

QES GROUP BERHAD



ACE Market | Industrial Products & Services

QES is an integrated solution provider specialised in manufacturing, distribution and provision of engineering services for inspection, test, measuring, analytical and automated handling equipment. With 30 years of operating history, the Group has installed over 12,000 equipment and current business operation spans over seven countries.

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|-----------------------|--------|
| Stock Code | 0196 |
| Market Cap (RM m) | 642.0 |
| Share Outstanding (m) | 834.14 |
| Current Price (RM) | 0.77 |
| 52-week range (H) | 0.98 |
| 52-week range (L) | 0.27 |

[Company profile](#)

1. Could you give us a brief introduction to your company and history?

QES was founded in October 1991. We are a one-stop specialist in manufacturing, distribution and services of test, inspection and measuring equipment as well as provision in materials and engineering solutions. We started as a distributor of technological equipment in the early days. Subsequently in 2001, we ventured into manufacturing of semiconductor inspection and test equipment. With the rapid growth of the semiconductor industry, we further diversified in material and engineering solutions in 2003.

We have been expanding geographically in the ASEAN region since our inception, including Singapore (in 1992), Thailand (in 1998), Indonesia (in 2002), Philippines (in 2004) and Vietnam (in 2007). Our network is also extended to Hong Kong and China with the establishment of our subsidiaries. With our core business in manufacturing and distribution of inspection, test, measuring, analytical and automated handling equipment, QES serves a diversified market segments notably semiconductor, electrical and electronics as well as automotive industries.

QES was listed on the ACE Market of Bursa Malaysia on 8 March 2018.

2. What are your competitive strength?

- Diversified customer segments spanning across semiconductor, electrical and electronics as well as automotive industries thus reducing our reliance on any single customer or end-user market
- Extensive geographical presence via our subsidiary network in ASEAN, Hong Kong and China to leverage and distribute our products including own manufactured equipment.
- Large installed base of over 12,000 units of equipment to provide recurring income
- Strong technical workforce where over 70% of staffs are engineers and technical staffs with multiple years of experience
- Strong and experienced management team where majority of them has been with us for over 15 years

3. Describe your recent financial performance.

For the third quarter ended 30 September 2021, our revenue grew by 43.7% to RM51.7 million from RM36.0 million in the corresponding quarter in 2020. In-line with the strong sales growth, net profit

rose by 127.1% year-on-year to RM5.3 million. Higher sales for the quarter were mainly attributed to increase in the distribution division by RM17.8 million, which was slightly offset by sales from the manufacturing division that slid by RM2.1 million. The better performance for the distribution division was largely due to favourable market conditions while the softer manufacturing division was partially caused by the decline in sales of inspection and measurement equipment compared to a year ago. For the cumulative period ended 30 September 2021, net profit more than doubled to RM19.7 million from a year ago due to revenue that rose by 38.4% year-on-year to RM158.6 million. The year-to-date performance was attributed to higher sales from the distribution and manufacturing division as well as better gross profit margins from both segments.

The manufacturing division is expected to improve in the coming quarter due to the delay in deliveries during this quarter.

[QES' financial result for the third quarter ended 30 September 2021](#)

4. What are the major headwinds in your business currently?

The implementation of various movement control orders in Malaysia and other countries are proven challenging to all businesses. For QES, these movement control orders have impacted us in terms of customer visitations and machine installations. Prolonged movement control may also affect shipment schedule of our manufacturing equipment.

Closer to home, we have been strictly adhering to all standard operating procedures imposed by all government authorities including the Ministry of International Trade and Industry (MITI) and Majlis Keselamatan Negara (MKN). We mitigate the impact of the Movement Control Order through digitalisation to achieve full productivity even when we work from home. We are hopeful that the impact to QES will be minimal. Currently, we are operating at full capacity as more than 80% of our employees have been fully vaccinated since mid-September.

Other than the Covid-19 situation, the major headwinds include uncertainty in global economy, geopolitical tensions between the US and China and other macro issues in the countries we are present. These are the inherent risks and challenges faced by many other regional businesses. Another challenge specifically to our business is the need for us to constantly being up-to-date to the technological advancements in order to remain relevant to our end-user industries.

