

QES Group Berhad (0196)

India Expansion and Medtech Driving Momentum

Bloomberg Ticker: QES MK | Investment Horizon: 12 Months

Recommendation

We downgrade to HOLD (from BUY) call with unchanged target price of RM0.505, based on unchanged FY26F PE of 20x, to reflect better recovery from both divisions amid a gradual recovery in semiconductor sector.

Results Review

QES's 1QFY26 core earnings of RM4mn came in line with expectations, representing 20% of our full-year forecast and consensus estimates.

YoY, 1QFY26 core earnings doubled, underpinned by strong revenue growth of 27% driven by higher product deliveries across both the value engineering division (+21% YoY) and manufacturing division (+109% YoY). An improved product mix lifted gross profit margin by 2.5 percentage points.

QoQ, 1QFY26 revenue declined 23% due to softer contributions from both divisions, likely reflecting shortened operating days during the festive season. Core earnings fell 49% quarter-over-quarter, primarily attributable to unfavorable cost dynamics that compressed EBITDA margin by 1.8 percentage points, despite gross profit margin holding steady at 27%. The earnings decline was further exacerbated by a higher effective tax rate of 28% versus 12% in 4QFY25.

Outlook

We maintain our constructive view on QES's earnings outlook, driven by robust medtech segment performance and accelerating expansion initiatives across Singapore and India. Industry intelligence suggests increasing front-end semiconductor manufacturing investments in India, positioning QES to capture trade diversion opportunities as India-China geopolitical tensions persist. Management's guidance reinforces this thesis, highlighting strengthening Indian order momentum that extends revenue visibility through 2026-2028. Concurrently, the medtech division continues to secure new contracts tied to customer capacity expansions across multiple geographies.

The February 2026 implementation of revised reciprocal tariffs, combined with emerging recovery indicators in automotive ICs and industrial IoT semiconductors, supports our view of gradual industry stabilization and supply chain restocking heading into FY26. QES appears well-positioned to capitalize on both the cyclical recovery and longer-term structural tailwinds from AI infrastructure, data center buildouts, and advanced medical technology applications.

Forecast

We keep our FY26F-FY28F forecast number unchanged

Investment Risk to our Call

(i) Dependence on distribution segment, (ii) exposure to semiconductor industry cyclicality, and (iii) execution risk from capacity expansion.

HOLD ↓

Target Price: RM0.505 (+1%) ↔

Current Share Price: RM0.50

Main Market
Industrial Products & Services

Tan Jia Hui

Research Analyst

jiahui@tradeviewcapital.my

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)	420.5
Issued Shares (mn)	832.8
52W High (RM)	0.52
52W Low (RM)	0.34
Estimated Free Float (%)	41.8
Beta vs FBM KLCI	1.3
3-month Average Vol. (mn)	1.2
Shariah Compliant	Yes

Consensus	FY25A	FY26F	FY27F
EPS (sen)	2.0	2.3	2.7
TP (RM)	High	Mean	Low
	0.57	0.51	0.47
Ratings	Buy	Hold	Sell
	4	0	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

Results Summary

FYE 31 Dec (RMm)	1QFY25	4QFY25	1QFY26	QoQ (%)	YoY (%)
Revenue	45.8	75.2	58.3	(22.5)	27.3
Gross profit	11.2	20.3	15.7	(22.7)	40.2
EBITDA	3.6	11.7	8.0	(31.6)	122.2
Depreciation	(1.7)	(2.0)	(1.9)	(5.0)	11.8
EBIT	1.9	9.7	6.1	(37.1)	221.1
Pretax Profit	1.5	9.1	5.4	(40.7)	260.0
Taxation	(0.6)	(1.1)	(1.5)	36.4	150.0
Net Profit	0.9	8.0	3.9	(51.3)	333.3
Core PATAMI	1.3	7.9	4.0	(49.4)	207.7
Margin (%)					
GP	24.5	27.0	26.9		
EBITDA	7.9	15.6	13.7		
Pretax	3.3	12.1	9.3		
Core PATAMI	2.8	10.5	6.9		
Segmental					
Distribution	42.4	65.3	51.2	(21.6)	20.8
Manufacturing	3.4	9.9	7.1	(28.3)	108.8

