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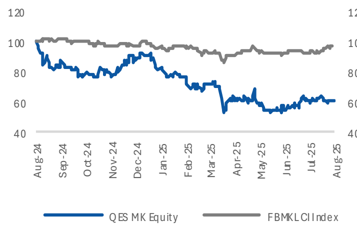
Recommendation:		HOLD
Current Price:		RM 0.400
Previous Target Price:		RM 0.42
Target Price:	↔	RM 0.42
Capital Upside/Downside:		5.0%
Dividend Yield (%):		1.5%
Total Upside/Downside		**6.5%**

Stock information

Board	MAIN
Sector	Industrial
Bursa / Bloomberg Code	0196 / QES MK
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	833.3
Market Cap (RM' m)	333.3
52-Week Price Range (RM)	0.67-0.34
Beta (x)	1.4
Free float (%)	41.8
3M Average Volume (m)	1.1
3M Average Value (RM' m)	0.4

Top 3 Shareholders	(%)
Wa Capital Sdn Bhd	26.2
Liew Soo Keang	22.9
Chew Ne Weng	4.1

Share Price Performance



	1M	3M	12M
Absolute (%)	0.0	6.7	-38.9
Relative (%)	-4.6	2.3	-37.1

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)	17.8	23.2	14.5

Source: Company, Apex Securities

QES Group Berhad

Stabilisation in 2QFY25, but Downgrade warranted on cautious outlook

- **2QFY25 CNP came in at RM4.4m, bringing 1HFY25 CNP to RM5.3m. While 6MFY25 CNP of RM5.3m accounts for only 37% of our full-year forecast, we deem the results to be within expectations as we expect stronger quarters ahead.**
- **CNP fell 30.4% YoY due to weaker manufacturing mix; QoQ, CNP rebounded 383.7% driven by delivery recovery and stronger segment contributions.**
- **No change to FY25–26F earnings. Expect 3Q–4QFY25 to mirror 2Q performance.**
- **Following the recent recovery in share price, downgrade to HOLD (from BUY) with an unchanged TP of RM0.42 based on 15x FY26F EPS.**

Results in line with expectations. QES delivered a 2QFY25 core net profit (CNP) of RM4.4m, in line with our expectations. While 6MFY25 CNP of RM5.3m accounts for only 37% of our full-year forecast, we deem the results to be within expectations as we expect stronger quarters ahead.

YoY. CNP fell 30.4% despite a 13.8% increase in revenue, mainly due to a less favourable product mix, with lower contributions from the higher margin manufacturing segment. Segmentally, distribution revenue rose 21.5% while manufacturing declined 7.7%.

QoQ. CNP rebounded sharply by 383.7%, on the back of a 69.1% revenue surge, driven by the fulfilment of delayed deliveries and improved market activity post-1Q. Distribution and manufacturing revenues rose 70.5% and 153%, respectively.

Outlook. QES's performance in 2QFY25 showed signs of stabilisation, but we remain cautious on the near-term outlook. Structural challenges persist, including intensified pricing competition in China, margin pressure from underutilised capacity at both the Glenmarie and newly completed Batu Kawan plants, and subdued customer capex amid an uncertain macroeconomic backdrop. The potential of Trump tariffs on semiconductors adds further downside risk. Latest orderbook as at 31 July 2025 declined to RM86m (Distribution: RM75m; Manufacturing: RM11m) from RM106m (Distribution RM 93mil; Manufacturing RM 13 mil) in the previous quarter.

Earnings Revision. We maintain our earnings forecasts, anticipating 3Q and 4QFY25 results to mirror the performance of 2QFY25.

Valuation. Following the recent recovery in share price, we downgrade our call to **HOLD** from BUY, with an unchanged target price of **RM0.42**, based on 15x FY26F PER and no ESG premium. The downgrade reflects our view that the stock is now fairly valued. A re-rating would require stronger contributions from the manufacturing segment and greater clarity on US trade policy.

Risks. Key downside risks include slower-than-expected revenue ramp-up at the Batu Kawan plant, continued pricing pressure from Chinese peers, execution challenges in overseas markets, and renewed uncertainties surrounding US semiconductor trade policies.

Results Comparison

FYE Dec (RM m)	2QFY25	2QFY24	yoy (%)	1QFY25	qoq (%)	6MFY25	6MFY24	yoy (%)	Comments
Revenue	77.4	68.0	*13.8*	45.8	*69.1*	123.1	124.4	*(1.0)*	
Gross Profit	19.8	18.9	*4.6*	11.2	*77.5*	31.0	30.6	*1.3*	
Pre-tax profit	6.2	8.3	*(24.5)*	1.5	*321.7*	7.7	11.6	*(33.3)*	
Net profit	4.4	6.4	*(30.4)*	0.9	*383.7*	5.3	8.9	*(39.8)*	
Core net profit	4.4	6.4	*(30.4)*	0.9	*383.7*	5.3	8.9	*(39.8)*	
Core EPS (sen)	0.5	0.8	*(30.4)*	0.1	*383.7*	0.6	1.1	*(39.8)*	
GP margin (%)	25.6	27.9		24.4		25.2	24.6		
PBT margin (%)	8.1	12.1		3.2		6.3	9.3		
Core net profit margin (%)	5.7	9.4		2.0		4.3	7.1		

