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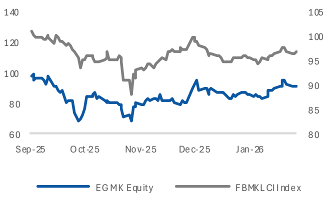
Recommendation:	**BUY**
Current Price:	RM 1.14
Previous Target Price:	N.A.
Target Price:	RM 1.85
Capital Upside/Downside:	62.3%
Dividend Yield (%):	0.4%
Total Upside/Downside	**62.7%**

Stock information	
Board	MAIN
Sector	Technology
Bursa / Bloomberg Code	8907 / EGMK
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	909.7
Market Cap (RM' m)	1,037.1
52-Week Price Range (RM)	1.53-0.8
Beta (x)	0.8
Free float (%)	44.2
3M Average Volume (m)	4.4
3M Average Value (RM' m)	5.2

Top 3 Shareholders	**(%)**
Kang Pang Kiang	10.6
Kpk Capital Sdn Bhd	6.8
Qyh Capital Sdn Bhd	6.7

Share Price Performance



	1M	**3M**	**12M**
Absolute (%)	0.0	-13.6	-7.3
Relative (%)	-3.5	-19.8	-15.4

Earnings summary

FYE (Dec)	**FY25**	**FY26F**	**FY27F**
Revenue (RM'm)	1087.2	1631.8	1869.9
PATAMI (RM'm)	84.1	108.0	130.2
CNP (RM'm)	73.3	108.0	130.2
EPS - core (sen)	7.8	11.5	13.9
P/E (x)	14.5	9.9	8.2

Source: Company, Apex Securities

EG Industries Berhad

An underappreciated DC pick-and-shovel play

- **EG is a vertically integrated EMS provider delivering turnkey manufacturing solutions for global brands across consumer, ICT, medical, automotive and telecom sectors, with growing exposure to 5G optical modules, network switches and DC applications.**
- **Core earnings are projected to grow to RM108m/130m/154m in FY26-28F at a three-year CAGR of 28%, chiefly driven by (i) output ramp for optical modules and network switches, (ii) margin expansion from better operating leverage and (iii) recovery in electronics segment.**
- **We initiate coverage on EG with a BUY rating and TP of RM1.85 (14.5x mid-FY26F EPS).**

Key Investment Highlights

Alliance with CIG catapults EG into the AI/DC supply chain. The strategic partnership with CIG for the production of optical modules and routers provides EG with a pathway into the DC build-out supply chain, leveraging CIG's extensive customer network that comprises leading hyperscalers and networking hardware OEMs. EG's revenue contribution from the wireless and photonic segment surged from 8.5% in FY22 to 62.8% in FY25, reflecting continued scaling of its router and optical module production lines. Successful execution of these high-value products has enabled EG to onboard new customers of similar calibre, including a leading network switch OEM, which enhances its value-chain positioning while accelerating diversification away from the fragmented consumer EMS space.

Penang and Kedah capacity ramp fuels multi-year earnings acceleration. EG's PG2 plant, which commenced operations in Jun-25, serves as the group's primary production hub for optical modules for CIG and end-customers. The first-floor houses four optical module lines for CIG, which are running at c.40% utilisation, with current yield at c.70%. EG is ramping up 400G and 800G modules through 2026, with the second floor of PG2 dedicated to 800G modules for a new hyperscaler customer, where mass production will begin in late-3QFY26. We see ample room to scale utilisation and yield at PG2, supporting our forecasted **wireless and photonics revenue growth of 84%/19%/15% for FY26–28F**. Meanwhile, EG is building a new plant in Sungai Petani (Plot 36), which is earmarked to produce network switches to meet its key customer's demand. The segment was running LVM in FY25 and is slated to surge in FY26 off a low base. **We project revenue growth of 75%/29%/10% for FY26/FY27/FY28F for the network switch division.**

Moving up the value chain to drive sustained margin expansion. EG stands out among listed Malaysian EMS peers, underpinned by solid margin prospects at a time when the industry is facing margin pressure from muted consumer demand, tariff-related costs and rising labour expenses. Despite the challenging backdrop, EG will buck the trend by leveraging on its expansion into upstream component-level processes, which will lift its profit margins and position the group favourably relative to peers, in our view. For perspective, its core net profit margin has trended upward from 1.3% in FY22 to 6.7% in FY25 due to improving product mix towards high-margin activities. We see further room for margin expansion as optical modules and network switches remain in the early stages of production ramp. **Our forecasts in FY26F/FY27F/FY28F imply a solid core net profit margin of 6.6%/7.0%/7.4%.**

Forecasts. Core earnings are projected to grow to RM108m/130m/154m in FY26-28F at a three-year CAGR of 28%, chiefly driven by (i) output ramp for optical modules and network switches, (ii) margin expansion from better operating leverage and (iii) recovery in electronics segment.

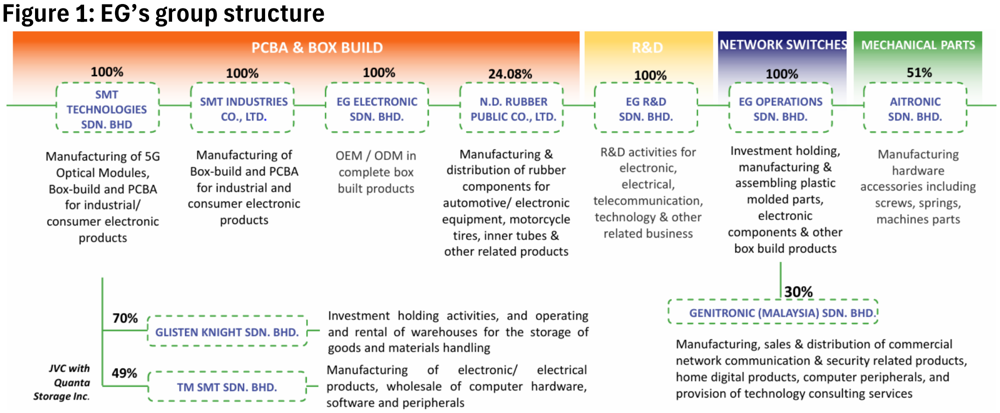
Valuation and Recommendation. We initiate coverage on EG with a **BUY** rating and a TP of **RM1.85**, based on 14.5x mid-FY26F EPS of 12.7 sen. We view our target valuation as reasonable when stacked against the broader tech sector (35x FY25F; 25x FY26F) and EMS sub-segment (14x FY25F PE; 11x FY26F). All in all, we favour the stock for its (i) robust earnings growth trajectory (3-year CAGR of 28% over FY26-FY28F), (ii) favourable margin profile and (iii) undemanding valuation at 10x FY26F and 8x FY27F earnings.

