

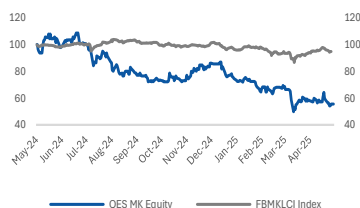
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Recommendation:	BUY
Current Price:	RM 0.385
Previous Target Price:	RM 0.54
Target Price:	↓ RM 0.42
Capital Upside/Downside:	9.1%
Dividend Yield (%):	1.6%
Total Upside/Downside:	10.6%

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)	321.1
52-Week Price Range (RM)	0.78-0.34
Beta (x)	1.4
Free float (%)	43.8
3M Average Volume (m)	2.4
3M Average Value (RM' m)	1.0

Top 3 Shareholders	(%)
Wa Capital Sdn Bhd	26.1
Liew Soo Keang	22.9
Chew Ne Weng	4.1

Share Price Performance



	1M	3M	12M
Absolute (%)	-4.9	-14.4	-45.0
Relative (%)	-6.6	-11.5	-42.0

Earnings summary

FYE (Dec)	FY24	FY25F	FY26F
Revenue (RM'm)	270	256	308
PATAMI (RM'm)	17.3	14.4	23.0
CNP (RM'm)	18.8	14.4	23.0
EPS - core (sen)	2.3	1.7	2.8
P/E (x)	17.1	22.3	14.0

Source: Company, Apex Securities

QES Group Berhad

1Q misses expectations on soft demand and delivery pushbacks

- QES reported 1QFY25 core net profit of RM0.9m (-63.5% yoy, -82.7% qoq), significantly below expectations, accounting for only 4% of our and consensus full-year forecasts, due to delivery pushbacks in both distribution and manufacturing segments.
- Slashed FY25F/FY26F earnings by 42%, factoring in subdued customer spending, margin pressure from Batu Kawan plant cost overhang, and prolonged macro/tariff uncertainties.
- Maintained BUY with a lower TP of RM0.42 (from RM0.54), based on 15x PER on FY26F EPS, reflecting sector-wide de-rating and cautious near-term outlook.

Results below expectations. 1QFY25 core net profit (CNP) came in only at RM0.9m, significantly below expectations, accounting for only 4% of both our in-house and consensus full-year forecasts. The shortfall was mainly due to lower revenue contributions from both the distribution and manufacturing segments, stemming from customer-requested delivery pushbacks during the quarter.

YoY. CNP declined 63.5% yoy, primarily dragged by sluggish deliveries in the manufacturing segment, where revenue fell 39% yoy, resulting in a loss before tax of RM3.9m. Overall, Group revenue dropped 19% yoy.

QoQ. CNP plunged 82.7% qoq, largely due to a high base in the previous quarter, which benefited from the fulfilment of delayed orders, while the current quarter saw sluggish revenue as customers postponed deliveries amid market uncertainties. Revenue dropped 47.3% qoq.

Outlook. The weak performance in 1QFY25 reflects the broader market slowdown in the industry, with low utilisation rates and postponed capacity expansion from customers amid tariff-related uncertainties. The manufacturing segment's loss further underscores the impact of ongoing geopolitical and macroeconomic headwinds. As at 30 Apr 2025, total orderbook stood at RM106m (Distribution: RM93m; Manufacturing: RM13m), slightly higher than RM87m in the previous quarter, though still lacklustre. We are also cautious of the cost overhang from the completion of the Batu Kawan plant, which may raise operating costs ahead of meaningful revenue contributions, especially in a soft market environment. Moreover, growing competition from Chinese EV players may intensify challenges for QES's automotive-related business. Although a sequential improvement is anticipated in 2QFY25, driven by the low base effect, we maintain a cautious outlook given the fragile macroeconomic backdrop, uncertain tariff landscape, and sluggish recovery in downstream consumer markets.

Earnings Revision. We have trimmed both our FY25F and FY26F earnings forecasts by 42%, reflecting subdued customer spending, uncertain demand outlook, and pressures from the China operation.

