



Industrial Products & Services Sector

Same Shock, Uneven Scars

Thematic Report
Research Team Coverage / research@mersec.com.my
Wednesday, September 30, 2026

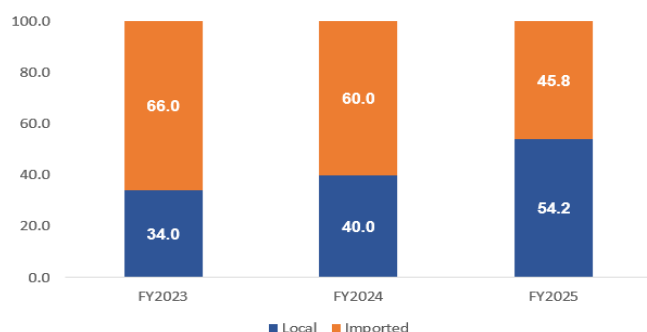
Stocks Covered: 5
Rating (Buy/Hold/Sell): 1 / 4 / 0

The closure of the Strait of Hormuz in February 2026 lifted oil, petrochemical and energy prices, alongside shifts in currency, trade policy and freight. The shock was shared across the Industrial Products and Services (IPS) sector, but its impact was not uniform: 1HCY26 results show that margins, not volume, separated the winners from the laggards. SUMI (BUY; TP: RM0.20) and HSS (HOLD; TP: RM0.44) beat expectations, the former by passing costs on within two quarters and the latter as a services business largely insulated from input costs. PECCA (HOLD; TP: RM1.43) and PGF (HOLD; TP: RM1.72) fell short on margin pressure and delayed capacity, while NGGB (HOLD; TP: RM0.75) was in line. For 2HCY26, we expect cost pressure to shift towards energy as higher LNG prices feed into gas costs with a lag, while new capacity at PGF and NGGB sets up earnings growth into 2027, making execution the key variable. PGF is our Top Pick for its clear catalyst path, led by its new 40,000MT plant from October 2026, while SUMI remains our only BUY recommendation.

Cost Pressure in the 1HCY26

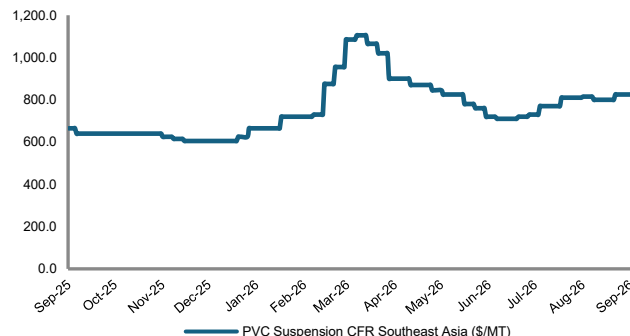
The first half of CY26 handed Industrial Products & Services (IPS) players a genuinely volatile cost backdrop, but not a uniform one. Petrochemical-derived raw material costs, currency, domestic energy tariffs, trade policy and ocean freight, all moved during the half, and each pulled in a different direction depending on what a company buys, sells, and where.

Figure 1: Pecca's Raw Material Sourcing: Local vs. Imported



Source: Pecca Group Berhad Annual Report FY25

Figure 2: PVC Suspension CFR Southeast Asia (US\$/MT)