Company background

Incorporated on 14 Aug 1991, EG Industries Bhd (EG) is a homegrown leading Electronics Manufacturing Services (EMS) and upstream components total solutions provider, through mainly the group's largest subsidiaries SMT Technologies Sdn Bhd and SMT Industries Co., Ltd. in Thailand. EG takes pride in its capability of providing total solutions to its customers by offering turnkey services covering design & development, tooling fabrication, plastic injection, printed circuit board assembly (PCBA), modular components assembly, final products assembly and product distribution. The group's customer base comprises internationally renowned OEMs and brands ranging from consumer electronics, data storage, automotive, information and communications technologies (ICT), medical and telecommunications sectors.

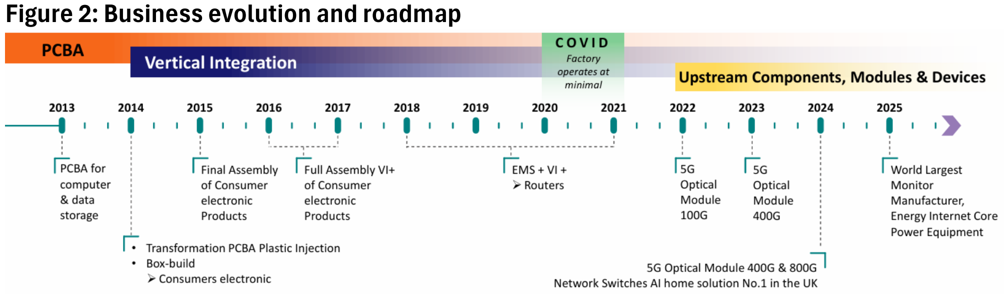
The group's transformation has been spearheaded by Dato' Alex Kang, who has led EG as Group CEO and Executive Director since July 2014. Under his leadership, EG has evolved from a computer and data-storage PCBA supplier into a full box-build assembler of consumer electronics and, in recent years, expanded into EMS for industrial products such as routers. The group has subsequently enhanced its value-chain positioning by venturing into the production of advanced upstream components and modules, including network switches and optical modules.

Figure 1: EG's group structure



Source: Company

Figure 2: Business evolution and roadmap



Source: Company

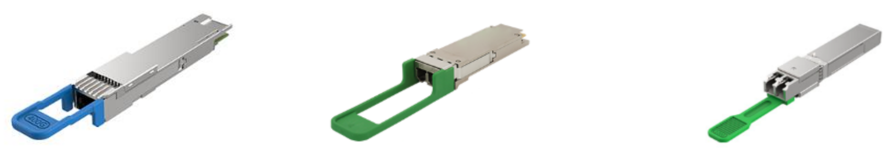
Business Overview

5G wireless access & photonics (63% of 1Q26 revenue)

The Group's wireless and photonics business traces back to EG's initial engagement with Cambridge Industries Group (CIG) in 2018, where EG undertook box-build and full assembly of wireless and wired access routers and gateway products for CIG for both commercial and residential usage. In 2021, EG expanded its manufacturing capabilities to include 5G-capable routers. Building on a strengthened partnership with CIG and growing credibility with end-customers (telecommunication service providers), EG signed a Letter of Intent (LOI) with CIG in 2022 to become its exclusive manufacturing partner outside China for advanced 5G wireless network optical modules, covering 100G-800G photonics modules. A subsequent LOI signed in April 2024 further broadened the scope to include the next-generation 1.6T optical modules, marking CIG's first IP transfer for 1.6T technology outside of China. EG provides end-to-end turnkey services for these optical modules, encompassing PCBA, assembly and testing as well as distribution.

Collectively, these developments have elevated EG's value chain positioning from a pure-play EMS player and box-build assembler to the production of high-margin upstream semiconductor components and modules that are critical for telecommunication and data center applications. Currently, the wireless and photonics segment accounts for the lion's share of EG's revenue. This is driven primarily by box-build services for network routers for Customer G and Customer N, followed by the production of 400G and 800G optical module for CIG, which is currently ramping up for Customer C and is expected to include a hyperscaler in the near-term.

Figure 3: 5G optical modules



Source: Company

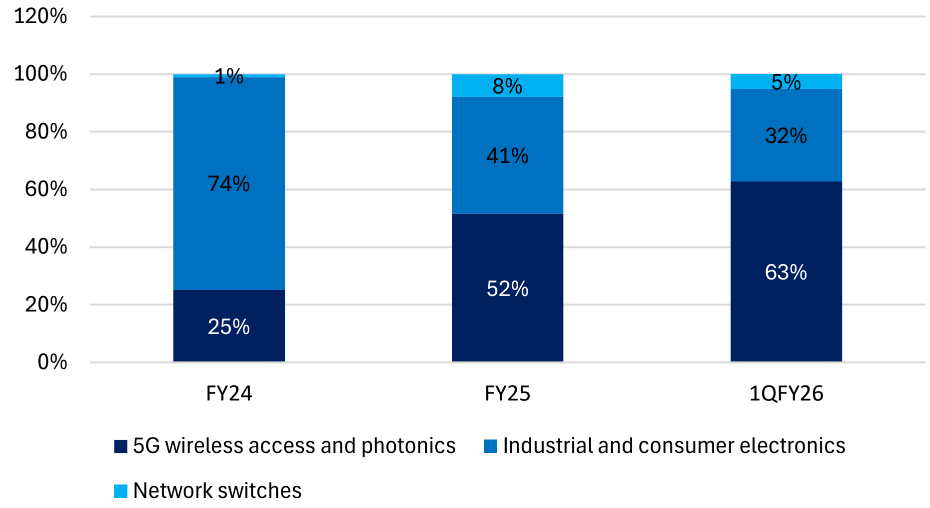
Industrial & Consumer Electronics (32% of 1Q26 revenue)

The industrial and consumer electronics segment largely represents the group's conventional EMS operations, comprising primarily its legacy PCBA services and box-build activities. This segment is more fragmented in nature, serving a diversified customer base, although the Group continues to undertake new product introductions (NPIs) and onboard new customers on an ongoing basis. Notably, key long-standing customers in this segment include: (i) Customer W, a leading US-based hard disk drive (HDD) manufacturer, supported through the PCBA services for HDD and thumb drive; and (ii) Customer D, a Singapore-based household appliances giant, via the supply of PCBA services mainly for hair dryer products. Other products under this segment include display monitors, cryptocurrency mining machines, and other consumer electronic assemblies.