Valuation. Maintained **BUY** recommendation but with lower TP at **RM0.42** (from RM0.54), based on a 15x PER applied to FY26F earnings, rolled over from FY25F. The assigned valuation reflects a sector-wide de-rating and sits at -1 standard deviation from QES's three-year mean PER, with 0% ESG premium, in line with its three-star ESG rating.

Risk. Key risks include failure to restore momentum in China operations and continued uncertainty from Trump-era tariff threats.

Results Note

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Results Comparison

FYE Sep (RM m)	1QFY25	1QFY24	yoy (%)	4QFY24	qoq (%)	3MFY25	3MFY24	yoy (%)	Comments
Revenue	45.8	56.4	(18.9)	86.8	(47.3)	45.8	56.4	(18.9)	
Gross Profit	11.2	11.7	(4.2)	21.3	(47.7)	11.2	11.7	(4.2)	
Pre-tax profit	15	3.3	(55.2)	10.3	(85.7)	15	3.3	(55.2)	
Net profit	0.9	2.5	(63.5)	7.2	(87.3)	0.9	2.5	(63.5)	
Core net profit	0.9	2.5	(63.5)	5.3	(82.7)	0.9	2.5	(63.5)	
Core EPS (sen)	0.1	0.3	(63.5)	0.6	(82.7)	0.1	0.3	(63.5)	
GP margin (%)	24.4	20.7		24.6		24.4	20.7		
PBT margin (%)	3.2	5.8		11.9		3.2	5.8		
Core net profit margin (%)	2.0	4.4		6.1		2.0	4.4		

Source: Company, Apex Securities

Segmental Breakdown

FYE Sep (RM m)	1QFY25	1QFY24	yoy (%)	4QFY24	qoq (%)	3MFY25	3MFY24	yoy (%)	Comments
Revenue									
Equipment	37.9	42.0	(9.7)	57.9	(34.5)	37.9	42.0	(9.7)	
Materials & Engineering Solutions	4.5	8.9	(49.8)	8.8	(49.3)	4.5	8.9	(49.8)	
Manufacturing	3.4	5.5	(38.8)	20.1	(83.3)	3.4	5.5	(38.8)	
Total	45.8	56.4	(18.9)	86.8	(47.3)	45.8	56.4	(18.9)	
Profit before tax									
Equipment	5.4	3.6	50.3	7.4	(27.9)	5.4	3.6	50.3	
Materials & Engineering Solutions	(0.0)	0.6	nm	0.4	nm	(0.0)	0.6	nm	
Manufacturing	(3.9)	(0.9)	nm	3.5	nm	(3.9)	(0.9)	352.6	
Total	1.4	3.3	(57.2)	11.3	(87.5)	1.4	3.3	(57.2)	
PBT margin (%)									
Equipment	14.1%	8.5%		12.9%		14.1%	8.5%		
Materials & Engineering Solutions	-0.6%	6.7%		4.1%		-0.6%	6.7%		
Manufacturing	-116.8%	-15.8%		17.2%		-116.8%	-15.8%		
Aggregate Total	3.1%	5.8%		13.0%		3.1%	5.8%		

Source: Company, Apex Securities

Results Note

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Financial Highlights

Income Statement

FYE Dec (RM m)	FY22	FY23	FY24	FY25F	FY26F
Revenue	264.4	240.7	269.6	255.8	308.1
Gross Profit	70.9	60.9	68.1	66.7	81.7
Operation income/ (expenses)	-34.5	-33.4	-41.8	-47.3	-52.4
Profit from operations	36.4	27.5	26.2	19.4	29.3
Finance costs	-1.4	-1.7	-2.0	-1.0	-1.0
Associates & JV	-0.6	-0.2	0.9	1.0	2.7
Pre-tax Profit	34.4	25.6	24.7	19.4	31.0
Tax	-6.6	-6.4	-7.6	-4.3	-6.8
Profit After Tax	27.8	19.2	17.1	15.1	24.2
Minority Interest	1.3	0.7	-0.2	0.8	1.2
Net Profit	26.4	18.5	17.3	14.4	23.0
Exceptionals	0.0	0.0	1.5	0.0	0.0
Core Net Profit	26.4	18.5	18.8	14.4	23.0

