

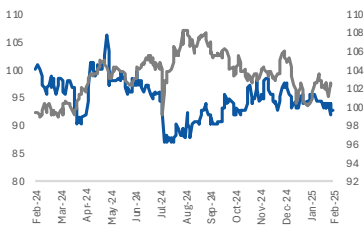
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Recommendation:	BUY
Current Price:	RM0.47
Previous Target Price:	RM0.77
Target Price:	↓ RM0.54
Capital Upside/ Downside:	14.9%
Dividend Yield (%):	1.3%
Total Upside/ Downside:	16.2%

Stock information	
Board	MAIN
Sector	Industrial
Bursa/ Bloomberg Code	0196/ QES MK
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	834.1
Market Cap (RM' m)	387.9
52-Week Price Range (RM)	0.78-0.43
Beta (x)	1.3
Free float (%)	43.8
3M Average Volume (m)	2.0
3M Average Value (RM' m)	1.1

Top 3 Shareholders (%)	
Wa Capital Sdn Bhd	26.1
Oversea-Chinese Banking Corp Ltd	9.8
Uob Kay Hian Hong Kong Ltd	8.0

Share Price Performance



	1M	3M	12M
Absolute (%)	-8.8	-10.6	-12.3
Relative (%)	-10.5	-10.1	-14.2

QES Group Berhad

Stellar QoQ from fulfilling previously delayed orders

Executive Summary

- QES reported FY24 core net profit of RM18.8m (+2.3% yoy, excluding forex impact), in line with expectations, meeting 96% of both our and consensus forecasts. 4QFY24 CNP surged +110% yoy (+14.9% qoq), driven by higher machine deliveries as delayed orders were fulfilled.
- Slashing FY25F earnings by -31% to factor in weaker sales expectations amid ongoing Trump tariff uncertainties and China market challenges. FY26F remains unchanged.
- Maintain BUY with a lower TP of RM0.54 (from RM0.77), adjusting PER to 18x (-1 std dev from 3-yr mean) to reflect weaker near-term outlook but attractive risk-reward after recent share price pullback.

Results within expectations. FY24 core net profit (CNP) stood at RM18.8m, up 2.3% yoy after excluding forex impact, meeting 96% of both our and the Street's forecasts.

YoY. Excluding forex impact and related tax effects, 4QFY24 CNP surged by 110% yoy to RM5.3m, driven by stronger demand in both the distribution and manufacturing segments, thanks to higher machine deliveries supported by improved economic environment. Quarterly revenue climbed 39.3% yoy to RM86.8m.

QoQ. CNP increased 14.9% qoq, primarily due to the delivery of machines that were delayed in the prior quarter. Revenue also rose 48.7% qoq.

Dividend. QES declared a second dividend of 0.3 sen/share for FY24, payable on 28 Mar 2025.

Outlook. Although 4Q performance was solid, the uptick was mainly derived from fulfilling previously delayed orders. We remain cautious about near-term prospects, given geopolitical uncertainties particularly Trump's tariff threats and weak global automotive sales that could dampen customers' investment appetite. This caution is reflected in a softer orderbook of RM87m (Distribution: RM78m; Manufacturing: RM9m), down from RM108m last quarter. Additionally, the completion of Plant 2 in Batu Kawan will likely raise operating costs ahead of revenue generation, while intense competition in China continues to pose challenges for the Group's expansion there.

Earnings Revision. We slashed our FY25F CNP forecast by 31% to reflect lower sales expectations, driven by subdued customer spending amid ongoing tariff uncertainties and challenges in the China market. Meanwhile, FY26F remains unchanged, assuming a more favorable investment environment and contributions from the ramp-up of Plant 2 in Batu Kawan.

Valuation. Despite our significant downgrade in earnings, we maintain a **BUY** recommendation on QES. The recent share price weakness, largely impacted by the broader market sentiment, offers a more attractive risk-reward proposition. We lower our target price to RM0.54 (from RM0.77), based on 18x PER—equivalent to -1 standard deviation from QES's three-year mean PER.

Risk. Failure to restoring China operation, ongoing Trump's tariff threats.