Network switches (5% of 1Q26 revenue)

Lastly, the Group's third business segment involves the production of high-value network switches for a leading ICT hardware OEM, catering to commercial and data center applications. Network switches are critical networking hardware that enable data transmission and traffic management between servers, storage systems and end devices within enterprise and data center networks. This segment contributed minimally to Group revenue in FY24 (c.1%) following EG's onboarding of Customer during the year. However, revenue contribution has since grown to c.5–7% currently, positioning it as the smallest yet fastest-growing segment alongside wireless and photonics. FY25 was predominantly focused on trial and pilot production, with volume ramp-up expected in FY26–27 as capacity scales at EG's Sungai Petani facilities.

Figure 4: Revenue breakdown by segment



Source: Company

Key operating facilities

Sungai Petani, Kedah. The majority of the group's production facilities are located in Sungai Petani, Kedah, supporting: (i) industrial and consumer electronics operations; (ii) box-build services for network routers; and (iii) the production of network switches. Amid an ongoing production ramp for network switches and strong demand visibility, the Group is expanding its Sungai Petani footprint through the development of Plot 36, which is slated for completion by end-2026 (figure#6). In addition to production plants, EG had established four public bonded smart warehouses in 2024 with a total space of 4,780 sqm. These facilities enable EG to offer integrated storage services, allowing customers to monitor inventories in real time while benefiting from cost efficiencies, thereby incentivising the relocation of overseas storage hubs to Malaysia. Notably, all four warehouses are currently fully occupied by existing customers.

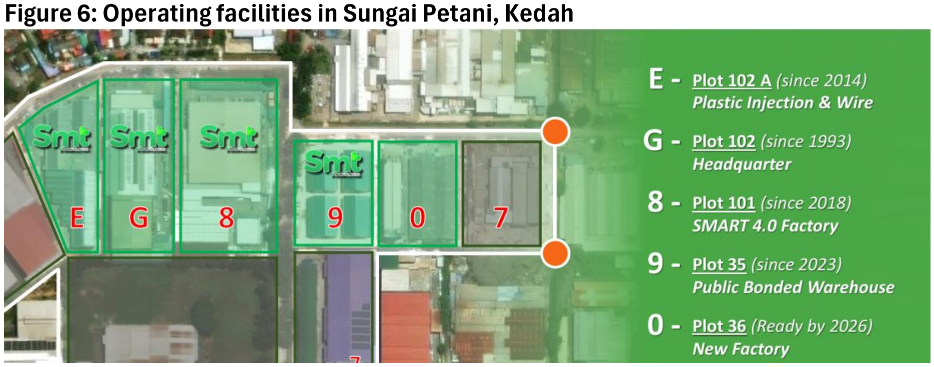
Batu Kawan, Penang. In June 2025, EG's RM180m Smart Factory 4.0 in Batu Kawan (PG2) commenced operations. The facility comprises a three-storey office block and a two-storey production floor with a warehouse, and has begun mass production of 5G optical modules for key customers in 2H25. Dedicated to high-value upstream component manufacturing for CIG and other customers, the PG2 plant is equipped with high-speed SMT capacity, enhanced automation across packaging and testing lines, as well as Class 1K and 10K cleanrooms to support optical module production. Based on our understanding, the first production floor currently houses one high-speed SMT line and three workshops primarily supporting CIG, while the second and third floors are earmarked for Customer G and another hyperscaler.

Thailand. EG currently operates a production plant in Thailand, which is primarily engaged in PCBA services with a smaller contribution from box-build EMS, mainly serving legacy customers involved in HDD manufacturing and consumer electronics products (i.e. computer peripherals and display monitors). EG is set to add another plant in Thailand following the acquisition of a 4.95-acre site in Jan-26 for the development of a single-storey factory at an estimated construction cost of RM40m, to be funded through a mix of internal funds and borrowings. Construction is expected to commence in 1QCY26. Our channel checks indicate the expansion is driven by requests from potential US customers seeking additional manufacturing capacity in Thailand, particularly for electricity storage components, electric vehicle-related products, and data center applications.

Figure 5: EG's Operating facilities

Source: Company

Figure 6: Operating facilities in Sungai Petani, Kedah



Source: Company

Figure 7: New public bonded warehouses in Sungai Petani, Kedah

Source: Company

Figure 8: New Smart Factory 4.0 in Batu Kawan, Penang

Source: Company

Industry Overview

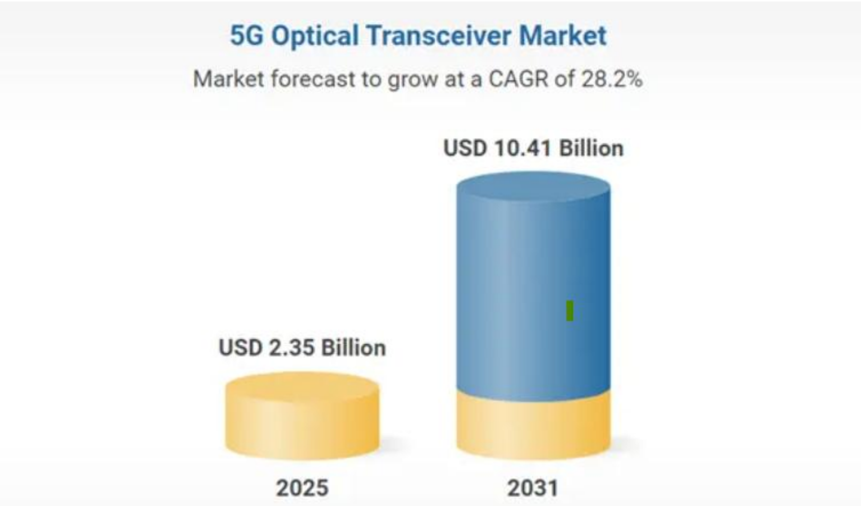
5G networks and AI/DC applications supercharge optical module demand

Optical modules are pluggable optical transceivers used across both telecommunications networks and data centers to convert electrical signals into optical signals for high-speed data transmission over fibre. Within telecom infrastructure, optical modules form the backbone of 5G connectivity, enabling rapid and reliable data transfer between base stations, central offices, and data centers, supporting data-intensive and latency-sensitive applications such as autonomous driving, industrial automation, cloud gaming, and real-time video streaming. According to Market Glass Inc, the global 5G optical transceiver market was valued at USD3.2bn in 2024 and is projected to reach USD15.2bn by 2030, implying a robust CAGR of 29.4% over 2024–30.