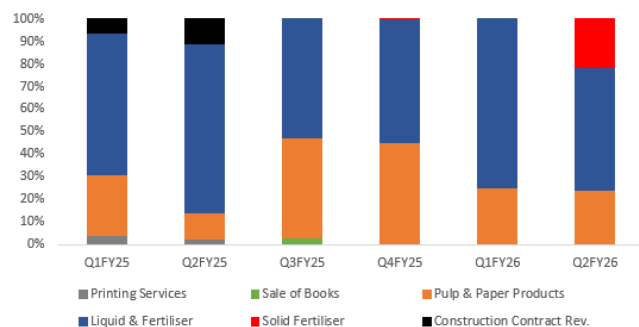


Source: FactSet

Margin Compression in Pecca Group (PECCA). Plastic input costs had a volatile first half. As Figure 2 shows, PVC Suspension CFR Southeast Asia, the regional benchmark for the resin behind synthetic leather and moulded plastic components, held at c.US\$600–650/mt through December 2025 and January 2026 before climbing in February and spiking to c.US\$1,100/mt in early April, up c.80% in two months. The shock originated upstream: naphtha, the main feedstock for Asian crackers, more than doubled to near US\$140/bbl after the 28 February Hormuz closure triggered refining infrastructure across the Gulf. PVC then eased to c.US\$700/mt by June but has since recovered to c.US\$825/mt, still c.36% higher YTD.

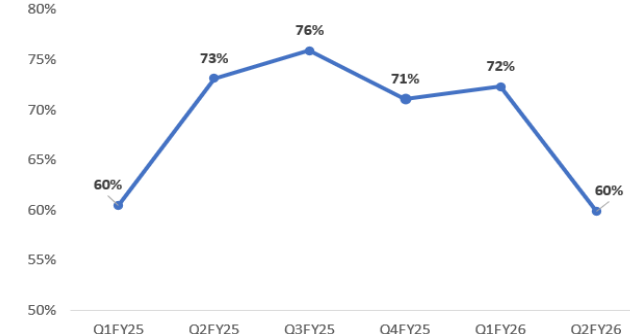
For PECCA, however, the read-through is limited. PVC and plastics make up less than 10% of its raw material base, so even an 80% resin spike moves total input costs only marginally. Its import exposure is also shrinking: per Figure 1, the share of raw material spending with local suppliers rose from 34.0% in FY23 to 40.0% in FY24 and 54.2% in FY25. Local sourcing does not remove resin price risk, since domestic suppliers still price off regional benchmarks, but it does reduce Pecca's exposure to FX and freight on imported inputs. The FY26 gross margin compression, to 40.5% from 43.6%, is better explained by higher raw material purchases tied to R&D for the Aviation segment than by PVC pricing. In short, the plastic cost spike was real, but its impact on Pecca's margins was small.

Figure 3: NGGB Revenue Mix (Q1FY25-Q2FY26)



Source: Bursa Announcement - NGGB Financial Result

Figure 4: NGGB GP Margin Trend by Quarter (Q1FY25-Q2FY26)



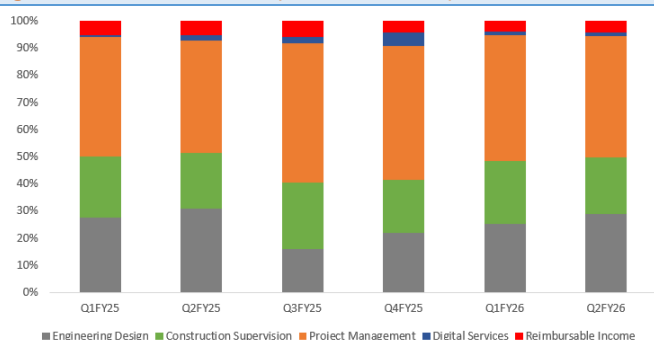
Source: Bursa Announcement - NGGB Financial Result



Margin Compression in NextGreen Global (NGGB). NextGreen Global's core raw material is empty fruit bunches (EFB), a palm oil biomass byproduct sourced domestically and converted into pulp, paper, biofertilisers and bioenergy. Unlike PECCA and SUMI, its key input is neither oil-linked nor imported, so its cost base did not move with the 1H oil price shock. GP margin still narrowed, to 64.8% in 6MFY26 from 68.0% a year earlier, with the sharpest drop in Q2FY26, when margin fell to 60% from 72% in Q1FY26. The cause is product mix, not input cost. Q2FY26 was the first quarter in which Solid Fertiliser (NexCompost) contributed meaningfully, at c.22% of revenue, and it carries a structurally lower margin than Liquid Fertiliser (NexBooster). NexBooster is made from black liquor, a low-cost byproduct recovered from the pulping process itself, while NexCompost is closer to a conventional, input-intensive product. Adding a lower-margin line pulls the blended margin down with no change in raw material costs.