Earnings Summary

FYE Sep (RM m)	FY22	FY23	FY24	FY25F	FY26F
Revenue	264.4	240.7	269.6	303.6	369.6
Gross Profit	70.9	60.9	68.1	80.4	104.4
Pre-tax profit	34.4	25.6	24.7	33.2	53.7
Net profit	26.4	18.5	17.3	24.6	39.8
Core net profit	26.4	18.5	18.8	24.6	39.8
Core EPS (sen)	3.2	2.2	2.3	2.9	4.8
P/E (x)	14.2	20.3	20.0	15.3	9.4
P/B (x)	2.3	2.2	2.0	1.8	1.5
Dividend Yield (%)	0.0%	2.2%	0.6%	1.3%	1.3%
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, Apex Securities

Results Note

Friday, 28 Feb, 2025

Results Comparison

FYE Sep (RM m)	4QFY24	4QFY23	yoy (%)	3QFY24	qoq (%)	12M FY24	12M FY23	yoy (%)	Comments
Revenue	86.8	62.3	39.3	58.4	48.7	269.6	240.7	12.0	
Gross Profit	213	13.1	63.2	16.1	32.3	68.1	60.9	118	
Pre-tax profit	10.3	3.8	168.6	2.8	265.6	24.7	25.4	(2.9)	
Net profit	7.2	2.5	186.5	12	492.3	17.3	18.3	(5.6)	
Core net profit	5.3	2.5	110.0	4.6	14.9	18.8	18.3	2.3	
Core EPS (sen)	0.6	0.3	110.0	0.6	14.9	2.2	2.2	2.3	
GP margin (%)	24.6	21.0		27.6		25.3	25.3		
PBT margin (%)	11.9	6.2		4.8		9.2	10.6		
Core net profit margin (%)	6.1	4.0		7.9		7.0	7.6		

Source: Company, Apex Securities

Segmental Breakdown

FYE Sep (RM m)	4QFY24	4QFY23	yoy (%)	3QFY24	qoq (%)	12M FY24	12M FY23	yoy (%)	Comments
Revenue									
Equipment	57.9	48.5	19.2	45.7	26.6	198.7	184.6	7.7	
Materials & Engineering Solutions	8.8	7.2	22.2	5.1	718	28.5	23.5	213	
Manufacturing	20.1	6.5	208.1	7.5	166.7	42.3	32.6	30.0	
Total	86.8	62.3	39.3	58.4	48.7	269.6	240.7	12.0	
Profit before tax									
Equipment	7.4	5.4	37.7	5.1	45.0	22.5	24.2	(6.8)	
Materials & Engineering Solutions	0.4	0.5	(29.8)	(0.6)	nm	0.9	1.5	(42.0)	
Manufacturing	3.5	(1.0)	nm	(1.0)	nm	2.9	1.3	1318	
Total	11.3	4.9	130.4	3.5	218.2	26.3	26.9	(2.2)	
PBT margin (%)									
Equipment	12.9%	11.1%		11.2%		11.3%	13.1%		
Materials & Engineering Solutions	4.1%	7.1%		-11.9%		3.0%	6.4%		
Manufacturing	17.2%	-15.8%		-13.0%		7.0%	3.9%		
Aggregate Total	13.0%	7.8%		6.1%		9.8%	11.2%		

Source: Company, Apex Securities

Results Note

Friday, 28 Feb, 2025

Financial Highlights

Income Statement

FYE Dec (RM m)	FY22	FY23	FY24	FY25F	FY26F
Revenue	264.4	240.7	269.6	303.6	369.6
Gross Profit	70.9	60.9	68.1	80.4	104.4
Operation income / (expenses)	-34.5	-33.4	-41.8	-47.3	-52.4
Profit from operations	36.4	27.5	26.2	33.2	52.0
Finance costs	-14	-17	-2.0	-10	-10
Associates & JV	-0.6	-0.2	0.9	10	2.7
Pre-tax Profit	34.4	25.6	24.7	33.2	53.7
Tax	-6.6	-6.4	-7.6	-7.3	-11.8
Profit After Tax	27.8	19.2	17.1	25.9	41.9
Minority Interest	13	0.7	-0.2	13	2.1
Net Profit	26.4	18.5	17.3	24.6	39.8
Exceptionals	0.0	0.0	15	0.0	0.0
Core Net Profit	26.4	18.5	18.8	24.6	39.8

Key Ratios

FYE Sep	FY22	FY23	FY24	FY25F	FY26F
EPS (sen)	3.2	2.2	2.3	2.9	4.8
P/E (x)	14.2	20.3	20.0	15.3	9.4
P/B (x)	2.3	2.2	2.0	1.8	1.5
DPS (sen)	0.0	10	0.3	0.6	0.6
Dividend Yield (%)	0.0%	2.2%	0.6%	1.3%	1.3%
GP margin (%)	26.8%	25.3%	25.3%	26.5%	28.2%
Operating margin (%)	13.8%	11.4%	9.7%	10.9%	14.1%
PBT margin (%)	13.0%	10.6%	9.2%	10.9%	14.5%
PAT margin (%)	10.5%	8.0%	6.3%	8.5%	11.3%
NP margin (%)	10.0%	7.7%	6.4%	8.1%	10.8%
CNP margin (%)	10.0%	7.7%	7.0%	8.1%	10.8%
ROE (%)	16.2%	10.6%	10.0%	11.7%	16.2%
ROA (%)	10.5%	6.7%	6.0%	7.4%	10.1%
Gearing (%)	14.2%	19.7%	27.7%	19.3%	18.0%
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Valuations