Beyond the continued rollout of 5G networks across urban and rural areas, the rapid emergence of generative AI and AI-driven applications has become a key incremental demand driver for optical modules within data centers. The surge in AI computing demand has triggered a massive wave of data centre infrastructure build-out, significantly increasing demand for high-bandwidth, low-latency optical interconnects across both communication networks and hyperscale data centres. As the core component responsible for photoelectric conversion, optical transceivers directly determine data transmission speed and efficiency, effectively serving as the “information highways” of both 5G networks and AI computing clusters. Reflecting this structural tailwind, C-Light highlighted that deployments of 400G and above optical transceivers surged 250% YoY in 2024, with growth expected to exceed 50% YoY in 2025. 400G has become the mainstream solution in global data centres, while 800G entered large-scale commercial deployment in 2024 and is poised to become mainstream in 2025-2026. Looking ahead, 1.6T optical transceivers, which represent the next technology frontier over the next 2–3 years, are beginning to ship, while 3.2T modules are expected to start entering the market around 2029.

Leveraging its partnership with CIG, EG is well positioned at the center of the optical module upcycle as a contract manufacturer of optical transceivers spanning 100G–800G, with 1.6T under development together with CIG. Through this collaboraion, EG serves OEMs, systems-level integrators, as well as hyperscalers that are building data centre infrastructure at massive scale to support AI training and inference workloads.

Figure 9: 5G Optical Transceiver Market



Source: Market Glass, Research and Markets

Industrial EMS emerges as the key beneficiary of AI-led growth

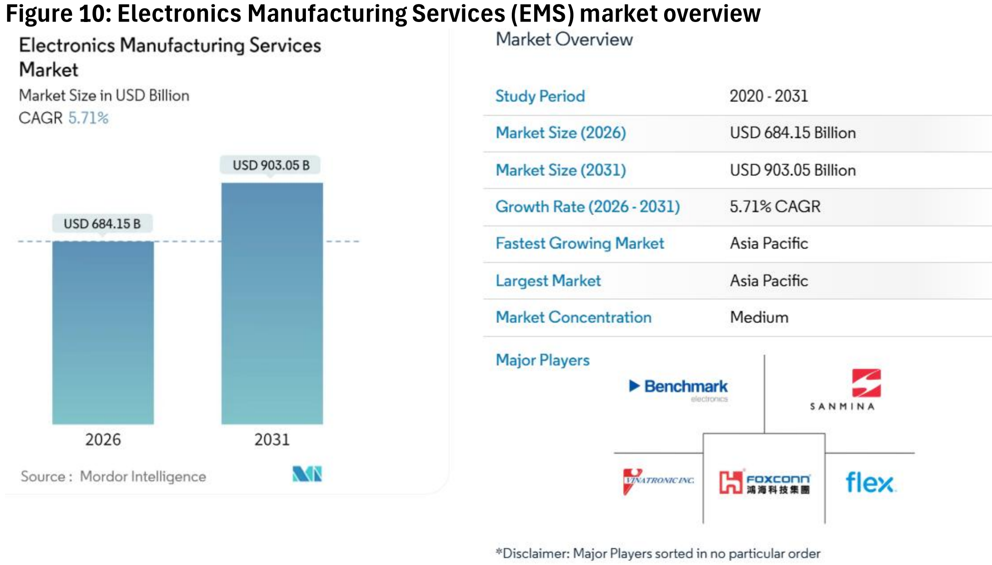
The electronic manufacturing services (EMS) market is projected to grow from USD 647.2bn in 2025 to USD 684.2bn in 2026, and is expected to reach USD 903.1bn by 2031, representing a steady CAGR of 5.71% over 2026–2031, according to Mordor Intelligence. This growth reflects OEMs' continued preference for outsourcing manufacturing to focus on R&D while leveraging advanced assembly and production capabilities. Key drivers include rising demand for AI infrastructure equipment, the accelerating electrification of vehicles, and a wave of supply-chain reshoring from China to diversified regional hubs.

Prominently, the EMS sector has historically mirrored the demand cycles of consumer electronics such as PCs and smartphones, with Apple's order volume often serving as a bellwether. However, a structural shift has emerged with the rise of generative AI, as AI server manufacturers are bucking traditional seasonal patterns and riding the AI server tailwind. Persistent capacity shortages in AI server manufacturing driven by insatiable demand have made Foxconn, Quanta, Wistron, and Wiwynn key beneficiaries, owing to their deep integration with Nvidia's data center roadmap. Today, AI data centre deployments have become the definitive driver shaping growth trajectories and redefining the global EMS/ODM hierarchy (DigiTimes Asia). As such, we believe contract manufacturers with exposure to the DC/AI supply chain (i.e. optical transceivers, network switches) will see exponential growth in its addressable market.

On the contrary, consumer electronics-focused EMS players are navigating headwinds in the near to medium-term. Post-pandemic, softening consumer demand led to lower order volumes for PCs, smartphones, and other electrical appliances. Meanwhile, EMS providers face margin pressure on multiple fronts, including US tariffs on imports and the limited ability to fully pass these incremental costs through to OEM customers. Additionally, surging memory prices have prompted certain OEMs to scale back production or delay new product launches, which is further constraining volumes for contract manufacturers.

Against this backdrop, a divergence is emerging within the EMS sector, with industrial players exposed to AI and data centre applications set to outperform their consumer-focused peers. EG is primarily an industrial-focused EMS provider, with core expertise in optical modules, network switches, and routers, and only limited exposure to consumer electronics and appliances. This strategic positioning differentiates EG from traditional consumer EMS companies, which are facing margin pressures, muted demand growth, and cost headwinds. Industrial EMS players like EG are therefore well positioned to capture structural growth tailwinds from AI and data centre deployments, while consumer-focused EMS providers are likely to continue struggling under softer end-market demand and rising production costs.

Figure 10: Electronics Manufacturing Services (EMS) market overview



Source: Mordor Intelligence

Malaysia's manufacturing sector a prime beneficiary of global trade diversion

Malaysia stands out as a key beneficiary of ongoing global trade diversion and supply chain diversification, attracting investment flows as multinational companies reconfigure production footprints to reduce concentration risks. This trend has gathered momentum since the Trump 1.0 tariff war against China, which catalysed manufacturing relocation into the ASEAN region, with Vietnam and Malaysia emerging as the primary beneficiaries over the past few years. Supply chain realignment has further intensified following President Trump's return to office in 2025, marked by the implementation of new Executive Orders imposing punitive tariffs on China alongside sweeping reciprocal tariffs across trading partners globally.