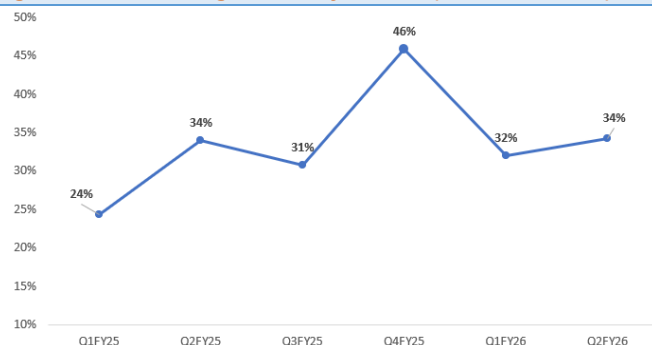
The size of the drop indicates how thin NexCompost's margin is. The timing supports this: margin was steady at 71–72% in the two quarters before NexCompost was introduced, then fell to 60% in the same quarter it reached 22% of revenue (Figures 3 and 4). More broadly, GP margin moved between 60% and 76% across the six quarters without any oil-linked input exposure, underlining that NGGB's margin is driven by what it sells rather than what it pays for raw materials. The key variable for 2H FY26 is therefore how large NexCompost's revenue share becomes, not raw material prices.

Figure 5: HSS Revenue Mix (Q1FY25-Q2FY26)



Source: Bursa Announcement - HSS Financial Result

Figure 6: HSS GP Margin Trend by Quarter (Q1FY25-Q2FY26)



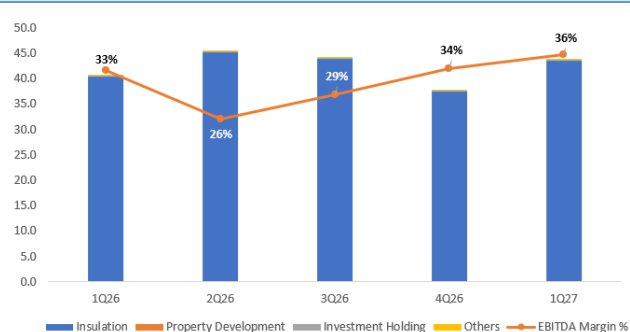
Source: Bursa Announcement - HSS Financial Result

Margin Resilience in HSS Engineers (HSS). HSS Engineers is a deliberate contrast to the manufacturers above. It provides engineering design, project management, construction supervision and building information modelling (BIM) services, making it a labour- and expertise-driven business (staff costs made up roughly 61% of total costs in FY25), and its balance sheet carries no inventory at all. None of the cost pressures discussed in this section, whether oil prices, PVC resin or gas tariffs, feed into its cost base.

6MFY26 GP margin expanded to 33% (6MFY25: 29%) despite an 8% YoY decline in revenue to RM101m, while opex fell 9% YoY to RM14m. The revenue decline was led by Engineering Design (-14% YoY) following the completion of the Cyberjaya data centre project, alongside lower billings in Construction Supervision (ECRL, Langat II). Project Management remained broadly stable (-2% YoY) despite the absence of Baghdad Metro revenue. With the revenue mix largely unchanged (Figure 5), the GP margin improvement came from cost of sales, which fell c.13% YoY, outpacing the 8% decline in revenue. For a consultancy, direct costs consist mainly of project staff and sub-consultant fees, so the gain reflects leaner project costs and a lower contribution from zero-margin reimbursable income (-28% YoY), rather than any movement in input prices.

