

30 January 2024

LGMS

SME Product to Hit the Shelf Soon

By Samuel Tan | samueltan@kenanga.com.my

LGMS is putting onto the market an affordable plug-and-play SME cyber security product called StarSentry in 2QFY24. A one-of-a-kind subscription-based offering, the product will be a source of recurring income for LGMS. Seeing new business opportunities in emerging AI-enabled cyber threats in the market, it is increasing its headcount from 120 to 150. We keep our forecasts, TP of RM1.16 and OUTPERFORM call.

We came away from LGMS's investor briefing yesterday feeling reassured of its outlook. The key takeaways are as follows:

1. LGMS is launching a new product called StarSentry. This plug-and-play device, developed in-house and backed by proprietary software, offers SMEs affordable solutions to counter escalating cyber security threats. Plugged into the network, StarSentry automatically and seamlessly analyses vulnerabilities in all connected devices and recommends remedial actions. LGMS plans to offer StarSentry on a subscription-based model, priced at less than RM15,000 during the first year, with reduced amounts in subsequent years. We view this development positively as the product stands out in the market by integrating both hardware and software into a user-friendly plug-and-play setup. In comparison, similar scanning software in the market costs at least USD9,000 or approximately RM42,600 for the software alone, excluding essential hardware. StarSentry was featured last year at the Cyber Digital Services Defence & Security Asia (CyberDSA) 2023 and received the Cyber Security Product Innovation of the Year award from Fahmi Fadzil, the Communication and Digital Minister.
2. Currently, LGMS see heightened concerns over AI-enabled cyber threats, particularly business email systems compromised by perpetrators leveraging on AI to mimic staff communication style for data phishing. Seeing new business opportunities in the surge in these sophisticated threats, the company is expanding its talent pool, diversifying service offerings, and developing an in-house AI bot for consultancy services. It is increasing its headcount from the current 120 employees to 150.

Forecasts. Maintained.

Valuations. We also keep our TP of RM1.16 based on FY24F PER of 25x, in line with the peers' forward mean. There is no adjustment to our TP based on its ESG rating given a 3-star rating as appraised by us (see Page 4).

Investment case. We like LGMS for its: (i) the high growth prospects of its core cyber security business given the under-penetrated local and regional cyber security markets, (ii) the deep moat around its business given the high barrier to entry created by the tough qualification process as a vendor, and (iii) new proprietary certification software which is expected to be the next earnings driver. Maintain **OUTPERFORM**.

Risks to our call include: (i) longer-than-expected gestation period for its regional expansions, (ii) economic downturn resulting in customer lowering budget allocated for cyber security, (iii) reluctance to spend on cyber security services due to the lack of knowledge and awareness in emerging countries, and (iv) failure to maintain the extensive list of accreditations due to potential loss of critical talents.

OUTPERFORM ↔

Price : **RM0.93**
Target Price : **RM1.16** ↔

Share Price Performance



KLCI 1,515.4
YTD KLCI chg 4.0%
YTD stock price chg 0.0%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker LGMS MK Equity
Market Cap (RM m) 421.8
Shares Outstanding 456.0
52-week range (H) 1.43
52-week range (L) 0.83
3-mth avg daily vol: 216,651
Free Float 42.5%
Beta 1.9

Major Shareholders

Fong Choong Fook 36.4%
Go Soon Sei 10.8%
SICAV ASIAN 4.1%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	32.8	33.4	59.5
EBITDA	17.0	14.8	29.2
PBT	15.6	13.3	27.5
Net Profit (NP)	12.6	10.2	21.1
Consensus (NP)	-	10.2	21.1
Earnings Revision	-	-	-
EPS (sen)	2.8	2.2	4.6
EPS growth (%)	22.6	-19.4	106.8
NDPS (sen)	1.3	0.5	1.0
BVPS (RM)	0.18	0.20	0.24
Price/BV (x)	5.0	4.6	3.9
PER (x)	33.2	41.2	19.9
Gearing (x)	-	-	-
ROA (%)	13.8	9.9	16.9
ROE (%)	15.1	11.1	19.5
Dividend Yield (%)	1.4	0.5	1.1