5. Tell us more about your efforts in the area of sustainability.

We have in place a Sustainability Committee to ensure our sustainability journey in achieving operational profitability whilst simultaneously focusing on the environmental, social and governance aspects for long term growth. Our Sustainability Committee oversees all matters below which include but are not limited to:

- Engagement with all relevant stakeholders
- Risk assessment and mitigation techniques
- Business growth and continuity
- Ethics and compliance
- Occupational health & safety
- Fair employment practices and talent development
- Environment sustainability mindset to reduce, reuse, recycle and rethink

In light of the pandemic crisis, we undertake a structured risk assessment exercise within all department's process in 2020 to identify and prioritise sustainability issue, risk and opportunities unique to our business operations and stakeholders. With the assistance of independent consultant our prioritisation exercise covered two major themes i.e.

- Innovation-led growth where we achieve business growth through innovation and improvement in capabilities in technologies advancement to remain competitive in the industry;

- Ethical and social responsible operations which encapsulates our efforts to operate ethically by upholding our integrity, and manage our responsibility towards our supply chain, employees, environment and community while pursuing our business strategy.

We believe that the prioritisation exercise will pave way for the inclusion of more sustainability elements in our day-to-day operation.

6. What is your value proposition? What do you think investors may have overlooked about your business?

QES is a home-grown brand name that is established across ASEAN and well-known among semiconductor and integrated circuit manufacturers. We are in a sweet spot where semiconductor and related industries will grow rapidly over the next three to five years in relation to the fourth industrial revolution (IR4.0) as well as the proliferation of 5G, Internet of Thing (IoT), electric vehicle (EV), artificial intelligence (AI) and Cloud/Edge Computing. As a well-established manufacturer and distributor of inspection, test, analytical and measuring equipment, we are ready to capture the growth within ASEAN and other parts of the developed countries. We have embarked on various expansion activities in our manufacturing division that are accretive to both our top and bottom lines, as well as venturing into new markets for revenue growth.

Our proven track record of 30 years and strong recurring income are the fundamental pillars of our business. At the same time, we are rolling out new equipment and solutions especially within semiconductor, electrical and electronic and automotive segments to grow our revenue streams. At this juncture, we are actively hiring for engineers to strengthen our research and development effort and preparing for our capacity expansion with the newly acquired plant in Glenmarie, Shah Alam as well as our second plant in Batu Kawan, Penang.

We are largely being valued as an equipment distributor by investors as our distribution division remains our bread and butter especially in contributing to our recurring revenue for service and spare parts. Investors may have overlooked our achievement in manufacturing growth. For financial year ended 31 December 2020, our revenue attributed to the manufacturing division grew by 253.5% year-on-year to RM25.3 million. For the first quarter ended 31 March 2021, the manufacturing division recorded another remarkable revenue growth of 73.8% year-on-year to RM7.3 million. With our growing focus on research and development and capacity expansion, we are optimistic that the contribution from our manufacturing division will become more significant in the medium and long run.

7. Lastly, what is your growth strategy moving forward? Any new development you are working on?

QES is set to expand through multiple revenue streams such as developing new equipment for semiconductor processes, IR4.0 and smart manufacturing solutions. In view of the rapid growth of Electrical Vehicle (EV) and related supply chain especially automotive semiconductor power switches, QES has completed the development of a new automated optical inspection machine (AOI) to meet part of this demand. This new AOI equipment has recently been introduced to our semiconductor customers worldwide.

On 3 May 2021, our wholly-owned subsidiary, QES Manufacturing Sdn Bhd, has entered into a Memorandum of Understanding (MOU) with Electronic Interface Company, Inc dba Applied Engineering Inc (AE) for a business collaboration through a proposed joint venture (JV) company which will be located in Batu Kawan, Penang. The JV company is set to provide high-tech electromechanical contract manufacturing services that are tailored to meet the specific needs of clients in the semiconductor equipment manufacturing, life science and medical devices, defence and aerospace industries. The JV will commence operations towards the end of 2021. We hope to leverage the well-established and technical strength of AE to further improve our manufacturing capabilities and establish a sustainable high technology equipment manufacturing.

