growth but a 19.5% qoq decline due to lower sales. The Manufacturing segment underperformed, posting a PBT of -RM1.0m, dragged by reduced deliveries of inspection systems and AMS machines. Current order book remains stagnant at RM108m (Distribution: RM89m, Manufacturing: RM19m), compared to RM111m in 2Q24.
- **Industry Highlights.** Despite the recovery in global semiconductor demand and improved sales, uncertainty persists in the industry, primarily due to customers' hesitancy in making significant CAPEX. This caution continues to cloud the outlook.
- **Outlook.** We anticipate a flattish performance in 4QFY24, constrained by lacklustre orderbook and ongoing challenges in the manufacturing division, although forex gains may be recognised following the normalisation of the MYR against the USD and EUR post-3Q. Looking ahead to FY25, we anticipate a strong recovery for QES, supported by greater confidence in CAPEX spending as global central bank monetary policies become clearer and the global economy continues to recover. However, QES still faces challenges, including uncertainties from prolonged geopolitical tensions and intense competition from local players in China, necessitating the adoption of alternative strategies to effectively penetrate the market.
- **Valuation.** Kept our forecast unchanged and maintained our **BUY** recommendation on QES with a lower the target price to RM0.77 (from RM0.855 previously) after revising our valuation to 18x PER (from 20x PER), which represents -1 standard deviation from its 3-year PER mean. This adjustment reflects challenges in one of its anticipated high-growth markets, China, as well as external headwinds.
- **Risk.** Longer than anticipate on recovery of the industry.

Results Comparison

FYE Dec (RM m)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	9M23	9M24	YoY (%)	5 Quarters Trend	Comments
Revenue	58.4	54.2	7.8	68.0	(14.2)	178.4	182.8	2.5		Lower sales from both Distribution and Manufacturing segments with long delivery lead time
Gross Profit	16.1	15.3	5.8	18.9	(14.9)	47.8	46.7	(2.3)		
Profit from operation	3.8	5.4	(29.1)	8.4	(54.7)	22.9	15.7	(31.3)		
Pre- tax profit	2.8	5.5	(48.5)	8.3	(65.8)	21.6	14.4	(33.4)		
Net profit	1.2	4.3	(71.8)	6.4	(80.9)	11.2	10.1	(9.8)		
Core net profit	5.7	4.3	31.8	6.4	(10.7)	15.8	14.6	(7.9)		
Core EPS (sen)	0.7	0.5	31.8	0.8	(10.7)	1.9	1.7	(7.9)		
EBITDA margin (%)	27.6	28.2		27.9		26.8	25.6			PBT margin impacted by forex
PBT margin (%)	6.5	9.9		12.4		12.8	8.6			
Core PATM margin (%)	9.7	8.0		9.4		8.9	8.0			

Source: Company, Apex Securities

Financial Highlights
Income Statement

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	264.4	240.7	254.9	361.2	405.0
Gross Profit	70.9	60.9	63.6	86.4	96.7
Operation income / (expenses)	-34.5	-33.4	-37.1	-41.2	-45.6
Profit from operations	36.4	27.5	26.5	45.2	51.1
Finance costs	-1.4	-1.7	-1.0	-1.0	-1.0
Associates & JV	-0.6	-0.2	1.0	4.0	4.7
Pre-tax Profit	34.4	25.6	26.5	48.2	54.8
Tax	-6.6	-6.4	-5.8	-10.6	-12.1
Profit After Tax	27.8	19.2	20.7	37.6	42.7
Minority Interest	1.3	0.7	1.0	1.9	2.1
Net Profit	26.4	18.5	19.7	35.7	40.6
Exceptionals	0.0	0.0	-4.5	0.0	0.0
Core Net Profit	26.4	18.5	15.2	35.7	40.6

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%	6.0%	9.9%	10.0%
Dividend yield	0.0%	0.6%	0.8%	0.8%	0.8%
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)	18.0
Fair Value (RM)	0.770

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
Total Current Assets	192.5	208.9	236.3	264.6	326.6
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
Total Non-current assets	58.4	66.9	74.2	112.9	137.6
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
Total Current Liabilities	68.8	75.5	84.4	112.5	160.5
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
Total Non-current Liabilities	19.5	22.0	34.7	42.9	45.9
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
Equity	162.6	178.4	191.4	222.1	257.8

Cash Flow

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Pre-tax profit	34.4	25.6	26.5	48.2	54.8
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
Operating cash flow	14.7	12.5	26.9	39.2	61.1
Net capex	-13.6	-6.9	-12.5	-28.0	-28.0
Others	-2.0	-2.9	0.3	0.2	13.9
Investing cash flow	-15.7	-9.7	-12.2	-27.8	-14.1
Dividends paid	-3.3	-4.4	-5.0	-5.0	-5.0
Others	-4.3	10.6	-2.5	-2.5	-2.5
Financing cash flow	-7.6	6.1	-7.5	-7.5	-7.5
Net cash flow	-8.6	8.9	7.2	3.9	39.5
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
Ending cash	71.3	80.7	88.7	92.8	132.4

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

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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