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Malaysian Technology Peers Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Mkt Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) – Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div. Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
								D&O GREEN TECHNOLOGIES BHD	UP	3.45	2.30	-33.3%	4,272.1	Y	12/2023	3.7	7.0
GHL SYSTEMS BHD	OP	0.640	0.880	37.5%	730.6	Y	12/2023	2.4	2.8	-3.5%	15.8%	26.8	23.2	1.4	5.2%	0.0	0.0%
INARI AMERTRON BHD	OP	3.26	4.17	27.9%	12,215.8	Y	06/2024	10.4	12.4	20.5%	18.8%	31.2	26.3	4.6	14.9%	9.9	3.0%
JHM CONSOLIDATION BHD	MP	0.700	0.700	0.0%	421.2	Y	12/2023	2.1	4.6	-43.5%	116.2%	32.7	15.1	1.3	4.1%	0.5	0.7%
KELINGTON GROUP BHD	OP	2.26	3.28	45.1%	1,462.7	Y	12/2023	14.1	15.6	63.2%	11.0%	16.1	14.5	4.7	32.8%	3.9	1.7%
KESM INDUSTRIES BHD	MP	6.81	7.06	3.7%	292.9	Y	07/2024	6.3	10.2	-44.9%	63.0%	110.1	65.9	0.8	0.8%	0.0	0.0%
LGMS BHD	OP	0.930	1.16	24.7%	421.8	Y	12/2023	2.2	4.6	-19.0%	106.9%	41.7	20.1	4.5	11.5%	0.0	0.0%
MALAYSIAN PACIFIC INDUSTRIES	MP	29.04	27.20	-6.3%	5,776.0	Y	06/2024	80.9	118.2	162.5%	46.1%	35.9	24.6	2.7	7.8%	35.0	1.2%
NATIONGATE HOLDINGS BHD	OP	1.39	1.70	22.3%	2,882.8	Y	12/2023	3.4	6.8	-16.6%	97.5%	40.4	20.4	9.8	27.2%	0.3	0.2%
OPPSTAR BHD	MP	1.05	1.82	73.3%	671.9	N	12/2023	4.0	6.1	20.8%	50.8%	26.1	17.3	4.3	17.5%	1.0	1.0%
PIE INDUSTRIAL BHD	OP	3.20	3.80	18.8%	1,228.9	Y	12/2023	17.7	21.1	-4.2%	19.5%	18.1	15.2	2.0	11.7%	7.0	2.2%
SKP RESOURCES BHD	MP	0.700	0.850	21.4%	1,085.8	Y	03/2024	5.7	6.4	-38.4%	13.1%	12.3	10.9	1.3	10.3%	2.8	4.0%
UNISEM (M) BHD	UP	3.31	2.00	-39.6%	5,339.3	Y	12/2023	4.7	10.0	-68.6%	111.6%	69.9	33.0	2.2	3.2%	6.0	1.8%
Simple Average										-7.9%	39.5%	34.4	24.6	3.4	11.7%		1.2%

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★	☆	
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	☆		
SPECIFIC	Occupational Health & Safety	★	★	★	★	
	Protection of Customer Data	★	★	★	★	
	Cyber Security	★	★	★	★	
	Energy Efficiency	★	★	★		
	Digital Transformation	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock’s Expected Total Return is MORE than 10%
- MARKET PERFORM : A particular stock’s Expected Total Return is WITHIN the range of -5% to 10%
- UNDERPERFORM : A particular stock’s Expected Total Return is LESS than -5%

Sector Recommendations***

- OVERWEIGHT : A particular sector’s Expected Total Return is MORE than 10%
- NEUTRAL : A particular sector’s Expected Total Return is WITHIN the range of -5% to 10%
- UNDERWEIGHT : A particular sector’s Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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KENANGA INVESTMENT BANK BERHAD (15678-H)
 Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia



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Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my