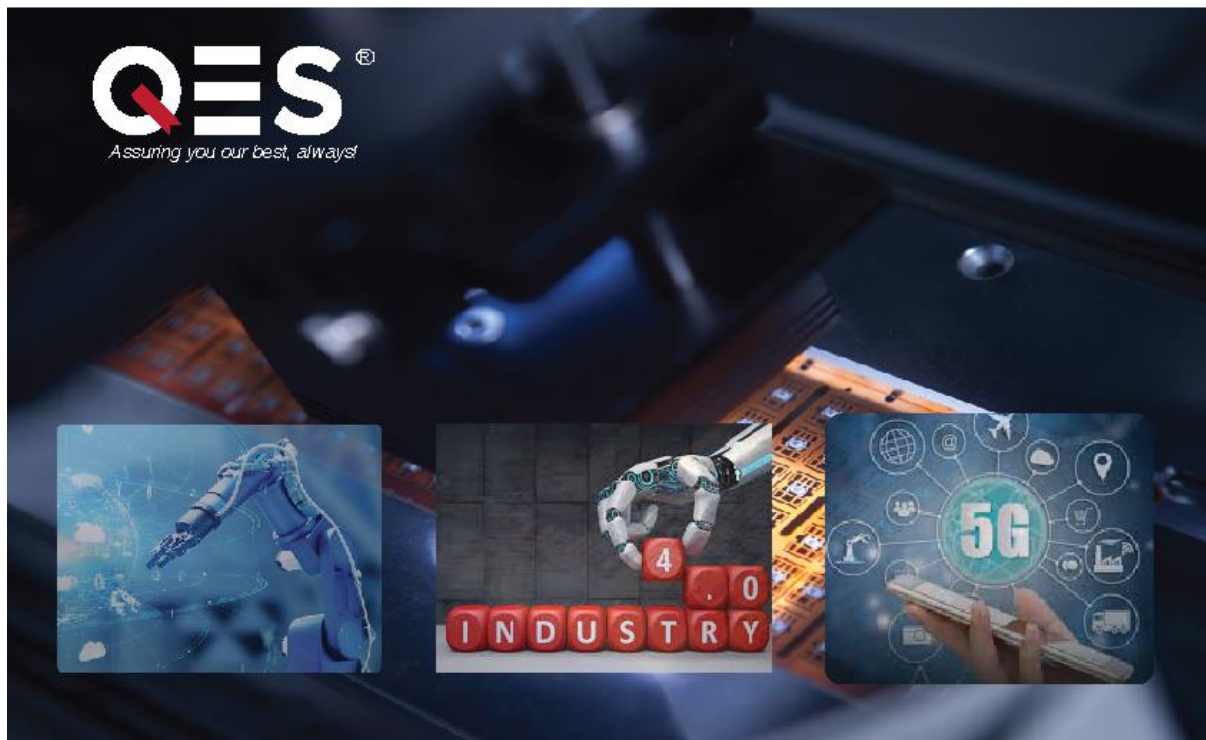
As we expect the Government of China to provide impetus to build up their domestic semiconductor eco-system, QES is also expanding our market network in China by appointing more sales channel partners for QES' own-manufactured semiconductor equipment. We are optimistic of the

opportunities arising from China's semiconductor market. On 15 September 2021, we announced to purchase a parcel of land measuring 87,120 sq ft at the Batu Kawan Industrial park for manufacturing inspection, measuring, automated handling equipment, electro-mechanical prototyping to high volume production for the semiconductor, life science, defence, aerospace and emerging technology industries which will also include research and development activities related to IR4.0 and smart manufacturing solutioning.

Lastly, QES is constantly on the lookout for potential mergers and acquisitions. Our strong financial balance sheet with a gearing ratio of 0.31 (as of 30 September 2021) allows us to gear up should there be opportunities that is synergistic and can be value added to the Group.

[Announcement on MOU with Applied Engineering Inc](#)

[Proposed acquisition of industrial land at Batu Kawan Industrial Park](#)



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