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QES Group Berhad (0196)

Shipment Catch-up to support 4Q

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HOLD ⬇

TP: RM 0.48 (+5%) ⟺

Current Share Price: RM 0.455

Valuation

Our target price is based on:

FY26F PE of 20x, lower than its peers' forward PE of 28x, given the smaller market size than its peers and higher revenue concentration in the lower-margin distribution segment

Results Report | **Growth** | **Investment Horizon : 12 months**

Results Review

We deem QES's 9MFY25 core earnings of RM9.9mn as within expectations, accounting for 64% of both our and consensus full-year forecasts. We expect stronger earnings in the 4Q25, supported by the recognition of shipments delayed from 3QFY25 and stronger order flows following the clarification of the reciprocal tariff framework. Hence, we believe that the group is still on track to achieve our forecast. QoQ, revenue declined by 11.5%, mainly due to weaker performance in the distribution segment (-13.5% QoQ), likely attributed to shipment deferments. Meanwhile, 3QFY25 core earnings fell by 26% due to an unfavourable product mix across both segments.

Outlook

We maintain a positive outlook on QES's earnings, supported by new product launches from its manufacturing segment and growth initiatives in Singapore and India. We understand that more front-end semiconductor players are entering the Indian market for production. Given the geopolitical tensions between India and China, QES is well-positioned to benefit from trade diversion due to its neutral stance. This aligns with the group's guidance, which highlights rising traction from the Indian market. With the reciprocal tariff framework clarified in August and early signs of demand recovery in automotive ICs and industrial IoT chips, we expect industry and supply-chain activities to improve in FY26. The group is also looking to capture opportunities arising from this recovery, as well as structural growth trends in AI, data centres, and medical technology. Consequently, we maintain our FY25F–FY27F earnings forecasts. However, we downgrade our call to HOLD (from BUY) with an unchanged target price of RM0.48, based on FY26F PE of 20x.

Key Assumption

	Unchanged		
Revenue Growth	**FY2025F**	**FY2026F**	**FY2027F**
Distribution segment	-15%	15%	15%
Manufacturing segment	-15%	20%	15%
Services & spare parts segment	2%	2%	2%

Results Summary

FYE 31 Dec (RMmn)	3QFY24	2QFY25	3QFY25	QoQ (%)	YoY (%)	9MFY24	9MFY25	YoY (%)
Revenue	58.4	77.4	68.5	*-11.5*	*17.3*	182.8	191.6	*4.8*
Gross profit	16.1	19.8	15.4	*-22.2*	*-4.3*	46.7	46.4	*-0.6*
EBITDA	5.5	8.3	7.2	*-13.3*	*30.9*	20.4	19.1	*-6.4*
Depreciation	-1.7	-1.7	-1.9	*11.8*	*11.8*	-4.7	-5.3	*12.8*
EBIT	3.8	6.6	5.3	*-19.7*	*39.5*	15.7	13.8	*-12.1*
Pretax Profit	2.8	6.2	5.1	*-17.7*	*82.1*	14.4	12.9	*-10.4*
Taxation	-1.6	-1.9	-1.5	*-21.1*	*-6.3*	-4.7	-4.0	*-14.9*
Net Profit	1.2	4.4	3.6	*-18.2*	*200.0*	9.6	8.9	*-7.3*
Core Net Profit	3.5	5.0	3.7	*-26.0*	*5.7*	12.2	9.9	*-18.9*
Margin (%)								
GP	27.6	25.6	22.5			25.5	24.2	
EBITDA	9.4	10.7	10.5			11.2	10.0	
Pretax	4.8	8.0	7.4			7.9	6.7	
Net Profit	6.0	6.5	5.4			6.7	5.2	
Segmental								
Distribution	50.8	68.9	59.7	*-13.4*	*17.5*	160.6	171.0	*6.5*
Manufacturing	7.5	8.5	8.8	*3.5*	*17.3*	22.2	20.7	*-6.8*

Financial Exhibits

FYE 31 Dec	FY2023A	FY2024A	FY2025F	FY2026F	FY2027F
Revenue (RMmn)	240.7	269.6	238.8	269.3	301.7
EBITDA (RMmn)	31.9	32.7	31.1	37.8	42.7
Pretax profit (RMmn)	25.6	24.7	22.4	29.0	34.0
Net profit (RMmn)	18.5	17.3	15.4	20.1	23.6
EPS (sen)	2.2	2.1	1.8	2.4	2.8
PER (x)	20.7	21.7	25.3	19.0	16.3
Core net profit (RMmn)	18.5	17.4	15.4	20.1	23.6
Core EPS (sen)	2.2	2.1	1.8	2.4	2.8
Core EPS growth (%)	(30.6)	(4.5)	(14.3)	33.3	16.7
Core PER (x)	20.7	21.7	25.3	19.0	16.3
Net DPS (sen)	1.0	0.55	0.55	0.55	0.55
Dividend Yield (%)	2.2	1.2	1.2	1.2	1.2
ROE (%)	10.6	9.5	7.9	9.5	10.2
P/BV (x)	2.1	2.0	1.9	1.8	1.6