Quarterly margins are lumpy, ranging from 24% to 46% over the six quarters (Figure 6), partly because revenue is recognised on a cost-incurred basis and moves with project milestones and estimate revisions. The half-year comparison smooths this out. This makes HSS a useful control case for the sector view. The geopolitical and commodity pressures of 1HCY26 were real for names with a physical raw material base, but they have little bearing on a services-driven Industrial Products & Services name. HSS's risks lie elsewhere: project timing, order book conversion and concentration in the domestic market.

Figure 7: PGF Quarterly Revenue (RM m) and EBITDA Margin (1QFY26-1QFY27)



Source: Bursa Announcement - PGF Financial Result

Figure 8: Asian LNG Spot Prices, JKM vs TTF and Henry Hub (US\$/MMBtu)



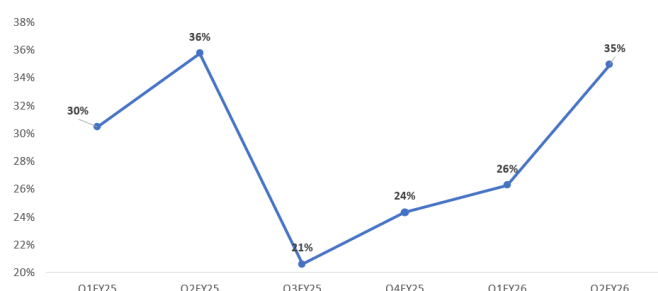
Source: LNG Price Index

Delayed Cost Pressure in PGF Capital (PGF). PGF is the name in this section most directly exposed to energy costs. The group manufactures glass mineral wool insulation for Malaysia and Oceania, a furnace-based process in which natural gas is a core production input rather than an overhead. Its reliance on gas supply was also evident in the delayed commissioning of its new Kulim plant, which was held back while utility providers completed the electricity and gas connections.

On the surface, profitability margins have held up. 1QFY27 (March–May 2026) revenue rose 8% YoY to RM43.7m, and EBITDA margin reached 36%, the highest in five quarters (Figure 7). However, the improvement was flattered by RM1.5m of other operating income, while operating costs rose 11.5% YoY, outpacing revenue. Excluding the other income, EBITDA margin would have been c.32%, marginally below 1QFY26's 33%. Higher fuel prices have also lifted packaging and electricity costs.

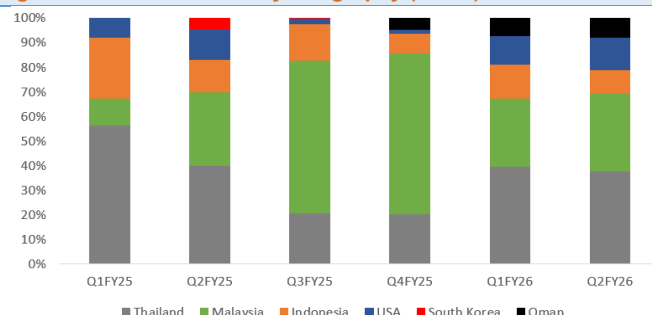
The larger gas cost impact has yet to land. Spot LNG prices spiked in April 2026, corrected in May–June 2026, and have since rallied above their April peak (Figure 8). As domestic gas prices for industrial users typically adjust to international LNG prices with a lag, the full effect of this year's increase is likely to fall on PGF's cost base in the coming quarters rather than in 1HCY26. PGF may be able to pass on part of the increase, as the pressure is shared by glass wool manufacturers across the region. Margins face a second headwind as the new Kulim plant ramps up utilisation. For PGF, 1HCY26 therefore understates the cost shock: the energy-driven margin pressure is more likely to show in 2HCY26 and beyond.