In addition to ASEAN's geopolitically neutral landscape, Malaysia differentiates itself as a preferred "China-plus-one" destination through a combination of cost competitiveness and structural edge. In August 2025, the U.S. imposed a 19% reciprocal tariff on Malaysia (from an initial 24%), placing it broadly on par with key ASEAN peers, including Indonesia, the Philippines, Thailand, and Cambodia, thereby preserving Malaysia's relative competitiveness within regional manufacturing shifts. Moreover, Malaysia commands a robust and well-established electrical & electronics (E&E) ecosystem, supported by a deep talent pool and developed infrastructure. Malaysia's high proficiency in English with a multilingual population enhances Malaysia's appeal to both Western and China-based companies seeking offshore diversification, reinforcing Malaysia's position as one of the primary "plus-one" choices amid accelerating global supply chain realignment.

We view EG as one of the prime EMS beneficiaries of global trade diversion, as reflected by its successful collaboration with CIG to manufacture higher-value products in Malaysia, including routers and advanced optical modules, as well as the OEM of network switches as key customers diversify manufacturing bases outside China. Notably, EG has been appointed as the exclusive manufacturer outside China for advanced optical modules. In addition, EG is seeing rising customer enquiries for its Thailand operations, particularly in EV-related components, further supporting its exposure to regional supply chain diversification.

Investment Highlights

Collaboration with CIG opens a gateway for EG into the AI/DC megatrend

We reckon the strategic partnership with CIG comes at an opportune time, as the production of optical modules and routers for key customers provided EG with a clear pathway to penetrate the data center build-out supply chain, leveraging CIG's extensive customer network that includes leading US hyperscalers and enterprise networking hardware OEMs. As such, the participation of EG in the AI and data centre infrastructure demand has buoyed a positive inflection in the group's financial trajectory since the commencement of the partnership with CIG. For perspective, EG's revenue contribution from the 5G wireless access and photonic segment surged from 8.5% in FY22 to 62.8% in FY25, reflecting continued scaling of its optical module and router production lines alongside deepening exposure to AI and data center-related applications.

Importantly, successful execution of these products could open the door to onboarding additional customers of a similar calibre, including a leading ICT hardware OEM already secured for network switch production. This would further enhance EG's offerings along the value chain and support diversification away from the fragmented and increasingly competitive consumer EMS space. We also understand that EG is exploring new customers in network switches and aims to commence production of active electrical cable (AEC) PCBAs, which would further broaden its offerings within the data center supply chain.

Penang and Kedah capacity ramp powers the next phase of earnings growth

The completion of EG's new Batu Kawan plant (PG2), which commenced operations in June 2025, has equipped the group with additional capacity to accommodate surging order flows from CIG and its end customers. The PG2 facility is designated as the primary production hub for 5G optical modules for CIG and its customers, which is expected to be the **key earnings growth driver** over the near-to-medium term, with potential expansion into network switches and data centre devices.

The first floor of PG2 facility is presently operational, housing four optical module production lines for CIG, comprising one SMT line and three workshops, all of which have passed all customer audits. The plant is currently operating at c.40% utilisation with management targeting utilisation of over 50% by end-3QFY26. The current yield rate stands at c.70% with ample room for further optimisation. Management plans to continue scaling up both the production and yield rate in 2026.

We note that the production lines are presently focused on 400G optical modules, with 800G modules expected to ramp up through 2026. In addition, we understand that 1.6T modules are currently under development and are targeted for production in 2027. Meanwhile, the second floor of PG2 has been allocated for 800G optical module production for a new hyperscaler customer, with mass production scheduled to commence in late-3QFY26. The third floor is allocated to Customer G for the development of energy storage and power systems.

Overall, we believe there remains ample runway for EG to scale and optimise both utilisation and yield rates at PG2 for both existing and new customers. **We forecast a strong double digit revenue growth of 84%/19%/15% for FY26/FY27/FY28F, respectively for the wireless access and 5G photonics segment.**

In addition to the expanded capacity at PG2, EG is currently constructing a new plant in Sungai Petani, Kedah (Plot 36). The Plot 36 facility is earmarked to expand capacity for network switches to address capacity constraints and growing demand, particularly from the network switch OEM customer. Notably, we view network switches as a key growth area alongside optical modules. The segment was running LVM in FY25 at c.1k units/month, which is expected to surge in FY26 from a low base, making it the group's fastest-growing segment. **We project a robust revenue growth of 75%/29%/10% for FY26/FY27/FY28F as EG continues to scale production for network switches.**

Upward value chain shift to drive sustained margin expansion

In addition to its differentiated positioning within the EMS industry, EG stands out among listed Malaysian EMS peers, underpinned by improving margin prospects at a time when competitors are facing margin pressure from muted consumer electronics demand, tariff-related costs and rising labour expenses. Despite the challenging backdrop, EG will buck the trend by leveraging on its expansion into upstream component-level processes, which will lift its profit margins and position the group favourably relative to peers, in our view. For perspective, its core net profit margin has trended upward from 1.3% in FY22 to 6.7% in FY25 due to improving product mix towards high-margin component production. **Notably, the high-value testing equipment for optical modules and network switches is largely consigned by key customers. This not only supports margin expansion but also signals long-term customer commitment.** We expect margins to remain elevated as 5G optical module capacity remains in the early stages of production ramp, alongside ongoing yield improvements over time. Our forecasts imply a solid core net profit margin of 6.6%/7.0%/7.4% in FY26F/FY27F/FY28F.

Undemanding valuation within both the technology sector and EMS subsegment
EG is currently trading at an undemanding valuation of 10x/8x of our forecasted FY26F/FY27F earnings, representing a discount to the broader local technology sector and EMS subsegment, which are valued at an average of 25x and 11x for FY26F, respectively (Figure 13). We believe EG deserves to trade at a premium versus EMS peers, supported by (i) increasing exposure to high-growth industrial applications such as AI and data centre build-outs via its optical modules and network switch capabilities, (ii) stronger anticipated earnings growth relative to peers, and (iii) above-peer margins as a CM due to involvement in component-level processes. We acknowledge the valuation discount likely stemmed from market's scepticism on EG's execution capability. However, we see its risk-reward profile as skewed favourably to the upside given the stock's compelling valuation limiting its downside risk, while there remains ample room for rerating once EG demonstrates its earnings execution in the medium term.

