

QES Group Berhad (0196)

Stronger Visibility Towards LEAP30

Bloomberg Ticker: QES MK | Investment Horizon: 12 Months

Recommendation

We reiterate our HOLD call with a revised TP of RM0.600 (from RM0.585), based on an unchanged 20x PE applied to our FY27F EPS on the enlarged share base. Following shareholders' approval on 11 September, QES will issue 83.3mn new shares to Ray Tech Singapore (Unicomp's wholly owned subsidiary) at RM0.53, enlarging its share base by 10% to 916.0mn shares and diluting EPS by ~9.1% on unchanged earnings. Nevertheless, our stronger earnings outlook following the QES-Unicomp briefing more than offsets the dilution by FY27F and increases our confidence in QES's longer-term growth.

Outlook

Unicomp fills the gaps in QES's China strategy. QES's previous expansion efforts in China gained limited traction, with China contributing only ~RM1mn of revenue in FY25. Under the collaboration, Unicomp will continue to sell its products in China through its own sales team, while QES's resale role is limited to markets outside China. We believe QES's principal benefit lies in leveraging Unicomp's stronger customer relationships and market coverage to introduce QES's solutions to Chinese customers. Outside China, QES will resell Unicomp's products and add automation and in-line capabilities to its X-ray systems, potentially doubling the value per system. The wider combined portfolio also creates more cross-selling opportunities and offers customers greater sourcing flexibility amid extended equipment lead times. We are optimistic about QES's increased focus on China, where SEMI projects fab capacity to grow at an 8.1% CAGR over 2024–2028, ahead of the global average of 5.3%, while AI-related investment drives demand for inspection and automation equipment.

LEAP30 remains on track and could accelerate. QES's August order book surged 91% YoY to RM155mn, with Value Engineering rising 57% to RM111mn and Manufacturing expanding 4.4x to RM44mn. With ~80% of the order book expected to be delivered in FY26, we expect QES to achieve another record revenue year. The semiconductor-led Manufacturing backlog and rising Value Engineering demand, driven by accelerating fab and OSAT capacity expansion, reinforce our confidence that QES can achieve its >RM500mn LEAP30 revenue target ahead of FY30.

Batu Kawan cleanroom expansion offers an attractive payback period. With existing capacity fully utilised, RM19mn of placement proceeds is earmarked to enhance manufacturing facilities, including the construction of a Class 1,000 cleanroom with capacity for 36 units of semiconductor production equipment, lifting total capacity by 10.7% from 56 to 62 units, including 26 non-cleanroom units. The cleanroom is expected to be completed by 1QFY27 and operational by 2QFY27, with management targeting a payback period of 2–3 years.

Advanced packaging remains a key upside to our forecasts. The advanced-packaging machine being developed by QES and its separate Chinese front-end equipment partner requires another 1–1.5 years of R&D, placing the earliest commercial contribution in 2HFY27. Unicomp will facilitate access to critical X-ray components, while QES provides machine-design and integration capabilities and its Chinese partner contributes front-end process know-how. Although the ASEAN back-end inspection market represents ~RM150mn annually and ASPs can reach RM3–5mn per machine, we remain conservative until commercialisation and evidence of customer traction. Once proven, even modest adoption would materially lift Manufacturing revenue and provide meaningful upside to our forecasts.

Forecast

We raise our FY26F/FY27F/FY28F core earnings forecasts by 2.6%/13.8%/17.1%, reflecting the stronger-than-expected orderbook and our increasingly optimistic view of QES's opportunities amid the booming AI-driven semiconductor upcycle. Our revised forecasts assume Manufacturing revenue growth of 36%/21%/24%, up from 15%/15%/10%, following the segment's 4.4x YoY order book expansion to RM44mn.

Investment Risks to our Call

(i) exposure to semiconductor industry cyclicality, (ii) weaker than expected contributions from strategic partnerships, and (iii) execution risk from capacity expansion.

HOLD ↔

Target Price: RM0.600 (+13%) ↑

Current Share Price: RM0.530

Main Market
Industrial Products & Services

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Company Overview

QES is an integrated solutions provider of test, measurement, and inspection equipment, serving as a critical partner to high-growth technology sectors such as the semiconductor, electronics, and automotive industries.

Stock Information

Market Cap (RM'mn)	441.4
Issued Shares (mn)	832.8
52W High (RM)	0.62
52W Low (RM)	0.34
Estimated Free Float (%)	65.3
Beta vs FBM KLCI	1.4
3-month Average Vol. (mn)	3.2
Shariah Compliant	Yes

Consensus	FY25A	FY26F	FY27F
EPS (sen)	2.0	2.5	3.3
TP (RM)	High	Mean	Low
	0.75	0.67	0.59
Ratings	Buy	Hold	Sell
	3	1	0

Category	Score	Materiality	Weighted Score
Environmental	16	30%	1.0
Social	28	35%	2.0
Governance	37	35%	2.6
Total	85	100%	5.6

Key Assumptions

Revenue Growth	Actual		Forecasts (Before)			Forecasts (After)		
	FY24	FY25	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F
Value engineering	9%	4%	10%	10%	10%	10%	12%	15%
Manufacturing	30%	-28%	15%	15%	10%	36%	21%	24%