Figure 9: SUMI Quarterly GP Margin %



Source:

Figure 10: SUMI Revenue by Geography (RM m)



Source: Bursa Announcement - SUMI Financial Result

Margin Recovery in SumiSaujana Group (SUMI). SUMI manufactures specialty chemicals for the oil and gas industry, from drilling fluid and production chemicals to refinery additives. To make them, it relies largely on imported input materials, including fatty acids, alkaline compounds, base oil and sulfiding agents. This leaves its cost base exposed to three things at once: input prices, particularly fatty acids, which the group identifies as its most significant cost risk; the exchange rate; and freight. In 6MFY26, these pressures showed up in its margins. Cost of sales rose faster than revenue, and GP margin fell 2.4ppts YoY to 30.7%.

The recovery was quick. GP margin bottomed at 26.3% in 1QFY26 before rising to 34.9% in 2QFY26, an 8.6ppts QoQ improvement, as pricing adjustments and a better product mix more than offset higher input costs (Figure 9). SUMI was therefore able to pass cost pressure on to customers within two quarters rather than absorbing it over a sustained period. Freight is a separate cost line. With over 70% of revenue from international markets, shipping costs weigh directly on SUMI's competitiveness. The group has started to address this in the US, where it has been producing emulsifiers through a toll-manufacturing arrangement since 3QFY25, bringing production closer to one of its fastest-growing markets.

The revenue mix is also shifting (Figure 10). US revenue rose 53% YoY in 6MFY26 while contributions from smaller markets declined, making US trade policy, discussed in the Macro section, a name-specific watch item for SUMI. Separately, SUMI's licensing agreement with the Malaysian Palm Oil Board to manufacture palm-based polyols, a renewable alternative to petroleum-based chemicals used in polyurethane, gives it a path into industrial markets beyond oil and gas.

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Results Scorecard

Mixed results season. Of the five IPS names under our coverage, two came in above expectations (SUMI, HSS), one was broadly within (NGGB) and two fell below (PECCA, PGF). The common thread was margins rather than volume: the beats were driven by pricing and cost discipline, while the misses reflected weaker-than-expected margins and delayed capacity.

SUMI was the standout, with 6MFY26 PATAMI up 74% YoY to RM6.9m as pricing adjustments lifted 2QFY26 GP margin to 34.9% from 26.3% in 1QFY26. We raised our FY26E/FY27E earnings by 28%/47% and our TP to RM0.20, and SUMI remains our only BUY in the sector. The call rests on more than cost pass-through. SUMI's demand depends on its customers' drilling and production activity rather than the oil price itself, and the US is emerging as a key growth market: US revenue rose 53% YoY to RM9.4m in 6MFY26, about 11% of group revenue, even as contributions from smaller markets such as South Korea declined. Our TP applies 17.2x P/E to FY27E EPS of 1.18 sen, a 50% discount to global peers' ten-year average P/E, implying 122% upside.

HSS's 6MFY26 PATAMI rose 30% YoY to RM10.6m despite an 8% decline in revenue, as lower opex and a wider GP margin offset softer billings. Nextgreen's 6MFY26 PATAMI of RM18.5m (+7% YoY) was broadly in line, with earnings expected to be back-end loaded as expanded pulp and fertiliser capacity contributes in 2HFY26.

On the downside, Pecca's FY26 core net profit fell 10% YoY to RM51.8m as GP margin compressed to 40.5% from 43.6%, below our 42% assumption. PGF's 1QFY27 core net profit rose 18% YoY to RM8.9m but fell short of our forecast on slower commissioning of its new Karangan plant in Kulim, with commercial production now expected in October 2026. We cut our FY27E/FY28E earnings by 42%/48% and downgraded PGF to HOLD with a TP of RM1.72.