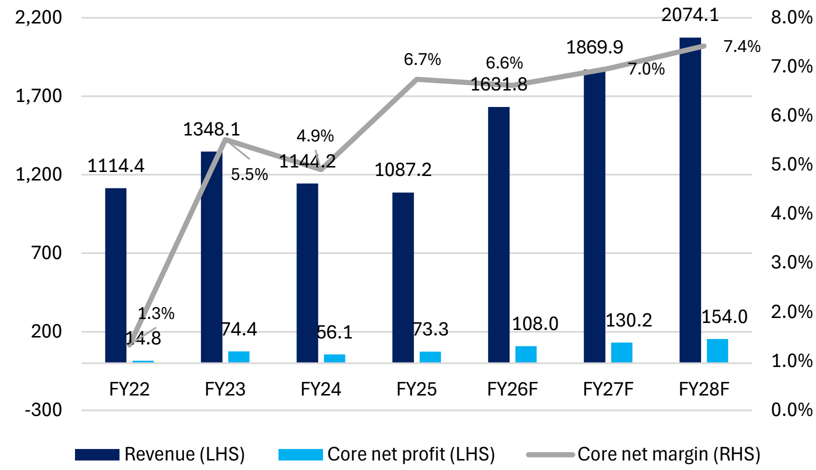
Financial Highlights

Historical performance. In FY23, the group's core earnings surged four-fold YoY to RM74.4m, driven by production ramp-up in its wireless and photonics businesses, primarily fuelled by the ramp-up of router box-build activities for new customers (Customer G and N) in FY23, alongside some contributions from optical modules. This was reflected in the expansion of segmental revenue contribution from 8.5% in FY22 to 32% in FY23. The improving product mix also supported margin expansion, with net profit margin rising YoY from 1.3% to 5.5%.

In **FY24**, EG's core net profit declined 25% YoY to RM56.1m, weighed down by a broad-based slowdown in the E&E sector, coupled with supply chain constraints (mainly chip and component shortage) that affected order flows from major customers. The group's core earnings regained traction in **FY25**, rising 30% YoY to RM73.3m, underpinned by a doubling of revenue contribution from the wireless and photonics segment due to robust demand for 5G routers and optical modules from CIG, alongside accelerating momentum in network switches. The shift in product mix lifted its core net margin to 6.7% (from 4.9% in FY24). We note that the positive momentum was partially offset by the slowdown in industrial and consumer electronics as well as start-up costs associated with the PG2 facility.

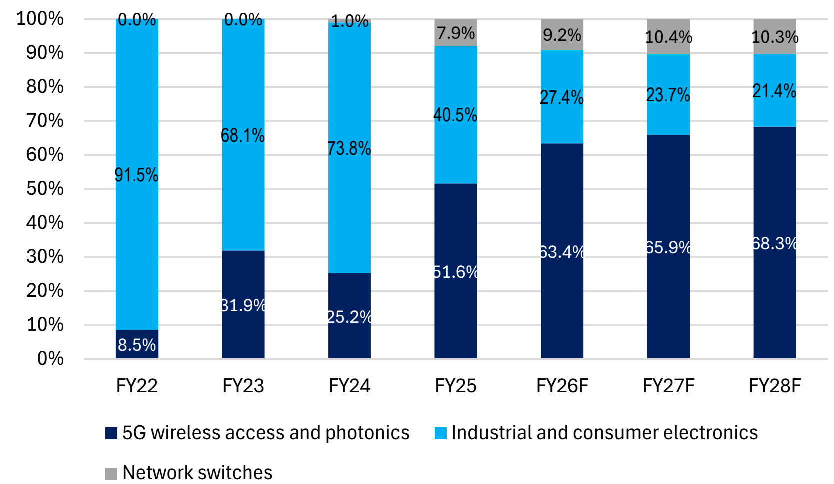
1QFY26 in review; anticipating sequential growth in 2QFY26. EG's 1QFY26 core earnings came in at a commendable RM23.6m (+32% QoQ, +20% YoY). We note that the strong QoQ rebound from 4QFY25 was largely attributed to a one-off RM6.8m in pre-operating expenses incurred in 4QFY25 relating to the commencement of production at the new PG2 plant in June 2025. Although PG2 remained loss-making due to production line installation and the initial output ramp, core net margin held up at a respectable c.7%. We expect **a sequential earnings expansion in 2QFY26**, aided by production ramp at its new PG2 plant following the full installation and customer audits of optical module lines at all workshops for the first floor, coupled with better margins arising from improved production yield and operating leverage. However, we flag that the earnings upside in 3QFY26 may be capped by a heavily-weighted festive seasons during the quarter (Chinese New Year in Feb and Eid festive at end-Mar), but 4QFY26 is expected to rebound strongly in view of production ramp for 800G optical modules and plausible onboarding of new customers.

Figure 11: Financial performance and forecasts



Source: Apex Research

Figure 12: Revenue breakdown



Source: Apex Research

Earnings outlook. We project FY26F/FY27F/FY28F core earnings growth of 47%/21%/18%, implying a robust three-year CAGR of 28% over our forecast horizon. The earnings acceleration in FY26F will be driven by (i) ramp-up in optical module output and continued yield optimisation for CIG and Customer C, alongside maiden contributions from a new hyperscaler customer at PG2, (ii) stronger router demand from Customer G and Customer N to support DC applications, and (iii) rising order flows for network switches from the key OEM customer off a low base.

FY27F is expected to extend this positive trajectory, buoyed by (i) further revenue expansion in the wireless access and photonics division as both utilisation and yield rates at PG2 plant approach optimal levels, (ii) margin expansion due to turnaround at its PG2 facility in FY27F and (iii) a gradual recovery in the industrial and consumer electronics segment thanks to new customer acquisitions in EV components and electrical appliances PCBA.

The steady rise in FY28F profitability will be supported by the growing contribution from its new Sungai Petani plant (Plot 36) for its key network switch OEM client, coupled with greater economies of scale at its PG2 plant, reinforcing product mix optimisation and margin expansion.