Source: Company, Apex Securities

Segmental Breakdown

FYE Dec (RM m)	2QFY25	2QFY24	yoy (%)	1QFY25	qoq (%)	6MFY25	6MFY24	yoy (%)	Comments
Revenue									
Equipment	64.6	53.2	*21.5*	37.9	*70.5*	102.5	95.2	*7.7*	
Materials & Engineering Solutions	4.2	5.6	*(24.2)*	4.5	*(5.5)*	8.7	14.5	*(40.0)*	
Manufacturing	8.5	9.2	*(7.7)*	3.4	*153.0*	11.9	14.7	*(19.3)*	
Total	**77.4**	**68.0**	***13.8***	**45.8**	***69.1***	**123.1**	**124.4**	***(1.0)***	
Profit before tax									
Equipment	8.5	6.4	*33.4*	5.4	*58.7*	13.9	9.9	*39.5*	
Materials & Engineering Solutions	(0.4)	0.5	*nm*	(0.0)	*nm*	(0.4)	1.1	*nm*	
Manufacturing	(1.7)	1.3	*nm*	(3.9)	*nm*	(5.6)	0.5	*nm*	
Total	**6.4**	**8.2**	***(21.9)***	**1.4**	***356.2***	**7.8**	**11.5**	***(32.0)***	
PBT margin (%)									
Equipment	13.2%	12.0%		14.1%		13.5%	10.4%		
Materials & Engineering Solutions	-9.6%	9.4%		-0.6%		-5.0%	7.7%		
Manufacturing	-19.6%	14.4%		-116.8%		-47.1%	3.1%		
Aggregate Total	**8.3%**	**12.1%**		**3.1%**		**6.4%**	**9.3%**		

Source: Company, Apex Securities

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 Dec	FY22	FY23	FY24	FY25F	FY26F
EPS (sen)	3.2	2.2	2.3	1.7	2.8
P/E (x)	12.6	18.1	17.8	23.2	14.5
P/B (x)	2.1	1.9	1.8	1.6	1.5
DPS (sen)	0.0	1.0	0.3	0.6	0.6
Dividend Yield (%)	0.0%	2.5%	0.6%	1.5%	1.5%
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%	10.4%	10.0%	7.1%	10.4%
ROA (%)	10.5%	6.7%	6.0%	4.7%	6.4%
Gearing (%)	14.2%	19.3%	27.7%	19.9%	19.9%
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Valuations	FY26F
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	72.5	85.5
Receivables	60.0	60.8	85.8	78.8	94.6
Inventories	27.3	35.2	30.7	39.6	35.6
Other current assets	33.9	32.1	22.9	13.6	15.2
Total Current Assets	**192.5**	**208.9**	**218.1**	**204.6**	**230.9**
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	12.0	12.0	6.0
Total Non-current assets	**58.4**	**66.9**	**96.0**	**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	17.4	30.3	51.8
Total Current Liabilities	**68.8**	**75.5**	**86.4**	**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	5.3	6.1	6.1
Total Non-current Liabilities	**19.5**	**22.0**	**39.7**	**29.1**	**30.9**
Shareholder's equity	159.0	174.1	184.1	200.0	218.0
Minority interest	3.7	4.3	3.9	3.9	3.9
Equity	**162.6**	**178.4**	**188.0**	**203.9**	**221.9**

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	-4.6	0.0
Others	-6.3	-7.2	-4.8	-7.0	-6.9
Operating cash flow	**14.7**	**12.5**	**24.3**	**17.9**	**37.3**
Net capex	-13.6	-6.9	-15.5	-18.0	-25.0
Others	-2.0	-2.9	0.8	2.5	8.1
Investing cash flow	**-15.7**	**-9.7**	**-14.8**	**-15.5**	**-16.9**
Dividends paid	-3.3	-4.4	-6.3	-5.0	-5.0
Others	-4.3	10.6	-4.8	-2.5	-2.5
Financing cash flow	**-7.6**	**6.1**	**-11.1**	**-7.5**	**-7.5**
Net cash flow	**-8.6**	**8.9**	**-1.5**	**-5.0**	**12.9**
Forex	0.1	0.9	-1.3	0.0	0.0
Others	0.4	0.0	-0.3	0.0	0.0
Beginning cash	79.4	70.9	80.7	77.6	72.5
Ending cash	**70.9**	**80.7**	**77.6**	**72.5**	**85.5**
Bank overdraft	0.4	0.1	1.1	0.0	0.0
Cash and Bank balance	**71.3**	**80.8**	**78.7**	**72.5**	**85.5**

ESG Matrix Framework:

Environment

Parameters	Rating	Comments
Climate	★★★	Disclosed Scope 1, 2, and 3 GHG emissions (17,678 tCO_2e 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

As of **Friday, 22 Aug, 2025**, the analyst(s), whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:
(a) nil.