Company Update

LGMS Berhad

Kieran Lim
kieranlim@msec.com.my
(603) 2201 2100

Trimming Forecasts Amid Demand and Cost Headwinds

Summary

- **Softer quarterly results.** To recap, LGMS registered a drop of 13.7% YoY and 0.5% YoY in core PAT to RM1.7m and RM3.9m in 2QFY26 and 1HFY26, respectively. The weaker bottom-line performance was primarily attributable to elevated employee benefit expenses (+9.1% YoY) and IT spending (+36.7% YoY) to build out its AI security capabilities, coupled with softer contributions from the compliance (-21.3% YoY) and incident response (-32.6% YoY) segments. Nevertheless, we expect to see a stronger recovery in 2HFY26, driven by a surge in incident response engagements amid rising breach cases and also customary year-end project billings.

- **Surge in incident response demand.** LGMS is observing an increasing trend in its cyber threat and incident response segment, spurred by a rise in cybersecurity breach incidents amidst ongoing enterprise AI adoption and digitalization. Management expects this operational momentum to translate into a stronger performance in 2HFY26 as affected companies engage LGMS for breach response and forensic services.

- **Softer growth anticipated in other segments.** Conversely, growth across cyber risk prevention as well as management and compliance are expected to remain relatively subdued in 2HFY26, largely attributable to general weakness in proactive cybersecurity awareness among enterprise clients, who typically hold back spending until an actual security breach occurs.

- **Cost drag from personnel and tech.** The sequential step-up in employee benefit expenses in 1HFY26 was primarily driven by annual salary increments and performance bonuses. To mitigate long-term dependency on human headcount, LGMS is increasing its utilization of AI and technologies, which has also contributed to higher IT expenses in 1HFY26.

- **Antarex contribution backloaded.** As the RM24.5m profit guarantee from Antarex Holdings (where LGMS holds a 27% stake, representing an RM6.6m profit share) is assessed on a cumulative 3-year basis (FY26–FY28), actual profit recognition will fluctuate based on project execution timelines, with management expecting contributions to be skewed towards the later part of the period.

M+ Global View

- Following the 2QFY26 results briefing, we adopt a more cautious stance on LGMS's near-term trajectory. While top-line momentum may improve in 2HFY26 compared with 1HFY26, supported by higher billing volumes in the cyber threat and incident response segment amid rising breach cases, we believe softer traction across the risk prevention and compliance segments will continue to constrain overall growth.

- While management's strategic investment into AI technologies should reduce human headcount dependency and streamline service delivery over the long run, the precise timeline for operational efficiency gains and margin recovery remains uncertain. Nevertheless, we still view this technological shift as vital for LGMS's long-term growth.

BUY

Share price	RM0.48
Target price	RM0.70
Previous TP	RM0.93
Capital upside	45.8%
Dividend return	0.9%
Total return	46.7%

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	MAIN
Share issued (m)	456.0
Market Cap (m)	218.9
52W High/Low	0.950 / 0.420
Est. Free float (%)	47.8
Beta (x)	1.0
3-mth avg vol ('000)	994.3
Shariah compliant	Yes

Major shareholders	%
Fong Choong Fook	36.6
Mitsui Co.	25.0
Goh Soon Sei	11.7

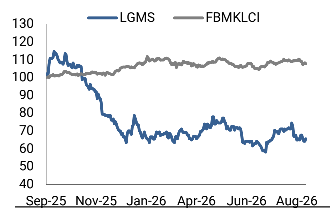
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-7.7	-7.7	-36.8
Relative	-6.2	-8.5	-41.6

Earnings snapshot

FYE (Dec)	FY25	FY26f	FY27f
PAT (m)	10.2	10.3	10.8
EPS (sen)	2.2	2.3	2.4
P/E (x)	21.4	21.3	20.2

Relative performance chart



JOIN OUR OFFICIAL TELEGRAM
TO GET THE LATEST MARKET UPDATES
M+Global
By Malacca Securities

- Furthermore, while Antarex's profit contribution may be backloaded towards the later part of the 3-year period, the cumulative RM24.5m profit provides some downside protection to LGMS's investment, with RM6.6m of the purchase consideration retained to cover LGMS's share of any potential shortfall.

Valuation & Recommendation

- **Forecast.** Given softer traction across the cyber risk prevention and compliance segments, the backloaded contribution from Antarex, as well as higher employee and IT costs, we cut our FY26-28f core PAT forecasts by 15.6%/21.7%/18.4%, from RM12.2m/RM13.8m/RM14.7m to RM10.3m/RM10.8m/RM12.0m

- **Maintained BUY recommendation with a lower TP of RM0.70.** We maintain our BUY recommendation on LGMS with a lower TP of RM0.70 (from RM0.93), implying 45.8% upside from the current share price of RM0.48. Our valuation is based on a lower 30.0x P/E multiple (previously 35.0x), applied to mid-FY27f EPS of 2.32 sen. The lower valuation multiple reflects the slower-than-anticipated demand across the cyber risk prevention and compliance segments, coupled with a more subdued near-term earnings trajectory.