Forex sensitivity analysis. We understand that about 80–90% of the group's revenue is denominated in USD, with the balance in RM, making profitability highly sensitive to USD/MYR movements. We currently apply a forex assumption of USD/MYR of **RM4.03/RM4.00/RM4.00** for FY26/27/28F, in line with our economist's forecasts. Our sensitivity analysis suggests that **every 1% decline in USD/MYR would reduce EG's core earnings by approximately 1.3%**, excluding non-core forex gains or losses on balance sheet items. We view that the downside from the forex woes is partially shielded by natural hedging as c.80% of cost of sales are USD-based, while 77% of borrowings (RM588.0m as at 30 Sep 2025) are also denominated in USD. Hence, although a weaker USD would weigh on the group's top line, lower USD-denominated debt servicing and raw material costs should partially offset the downside.

Valuation & Recommendation

Initiating Coverage. We initiate coverage on EG with a **BUY** rating and a target price of **RM1.85**, based on 14.5x mid-FY26F EPS of 12.7 sen, and assign a three-star ESG rating. We view our target valuation as reasonable when stacked against the broader technology sector (35x FY25F; 25x FY26F) and EMS sub-segment (14x FY25F PE; 11x FY26F PE). It is also broadly inline with EG's 5-year historical PE mean of 15x. In our view, EG deserves to trade at a premium or at least at parity to its EMS peers, given by its stronger lever to high-growth industrial applications, with optical modules and network switches serving as critical components in the global data center build-out and AI compute capacity race. Additionally, its involvement in the upstream components and module processes supports a structural uplift in its margin profile.

All in all, we view EG as a highly compelling name in the EMS space and we favour the stock (i) robust earnings growth trajectory (3-year CAGR of 28% over FY26-FY28F) backed by exponential growth in the wireless & photonics and network switches segments, (ii) favourable margin profile relative local EMS peers and (iii) undemanding valuation at 10x FY26F and 8x FY27F earnings. We see ample scope for re-rating as management demonstrates earnings execution and its ability to scale high-margin photonics capacity at the new PG2 plant.

Figure 13: Peers comparison

Stock	Mkt Cap (RM' m)	Price (RM)	Rating	Target	FYE	P/E (x)		P/B (x)		Yield (%)	
						FY25	FY26	FY25	FY26	FY25	FY26
OSAT											
Inari Amertron*	5,822	1.53	HOLD	2.00	JUN	28.3	22.8	1.8	1.9	3.4%	4.2%
MPI*	6,141	30.80	NR	NR	JUN	30.7	25.4	2.9	2.7	1.1%	1.2%
Unisem	4,968	3.08	NR	NR	DEC	99.4	36.2	2.3	2.3	2.3%	2.5%
Equipment											
Mi Technovation	2,721	3.07	BUY	4.00	DEC	29.6	24.8	2.7	2.5	0.8%	1.0%
ViTrox Corp	8,027	4.24	BUY	4.95	DEC	60.3	44.5	7.1	6.3	0.3%	0.4%
Greatech	4,602	1.83	NR	NR	DEC	38.9	26.5	4.5	3.8	0.1%	0.1%
Pentamaster	2,226	3.13	NR	NR	DEC	34.0	26.3	2.8	2.6	0.7%	0.7%
THMY Group	897	1.01	NR	NR	DEC	59.4	42.1	12.6	10.1	0.3%	0.4%
QES Group	333	0.40	HOLD	0.42	DEC	27.7	21.1	1.9	1.7	1.1%	1.4%
Support players											
Frontken	6,417	3.88	BUY	5.18	DEC	34.7	28.5	6.8	5.9	1.0%	1.2%
UWC*	4,599	4.17	NR	NR	JUL	45.8	32.6	8.0	6.5	0.1%	0.1%
UMS Integration	3,784	4.26	NR	NR	DEC	81.9	66.6	8.8	8.4	1.1%	1.1%
SAM Engineering*	2,153	3.18	NR	NR	MAR	35.3	22.7	1.5	1.4	0.6%	0.9%
Wentel Engineering	293	0.26	BUY	0.50	DEC	12.4	10.4	1.4	1.2	-	-
EMS											
Nationgate	2,308	1.02	NR	NR	DEC	15.5	15.2	2.3	2.0	2.2%	2.0%
V.S. Industry*	1,600	0.42	NR	NR	JUL	13.8	9.7	0.7	0.7	3.9%	5.3%
Uchitech	1,407	3.04	NR	NR	DEC	14.0	14.5	7.6	7.6	8.7%	8.2%
SKP Resources*	969	0.62	NR	NR	MAR	9.1	8.2	1.0	0.9	5.8%	6.5%
Aurelius Tech	917	0.71	BUY	1.12	DEC	12.1	10.9	1.8	1.7	3.0%	3.3%
PIE Industrial	684	1.78	NR	NR	DEC	20.0	10.3	1.0	0.9	4.4%	5.8%
Simple Average (EMS)						**14.1**	**11.4**	**2.4**	**2.3**	**4.6%**	**5.2%**
Simple Average (broader tech)						**35.1**	**25.0**	**4.0**	**3.6**	**2.1%**	**2.4%**
EG Industries*	**1,037**	**1.14**				**9.9**	**8.2**	**1.5**	**1.3**	**0.4%**	**0.4%**

*refers to FY26 & FY27

Investment Risk

High forex exposure. The majority of EG's revenue is denominated in USD, while earnings are reported in RM, exposing the group to foreign exchange volatility. A sharp appreciation of the RM against the USD could negatively impact reported revenue and margins.

Execution risk on PG2 ramp and yield optimisation. EG's earnings outlook is increasingly dependent on the successful ramp-up of its PG2 facility, including timely customer audits, production scaling, and yield improvements for optical modules and network switches. Any delays in capacity ramp, slower-than-expected yield optimisation, or customer qualification issues could weigh on earnings delivery and defer margin expansion.

Exposure to AI and data centre investment cycles. While AI and data centre build-outs are currently driving strong demand for optical modules and network switches, this segment remains sensitive to hyperscaler capex cycles and technology adoption timelines. A slowdown in AI infrastructure spending, delayed deployment of 800G/1.6T optics or inventory digestion across the supply chain could lead to order volatility and earnings fluctuations.

Customer concentration risk. EG derives a significant portion of its revenue from a limited number of key customers, including CIG and its end-customers. Any loss of major customers, order pullbacks, or project delays could have a material impact on revenue visibility and capacity utilisation.

Tariff risks and geopolitical uncertainties. Escalating geopolitical tensions, particularly between the US and China, could weigh on global investment sentiment and disrupt E&E supply chains. Any expansion of US tariff measures or trade restrictions may adversely affect EG through weaker customer order flows or higher operating costs.