Figure 11: Ratings and Target Price of our current coverage under Industrial Products & Services (IPS) sector

Company Name	Market	Rating	*Current Share Price	Target Price	%Upside/ (Downside)
Nextgreen Global Berhad	Main	Hold	RM0.72	RM0.75	4%
HSS Engineers Berhad	Main	Hold	RM0.47	RM0.44	(6%)
PGF Capital Berhad	Main	Hold	RM1.76	RM1.72	(2%)
SumiSaujana Group Berhad	ACE	Buy	RM0.09	RM0.20	122%
Pecca Group Berhad	Main	Hold	RM1.39	RM1.43	3%

Source: Bloomberg, FactSet, Mercury Securities

*Current Share price as at 25 Sept 2026

Figure 12: 2QCY26 Coverage Results

Company Name	Results		Revenue Growth %			Net Profit Growth %		
	Mercury	Consensus	QoQ	YoY	Mercury Latest Full-Year Assumption	QoQ	YoY	Mercury Latest Full-Year Assumption
Nextgreen Global Berhad	Within	Below	50.5%	28.0%	15.1%	31.9%	7.0%	69.9%
HSS Engineers Berhad	Above	Within	19.4%	(7.6%)	(1.6%)	82.2%	29.8%	40.9%
PGF Capital Berhad	Below	Above	15.8%	7.8%	9.9%	10.9%	18.3%	12.3%
SumiSaujana Group Berhad	Above	Above	7.0%	16.9%	(1.6%)	76.4%	74.3%	68.1%
Pecca Group Berhad	Below	Below	15.2%	(1.1%)	17.9%	7.0%	(10.1%)	28.5%

Source: Bloomberg, FactSet, Mercury Securities

Macro Backdrop for 2HCY26: Rates, Ringgit, Oil and Trade

OPR: hike expectations building. Bank Negara Malaysia kept the OPR at 2.75% on 3 September 2026, its seventh consecutive hold since the 25bp cut in July 2025. Since then, the US Federal Reserve has raised rates by 25bp to 3.75–4.00%, its first hike since 2023 (Figure 14). Several economists now expect BNM to follow with a 25bp hike, though views differ on whether this comes at the 5 November MPC meeting or in 2027. Should rates rise, the impact on our coverage would vary. NGGB is the most sensitive to higher borrowing costs, with net finance costs almost doubling YoY to RM5.1m in 6MFY26 as it funds its expansion. PECCA holds net cash but is exposed through demand, as OEM car seat covers make up over 80% of revenue and car purchases are largely loan-financed. HSS, which we expect to turn net cash in FY26, is the least affected.

Ringgit: steady, but the Fed is a headwind. The ringgit held around RM4.07 against the US dollar in late September, weakening only modestly after the Fed hike. A widening US–Malaysia rate gap could put further pressure on the ringgit if BNM stays on hold. Within our coverage, SUMI is the most exposed to currency moves: about three-quarters of its 6MFY26 revenue came from outside Malaysia, and foreign exchange swings have hit its earnings before, with sizeable forex losses in 6MFY25. A softer ringgit would lift the ringgit value of its overseas sales, though the net benefit depends on how much of its raw material is priced in US dollars. PGF, which sells mainly to export markets, would also gain from a weaker ringgit. For PECCA, whose revenue is largely domestic, a weaker ringgit would instead raise costs, as 45.8% of its raw material purchases were still imported in FY25 (Figure 1).

