

Research Team

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<b>Recommendation:</b>	<b>BUY</b>
Current Price:	RM 1.06
Previous Target Price:	RM 1.85
Target Price:	RM 2.02
Capital Upside/ Downside:	90.6%
Dividend Yield (%):	0.5%
<b>Total Upside/ Downside</b>	<b>91.0%</b>

Stock information

Board	MAIN
Sector	Technology
Bursa / Bloomberg Code	8907 / EGMK
Syariah Compliant	Yes
ESGRating	★★★
Shares issued (m)	909.7
Market Cap (RM' m)	964.3
52-Week Price Range (RM)	1.53-0.83
Beta (x)	0.8
Free float (%)	44.1
3M Average Volume (m)	4.7
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 (%)	-7.8	-8.6	16.5
Relative (%)	-5.5	-11.3	3.7

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)	14.4	9.8	8.1

Source: Company, Apex Securities

# EG Industries Berhad

## Scaling the Photonics Value Chain

- **PG2 Batu Kawan Outperforming:** Plant is ahead of schedule with ~80% utilization and yields rising to ~80%. Mass production of 800G optical modules starts June 2026, driving a strong 4QFY26 rebound. Revenue is now 78.8% driven by 5G wireless and photonics
- **High-Margin Expansion:** Future growth hinges on 1.6T module readiness by late 2026 and expansion into AEC/DAC components. Thailand operations are pivoting to EV and energy storage, while 400G/800G ramping for new customers supports growth through FY28.
- **Valuation and Recommendation.** Maintain BUY on EG with a revised target price of RM2.02, based on 14.5x FY27F EPS of 13.9 sen. The stock trades at a discount to its EMS peers, which we believe fails to reflect EG's 28% three-year EPS CAGR and its successful transition into a high-end networking solutions provider.

We came away from EG Industries 2QFY26 results briefing with the following takeaways:

**Results Recap.** 1HFY26 revenue was RM723.9m (+6.2% YoY), driven by stronger 5G wireless access and photonics sales. Reported PATMI was RM59.8m (+21.5% YoY), supported by improved product mix and higher optical module yields. 2QFY26 core PATMI was RM25.7m (+9% QoQ, +22% YoY), with 1HFY26 core PATMI at RM49.3m (+21% YoY) – in line with forecasts at 46% of full-year estimate. Core net margin dipped to 6.8% in 1HFY26 (FY25: 7.6%), largely due to FY25 revenue base adjustments rather than structural erosion. Management expects revenue and margins to improve, supported by a stronger product mix and optical module ramp-up.

**PG2 Batu Kawan Plant.** All four first-floor workshops are fully operational at ~80% utilisation, ahead of the >50% end-3QFY26 target. The ~20% spare capacity is intentionally maintained for new customer onboarding. The plant is fully CIG-qualified with ~1,000 workers and ~100 on-site CIG engineers supporting yield improvements. Yields have improved to 70–80% (from ~50%), with some runs reaching 90% – a key driver of margin recovery. CIG has invested RM200–300m in equipment, structurally supporting EG's margin profile. The second floor, dedicated to 800G production for a new hyperscaler, is under renovation pending formal customer commitment, with customers co-funding ~50% of floor investment. Mass production of 800G is targeted for June 2026.

**Optical Modules.** The 800G/400G mix has shifted to ~60:40 (from 20:80), supporting higher blended ASPs and margins through 3Q–4QFY26. Customer M has been added alongside Customer C, ramping 400G and 800G faster than anticipated. EG targets 1.6T readiness by Nov–Dec 2026 – ahead of the prior 2027 assumption. Optical modules are also seeing demand from military drone applications, adding a new vertical beyond DC and 5G. CPO (Customer R), required for EV and medical applications, is more complex to qualify than conventional LPO, suggesting a more measured ramp at the hyperscaler floor.

**Other Segments.** (i) **AEC/DAC:** EG has passed customer audits, with mass production commencing at Sungai Petani in coming months. One new customer was onboarded in 2QFY26. AEC/DAC is expected to be a more meaningful earnings driver in FY27–28 rather than FY26. (ii) **Wireless & Consumer:** Wireless router demand from Customers G and N remains supportive; Customer D's consumer electronics orders are declining due to geopolitical disruptions but a recovery is expected once conditions normalise.