Financial Highlights

Income Statement

FYE Jun (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Revenue	1144.2	1087.2	1631.8	1869.9	2074.1
EBITDA	120.4	169.1	201.5	229.9	256.3
EBIT	78.2	115.9	147.8	177.4	199.5
PBT	49.7	80.4	109.4	133.7	158.4
Tax	-0.7	-2.7	-6.3	-8.0	-9.5
Profit After Tax	49.0	77.7	103.0	125.7	148.9
Minority Interest	-0.7	-6.4	-5.0	-4.5	-5.1
Net Profit	49.7	84.1	108.0	130.2	154.0
Exceptionals	6.4	-10.7	0.0	0.0	0.0
Core Net Profit	56.1	73.3	108.0	130.2	154.0

Key Ratios

FYE Jun (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Core EPS (sen)	6.0	7.8	11.5	13.9	16.5
P/E (x)	19.0	14.5	9.9	8.2	6.9
BVPS	0.67	0.73	0.77	0.89	1.05
P/B (x)	1.7	1.6	1.5	1.3	1.1
EV/EBITDA (x)	13.0	9.2	7.9	7.0	6.0
DPS (sen)	1.0	0.5	0.5	0.5	0.5
Dividend Yield (%)	0.9%	0.4%	0.4%	0.4%	0.4%
EBITDA margin (%)	10.5%	15.6%	12.4%	12.3%	12.4%
EBIT margin (%)	6.8%	10.7%	9.1%	9.5%	9.6%
PBT margin (%)	4.3%	7.4%	6.7%	7.2%	7.6%
PAT margin (%)	4.3%	7.1%	6.3%	6.7%	7.2%
NP margin (%)	4.3%	7.7%	6.6%	7.0%	7.4%
CNP margin (%)	4.9%	6.7%	6.6%	7.0%	7.4%
ROE (%)	10.6%	11.9%	15.1%	15.6%	15.7%
ROA (%)	3.7%	4.7%	5.7%	6.3%	7.0%
Net gearing (%)	93.6%	80.5%	74.6%	64.8%	47.1%

Assumptions

USD/RM			4.03	4.00	4.00

Valuations	Mid-FY26F
Core EPS (RM)	12.7
P/E multiple (x)	14.5
Fair Value (RM)	**1.85**
ESG premium/discount	0.0%
Implied Fair Value (RM)	**1.85**

Source: Company, Apex Securities

Balance Sheet

FYE Jun (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Cash & cash equivalent	89.2	97.3	140.9	92.3	112.1
Receivables	327.7	197.0	295.7	338.8	375.8
Inventories	520.6	615.9	770.0	879.3	975.4
Other current assets	1.6	1.3	1.2	1.2	1.2
Total Current Assets	939.1	911.5	1207.8	1311.7	1464.5
PPE	503.1	537.2	583.5	631.0	624.2
Investment properties	14.7	12.5	12.5	12.5	12.5
Other non-current assets	80.0	99.6	99.6	99.6	99.6
Total Non-current assets	597.8	649.4	695.7	743.2	736.4
Short-term Debt	440.8	452.5	460.5	420.5	360.5
Payables	409.0	331.0	495.3	565.6	627.4
Other Current Liabilities	7.7	10.8	10.8	10.8	10.8
Total Current Liabilities	857.4	794.3	966.6	996.9	998.7
Long-term Debt	142.9	141.9	213.9	213.9	213.9
Other non-current liabilities	8.3	7.4	7.4	7.4	7.4
Total Non-current Liabilities	151.2	149.3	221.3	221.3	221.3
Shareholder's equity	520.0	601.5	704.8	830.4	979.7
Minority interest	8.2	15.7	10.7	6.2	1.1
Total Equity	528.2	617.2	715.6	836.6	980.9

Cash Flow

FYE Jun (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Pre-tax profit	49.7	80.4	109.4	133.7	158.4
Depreciation & amortisation	42.1	53.2	53.7	52.5	56.8
Changes in working capital	19.9	-46.5	-88.5	-82.1	-71.3
Others	39.0	28.1	-6.3	-8.0	-9.5
Operating cash flow	150.9	115.1	68.3	96.1	134.4
Net capex	-232.4	-73.9	-100.0	-100.0	-50.0
Others	28.1	46.9	0.0	0.0	0.0
Investing cash flow	-204.3	-27.0	-100.0	-100.0	-50.0
Dividends paid	0.0	-4.5	-4.7	-4.7	-4.7
Others	97.9	-75.9	80.0	-40.0	-60.0
Financing cash flow	97.9	-80.4	75.3	-44.7	-64.7
Currency translation differences	-7.7	0.4	0.0	0.0	0.0
Net cash flow	44.4	7.7	43.6	-48.6	19.8
Beginning cash & cash equivalent	52.6	89.2	97.3	140.9	92.3
Ending cash & cash equivalent	89.2	97.3	140.9	92.3	112.1

ESG Matrix Framework:

Environment

Parameters	Rating	Comments
Climate	★★★	Scope 2 emissions rose 7.4% yoy to 6.7m/kg in FY23
Waste & Effluent	★★★	Co2 emissions reduced from 3.0m kg in FY21 to 2.5m kg in FY23
Energy	★★★	Energy consumption reduced from 8,014,556 kWh to 7,810,114 kWh
Water	★★★	Water consumption rose 5.4% yoy to 112,658m3 in FY23
Compliance	★★★	In compliance with local and international environmental regulations

Social

Diversity	★★★	73% of average employees age below 40, 21% of employees are female
Human Rights	★★★	Enforce and adopts Code of Ethics and Conduct
Occupational Safety and Health	★★	292 hours of OSH trainings completed, one worksite incidence in FY23
Labour Practices	★★★	Pay scale based on prevailing industry market rates as stipulated by the Act 732 National Wages Consultative Council Act

Governance

CSR Strategy	★★★	Donation to Sekolah Semangat Maju and participated in the Pesta Makanan Amal 2023
Management	★★	Average board members age @ 53, 2/9 female board composition, 4/9 Independent Directors
Stakeholders	★★★	4x analyst briefings per annum, 1x AGM per annum

Overall ESG Scoring: ★★★

Recommendation Framework:
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain + dividend yield

Sector Recommendations:
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:
★★★★★ : Appraised with 3% premium to fundamental fair value
★★★★ : Appraised with 1% premium to fundamental fair value
★★★ : Appraised with 0% premium/discount to fundamental fair value
★★ : Appraised with -1% discount to fundamental fair value
★ : Appraised with -5% discount to fundamental fair value

As of **Thursday, 12 Feb, 2026**, the analyst(s), whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:
(a) nil.