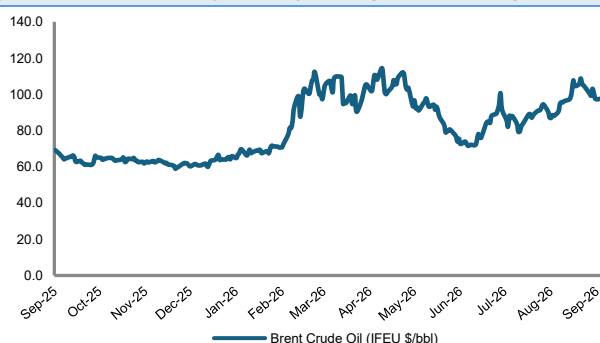


Strait of Hormuz: no relief yet. The Strait has been effectively closed since 28 February 2026. An April ceasefire and a June interim agreement each raised hopes of reopening, but a second escalation from July brought renewed vessel strikes and a US blockade on Iranian shipping. Brent has traded around US\$100/bbl through September (Figure 13). The latest Iranian proposal to reopen the Strait within seven days was rejected by Washington, though talks are expected to resume. Until flows normalise, we do not expect energy and petrochemical input costs to ease meaningfully in 2HCY26. The impact across our coverage will be uneven. PGF is the most exposed: as a gas-intensive glass wool producer, its gas costs follow LNG prices with a lag, so the 1H price spike reaches its cost base only in 2H. SUMI, by contrast, has shown it can pass costs on, with pricing adjustments lifting its GP margin to 34.9% in 2QFY26 from 26.3% in 1QFY26 despite higher input costs.

US trade policy: lower rate, higher uncertainty. The temporary 10% Section 122 tariff expired on 24 July 2026 and was replaced the same day by a Section 301 tariff, set at 10% for Malaysia. The headline rate is therefore unchanged and well below the 24% that applied before the February Supreme Court ruling. However, the new tariff faces legal challenge in the US, and several Section 232 investigations remain open and could lead to sector-specific tariffs by year-end. Direct US exposure in our coverage is limited. SUMI is the main exception, with the US contributing about 11% of 6MFY26 revenue, up 53% YoY, making it one of the group's faster-growing markets. For exporters, the risk in 2HCY26 is new product-level tariffs, not the headline rate.

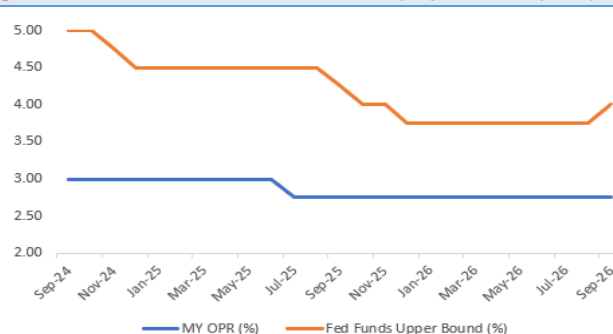
Budget 2027 on 9 October. The government's pre-budget statement points to continued fiscal consolidation, targeted subsidies and industrial upgrading under the 13th Malaysia Plan. HSS is the most direct beneficiary of development spending in our coverage. Its RM2.2bn order book is anchored by public transport and water projects, including the Klang Valley Double Tracking Phase 2, Pan Borneo Sabah Highway and Sungai Perai Water Treatment Plant, and it is bidding for a further RM480m of work. Allocations for rail, water and highway projects would support replenishment of that order book. We will also watch for any changes to fuel or energy subsidies, which would affect input costs across the sector.

Figure 13: Brent Crude (US\$/bbl), 26 Sept 2025–25 Sept 2026



Source: FactSet

Figure 14: OPR vs US Fed Funds Rate % (Sept-24 to Sept-26)



Source: Bloomberg

Top Pick – PGF Capital Berhad

Capacity is the constraint, and it is about to lift. PGF's existing glass mineral wool plant is running at full capacity, which has limited its ability to take on new orders. The new 40,000MT Karangan plant in Kulim, Kedah is scheduled to begin commercial production in October 2026, raising combined capacity to 65,000MT. We forecast FY28E core net profit to rise 43% to RM41.7m, the first full-year of contribution from the new plant.

New markets to fill the new capacity. Oceania remains PGF's core market, and insulation revenue there grew 8% YoY in 1QFY27. Beyond Oceania, PGF is expanding into Japan, India and the wider ASEAN region, which reduces its reliance on a single export market as the new capacity comes on stream. In Malaysia, regulation requiring thermal insulation in buildings would provide further demand support once enforced.

