

31 May 2024

LGMS

Cybersecurity Awareness Fuels Growth

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LGMS's 1QFY24 met expectations. Its 1QFY24 core net profit jumped 49% YoY with better showing across its business segments, i.e. prevention, compliance and threat response. It will benefit from the recently passed Cyber Security Bill 2024 which enhances cybersecurity awareness among local corporations. We lift our FY25F earnings forecast by 13%, increase our TP by 64% to RM1.90 (from RM1.16) and reiterate our OUTPERFORM call.

LGMS's 1QFY24 earnings of RM2.4m (+49% YoY) accounts for 12% of both our full-year forecast and the full-year consensus estimate. However, we deem the results within expectations as 1Q is seasonally a weaker quarter.

YoY, its 1QFY24 top line grew by 39% driven by increased project billings across all business segments. The key cyber risk prevention segment, which accounted for 77% of group revenue, grew by 35%. The cyber risk compliance segment rose by 44%, while the cyber threat response segment nearly doubled, albeit from a low base and the demand for its service is more ad hoc in nature as it assists in the recovery process after a hack. Its core net profit rose at a quicker pace of 49% on the back of better operating leverage.

QoQ, its 1QFY24 turnover declined 19% while net profit fell 34% from a high base in 4QFY24 as 4Q is typically the peak quarter in IT spending by corporations.

Outlook. The growth potential for cybersecurity in Malaysia and Southeast Asia is immense, as the industry is still in its early stages. Notably, on 3 Apr 2024, the Malaysian Parliament passed the Cyber Security Bill 2024, marking a significant step toward raising awareness of cyber resilience among corporations. This bill affects both individuals and businesses, particularly those within the Critical National Information Infrastructure (CNII), by mandating compliance with cybersecurity standards. Many cybersecurity incidents in Malaysia have gone unreported due to the lack of disclosure requirements, an issue the bill aims to address. Once the bill is enforced (pending royal assent), company directors may face personal liability for offenses if found negligent in their cybersecurity preparedness.

Timely enough, LGMS will be launching "StarSentry" on 4 Jun 2024, a first-of-its-kind plug-and-play device which seamlessly connects to users' networks, autonomously analysing all connected devices for vulnerabilities. Designed for SMEs to larger corporations seeking cost-effective and straightforward security solutions, this product is poised to positively contribute to the group's performance.

Forecasts. We raise our FY25F earnings forecast by 13% to account for stronger demand for its services with the government's push towards greater cybersecurity awareness.

Valuations. Correspondingly, we raise our TP by 64% to **RM1.90** (from RM1.16) based on a higher 30x (from 25x) FY25F PER, to reflect the uptrend among global peers' forward mean such as Qualys, Fortinet and Akamai Technologies. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

Investment case. We like LGMS for: (i) the high growth prospects of its core cybersecurity business given the under-penetrated local and regional cybersecurity 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**.

OUTPERFORM ↔

Price: RM1.47
Target Price: RM1.90 ↑

Share Price Performance



KLCI	1,604.3
YTD KLCI chg	10.3%
YTD stock price chg	59.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	LGMS MK Equity
Market Cap (RM m)	670.3
Shares Outstanding	456.0
52-week range (H)	1.31
52-week range (L)	0.83
3-mth avg. daily vol.	1,029,724
Free Float	23.1%
Beta	1.6

Major Shareholders

Fong Choong Fook	36.4%
Sumitomo Mitsui Trust Holdings	25.0%
Go Soon Sei	10.8%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	34.2	59.5	81.3
EBITDA	16.7	29.7	40.1
PBT	15.2	28.6	39.2
Core NP (CNP)	11.2	21.1	28.9
Consensus (NP)	-	21.1	25.7
Earnings Revision	-	-	+13%
EPS (sen)	2.5	4.6	6.3
EPS Growth (%)	-11.2	88.1	36.9
NDPS (sen)	0.5	0.9	1.3
BVPS (RM)	0.19	0.23	0.28
Price/BV (x)	7.7	6.5	5.3
PER (x)	59.7	31.8	23.2
Net Gearing (x)	-	-	-
ROA (%)	11.7	17.9	19.7
ROE (%)	13.0	20.4	22.8
Dividend Yield (%)	0.3	0.6	0.9

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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 cybersecurity, (iii) reluctance to spend on cybersecurity 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 talent.

