Company Update
BUY (⇔)

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Friday, June 26, 2026

Price: RM 0.46

Target Price: RM 0.62 (⇔)

LGMS Berhad

AI-Driven Expansion Unlocks Multiple Earnings Catalysts

Coming from LGMS's Investor Briefing, we maintain our positive outlook on LGMS' future prospects as the Company navigates the rest of the financial year with multiple positive catalysts. Looking ahead, LGMS' in-house AI products, together with another product developed in collaboration with Infomina Berhad, are already seeing demand, with clients expressing interest. The cybersecurity market also provides tailwinds for LGMS, driven by increasing AI-enabled threats. No change to our earnings hence maintain our TP of RM0.62, based on an unchanged target P/E multiple of 23x pegged to FY26E EPS of 2.7 sen. Reiterate our BUY recommendation.

We attended LGMS Investor Day recently and the key-takeaways were:

1. **Antarex Holdings Remains a Key Earnings Contributor.** Antarex remains on track to meet its three-year profit guarantee of RM24.5m, reinforcing earnings visibility for LGMS following the completion of its 27% stake acquisition in Q1 FY26. Based on the guaranteed earnings, LGMS is expected to recognise approximately RM7.8m in share of profits for FY26. Beyond its earnings contribution, the strategic partnership is beginning to generate synergies, with five cross-selling projects already underway. Antarex is also developing a next-generation AI-powered Security Operations Centre (SOC), which could further enhance its growth prospects and strengthen the long-term value of the investment.

2. **Enhanced Current Offering Using AI-Capabilities.** LGMS has two new AI services, i) LGMS LLM Penetration Testing and ii) LGMS LSAST Scanner (already on Pilot testing with large client, in the next quarter might be share what is the adoption of this tool). The first offering was the product where if organisation want to embark on AI, LGMS will do security testing on them to help them to discover any weaknesses in their implementation. LGMS already has few clients which has engaged them for this service. The second offering was an inhouse scanner where it takes advantage of AI to reduce the dependency on human but also has the ability to learn about the weaknesses on Cybersecurity and discover weaknesses using Machine speed. LGMS will most probably launch the second product somewhere in Q3FY26. The LSAST Scanner will be advertised as SaaS and both of these new products are 100% hosted locally to prevent any sensitive information being exposed. This will be classified under cyber risk management and prevention or cyber risk prevention revenue segment.

3. **Collaboration with Infomina Going Forward.** LGMS entered into a collaboration agreement with Infomina Berhad in May 2026 to enhance its existing cybersecurity solutions with AI capabilities. The development work has largely been completed and is currently undergoing final refinements ahead of commercialisation. Management expects the AI-enhanced offerings to begin contributing to revenue by Q3-Q4 FY26, potentially strengthening the Group's value proposition and supporting future growth.

Share Price Performance

Business Overview

LGMS Berhad is a cybersecurity firm offering penetration testing for web and mobile application, IoT, wireless networks, source code, CREST, Intelligence LED, cyber drills and advisory services including governance, SWIFT security, digital forensics, and national cybersecurity compliance. The Company is currently listed on the MAIN market.

Return Information	
KLCI (pts)	1,663.82
YTD KLCI chg.	-1.0%
YTD Stock Price chg.	-12.4%

Price Performance	**1M**	**3M**	**12M**
Absolute (%)	-13.2%	-7.1%	-46.4%
Relative to KLCI (%)	-2.6%	-3.1%	9.5%

Stock Information	
Market Cap (RM m)	209.8
Issued Shares (m)	456.0
52-week High (RM)	0.95
52-week Low (RM)	0.43
Est. Free Float (%)	49%
Beta vs FBM KLCI	1.0
3-month Avg Vol. (m)	839,566
Shariah Compliant	Yes
Bloomberg Ticker	LGMS MK EQUITY

Top 3 Shareholders	**%**
Fong Choong Fook	36.6%
Goh Soon Sei	10.9%
Norges Bank	2.6%

FY Dec (RM m)	**FY25A**	**FY26E**	**FY27E**
Revenue	**43.9**	**49.6**	**56.1**
EBITDA	14.3	15.4	17.1
EBIT	12.9	13.8	15.6
PBT	13.4	16.2	18.4
Core Net Profit	**10.2**	**12.3**	**14.0**
Consensus Net Profit	-	12.4	10.2
Earnings Revision (%)	-	-	-
Core EPS (sen)	**2.24**	**2.70**	**3.06**
Core EPS Growth (%)	-17.2%	20.4%	13.4%
Net Div. Yield (%)	2.2%	2.7%	3.1%
BVPS (sen)	21.23	22.49	23.91
PER (x)	24.5	19.6	17.3
PBV (x)	2.6	2.4	2.2
Net Gearing (x)	*N.Cash*	*N.Cash*	*N.Cash*

4. **Employee Costs Remained the Largest Operating Expense.** Employee benefit expenses remained LGMS' largest cost component at RM5.8m in Q1 FY26, representing 53% margin of revenue, compared with 54% in the preceding quarter. Total headcount increased to 166 employees from 148 a year ago, while revenue per employee improved slightly to RM65.4k from RM65.1k in the preceding quarter, indicating stable workforce productivity. Management has also adopted a more measured hiring approach as it redirects investment towards AI initiatives, which could support operating efficiency and productivity gains over the longer term.

5. **Strengthening Global Industry Recognition.** LGMS continued to enhance its global reputation with its second consecutive inclusion in the 2026 Gartner Market Guide for Cyber Security Incident Response Retainer, where it was named a Representative Vendor. This follows its prior recognition in the 2025 Gartner Market Guide for Digital Forensics and Incident Response Retainer Services. The consecutive acknowledgements reinforce LGMS' positioning as a credible player in the global cybersecurity incident response and digital forensics space.

6. **Rising Cybersecurity Demand Driven by Accelerating AI-Enabled Threats.** The recent Anthropic Fable-5 Mythos-class development highlights how advanced AI systems are increasingly capable of identifying system vulnerabilities at scale, including long-standing weaknesses in major open-source projects such as Mozilla to the point that the LLM is being shutdown in U.S. This reflects a broader shift in cybersecurity dynamics, where the time-to-exploit (TTE) has compressed sharply from approximately 2.3 years in FY218 to just 20 hours in FY26, significantly increasing organisational exposure to threats. As a result, enterprises are expected to move away from periodic annual assessments towards more continuous security validation. Management expects this shift to drive stronger demand for cybersecurity services, positioning LGMS to benefit from the rising need for real-time vulnerability assessment and AI-driven threat response, with AI-based attacks expected to become increasingly prevalent by FY28.

Outlook. We remain positive on LGMS' FY26E–FY27E earnings outlook, underpinned by (i) the contribution from Antarex Holdings following its Q1 FY26 acquisition, providing a visible earnings buffer and stable profit share contribution, and (ii) a supportive cybersecurity industry backdrop driven by stricter regulatory requirements, including Malaysia's Cyber Security Act 2024, and accelerating AI-enabled cyber threats that are increasing demand for continuous and advanced security solutions. Beyond the core earnings drivers, growth is expected to be further supported by the i) commercialization of AI-enhanced products developed in collaboration with Infomina Berhad, ii) increasing cross-selling opportunities with Antarex Holdings, and the iii) rollout of LGMS' proprietary AI offerings, including the LLM Penetration Testing service and LSAST Scanner. In addition, LGMS' strengthening industry standing, reflected in its consecutive inclusion in the 2026 Gartner Market Guide for *Cyber Security Incident Response Retainer*, further reinforces its credibility in the global cybersecurity space. Collectively, these catalysts position LGMS for sustained earnings growth, supported by both recurring contribution streams and increasing demand for AI-driven cybersecurity solutions.

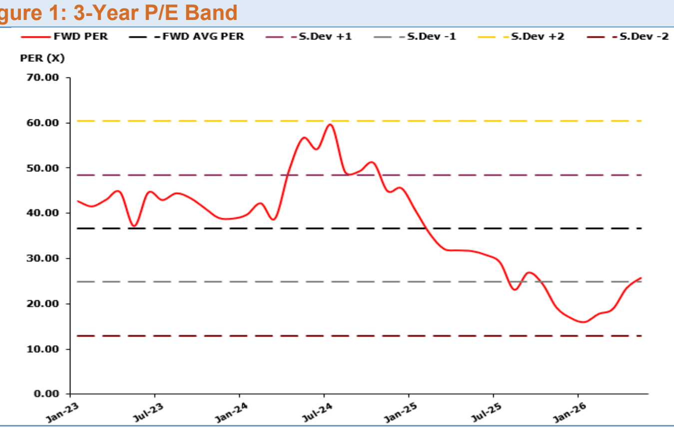
No change to our forecast. We maintain FY26/FY27 earnings estimates.

Valuation and Recommendation. We maintained our TP at RM0.62, based on 23x target P/E multiple applied to our FY26E EPS of 2.7 sen, benchmarked against the three-year average historical P/E domestic peers with comparable operations. Given the sharp depreciation recently, valuations are undemanding. We maintain our **BUY** call.

Investment Merits. We remain optimistic on LGMS, underpinned by its (i) strong industry positioning as a recognized cybersecurity specialist in the Asia-Pacific region together with LGMS's inclusion in Gartner's Market Guide for *DFIR Retainer Services and Cyber Security Incident Response Retainer* and (ii) its track record of high-margin delivery supports its competitive differentiation. Strategically, partnerships with global and regional players, alongside Mitsui's 25% strategic stake, provide avenues for market access and overseas expansion.

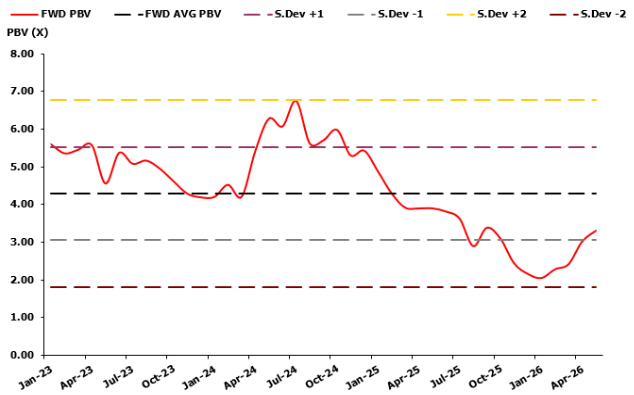
Key risks include: i) Competitive pressure, ii) Skilled labor-intensive business model, iii) inability to capture public sector contracts and iv) High local client exposure.

Figure 1: 3-Year P/E Band



Source: Bloomberg, Mercury Research

Figure 2: 3-Year P/B Band



Source: Bloomberg, Mercury Research

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HOLD	Stock's total return is expected to be within +10% or -10% over the next 12 months (including dividend yield)
SELL	Stock's total return is expected to be -10% or worse over the next 12 months (including dividend yield)

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