**Raw Materials and Forex.** Most contracts are turnkey with pass-through mechanisms, limiting raw material cost exposure. High-value ICs are secured by CIG up to two years in advance. With 80–90% of revenue denominated in USD, MYR strength is a headwind, partially offset by forex translation gains on USD-denominated borrowings of RM588m. USD/MYR assumptions are RM4.03/4.00/4.00 for FY26/27/28F. **Every 1% decline in USD/MYR reduces core earnings by ~1.3%, partially cushioned by lower USD debt servicing costs.** On logistics, transportation costs

are rising due to global disruptions but EG is fully insulated under FOB-structured contracts – all shipment costs are borne by customers.

**Thailand Expansion:** EG is developing a new 20,000 sqm manufacturing facility in Prachinburi, Thailand, with total capex of approximately **RM100m over two years** (construction cost: RM40m; completion target: end-2026). The plant is earmarked for electricity storage components, EV-related products, and data centre applications. Management highlighted that the Thailand expansion was partly customer-driven – existing customers preferred a newer, purpose-built facility to meet their audit and operational standards. **Growth phasing:** FY27 – energy and EV-related components from Thailand (Customer T). FY28 – energy storage systems and power devices (Customers K and S) to facilitate energy supply for data centres, with potential involvement in carbon credit markets.

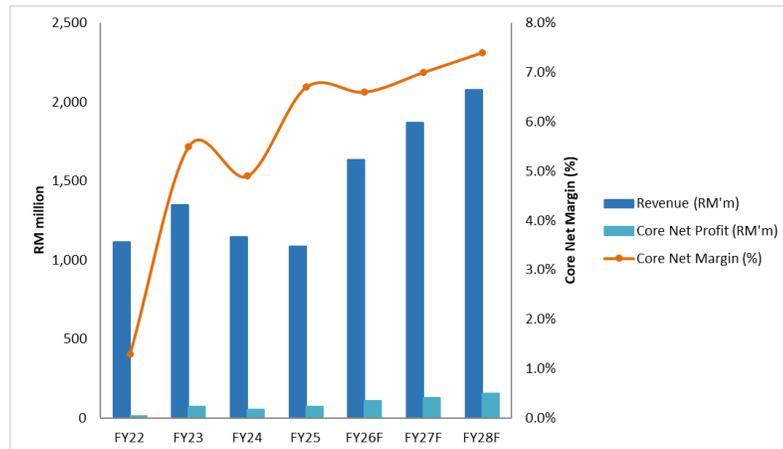
**Outlook: 3QFY26 near-term:** Management guided for a broadly soft 3QFY26, weighed down by: (i) the heavy concentration of public holidays – Chinese New Year in February and Hari Raya Aidilfitri at end-March – which materially reduces effective working days and production output; and (ii) the sharp appreciation of MYR vs. USD, which dampens RM-translated earnings. Consumer electronics orders are also expected to remain subdued due to geopolitical tensions.

**4QFY26 recovery:** Management expects a strong rebound in 4QFY26, driven by: (i) 800G optical module mass production commencement at PG2's second floor (targeted June 2026); (ii) AEC/DAC mass production contributions ramping from 3QFY26; (iii) Sungai Petani (Plot 36) production ramp for network switches; (iv) better operating leverage as PG2 reaches high utilisation; and (v) continued yield improvement supporting margin expansion. **Overall FY26 outlook is positive**, with optical module and wireless access production continuing to run at healthy levels. **FY27–28 multi-vertical growth:** AEC and DAC become the next major earnings driver alongside optical modules in FY27. Thailand's energy/EV platform (FY27) and energy storage systems (FY28) add new growth verticals that are largely uncorrelated to the consumer electronics cycle, broadening EG's addressable market well beyond traditional EMS.

**Forecast.** No changes to FY26F/FY27F/FY28F. Core earnings forecasts remain RM108.0m / RM130.2m / RM154.0m, implying a 3-year EPS CAGR of 28%. Key upside risks include faster 800G ramp, stronger network switch volumes, earlier AEC/DAC production, Thailand orders ahead of schedule, and earlier 1.6T commencement.