Result Highlight								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	8.6	10.7	-19.4%	6.2	38.8%	8.6	6.2	38.8%
GP	4.1	5.9	-30.9%	1.9	115.6%	4.1	1.9	115.6%
EBIT	3.2	5.3	-39.6%	2.2	45.2%	3.2	2.2	45.2%
Interest Expense	0.0	-0.2	97.2%	0.0	80.8%	0.0	0.0	80.8%
EI	0.0	0.0		0.0		0.0	0.0	
PBT	3.2	5.1	-37.6%	2.2	46.7%	3.2	2.2	46.7%
Taxation	-0.8	-1.4	46.7%	-0.5	-39.2%	-0.8	-0.5	-39.2%
Net Profit (NP)	2.4	3.7	-34.2%	1.6	49.1%	2.4	1.6	49.1%
Core NP	2.4	3.7	-34.2%	1.6	49.1%	2.4	1.6	49.1%
EPS (sen)	0.5	0.8	-34.2%	0.4	49.1%	0.5	0.4	49.1%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
GP margin	47.5%	55.5%		30.6%		47.5%	30.6%	
EBIT margin	37.2%	49.7%		35.6%		37.2%	35.6%	
Pretax margin	37.2%	48.1%		35.2%		37.2%	35.2%	
CNP margin	28.4%	34.8%		26.4%		28.4%	26.4%	
Effective tax rate	-23.6%	-27.7%		-24.9%		-23.6%	-24.9%	

Source: Kenanga Research

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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	MP	3.73	3.60	-3.5%	4,618.8	Y	12/2024	8.5	12.0
GHL SYSTEMS BHD	OP	1.06	1.08	1.8%	1,210.0	Y	12/2024	2.4	2.8	-3.5%	15.8%	44.4	38.4	2.2	5.2%	0.0	0.0%
INARI AMERTRON BHD	OP	3.36	4.00	19.0%	12,646.2	Y	06/2024	9.4	11.8	8.6%	25.8%	35.7	28.4	4.8	13.4%	8.9	2.6%
JHM CONSOLIDATION BHD	MP	0.620	0.610	-1.6%	375.7	Y	12/2024	3.3	4.1	40.0%	21.7%	18.6	15.2	1.1	6.2%	0.5	0.8%
KELINGTON GROUP BHD	OP	3.21	4.10	27.7%	2,148.8	Y	12/2024	16.1	19.4	1.0%	20.5%	19.9	16.5	5.0	27.7%	4.5	1.4%
KESM INDUSTRIES BHD	MP	6.26	7.04	12.5%	269.3	Y	07/2024	4.0	8.1	-65.1%	102.8%	156.1	77.0	0.8	0.5%	0.0	0.0%
LGMS BHD	OP	1.47	1.90	29.3%	670.3	Y	12/2024	4.6	6.3	88.4%	37.0%	31.7	23.2	6.5	22.2%	0.9	0.6%
M'SIAN PACIFIC INDUSTRIES BHD	OP	38.74	46.84	20.9%	7,706.5	Y	06/2024	74.5	138.0	141.8%	85.2%	52.0	28.1	3.7	7.2%	35.0	0.9%
NATIONGATE HOLDINGS BHD	OP	1.88	1.58	-16.0%	3,899.0	Y	12/2024	6.3	6.9	114.8%	9.6%	29.8	27.2	7.3	27.4%	1.0	0.5%
OPPSTAR BHD	OP	1.49	1.70	14.1%	954.0	Y	03/2024	5.7	6.5	165.0%	15.4%	26.3	22.7	5.4	22.4%	1.4	0.9%
P.I.E. INDUSTRIAL BHD	OP	5.99	6.75	12.7%	2,300.4	Y	12/2024	22.2	28.7	15.7%	29.3%	27.0	20.9	3.4	13.4%	7.0	1.2%
SKP RESOURCES BHD	MP	1.11	0.850	-23.4%	1,734.2	Y	03/2024	5.7	6.4	-38.4%	13.1%	19.5	17.3	2.0	10.3%	2.8	2.5%
UNISEM (M) BHD	MP	4.14	3.70	-10.6%	6,678.1	Y	12/2024	10.2	12.7	100.1%	24.9%	40.7	32.6	2.7	6.8%	6.0	1.4%
Simple Average										34.3%	30.8%	35.2	26.9	3.8	13.3%		1.0%

Source: Kenanga Research

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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	★	★	★	★	
	Cybersecurity	★	★	★	★	
	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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