LGMS Berhad

3QFY26 Below Expectations

Results Note – 3QFY26

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

Summary

- **Below expectations.** LGMS registered a 3QFY26 core PAT of RM0.9m (-61.2% YoY, -47.1% QoQ). On a cumulative basis, 9MFY26 core PAT of RM4.9m (-23.2% YoY) accounts for only 47.3% of our previous FY26f earnings forecast of RM10.3m. We view this as below expectations, weighed by a softer-than-expected top-line and an elevated cost base.

- **YoY.** Revenue declined 9.5% YoY to RM9.6m, dragged by lower contributions from cyber risk prevention (-11.7% YoY) and cyber risk management and compliance (-8.2% YoY), while cyber threat and incident response remained broadly flat (+0.3% YoY). Core PAT fell 61.2% YoY, reflecting weaker revenue and operating deleveraging.

- **QoQ.** Revenue eased 4.7% QoQ, while core PAT declined 47.1% QoQ. The sequential weakness was mainly attributable to lower project values across the prevention and compliance segments, coupled with weaker associate contributions.

- **YTD.** 9MFY26 revenue edged up 0.9% YoY to RM30.5m, as growth in cyber risk prevention (+3.4% YoY) and cyber threat and incident response (+16.0% YoY) was largely offset by weaker cyber risk management and compliance (-9.9% YoY). Core PAT fell 23.2% YoY to RM4.9m amid higher operating expenses.

- **Subdued proactive cybersecurity spending.** Lower project values from telecommunications and technology clients weighed on cyber risk prevention, while fewer billable financial services clients dragged on compliance revenue. These trends reaffirm our view that proactive cybersecurity spending remains subdued.

- **Incident response picking up sequentially.** Cyber threat and incident response revenue nearly doubled QoQ to RM1.2m, underpinned by a higher number of projects undertaken. The improving momentum is consistent with management's guidance of rising breach response and forensic engagements, providing some cushion against weaker proactive cybersecurity spending.

- **Further margin squeeze.** EBIT margin compressed further to 12.0% (vs 27.6% in 3QFY25 and 17.2% in 2QFY26), reflecting higher employee benefit expenses (+9.4% YoY to RM5.9m) from headcount expansion, increased IT expenses (+23.2% YoY to RM1.1m) for new solution deployments and higher depreciation (+24.5% YoY to RM0.4m). The earnings impact was partially cushioned by a lower effective tax rate of 11.8%, mainly due to a RM0.2m income tax overprovision in FY25.

- **Antarex contribution remains lumpy.** Share of results from associates moderated to RM0.07m in 3QFY26 (vs RM0.36m in 2QFY26), bringing 9MFY26 contribution to RM0.48m. Nevertheless, Antarex is subject to a RM24.5m cumulative profit guarantee over FY26–FY28. Based on LGMS's 27% stake, its share of the guaranteed profit is approximately RM6.6m.

- **Overseas revenue holding steady.** Despite a marginal 1.9% YoY decline to RM1.7m in 3QFY26, overseas revenue accounted for 18.0% of group revenue (vs 12.4% in 2QFY26). Cumulatively, overseas revenue grew 13.3% YoY to RM5.4m, reflecting

BUY

Share price	**RM0.54**
Target price	**RM0.71**
Previous TP	**RM0.70**
Capital upside	31.5%
Dividend return	0.9%
Total return	32.4%

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.

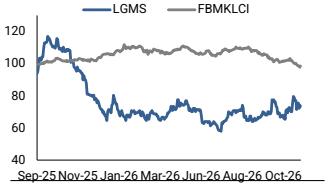
Stock information	
Bursa Code	0249
Bloomberg ticker	LGMS MK
Listing market	MAIN
Share issued (m)	456.0
Market Cap (m)	246.2
52W High/Low	0.655 / 0.420
Est. Free float (%)	24.1
Beta (x)	0.8
3-mth avg vol ('000)	1039.5
Shariah compliant	Yes

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	8.0	13.7	-16.3
Relative	11.1	23.7	-12.8

Earnings snapshot			
FYE (Dec)	FY25	FY26f	FY27f
PAT (m)	10.2	9.5	10.8
EPS (sen)	2.2	2.1	2.4
P/E (x)	24.1	25.9	22.8

Relative performance chart



stronger overseas performance relative to the group's overall revenue growth.

- **Outlook.** The structural growth drivers for cybersecurity remain intact, underpinned by the enforcement of the Cyber Security Act 2024 pushing NCII entities to upgrade compliance, penetration testing and risk advisory spending. The launch of five new AI-driven solutions in October 2026 (covering AI application security assessments, automated source code reviews, credential exposure monitoring, external attack surface management and deception-based threat detection) should also support LGMS's transition towards subscription-based services and improve operational efficiency over time. Near-term, we expect 4QFY26 to be the strongest quarter of the year, driven by (i) customary year-end project finalizations and billings, (ii) rising incident response engagements, and (iii) the recognition of some newly launched AI-driven cybersecurity solutions.