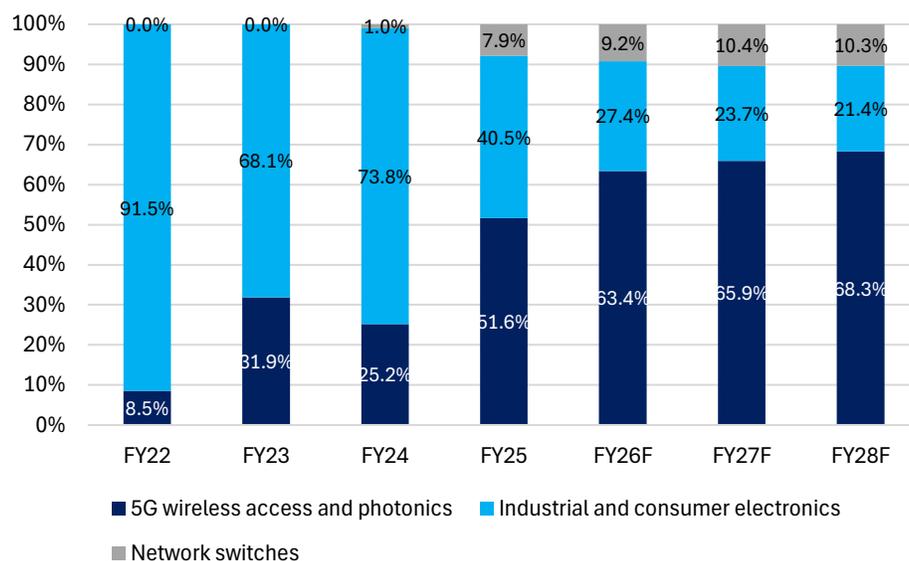
**Valuation and Recommendation.** Maintain **BUY** with a revised TP of **RM2.02** (14.5x FY27F EPS of 13.9 sen), implying 91% total upside from RM1.06. **EG trades at ~9.2x FY26F PE – undemanding relative to its 28% EPS CAGR and peers (EMS: 11.7x; broader tech: 27.4x).** The post-briefing picture reinforces the bull case: PG2 ahead of schedule, mix shifting to higher-margin 800G, and the FY27–28 growth runway broader than the market appears to be pricing. Re-rating potential is significant as earnings execution becomes more visible from 4QFY26.