	FY25F
Core EPS (RM)	0.029
P/E multiple (x)	18.0
Fair Value (RM)	0.54
ESG premium/discount	0.0%
Implied Fair Value (RM)	0.54

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24	FY25F	FY26F
Cash	71.3	80.8	78.7	107.6	163.4
Receivables	60.0	60.8	85.8	66.3	67.0
Inventories	27.3	35.2	30.7	39.6	35.6
Other current assets	33.9	32.1	22.7	20.0	22.0
Total Current Assets	192.5	208.9	217.9	233.6	288.1
Fixed Assets	43.5	45.0	73.7	75.1	82.4
Intangibles	9.5	10.5	10.3	10.1	10.1
Other non-current assets	5.4	11.5	12.2	12.0	13.4
Total Non-current assets	58.4	66.9	96.2	97.2	105.9
Short-term Debt	7.0	16.7	17.7	17.6	19.3
Payables	24.0	20.6	51.3	28.2	33.0
Other Current Liabilities	37.8	38.2	16.9	30.3	51.8
Total Current Liabilities	68.8	75.5	85.9	76.1	104.2
Long-term Debt	16.0	17.7	34.4	23.0	24.8
Other non-current liabilities	3.5	4.2	5.6	21.3	19.8
Total Non-current Liabilities	19.5	22.0	40.0	44.3	44.6
Shareholder's equity	159.0	169.9	184.1	206.1	240.9
Minority interest	3.7	4.3	3.9	4.3	4.3
Equity	162.6	174.2	188.0	210.3	245.2

Cash Flow

FYE Dec (RM m)	FY22	FY23	FY24	FY25F	FY26F
Pre-tax profit	34.4	25.6	24.7	33.2	53.7
Depreciation & amortisation	4.0	6.0	7.9	10.2	13.2
Changes in working capital	-17.3	-11.8	-3.5	7.8	0.0
Others	-6.3	-7.2	-5.7	-7.0	-6.9
Operating cash flow	14.7	12.5	23.4	44.1	60.0
Net capex	-13.6	-6.9	-33.4	-10.0	-10.0
Others	-2.0	-2.9	0.5	2.5	13.1
Investing cash flow	-15.7	-9.7	-32.9	-7.5	3.1
Dividends paid	-3.3	-4.4	-6.3	-5.0	-5.0
Others	-4.3	10.6	14.3	-2.5	-2.5
Financing cash flow	-7.6	6.1	8.0	-7.5	-7.5
Net cash flow	-8.6	8.9	-1.5	29.2	55.6
Forex	0.1	0.9	-1.6	0.1	0.1
Others	0.4	0.0	1.1	0.8	0.8
Beginning cash	79.4	70.9	80.7	77.6	106.9
Ending cash	71.3	80.7	78.7	107.6	163.4

ESG Matrix Framework:

Environment

Parameters	Rating	Comments
Climate	★★★	Commitment to sustainability by monitoring and optimizing energy usage across facilities.
Waste & Effluent	★★★	Emphasis on waste reduction through prevention, recycling, and reuse initiatives.
Energy	★★★	Implemented energy-saving initiatives such as LED lighting, inverter air conditioning, and solar panels.
Water	★★★	Rainwater harvesting system in place to reduce dependency on municipal water sources.
Compliance	★★★	Adherence to environmental laws and regulations with continuous monitoring and improvements.

Social

Diversity	★★★	Gender diversity across the workforce; policies promoting inclusivity and equal opportunities.
Human Rights	★★★	Adherence to ethical labor practices with a focus on non-discrimination and fair employment policies.
Occupational Safety and Health	★★	Comprehensive workplace safety programs, with zero reported work-related incidents in FYE 2023.
Labour Practices	★★★	Fair compensation policies and training programs to enhance workforce skills.

Governance

CSR Strategy	★★★	Corporate social responsibility programs focusing on education, health, and environmental initiatives.
Management	★★	Strong governance structure, with an independent board overseeing corporate policies and ethics.
Stakeholders	★★★	4x analyst briefings per annum, 1x AGM per annum

Overall ESG Scoring: ★★★

Recommendation Framework:

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.

ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.