Key Ratios

FYE Sep	FY22	FY23	FY24	FY25F	FY26F
EPS (sen)	3.2	2.2	2.3	1.7	2.8
P/E(x)	12.2	17.4	17.1	22.3	14.0
P/B(x)	2.0	1.8	1.7	1.6	1.5
DPS (sen)	0.0	1.0	0.3	0.6	0.6
Dividend Yield (%)	0.0%	2.6%	0.6%	1.6%	1.6%
GP margin (%)	26.8%	25.3%	25.3%	26.1%	26.5%
Operating margin (%)	13.8%	11.4%	9.7%	7.6%	9.5%
PBT margin (%)	13.0%	10.6%	9.2%	7.6%	10.1%
PAT margin (%)	10.5%	8.0%	6.3%	5.9%	7.8%
NP margin (%)	10.0%	7.7%	6.4%	5.6%	7.5%
CNP margin (%)	10.0%	7.7%	7.0%	5.6%	7.5%
ROE (%)	16.2%	10.6%	10.0%	7.2%	10.5%
ROA (%)	10.5%	6.7%	6.0%	4.5%	6.3%
Gearing (%)	14.2%	19.7%	27.7%	20.3%	20.2%
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Valuations

	FY25F
Core EPS (RM)	0.028
P/E multiple (x)	15.0
Fair Value (RM)	0.42
ESG premium/discount	0.0%
Implied Fair Value (RM)	0.42

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24	FY25F	FY26F
Cash	71.3	80.8	78.7	85.9	98.9
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	20.6	35.5
Total Current Assets	192.5	208.9	217.9	212.5	237.1
Fixed Assets	43.5	45.0	73.7	82.4	110.0
Intangibles	9.5	10.5	10.3	10.1	10.1
Other non-current assets	5.4	11.5	12.2	12.0	6.0
Total Non-current assets	58.4	66.9	96.2	104.5	126.1
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	17.8	16.1
Total Non-current Liabilities	19.5	22.0	40.0	40.7	40.9
Shareholder's equity	159.0	169.9	184.1	195.9	213.8
Minority interest	3.7	4.3	3.9	4.3	4.3
Equity	162.6	174.2	188.0	200.2	218.1

Cash Flow

FYE Dec (RM m)	FY22	FY23	FY24	FY25F	FY26F
Pre-tax profit	34.4	25.6	24.7	19.4	31.0
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	30.4	37.3
Net capex	-13.6	-6.9	-33.4	-18.0	-25.0
Others	-2.0	-2.9	0.5	2.5	8.1
Investing cash flow	-15.7	-9.7	-32.9	-15.5	-16.9
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	7.4	12.9
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	85.2
Ending cash	71.3	80.7	78.7	85.9	98.9

Results Note

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ESG Matrix Framework:

Environment

Parameters	Rating	Comments
Climate	★★★	Disclosed Scope 1, 2, and 3 GHG emissions (17,678 tCO ₂ e in total); 19% YoY emission reduction achieved; Board-led oversight under Sustainability Steering Committee (SSC); aligned with TCFD and IFRS S2 frameworks.
Waste & Effluent	★★★	Waste segregation, recycling stations, and education programs implemented; 10.41 tonnes total waste generated, of which 9.42 tonnes disposed and 0.99 tonnes recycled; zero environmental fines.
Energy	★★★	Reduced electricity use by 21.5% yoy; installed solar panels generating 254,762 kWh; inverter air-conditioning, LED lighting, and energy conservation culture in place.
Water	★★★	Water usage reduced by 11.2%; rainwater harvesting system installed; no industrial discharge; zero non-compliance incidents.
Compliance	★★★	ISO 14001 certified; fully compliant with regulations; no environmental penalties reported.

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	★★★	Zero fatalities and lost-time injuries; 228 staff trained in safety; Emergency Response Team of 42 trained members; comprehensive OHSE policy in place
Labour Practices	★★★	12,429 training hours conducted; ESOS and flexible benefits in place; low staff turnover; no temporary or contract staff

Governance

CSR Strategy	★★★	RM13,950 in community sponsorships; 700 beneficiaries; 81 employee volunteers; blood donation drives and inclusive sports programs.
Management	★★★	SSC oversees ESG; regular board updates; climate risks embedded in investment decisions and KPIs; committed to continuous disclosure alignment.
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 + 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.

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.