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Malacca Securities
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LGMS Berhad

Earnings Came In Below Expectations

Results Note – 2QFY25

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Summary

- **Earnings below expectation.** LGMS registered a 2Q25 core PAT of RM2.0m (+4.5% QoQ, -44.8% YoY), bringing 1H25 core PAT to RM4.0m (-35.2% YoY). The results came in below expectations, accounting for 28.3% and 29.6% of our and consensus estimates. The key deviations include (i) lower-than-expected revenue generated from the cyber risk prevention segment and (ii) higher employee benefits expense.

- **YoY.** LGMS's revenue decreased 13.1% YoY, dragged by lower revenue generated from both cyber risk prevention segment and cyber threat and incident response segment. Core PAT also saw a 44.8% decrease in 2Q25, from RM3.7m in 2Q24 to RM2.0m in 2Q25, following an increase in employee benefits expense.

- **QoQ.** However, revenue rose marginally by 4.0% to RM10.0m, driven by both cyber risk management and compliance segment and cyber threat and incident response segment, which saw an increase of 33.0% and 32.8% respectively. Following the revenue increase, 2Q25 core PAT also inched up slightly by 4.5% to RM2.0m.

- **Overseas contribution.** Revenue from overseas saw a decline of 46.1%, from RM1.6m in 2Q24 to RM0.8m in 2Q25.

- **Cyber risk prevention segment.** We noticed that the softness in cyber risk prevention segment persisted (-20.5% QoQ in 1Q25), continued to decline by a 10.1% QoQ in 2Q25 to RM5.8m. This is resulted mainly from the reduced number of higher-value projects undertaken.

- **Employee benefits expense.** LGMS continued to register higher employee benefits expense (+3.8% QoQ, +29.4%), as the group emphasizes on high hiring standards and competitive benefits to attract top cybersecurity talent. While margins were impacted following this workforce expansion, we believe this move will strengthen its delivery capacity for future growth.

- **Outlook.** With the growing digital adoption, 5G rollouts and expanding e-commerce industry globally, coupled with the government's initiatives like Cyber Security Act 2024, National Cyber Security Strategy 2025–2030 and MyDIGITAL Blueprint, the demand for secure networks and data protection are expected to increase. Against this backdrop, LGMS's proven track record and vendor-neutral positioning should enable it to capture more opportunities both locally and internationally. Meanwhile, StarSentry, an automated cybersecurity preventive tool, will also enable LGMS to provide greater value and flexibility to its clients.

Quarterly performance 2Q25

Quarterly performance

FYE Jun (RM m)	2QFY24	1QFY25	2QFY25	QoQ (%)	YoY (%)	1HFY24	1HFY25	YoY (%)
Revenue	11.5	9.6	10.0	*4.0*	*(13.1)*	20.1	19.7	*(2.3)*
EBIT	4.6	2.5	2.6	*3.3*	*(44.0)*	7.8	5.1	*(34.1)*
PBT	4.8	2.6	2.8	*6.3*	*(42.6)*	8.0	5.4	*(33.0)*
Core PAT	3.7	1.9	2.0	*4.5*	*(44.8)*	6.1	4.0	*(35.2)*
Reported PAT	3.7	1.9	2.0	*4.5*	*(44.8)*	6.1	4.0	*(35.2)*
Core EPS (sen)	0.8	0.4	0.4	*4.5*	*(44.8)*	1.3	0.9	*(35.2)*
EBIT margin (%)	40.2	26.1	25.9			38.5	26.0	
PBT margin (%)	42.0	27.1	27.7			40.0	27.4	
Core PATMI margin (%)	31.9	20.1	20.2			30.4	20.2	

Source: LGMS, M+ Research

BUY

Share price	**RM0.77**
Target price	**RM0.93**
Previous TP	**RM1.18**
Capital upside	20.8%
Dividend return	0.5%
Total return	21.3%

Company profile

Primarily specializes in providing professional independent cybersecurity services, including cyber risk prevention, cyber risk management and compliance, and cyber threat and incident response, serving clients across Malaysia and global.

Stock information

Bursa Code	0249
Bloomberg ticker	LGMS MK
Listing market	ACE
Share issued (m)	456.0
Market Cap (m)	351.1
52W High/Low	1.53 / 0.75
Est. Free float (%)	51.8
Beta (x)	1.3
3-mth avg vol ('000)	123.5
Shariah compliant	Yes

Major shareholders	**%**
Fong Choong Fook	36.4
Mitsui Co.	25.0
Goh Soon Sei	10.8

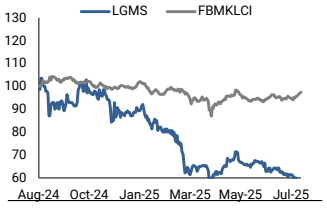
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-14.4	-23.0	-45.0
Relative	-17.1	-23.1	-44.1

Earnings snapshot

FYE (Dec)	FY24	FY25f	FY26f
PAT (m)	12.3	9.5	12.1
EPS (sen)	2.7	2.1	2.7
P/E (x)	28.5	36.8	29.0

Relative performance chart



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Valuation & Recommendation

- **Forecast.** As earnings underperformed expectations, we revise the core PAT to RM9.5-13.9m for FY25f-27f, down from our initial forecast of RM14.0m-18.9m, factoring in lower revenue contribution in FY25 and higher employee benefits expense going forward.