Quarterly performance 3QFY26

Quarterly performance

FYE Dec (RM m)	3QFY25	2QFY26	3QFY26	QoQ (%)	YoY (%)	9MFY25	9MFY26	YoY (%)
Revenue	10.6	10.1	9.6	*(4.7)*	*(9.5)*	30.3	30.5	*0.9*
EBIT	2.9	1.7	1.2	*(33.5)*	*(60.7)*	8.0	5.8	*(28.4)*
PBT	3.0	2.3	1.3	*(43.6)*	*(57.6)*	8.4	6.5	*(22.4)*
Core PAT	2.4	1.7	0.9	*(47.1)*	*(61.2)*	6.3	4.9	*(23.2)*
Reported PAT	2.4	1.7	1.1	*(35.6)*	*(52.8)*	6.3	5.1	*(20.1)*
Core EPS (sen)	0.5	0.4	0.2	*(35.6)*	*(52.8)*	1.4	1.1	*(20.1)*
EBIT margin (%)	27.6	17.2	12.0			26.6	18.9	
PBT margin (%)	28.4	22.5	13.3			27.8	21.4	
Core PATMI margin (%)	22.5	17.4	9.6			21.0	16.0	

Source: LGMS, M+ Research

Valuation & Recommendation

- **Forecast.** Following the below-expectations 9MFY26 results, we cut our FY26f core PAT forecast slightly by 7.8% from RM10.3m to RM9.5m, while our FY27f–28f core PAT forecasts remain unchanged at RM10.8m and RM12.0m respectively. Our revised FY26f forecast implies a 4QFY26 core PAT of RM4.6m, which we deem achievable given LGMS's seasonally stronger 4Q (4QFY25: RM3.9m) on year-end project finalizations and billings.

- **Maintained BUY recommendation with a higher TP of RM0.71.** We maintain our BUY recommendation on LGMS with a higher target price of RM0.71 (from RM0.70), as we roll forward our valuation base year from mid-FY27f EPS of 2.32 sen to FY27f EPS of 2.37 sen, in line with our annual book-keeping practice. Our valuation remains pegged to an unchanged P/E multiple of 30.0x.

- **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	63.5	73.8	83.5
Receivables	6.3	8.3	7.0	7.5	7.7	7.9
Inventories	-	-	1.3	1.2	1.2	1.2
Others	15.8	30.0	32.4	50.9	49.1	48.9
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	17.5	17.5	17.5
Liabilities	**9.1**	**12.0**	**12.5**	**19.1**	**19.2**	**19.3**
			-			
Minority interest	-	-	-	-	-	-
Equity	**86.6**	**94.4**	**102.3**	**104.0**	**112.6**	**122.2**

Cash Flow Statement

FYE Dec (RM m)	FY23	FY24	FY25	FY26f	FY27f	FY28f
Profit before taxation	15.2	16.5	13.4	12.5	14.2	15.8
Depreciation & amortis	1.4	1.1	1.4	1.8	1.8	1.7
Changes in working cap	0.1	(2.1)	0.3	0.9	(0.2)	(0.2)
Share of JV profits	-	-	(0.1)	(0.7)	(2.3)	(3.6)
Taxation	(4.0)	(4.2)	(3.2)	(3.0)	(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**	**14.0**	**12.4**	**12.1**
Net capex	-	(14.7)	(3.0)	(1.0)	-	-
Others	3.2	1.9	-	(16.0)	-	-
Investing cash flow	**3.2**	**(12.8)**	**(2.9)**	**(17.0)**	**-**	**-**
Changes in borrowings	(1.1)	0.1	-	0.2	-	-
Issuance of shares	-	-	-	-	-	-
Dividends paid	(2.3)	(6.8)	(2.3)	(7.8)	(2.2)	(2.4)
Others	(6.4)	1.3	(0.4)	-	-	-
Financing cash flow	**(9.7)**	**(5.5)**	**(2.7)**	**(7.6)**	**(2.1)**	**(2.4)**
Net cash flow	**4.4**	**(5.6)**	6.3	**(10.6)**	**10.3**	**9.7**
Forex	0.1	-	(0.2)	-	-	-
Others	-	-	-	-	-	-
Beginning cash	69.1	73.6	68.1	74.1	63.5	73.8
Ending cash	73.6	68.1	74.1	63.5	73.8	83.5

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	11.3	11.4	11.7
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**	**12.5**	**14.2**	**15.8**
Tax	(4.0)	(4.2)	(3.2)	(3.0)	(3.4)	(3.8)
Net profit	**11.2**	**12.3**	**10.2**	**9.5**	**10.8**	**12.0**
Minority interest	-	-	-	-	-	-
Core earnings	**11.2**	**12.3**	**10.2**	**9.5**	**10.8**	**12.0**
Exceptional items	-	-	-	-	-	-
Reported earnings	11.2	12.3	10.2	9.5	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	2.1	2.4	2.6
P/E (x)	22.0	20.0	24.1	25.9	22.8	20.5
DPS (sen)	0.5	1.5	1.5	0.5	0.5	0.5
Dividend yield	0.9	2.8	2.8	0.9	0.9	0.9
BVPS (RM)	0.2	0.2	0.2	0.2	0.3	0.3
P/B (x)	2.8	2.6	2.4	2.4	2.2	2.0
EBIT margin	42.4	36.7	29.4	25.6	25.2	25.1
PBT margin	44.4	37.8	30.5	28.3	31.3	33.8
Net margin	32.7	28.2	23.2	21.5	23.8	25.7
ROE	12.9	13.0	10.0	9.1	9.6	9.8
ROA	11.7	11.6	8.9	7.7	8.2	8.5
Net gearing	CASH	CASH	CASH	CASH	CASH	CASH

Source: M+ Research

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