Key Assumption

Revenue Growth	Actual		Unchanged		
	FY24	FY25	FY26F	FY27F	FY28F
Value engineering	9%	4%	10%	10%	10%
Manufacturing	30%	-28%	15%	15%	10%

Key Financial Metrics

FYE 31 Dec	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Revenue (RM'mn)	269.6	266.8	295.3	326.6	359.1
EBITDA (RM'mn)	32.7	32.3	39.2	44.0	49.6
Pretax profit (RM'mn)	24.7	21.9	30.4	35.1	40.7
Net profit (RM'mn)	17.3	16.3	21.0	24.3	28.2
EPS (sen)	2.1	2.0	2.5	2.9	3.4
PER (x)	19.5	20.5	16.4	14.1	12.1
Core net profit (RM'mn)	17.4	17.9	21.0	24.3	28.2
Core EPS (sen)	2.1	2.1	2.5	2.9	3.4
Core EPS growth (%)	(4.5)	0.0	19.0	16.0	17.2
Core PER (x)	19.5	19.5	16.4	14.1	12.1
Net DPS (sen)	0.55	0.75	0.75	0.75	0.75
Dividend Yield (%)	1.3	1.8	1.8	1.8	1.8
ROE (%)	9.5	9.1	10.0	10.6	11.2
P/BV (x)	1.8	1.7	1.6	1.5	1.3

Financial Exhibits

Income Statement

FYE 31 Dec (RM'mn)	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Revenue	269.6	266.8	295.3	326.6	359.1
Operating expenses	(236.9)	(234.5)	(256.1)	(282.5)	(309.6)
EBITDA	32.7	32.3	39.2	44.0	49.6
Depreciation	(6.4)	(7.3)	(6.5)	(6.5)	(6.5)
EBIT	26.2	25.1	32.8	37.6	43.1
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	30.4	35.1	40.7
Tax	(7.6)	(5.1)	(9.1)	(10.5)	(12.2)
Minority interest	(0.2)	0.5	0.2	0.2	0.3
Net profit	17.3	16.3	21.0	24.3	28.2
Core PATAMI	17.3	17.8	21.0	24.3	28.2

Balance Sheet Statement

FYE 31 May (RM'mn)	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Fixed assets	77.1	85.2	77.5	77.7	78.8
Other long term assets	19.0	20.3	29.6	29.1	29.1
Total non-current assets	96.0	105.5	107.1	106.8	108.0
Cash and equivalents	78.7	90.7	95.6	108.3	123.1
Inventories	30.7	31.2	38.5	42.3	46.2
Receivables	86.1	73.8	92.0	100.4	111.1
Other current assets	22.6	23.4	-	-	-
Total current assets	218.1	219.1	226.1	251.0	280.5
Payables	50.8	41.2	55.2	60.3	66.0
Short term borrowings	18.4	16.5	16.5	16.5	16.5
Other current liabilities	17.2	20.0	2.0	2.9	5.4
Total current liabilities	86.4	77.7	73.6	79.7	87.9
Long term borrowings	36.6	44.2	44.2	44.2	44.2
Other long term liabilities	3.1	2.9	0.4	0.4	0.4
Total long term liab.	39.7	47.1	44.6	44.6	44.6
Shareholders' Funds	184.1	195.7	210.7	229.0	251.2
Minority Interest	3.9	4.1	4.3	4.6	4.9

Cash Flow Statement

FYE 31 May (RM'mn)	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Pretax Profit	24.7	21.9	30.4	35.1	40.7
Depreciation & amortisation	5.7	6.6	5.8	5.8	5.8
Working capital changes	(3.6)	0.2	(11.5)	(7.1)	(8.9)
Cash tax paid	(6.3)	(7.9)	(9.1)	(10.5)	(12.2)
Others	3.7	6.0	0.7	0.7	0.7
C/F from operation	24.3	26.8	16.2	23.9	26.1
Capex	(15.5)	(5.8)	(5.0)	(5.0)	(5.0)
Others	0.8	3.3	0.0	0.0	0.0
C/F from investing	(14.8)	(2.4)	(5.0)	(5.0)	(5.0)
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)	0.0	0.0	0.0
C/F from financing	(11.1)	(9.1)	(6.3)	(6.3)	(6.3)
Net change in cash flow	(1.5)	15.2	4.9	12.7	14.8
Free Cash Flow	8.7	21.0	11.2	18.9	21.1



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Equity:

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