- **Maintained BUY recommendation with a lower TP of RM0.93 (from RM1.18).** We maintain BUY recommendation on LGMS with a lower target price of RM0.93. The target price is derived based on a P/E ratio of 35.0x pegged to FY26f EPS of 2.65 sen.

- **Downside risks.** Risks to our recommendation include continued slower demand for cybersecurity services especially the cyber risk prevention segment due to lack of high-value projects and/or lack of cybersecurity awareness. Besides, competition from both local and international cybersecurity providers may put pressure on LGMS's market share and margins. Lastly, the group's heavy reliance on quality cybersecurity professionals also continue to pose a risk, as increase in employee benefit expenses could lower down the group's overall margins.

Financial Highlights

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY23	FY24	FY25f	FY26f	FY27f
Cash	73.6	68.1	73.8	84.0	95.7
Receivables	6.3	8.3	6.8	7.4	8.0
Inventories	-	-	-	-	-
Others	13.2	12.8	12.8	12.8	12.8
Assets	**95.7**	**106.4**	**114.5**	**124.2**	**135.4**
Debts	0.7	0.8	1.0	1.0	1.0
Payables	0.4	0.3	0.6	0.6	0.6
Others	8.0	10.9	10.9	10.9	10.9
Liabilities	**9.1**	**12.0**	**12.5**	**12.5**	**12.6**
Minority interest	-	-	-	-	-
Equity	**86.6**	**94.4**	**102.0**	**111.7**	**122.8**

Cash Flow Statement

FYE Dec (RM m)	FY23	FY24	FY25f	FY26f	FY27f
Profit before taxation	15.2	16.5	12.6	15.9	18.3
Depreciation & amortis	1.4	1.1	1.1	1.1	1.1
Changes in working ca	0.1	(2.1)	1.8	(0.6)	(0.6)
Share of JV profits	-	-	(0.9)	(2.1)	(2.4)
Taxation	(4.0)	(4.2)	(3.0)	(3.8)	(4.4)
Others	(1.8)	1.7	-	-	-
Operating cash flow	**10.9**	**12.9**	**11.6**	**10.5**	**12.1**
Net capex	0.0	(14.7)	(5.0)	-	-
Others	3.2	1.7	-	-	-
Investing cash flow	**3.2**	**(13.0)**	**(5.0)**	**-**	**-**
Changes in borrowings	(1.1)	0.1	0.1	0.1	0.0
Issuance of shares	-	-	-	-	-
Dividends paid	(2.3)	(6.8)	(1.9)	(2.4)	(2.8)
Others	(6.4)	1.3	-	-	-
Financing cash flow	**(9.7)**	**(5.5)**	**(1.8)**	**(2.4)**	**(2.7)**
Net cash flow	**4.4**	**(5.6)**	**5.7**	**10.2**	**11.7**
Forex	0.1	0.0	-	-	-
Others	0.0	0.0	-	-	-
Beginning cash	69.1	73.6	68.1	73.8	84.0
Ending cash	73.6	68.1	73.8	84.0	95.7

Income Statement

FYE Dec (RM m)	FY23	FY24	FY25f	FY26f	FY27f
Revenue	**34**	**44**	**40**	**44**	**47**
EBIT	14	16	11	13	15
Net finance income/ (co	1	1	1	0	0
Profit before tax	**15**	**17**	**13**	**16**	**18**
Tax	(4)	(4)	(3)	(4)	(4)
Net profit	**11**	**12**	**10**	**12**	**14**
Minority interest	-	-	-	-	-
Core earnings	**11**	**12**	**10**	**12**	**14**
Exceptional items	-	-	-	-	-
Reported earnings	11	12	10	12	14

Valuation & Ratios

FYE Dec (RM m)	FY23	FY24	FY25f	FY26f	FY27f
Core EPS (sen)	2.5	2.7	2.1	2.7	3.0
P/E (x)	31.3	28.5	36.8	29.0	25.3
DPS (sen)	0.5	1.5	0.4	0.5	0.6
Dividend yield	0.6%	1.9%	0.5%	0.7%	0.8%
BVPS (RM)	0.19	0.21	0.22	0.24	0.27
P/B (x)	4.1	3.7	3.4	3.1	2.9
EBIT margin	42.3%	36.7%	27.8%	30.5%	32.7%
PBT margin	44.5%	37.9%	31.4%	36.4%	38.8%
Net margin	32.8%	28.3%	23.9%	27.7%	29.5%
ROE	13.2%	13.6%	9.7%	11.3%	11.8%
ROA	12.0%	12.2%	8.6%	10.1%	10.7%
Net gearing	CASH	CASH	CASH	CASH	CASH

Source: M+ Research

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Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned