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Company Update
HOLD (↔)
Research Team Coverage / research@mersec.com.my
Wednesday, September 9, 2026
Price: RM 0.475
Target Price: RM 0.490 (↓)

LGMS Berhad

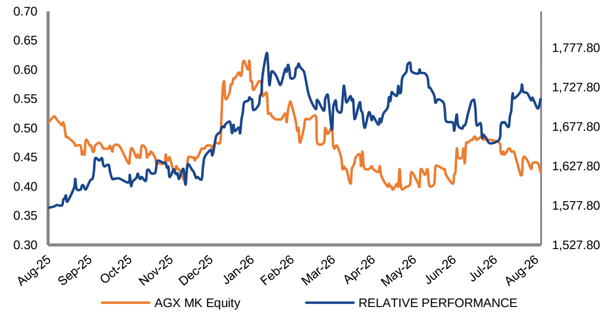
Near-term Headwinds, Longer-term AI Potential

Coming from LGMS's Investor Briefing, we maintain a more cautious outlook on LGMS as near-term earnings remained pressured by softer project execution and higher operating expenses. While the Company continues to invest in AI-backed solutions, supporting recurring revenue growth and benefitting from rising AI-enabled threats over the longer term, growth across key revenue segments has been slower than expected. Longer project completion timelines have also delayed revenue recognition, although we view this primarily as a timing issue rather than a structural deterioration in demand. We trim our FY26E/FY27E earnings estimates by 3.2%/3.5% to RM9.3m/RM9.7m, respectively. Hence, we lower our TP to RM0.490 from RM0.510, based on an unchanged target P/E multiple of 23x pegged to FY27E EPS of 2.2 sen. Reiterate our HOLD recommendation.

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

1. **Softer 6MFY26 result.** Recap, 6MFY26 revenue grew 6% YoY but declined 7% QoQ to RM10m, falling short of our expectations. This was a disappointment, as revenue had historically gained momentum in subsequent quarters, with 2QFY25 and 2QFY24 recording QoQ growth of 4% and 4.2%, respectively. The Cyber Threat and Incident Response segment contracted 57% QoQ to RM600k (6MFY25: 33%), mainly due to lower project wins. EBITDA declined 35% QoQ to RM2m, with EBITDA margin narrowing to 21% due to higher operating expenses (higher employee benefits and IT expenses), which rose to 70% of revenue. Consequently, PBT fell 24% QoQ to RM2m, with margin declining to 23%, partly cushioned by higher contributions from associates. In tandem, net profit declined 21% QoQ to RM2m.
2. **Longer project completion delaying revenue recognition.** LGMS's project-based business model results in lumpy revenue recognition, with revenue recognised upon the completion of the projects. Clients are taking longer to finalise and implement their cybersecurity systems, delaying project completion, billing and revenue recognition. This has also pushed back the complimentary post-project retesting services, which are performed to verify that identified vulnerabilities have been addressed. We view this as a timing issue rather than a structural deterioration in demand, although it could result in weaker near-term revenue recognition.
3. **Increasing investments in AI-backed solutions.** LGMS is stepping up investments in AI capabilities across AI & LLM Application Security Assessment, the LSAST Scanner and Credential Exposure Monitoring as management offering these solutions subscription-based. Instead of the traditional once-a-year engagement, this allow a continuous security assessment providing customers with ongoing monitoring while creating a recurring revenue stream for LGMS. The increased investment is, however, weighing on near-term operating margins, with OPEX rising to RM7.0m and the OPEX margin increasing to 70% in 6MFY26. Meanwhile, greater automation could reduce the costs of maintaining or hiring more expertise for repetitive and time-intensive tasks, allowing cybersecurity specialists to focus on more complex assessments and investigations and higher-value work. As AI is increasingly being used to launch cyberattacks, the rising number of cybersecurity breaches could drive greater demand for AI-enabled security solutions.

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)			1,714.40
YTD KLCI chg.			2.0%
YTD Stock Price chg.			-9.5%
Price Performance	**1M**	**3M**	**12M**
Absolute (%)	-7.8%	-4.0%	-36.7%
Relative to KLCI (%)	-1.2%	2.1%	8.1%

Stock Information	
Market Cap (RM m)	216.6
Issued Shares (m)	456.0
52-week High (RM)	0.95
52-week Low (RM)	0.42
Est. Free Float (%)	48%
Beta vs FBM KLCI	1.0
3-month Avg Vol. (m)	1,006,981
Shariah Compliant	Yes
Bloomberg Ticker	LGMS MK EQUITY

Top 3 Shareholders	%
Fong Choong Fook	36.6%
Goh Soon Sei	11.7%
Norges Bank	2.6%

FY Dec (RM m)	FY25A	FY26E	FY27E
Revenue	**43.9**	**45.7**	**50.7**
EBITDA	14.3	11.6	11.6
EBIT	12.9	10.0	10.2
PBT	13.4	12.4	12.9
Core Net Profit	**10.2**	**9.3**	**9.7**
Consensus Net Profit	-	12.4	10.2
Earnings Revision (%)	-	-	-
Core EPS (sen)	**2.24**	**2.04**	**2.12**
Core EPS Growth (%)	-17.2%	-8.9%	3.9%
Net Div. Yield (%)	2.3%	2.3%	2.4%
BVPS (sen)	21.23	22.18	23.17
PER (x)	24.5	23.3	22.4
PBV (x)	2.6	2.1	2.1
Net Gearing (x)	*N.Cash*	*N.Cash*	*N.Cash*

4. **Slower growth across revenue segments.** LGMS continued to face slower-than-expected growth across its revenue segments, particularly in Cyber Risk Prevention and Cyber Risk Management. Management noted that cybersecurity awareness remained relatively low among businesses, with many firms taking a reactive approach and only recognising the importance of cybersecurity after experiencing an attack. This could continue to weigh on near-term demand and delay the adoption of LGMS' cybersecurity solutions. However, management remains positive that businesses will gradually recognise the importance of cybersecurity and adopt more proactive measures, especially amid rising AI-enabled threats.

Post Update. We remain cautiously optimistic on LGMS' FY26E–FY27E outlook, although near-term growth is expected to be softer due to slower project completion and weaker growth across its revenue segments. We lower our revenue growth assumptions to **4%/11% for FY26E/FY27E**, from 6%/13% previously, mainly due to slower revenue recognition and softer demand. OPEX is also expected to remain elevated as LGMS increases investments in its AI-backed solutions, with OPEX margins now at **66%/67.6% for FY26E/FY27E**, despite a lower headcount growth assumption. Consequently, we trim our FY26E/FY27E earnings estimates by **3.2%/3.5% to RM9.3m/RM9.7m**, respectively. Nevertheless, we see longer-term potential from the commercialisation of its AI solutions, which could generate recurring subscription revenue, while rising AI-enabled cyber threats should support demand for cybersecurity solutions.

Valuation and Recommendation. Valuation and Recommendation. We lower our TP to **RM0.490** (previously RM0.510), based on an unchanged **23x target P/E** multiple, benchmarked against the three-year average historical P/E of domestic peers with comparable operations, and applied to our FY27E EPS of **2.2 sen**. The lower TP reflects our downward revision to earnings estimates and a softer near-term growth outlook in which the market has priced in. At current prices the stock is still trading at demanding valuations, hence we maintain our **HOLD** recommendation.

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*, (ii) the potential commercialisation of its proprietary AI-backed solutions through subscription-based offerings and (iii) rising demand for cybersecurity services amid increasingly sophisticated AI-enabled threats.

Key risks include: i) slower-than-expected project completion and revenue recognition, ii) weaker growth across Cyber Risk Prevention and Cyber Risk Management, iii) elevated OPEX from continued AI investments, iv) inability to capture public sector contracts, and v) slower adoption of cybersecurity solutions due to low awareness among businesses.

Key Financial Data

Income Statement

FY Dec (RM m)	2023A	2024A	2025A	2026E	2027E
Revenue	**34.2**	**43.6**	**43.9**	45.7	50.7
EBITDA	15.9	17.1	14.3	11.7	11.6
Depreciation & Amortz	(1.4)	(1.1)	(1.4)	(1.6)	(1.5)
Operating Profit	**14.5**	**16.0**	**12.9**	10.1	10.2
Interest Inc/(Exp)	0.7	0.5	0.4	0.5	0.5
Assoc Earnings	0.0	0.0	0.1	1.9	2.3
Profit Before Tax	**15.2**	**16.5**	**13.4**	12.4	12.9
Taxation	(4.0)	(4.2)	(3.2)	(3.1)	(3.2)
Net Profit	11.2	12.3	10.2	9.3	9.7
PATAMI	**11.2**	**12.3**	**10.2**	9.3	9.7

Balance Sheet

	2023A	2024A	2025A	2026E	2027E
Fixed Assets	9.3	24.2	45.5	43.8	42.4
Intangible Assets	0.1	0.1	22.8	22.8	22.8
ROU Assets	0.3	0.1	0.1	0.2	0.3
Other Fixed Assets	4.9	4.9	4.9	4.9	4.9
Inventories	1.6	2.0	2.0	2.0	2.0
Receivables	9.6	11.5	14.4	15.0	16.6
Other Current Assets	11.8	14.1	17.0	17.6	19.2
Cash	73.6	68.1	47.8	52.6	56.3
Total Assets	**95.7**	**106.4**	**110.2**	**114.0**	**118.0**
Payables	3.7	5.0	5.0	5.0	5.0
ST Borrowings	0.2	0.2	0.2	0.2	0.2
Other ST Liability	8.4	11.2	12.7	12.2	11.6
LT Borrowings	0.2	0.5	0.5	0.5	0.5
Other LT Liability	0.3	0.2	0.2	0.2	0.2
Net Assets	**86.6**	**94.4**	**96.7**	**101.0**	**105.5**
Shareholders' Equity	86.6	94.4	96.8	101.1	105.6
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Equity	**86.6**	**94.4**	**96.8**	**101.1**	**105.6**

Cashflow Statement

FY Mar (RM m)					
Operating CF	10.9	12.8	7.8	9.6	8.8
Investing CF	3.2	(12.8)	(22.5)	0.2	0.2
Financing CF	(9.7)	(5.5)	(5.5)	(5.0)	(5.2)
Change In Cash	4.4	(5.6)	(20.2)	4.8	3.8
Free CF	10.1	(2.5)	7.2	9.0	8.2

Financial Data & Ratios

FY Dec	2023A	2024A	2025E	2026E	2027E
Growth					
Turnover	4.4%	27.4%	0.6%	4.0%	11.0%
EBITDA	-4.4%	7.6%	-16.4%	-18.4%	-0.4%
Operating Profit	-5.5%	10.5%	-19.7%	-21.9%	1.0%
PBT	-2.4%	8.5%	-18.9%	-7.4%	3.9%
Core Net Profit	-2.9%	10.4%	-17.2%	-8.9%	3.9%
Profitability					
Gross Profit Margin	46.3%	39.2%	32.5%	25.5%	22.9%
EBITDA Margin	42.3%	36.7%	29.3%	22.0%	20.0%
Operating Margin	44.5%	37.9%	30.5%	27.2%	25.4%
PBT Margin	32.6%	28.3%	23.3%	20.4%	19.1%
Core Net Margin	26.3%	25.3%	23.8%	25.0%	25.0%
Effective Tax Rate	13.0%	13.1%	10.6%	9.2%	9.2%
ROA	11.7%	11.6%	9.3%	8.2%	8.2%
ROE	46.3%	39.2%	32.5%	25.5%	22.9%
Leverage					
Debt/Asset (x)	0.46%	0.62%	0.42%	0.36%	0.33%
Debt/Equity (x)	0.51%	0.70%	0.48%	0.40%	0.36%
Net (Cash)/Debt	(73.2)	(67.4)	(73.7)	(57.7)	(66.9)
Net Debt/Equity (x)	(0.8)	(0.7)	(0.8)	(0.6)	(0.6)
Valuations					
Core EPS (sen)	2.5	2.7	2.2	2.0	2.1
NDPS (sen)	0.0	0.0	0.0	0.0	0.0
BV/sh (RM)	0.19	0.21	0.21	0.22	0.23
PER (x)	21.6	19.6	23.7	23.3	22.4
Div. Yield (%)	3.4%	2.8%	2.3%	2.3%	2.4%
PBV (x)	2.8	2.6	2.5	2.1	2.1
EV/EBITDA (x)	9.04	8.73	10.00	13.63	12.89

Source: Mercury Securities, Company

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