A harder 2HCY26 first. As discussed earlier, PGF is the name in our coverage most exposed to the lagged rise in gas costs, and margins will also be diluted while the new plant ramps up. Our forecasts already assume 20% to 25% utilisation of the new capacity in FY27E and 30% in FY28E.

Property: Long-term value, not a near-term driver. PGF holds a 1,311-acre landbank in Tanjong Malin, Perak, with an estimated GDV of around RM4.6bn, and its property joint ventures in Kulim Hi-Tech Park and Tanjong Malim are progressing towards construction. We expect a limited property contribution over the medium term.

Valuation. Our SOP-derived TP of RM1.72 (Figure 15) values the core glass wool insulation manufacturing business at 17x, based on its peers 3-year average P/E multiple and the property development segment at 75% discount to RNAV to reflect the execution risk. With the share price close to our TP, we maintain our **HOLD** recommendation.

Why it is still our pick. PGF has the clearest catalyst path in our coverage over the next six months, starting with the new plant's commercial production in October. We would turn more positive on (i) Commercial production starting on schedule, (ii) utilisation running ahead of our assumptions, (iii) firm orders from Japan or India, and (iv) Enforcement of Malaysia's building Insulation regulations.

Figure 15: PGF SOP Valuation Table

	FY28E
Manufacturing of Glass Wool:	
PAT (RM m)	22.7
Target P/E (x)	17
Total value (RM m)	386.3
Property development:	
RNAV (Kulim Land) @ 75% Discount (RM m)	17.3
RNAV (Tanjung Malim Land) @ 75% Discount (RM m)	86.7
Net Cash/(Debt) (RM m)	(78.3)
Total SOP (RM m)	412.1
Share base (m)	239.96
Target Price (RM)	1.72
<i>Source: Company, Mercury Securities</i>	

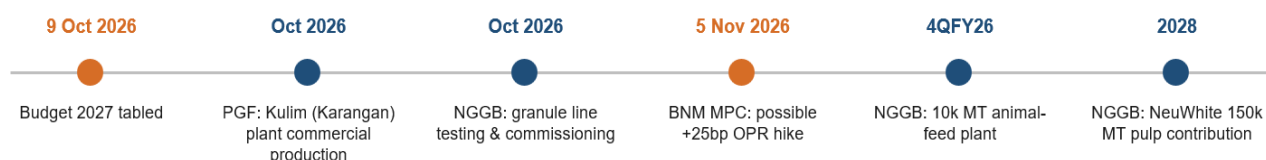
Outlook and Catalyst Timeline

The cost shock is changing shape, not ending. In 1HCY26, the pressure came mainly through petrochemical-linked raw materials, and most of our coverage absorbed it better than the headlines suggested. In 2HCY26, we expect the pressure to shift towards energy. Gas costs follow LNG prices with a lag, so the 1H spike will feed into manufacturers' cost bases over the coming quarters, with PGF the most exposed. With the Strait of Hormuz still closed, we see little prospect of meaningful relief on energy or petrochemical input costs before year-end.

Capacity, not cost, will drive the earnings story. The bigger swing factor for 2HCY26 and FY27 is new capacity coming on stream. PGF's new plant starts commercial production in October, while NGGB is adding pulp, solid fertiliser and animal-feed capacity through 4QCY26. Both will weigh on margins while utilisation ramps up, but they set up earnings growth into 2027 and 2028. Execution matters more than cost: both names have already seen timelines slip, and on-time delivery over the next two quarters is the key thing to watch.

Pricing power and asset-light models remain the defensive end. SUMI has shown it can pass costs on within two quarters, and HSS's services model keeps it largely insulated from input costs. For these two, the 2H drivers are demand-side: US volume growth for SUMI, and order book replenishment from Budget 2027 allocations for HSS.

Figure 16: Catalyst Timeline



Source: Company, Mercury Securities

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Mercury Securities has the following recommendation rating:

BUY	Stock's total return is expected to be +10% or better over the next 12 months (including dividend yield)
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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