Financial Exhibits

FYE 31 Dec (RMmn)	FY2023A	FY2024A	FY2025F	FY2026F	FY2027F
Revenue	240.7	269.6	238.8	269.3	301.7
Operating expenses	(208.8)	(236.9)	(207.7)	(231.6)	(258.9)
EBITDA	**31.9**	**32.7**	**31.1**	**37.8**	**42.7**
Depreciation	(5.2)	(6.4)	(6.5)	(6.5)	(6.5)
EBIT	**26.6**	**26.2**	**24.6**	**31.2**	**36.2**
Net int income/(expense)	(0.8)	(1.1)	(2.2)	(2.2)	(2.2)
Exceptional gains / (losses)	0.0	0.0	0.0	0.0	0.0
Associates' contribution	(0.2)	(0.5)	0.0	0.0	0.0
Pretax profit	**25.6**	**24.7**	**22.4**	**29.0**	**34.0**
Tax	(6.4)	(7.6)	(6.9)	(8.7)	(10.2)
Minority interest	0.7	(0.2)	0.2	0.2	0.2
Net profit	**18.5**	**17.3**	**15.4**	**20.1**	**23.6**
Core net profit	**18.5**	**17.3**	**15.4**	**20.1**	**23.6**

Balance Sheet Statement

FYE 31 Dec (RMmn)	FY2023A	FY2024A	FY2025F	FY2026F	FY2027F
Fixed assets	45.0	77.1	77.3	77.5	77.7
Other long term assets	21.9	19.0	22.8	22.3	21.7
Total non-current assets	**66.9**	**96.0**	**100.1**	**99.8**	**99.4**
Cash and equivalents	80.8	78.7	75.5	83.5	96.7
Inventories	35.2	30.7	31.2	34.9	38.8
Receivables	69.3	86.1	72.5	83.9	92.8
Other current assets	23.6	22.6	21.0	21.0	21.0
Total current assets	**208.9**	**218.1**	**200.1**	**223.3**	**249.4**
Payables	43.3	50.8	44.1	50.0	55.3
Short term borrowings	16.7	18.4	18.4	18.4	18.4
Other current liabilities	15.5	17.2	1.0	2.0	2.9
Total current liabilities	**75.5**	**86.4**	**63.6**	**70.4**	**76.7**
Long term borrowings	17.7	36.6	36.6	36.6	36.6
Other long term liabilities	4.2	3.1	1.0	1.0	1.0
Total long term liab.	**22.0**	**39.7**	**37.6**	**37.6**	**37.6**
Shareholders' Funds	**174.1**	**184.1**	**195.1**	**210.8**	**230.0**
Minority Interest	**4.3**	**3.9**	**4.1**	**4.3**	**4.5**

Cash Flow Statement

FYE 31 Dec (RMmn)	FY2023A	FY2024A	FY2025F	FY2026F	FY2027F
Pretax Profit	25.6	24.7	22.4	29.0	34.0
Depreciation & amortisation	4.2	5.7	5.8	5.8	5.8
Working capital changes	(15.5)	(3.6)	6.4	(9.3)	(7.5)
Cash tax paid	(8.1)	(6.3)	(6.9)	(8.7)	(10.2)
Others	2.5	3.7	0.7	0.7	0.7
C/F from operation	**8.8**	**24.3**	**28.5**	**17.6**	**22.8**
Capex	(6.9)	(15.5)	(5.0)	(5.0)	(5.0)
Others	1.4	0.8	0.0	0.0	0.0
C/F from investing	**(5.5)**	**(14.8)**	**(5.0)**	**(5.0)**	**(5.0)**
Debt raised/(repaid)	9.3	(2.0)	0.0	0.0	0.0
Dividends paid	(4.2)	(6.3)	(4.6)	(4.6)	(4.6)
Others	0.5	(2.8)	0.0	0.0	0.0
C/F from financing	**5.6**	**(11.1)**	**(4.6)**	**(4.6)**	**(4.6)**
Net change in cash flow	**8.9**	**(1.5)**	**18.9**	**8.0**	**13.3**
Free Cash Flow	**1.9**	**8.7**	**23.5**	**12.6**	**17.8**

Investment Risk

1. Dependence on distribution segment. More than 60% of the group's revenue, revenue is from the distribution segment Any reduction in orders, pricing renegotiations, or supply chain disruption may materially affect the Group's revenue and earnings, potentially leading to a significant financial downturn.

2. Exposure to semiconductor industry cyclicality. QES's performance is closely tied to the semiconductor industry. A downturn in the semiconductor industry, geopolitical tensions, or shifts in technology demand can lead to reduced capex by clients, thereby affecting QES's revenue

3. Execution risk from capacity expansion. The Group's ongoing expansion involves constructing new manufacturing plants and acquiring new equipment, which involves execution risks. Delays in project completion, cost overruns, or failure to ramp up production as planned may impair future earnings and returns on investment.