Figure 1: Revenue and Core Net Profit Trend



Source: Apex Securities, Company

Figure 2: Revenue Mix



Source: Apex Securities, Company

Figure 3: Peer Comparison

Stock	Mkt Cap (RM' m)	Price (RM)	Rating	Target	FYE	P/E (x)		P/B (x)		Yield (%)	
						FY26	FY27	FY26	FY27	FY26	FY27
<b>QSAT</b>											
Inari Amertron	5,099	1.34	HOLD	1.41	JUN	22.3	18.6	1.8	1.9	3.4%	4.2%
MPI	5,906	29.62	NR	NR	JUN	29.5	25.0	2.9	2.7	1.1%	1.2%
Unisem	4,388	2.72	NR	NR	DEC	36.3	25.4	2.3	2.3	2.3%	2.5%
<b>Equipment</b>											
Mi Technovation	2,551	2.88	BUY	4.20	DEC	21.2	19.2	2.7	2.5	0.8%	1.0%
ViTrox Corp	8,179	4.32	BUY	5.30	DEC	43.2	36.3	7.1	6.3	0.3%	0.4%
Greatech	4,727	1.88	NR	NR	DEC	26.9	23.5	4.5	3.8	0.1%	0.1%
Pentamaster	2,020	2.84	NR	NR	DEC	24.7	20.3	2.8	2.6	0.7%	0.7%
THMY Group	884	1.00	NR	NR	DEC	58.5	41.5	12.6	10.1	0.3%	0.4%
QES Group	321	0.39	HOLD	0.48	DEC	17.5	14.3	1.9	1.7	1.1%	1.4%
<b>Support players</b>											
Frontken	6,119	3.70	BUY	4.60	DEC	30.6	26.6	6.8	5.9	1.0%	1.2%
UWC	4,490	4.07	NR	NR	JUL	44.2	31.8	8.0	6.5	0.1%	0.1%
UMS Integration	4,157	4.68	NR	NR	DEC	70.9	59.2	8.8	8.4	1.1%	1.1%
SAM Engineering	2,105	3.11	NR	NR	MAR	40.9	26.4	1.5	1.4	0.6%	0.9%
Wentel Engineering	270	0.24	BUY	0.48	DEC	10.2	8.4	1.4	1.2	-	-
<b>EMS</b>											
Nationgate	1,346	0.60	NR	NR	DEC	11.2	9.0	2.3	2.0	2.2%	2.0%
V.S. Industry	1,118	0.29	NR	NR	JUL	9.7	6.7	0.7	0.7	3.9%	5.3%
Uchitech	1,334	2.88	NR	NR	DEC	15.2	13.9	7.6	7.6	8.7%	8.2%
SKP Resources	719	0.46	NR	NR	MAR	8.4	8.7	1.0	0.9	5.8%	6.5%
Aurelius Tech	871	0.67	BUY	1.00	DEC	11.6	10.6	1.8	1.7	3.0%	3.3%
PIE Industrial	449	1.17	NR	NR	DEC	14.1	10.7	1.0	0.9	4.4%	5.8%
<b>Simple Average (EMS)</b>						<b>11.7</b>	<b>10.0</b>	<b>2.4</b>	<b>2.3</b>	<b>4.6%</b>	<b>5.2%</b>
<b>Simple Average (broader tech)</b>						<b>27.4</b>	<b>21.8</b>	<b>4.0</b>	<b>3.6</b>	<b>2.1%</b>	<b>2.4%</b>
<b>EG Industries</b>											
	<b>964</b>	<b>1.09</b>		<b>1.85</b>		<b>9.9</b>	<b>7.9</b>	<b>3.1</b>	<b>3.1</b>	<b>0.5%</b>	<b>0.5%</b>

Source: Apex Securities, Bloomberg

# Company Update

Monday, 16 Mar, 2026

## Financial Highlights

### Income Statement

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

### 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)	17.6	13.5	9.2	7.6	6.4
BVPS	0.67	0.73	0.77	0.89	1.05
P/B(x)	1.6	1.5	1.4	1.2	1.0
EV/EBITDA(x)	12.3	8.8	7.6	6.7	5.7
DPS (sen)	1.0	0.5	0.5	0.5	0.5
Dividend Yield (%)	0.9%	0.5%	0.5%	0.5%	0.5%
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
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### Valuations

	FY27F
Core EPS (RM)	13.9
P/E multiple (x)	14.5
<b>Fair Value (RM)</b>	<b>2.02</b>
ESG premium/discount	0.0%
<b>Implied Fair Value (RM)</b>	<b>2.02</b>

Source: Company, Apex Securities

### Balance Sheet

FYE Jun (RM m)	FY24	FY25	FY26F	FY27F	FY28F
<b>Cash &amp; cash equivalent</b>	<b>89.2</b>	<b>97.3</b>	<b>140.9</b>	<b>92.3</b>	<b>112.1</b>
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
<b>Total Current Assets</b>	<b>939.1</b>	<b>911.5</b>	<b>1207.8</b>	<b>1311.7</b>	<b>1464.5</b>
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
<b>Total Non-current assets</b>	<b>597.8</b>	<b>649.4</b>	<b>695.7</b>	<b>743.2</b>	<b>736.4</b>
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
<b>Total Current Liabilities</b>	<b>857.4</b>	<b>794.3</b>	<b>966.6</b>	<b>996.9</b>	<b>998.7</b>
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
<b>Total Non-current Liabilities</b>	<b>151.2</b>	<b>149.3</b>	<b>221.3</b>	<b>221.3</b>	<b>221.3</b>
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
<b>Total Equity</b>	<b>528.2</b>	<b>617.2</b>	<b>715.6</b>	<b>836.6</b>	<b>980.9</b>

### Cash Flow

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

## 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

### 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

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As of Monday, 16 Mar, 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.