Key Financial Metrics

FYE 31 Dec	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Revenue (RM'mn)	269.6	266.8	301.5	341.4	397.1
EBITDA (RM'mn)	32.7	32.3	41.2	49.1	56.7
Pretax profit (RM'mn)	24.7	21.9	31.7	39.6	47.3
Net profit (RM'mn)	17.3	16.3	21.5	27.7	33.0
EPS (sen)	1.9	1.8	2.4	3.0	3.6
PER (x)	27.9	29.4	22.1	17.7	14.7
Core net profit (RM'mn)	17.3	17.8	21.5	27.7	33.0
Core EPS (sen)	1.9	1.9	2.4	3.0	3.6
Core EPS growth (%)	(5.0)	0.0	26.3	25.0	20.0
Core PER (x)	27.9	27.9	22.1	17.7	14.7
Net DPS (sen)	0.55	0.75	0.75	0.75	0.75
Dividend Yield (%)	1.0	1.4	1.4	1.4	1.4
ROE (%)	9.4	9.1	8.4	10.0	10.9
P/BV (x)	2.6	2.4	1.9	1.7	1.6

Financial Exhibits

Income Statement

FYE 31 Dec (RM'mn)	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Revenue	269.6	266.8	301.5	341.4	397.1
Operating expenses	(236.9)	(234.5)	(260.3)	(292.3)	(340.4)
EBITDA	32.7	32.3	41.2	49.1	56.7
Depreciation	(6.4)	(7.3)	(7.1)	(7.0)	(7.0)
EBIT	26.2	25.1	34.1	42.0	49.7
Net int income/(expense)	(1.1)	(1.1)	(2.4)	(2.4)	(2.4)
Exceptional gains / (losses)	0.0	(1.5)	0.0	0.0	0.0
Associates' contribution	(0.5)	(0.6)	0.0	0.0	0.0
Pretax profit	24.7	21.9	31.7	39.6	47.3
Tax	(7.6)	(5.1)	(9.5)	(11.1)	(13.2)
Minority interest	(0.2)	0.5	0.7	0.9	1.0
Net profit	17.3	16.3	21.5	27.7	33.0
Core net profit	17.3	17.8	21.5	27.7	33.0

Balance Sheet Statement

FYE 31 Dec (RM'mn)	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Fixed assets	77.1	85.2	84.8	84.5	85.1
Other long term assets	19.0	20.3	21.2	21.5	23.3
Total non-current assets	96.0	105.5	106.0	105.9	108.4
Cash and equivalents	78.7	90.7	138.8	152.7	165.9
Inventories	30.7	31.2	39.4	44.4	51.5
Receivables	86.1	73.8	93.9	105.0	122.9
Other current assets	22.6	23.4	23.4	23.4	23.4
Total current assets	218.1	219.1	295.5	325.5	363.6
Payables	50.8	41.2	56.5	63.2	73.5
Short term borrowings	18.4	16.5	16.5	16.5	16.5
Other current liabilities	17.2	20.0	21.5	22.5	25.0
Total current liabilities	86.4	77.7	94.5	102.1	114.9
Long term borrowings	36.6	44.2	44.2	44.2	44.2
Other long term liabilities	3.1	2.9	2.9	2.9	2.9
Total long term liab.	39.7	47.1	47.1	47.1	47.1
Shareholders' Funds	184.1	195.7	255.1	276.5	303.3
Minority Interest	3.9	4.1	4.8	5.6	6.7

Cash Flow Statement

FYE 31 Dec (RM'mn)	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Pretax Profit	24.7	21.9	31.7	39.6	47.3
Depreciation & amortisation	5.7	6.6	6.4	6.4	6.3
Working capital changes	(3.6)	0.2	(13.1)	(9.3)	(14.7)
Cash tax paid	(6.3)	(7.9)	(9.5)	(11.1)	(13.2)
Others	3.7	6.0	0.7	0.7	0.7
C/F from operation	24.3	26.8	16.2	26.2	26.4
Capex	(15.5)	(5.8)	(6.0)	(6.0)	(7.0)
Others	0.8	3.3	0.0	0.0	0.0
C/F from investing	(14.8)	(2.4)	(6.0)	(6.0)	(7.0)
Debt raised/(repaid)	(2.0)	(3.2)	0.0	0.0	0.0
Dividends paid	(6.3)	(2.5)	(6.3)	(6.3)	(6.3)
Others	(2.8)	(3.4)	44.1	0.0	0.0
C/F from financing	(11.1)	(9.1)	37.9	(6.3)	(6.3)
Net change in cash flow	(1.5)	15.2	48.1	14.0	13.1
Free Cash Flow	8.7	21.0	10.2	20.2	19.4



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BUY: Total stock return expected to exceed +15% over 12-month period

HOLD: Total stock return to be between -15% and +15% over a 12-month period

SELL: Total stock return expected to below -15% over a 12-month period

TRADING BUY: Total stock return expected to exceed +10% over 6-month period

TRADING SELL: Total stock return expected to below -10% over a 6-month period

IPO Note:

SUBSCRIBE: Total stock return expected to exceed +15% over 12-month period

NEUTRAL: Total stock return expected to below +15% over 12-month period