- **Downside risks.** Risks to our recommendation include: (i) sustained margin pressure from elevated employee and IT costs outpacing revenue growth, (ii) slower demand for cybersecurity services due to lack of high-value projects and/or lack of cybersecurity awareness, (iii) competition from both local and international cybersecurity providers putting pressure on LGMS's market share and margins, and (iv) execution risk on the Antarex integration and the RM24.5m profit guarantee.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY23	FY24	FY25	FY26f	FY27f	FY28f
Cash	73.6	68.1	74.1	85.1	95.1	106.0
Receivables	6.3	8.3	7.0	7.5	7.7	7.9
Inventories	-	-	1.3	-	-	-
Others	13.2	12.8	13.5	12.8	12.8	12.8
Assets	**95.7**	**106.4**	**114.8**	**123.1**	**131.8**	**141.5**
			-			
Debts	0.7	0.8	0.8	1.0	1.0	1.1
Payables	0.4	0.3	0.6	0.6	0.7	0.7
Others	8.0	10.9	11.1	10.9	10.9	10.9
Liabilities	**9.1**	**12.0**	**12.5**	**12.6**	**12.6**	**12.7**
			-			
Minority interest	-	-	-	-	-	-
Equity	**86.6**	**94.4**	**102.3**	**110.5**	**119.2**	**128.8**

Cash Flow Statement

FYE Dec (RM m)	FY23	FY24	FY25	FY26f	FY27f	FY28f
Profit before taxation	15.2	16.5	13.4	13.5	14.3	15.7
Depreciation & amortis	1.4	1.1	1.4	1.4	1.4	1.4
Changes in working ca	0.1	(2.1)	0.3	0.9	(0.2)	(0.2)
Share of JV profits	-	-	(0.1)	(1.3)	(2.0)	(3.3)
Taxation	(4.0)	(4.2)	(3.2)	(3.3)	(3.4)	(3.8)
Others	(1.8)	1.5	0.1	2.5	2.2	2.2
Operating cash flow	**10.9**	**12.8**	**11.9**	**13.7**	**12.3**	**12.1**
Net capex	0.0	(14.7)	(3.0)	-	-	-
Others	3.2	1.9	0.0	-	-	-
Investing cash flow	**3.2**	**(12.8)**	**(2.9)**	**-**	**-**	**-**
Changes in borrowings	(1.1)	0.1	0.0	0.2	0.0	0.0
Issuance of shares	-	-	-	-	-	-
Dividends paid	(2.3)	(6.8)	(6.8)	(2.1)	(2.2)	(2.4)
Others	(6.4)	1.3	4.1	-	-	-
Financing cash flow	**(9.7)**	**(5.5)**	**(2.7)**	**(1.9)**	**(2.1)**	**(2.3)**
			-			
Net cash flow	**4.4**	**(5.6)**	6.3	**11.0**	**10.0**	**10.8**
Forex	0.1	0.0	(0.2)	-	-	-
Others	0.0	0.0	0.0	-	-	-
Beginning cash	69.1	73.6	68.1	74.1	85.1	95.1
Ending cash	73.6	68.1	74.1	85.1	95.1	106.0

Source: M+ Research

Income Statement

FYE Dec (RM m)	FY23	FY24	FY25	FY26f	FY27f	FY28f
Revenue	**34.2**	**43.6**	**43.9**	**44.2**	**45.3**	**46.7**
EBIT	14.5	16.0	12.9	11.7	11.8	11.9
Net finance income/ (co	0.7	0.5	0.5	0.5	0.5	0.5
Profit before tax	**15.2**	**16.5**	**13.4**	**13.5**	**14.3**	**15.7**
Tax	(4.0)	(4.2)	(3.2)	(3.3)	(3.4)	(3.8)
Net profit	**11.2**	**12.3**	**10.2**	**10.3**	**10.8**	**12.0**
Minority interest	-	-	-	-	-	-
Core earnings	**11.2**	**12.3**	**10.2**	**10.3**	**10.8**	**12.0**
Exceptional items	-	-	-	-	-	-
Reported earnings	11.2	12.3	10.2	10.3	10.8	12.0

Valuation & Ratios

FYE Dec (RM m)	FY23	FY24	FY25	FY26f	FY27f	FY28f
Core EPS (sen)	2.5	2.7	2.2	2.3	2.4	2.6
P/E (x)	19.5	17.7	21.4	21.3	20.2	18.3
DPS (sen)	0.5	1.5	1.5	0.5	0.5	0.5
Dividend yield	0.0	0.0	0.0	0.0	0.0	0.0
BVPS (RM)	0.2	0.2	0.2	0.2	0.3	0.3
P/B (x)	2.5	2.3	2.1	2.0	1.8	1.7
EBIT margin	0.4	0.4	0.3	0.3	0.3	0.3
PBT margin	0.4	0.4	0.3	0.3	0.3	0.3
Net margin	0.3	0.3	0.2	0.2	0.2	0.3
ROE	0.1	0.1	0.1	0.1	0.1	0.1
ROA	0.1	0.1	0.1	0.1	0.1	0.1
Net gearing	CASH	CASH	CASH	CASH	CASH	CASH

Disclaimer

Research analyst(s) of MSSB whom produced this report hereby certifies that the views expressed in this report accurately reflect his/her personal opinions about all of the subject corporation(s) and securities in this report. He/She does not carry out, whether for himself/herself or on behalf of MSSB or any other persons did not receive and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. As of the report date, the analyst whom prepared this report does not have any interest in the following securities covered in this report, unless otherwise stated.

This report has been prepared by research analyst(s) of MSSB pursuant to the Research Incentive Program under Bursa Research Incentive Scheme Plus ("Bursa RISE+") administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaim any and all liability, howsoever arising, out of or in relation to the administration of Bursa Research Incentive Program and/or this report.

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