# LGMS Berhad

## *Fighting AI with AI*

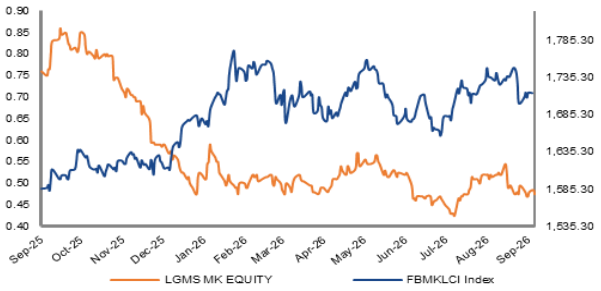
**Company Update**
**HOLD (↔)**
*Research Team Coverage / research@mersec.com.my*
**Monday, November 2, 2026**
**Price: RM 0.525**
**Target Price: RM 0.490 (↔)**

**Coming from LGMS AI Cybersecurity Summit, we remain cautiously optimistic on the Group's longer-term prospects, supported by its expanding AI-powered cybersecurity capabilities amid rising AI-enabled cyber threats. The Group introduced five homegrown cybersecurity solutions designed to strengthen protection across different stages of cyberattacks. We believe these offerings could broaden LGMS's service portfolio, create cross-selling opportunities and support its transition towards recurring revenue. Nevertheless, near-term profitability may remain pressured by elevated AI-related operating expenses, while increased commercial adoption remains key to future earnings growth. No change to our FY26E/FY27E earnings estimates at RM9.3m/RM9.7m, respectively. Our TP remains unchanged at RM0.490, based on an unchanged target P/E multiple of 23x pegged to FY27E EPS of 2.1 sen. Reiterate our HOLD recommendation.**

**The key takeaways were:**

1. **Strengthening cybersecurity capabilities through AI-powered solutions.** LGMS introduced five locally developed cybersecurity offerings, comprising (i) AI-driven Attack Surface Management (AISM), (ii) Shadow Password Exposure & Cyber Threat Analysis (SPECTA), (iii) LLM-assisted Static Application Security Testing (NOVA), (iv) AI & LLM Application Security Assessment (AVLLM), and (v) CoreGravity, a next-generation deception solution. These offerings aim to provide cybersecurity protection across different stages of potential cyberattacks. AISM and SPECTA focus on identifying exposed digital assets and compromised credentials before attackers exploit them, while NOVA and AVLLM assess vulnerabilities in software and AI-powered applications before deployment. Meanwhile, CoreGravity uses decoy systems and AI-assisted threat analysis to detect potential intrusions. We view the expanded portfolio positively, as it strengthens LGMS's cybersecurity capabilities and positions the Group to capture growing demand for AI-related security services.
2. **Rising AI-enabled cyber threats driving cybersecurity demand.** Management highlighted the increasing sophistication of cyberattacks as malicious actors leverage AI to automate attacks, identify vulnerabilities and gain unauthorised access to systems. According to LGMS's presentation, 65% of investigated cyber intrusions originated from exposed online vulnerabilities, followed by stolen passwords (30%) and infected computers (5%). Meanwhile, only 18% of cyber incidents were detected by organisations' own security tools, while 47% were identified through external parties and 29% through the damage caused. These findings highlight existing cybersecurity gaps and the importance of proactive threat detection and continuous monitoring. With AI enabling cyberattacks to be executed at greater speed and scale, we believe the evolving threat landscape could support longer-term demand for LGMS's cybersecurity solutions, particularly as businesses accelerate digitalisation and AI adoption.
3. **AI-powered solutions could enhance operational efficiency.** Beyond expanding its cybersecurity offerings, LGMS's adoption of AI could improve operational efficiency by automating repetitive and time-consuming tasks. For instance, NOVA leverages LLM technology to assist in identifying vulnerabilities within application source code,

**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) | | | 1,615.60 |
| YTD KLCI chg. | | | -3.8% |
| YTD Stock Price chg. | | | 0.0% |
| **Price Performance** | **1M** | **3M** | **12M** |
| Absolute (%) | 1.9% | 1.9% | -29.5% |
| Relative to KLCI (%) | -2.2% | -6.1% | 0.4% |

| Stock Information | |
|---|---|
| Market Cap (RM m) | 239.4 |
| Issued Shares (m) | 456.0 |
| 52-week High (RM) | 0.76 |
| 52-week Low (RM) | 0.42 |
| Est. Free Float (%) | 48% |
| Beta vs FBM KLCI | 0.8 |
| 3-month Avg Vol. (m) | 948,242 |
| 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) | 21.2 | 23.3 | 22.4 |
| PBV (x) | 2.2 | 2.1 | 2.1 |
| Net Gearing (x) | *N.Cash* | *N.Cash* | *N.Cash* |

potentially reducing the manual effort required for security assessments. Similarly, AI-assisted threat analysis could enable cybersecurity specialists to identify and prioritise potential threats more efficiently. We believe greater automation could enhance employee productivity and support the scalability of LGMS's cybersecurity services, potentially improving operating margins over the longer term. Nevertheless, near-term profitability may remain pressured by elevated operating expenses associated with continued AI-related investments.

4. **Commercial adoption remains key to future earnings growth.** We believe LGMS's expanded cybersecurity portfolio could create cross-selling opportunities among existing customers while attracting new clients seeking more comprehensive cybersecurity protection. Additionally, solutions offering continuous threat monitoring could support the Group's longer-term transition towards recurring subscription-based revenue, potentially improving revenue visibility and reducing reliance on project-based engagements. Nevertheless, meaningful earnings contributions will depend on the pace of commercial adoption and successful monetisation of these solutions. Hence, we maintain our existing earnings forecasts, pending greater visibility on their potential revenue contributions.

**Post Update.** We remain cautiously optimistic on LGMS' FY26E–FY27E outlook, supported by the introduction of five homegrown AI cybersecurity solutions aimed at addressing increasingly sophisticated AI-enabled cyber threats. We believe these offerings could strengthen the Group's competitive positioning, broaden its cybersecurity service portfolio and create opportunities for recurring subscription-based revenue. Nevertheless, near-term earnings may remain pressured by slower project completion and elevated OPEX from continued AI investments, while meaningful earnings contributions from the new solutions will depend on the pace of commercial adoption. Hence, maintain our revenue growth assumptions at **4%/11% for FY26E/FY27E**, with **OPEX margins of 66%/67.6%**, respectively. No change to our FY26E/FY27E earnings estimates at **RM9.3m/RM9.7m**, respectively, pending greater visibility on the revenue contributions from these solutions.

**Valuation and Recommendation.** We maintain our TP at **RM0.490**, 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 **2.1 sen**. The unchanged TP reflects our maintained earnings estimates, while the potential earnings contributions from LGMS's new AI cybersecurity solutions remain dependent on successful commercialisation. At current prices, the stock continues to trade at demanding valuations. Hence, we reiterate 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

| | | | | | |
|---|---|---|---|---|---|
| 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) | 19.4 | 17.6 | 21.2 | 23.3 | 22.4 |
| Div. Yield (%) | 3.8% | 3.2% | 2.5% | 2.3% | 2.4% |
| PBV (x) | 2.5 | 2.3 | 2.2 | 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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