

Research Team

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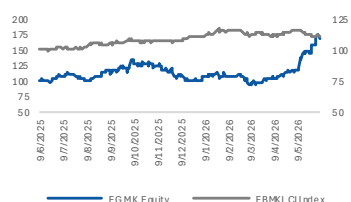
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Recommendation:	BUY
Current Price:	RM 1.81
Previous Target Price:	RM 2.69
Target Price:	RM 2.69
Capital Upside/ Downside:	48.6%
Dividend Yield (%):	0.3%
Total Upside/ Downside	48.9%

Stock information	
Board	MAIN
Sector	Technology
Bursa / Bloomberg Code	8907 / EGMK
Syariah Compliant	Yes
ESGRating	★★★
Shares issued (m)	910.9
Market Cap (RM' m)	1,648.7
52-Week Price Range (RM)	1.91-0.965
Beta (x)	0.6
Free float (%)	53.2
3M Average Volume (m)	9.9
3M Average Value (RM' m)	13.7

Top 3 Shareholders		(%)
Kang Pang Kiang		10.9
Kpk Capital Sdn Bhd		6.8
Ecig Sdn Bhd		4.0

Share Price Performance



	1M	3M	12M
Absolute (%)	46.0	77.5	70.8
Relative (%)	51.9	76.9	54.5

Earnings summary

FYE (Dec)	FY25	FY26F	FY27F
Revenue (RM'm)	1087.2	1631.8	2640.1
PATAMI (RM'm)	84.1	108.0	173.9
CNP (RM'm)	73.3	108.0	173.9
EPS - core (sen)	7.8	11.5	18.6
P/E(x)	23.0	15.6	9.7

Source: Company, Apex Securities

EG Industries Berhad

Multi-Vertical Pipeline Deepens; 1.6T Next

- **PG2 Locked In: First floor fully occupied at 80% utilisation with 800G yields stepping up to 80% (from c.50% in 2QFY26). Second floor cleanroom on track for end-August 2026 with a new customer secured pending announcement. The RM949m PO from Customer C underwrites a strong 4QFY26 and FY27 visibility.**
- **Multi-Vertical Pipeline Broadening: Plot 36 floors 1-2 booked for network switches (c.4x Plot 101 capacity), with floors 3-4 in active negotiation under the same co-funded model. 1.6T in NPI with mass production targeted by end-2026. AEC/DAC mass production by end-FY26 and Thailand ramp from FY27 anchor a broadening growth platform uncorrelated to the consumer electronics cycle.**
- **Valuation and Recommendation. Maintain BUY with unchanged TP of RM2.69, based on 14.5x FY27F EPS of 18.6 sen. EG trades at 9.7x FY27F PE, undemanding for a 40% three-year EPS CAGR, ahead-of-schedule hyperscaler capacity lock-in, and successful transition into a high-margin photonics and full-stack network solutions provider.**

We came away from EG Industries 3QFY26 results briefing with the following takeaways:

Results Recap. 3QFY26 core net profit of RM23.0m (+33% YoY, -11% QoQ) brings 9MFY26 to RM72.3m (+25% YoY), tracking at 67% of our full-year forecast and in line given the well-flagged soft 3Q on fewer effective working days from CNY and Hari Raya. Revenue declined 21% QoQ to RM301.6m, but core earnings grew 33% YoY on margin expansion, with EBITDA margin at 15% (3QFY25: 11%) and core net margin at 8% (3QFY25: 6%), reflecting the favourable 800G/400G mix shift to c.70:30, improved PG2 yields, and better operating leverage at 70-75% utilisation during the quarter. The RM949m PO from Customer C announced in May 2026 underwrites a strong 4QFY26 and provides extraordinary earnings visibility through FY27.

PG2 Batu Kawan Plant. The first floor is fully occupied and running at 80% utilisation following the recent PO announcement, with the residual 10%/10% reserved for customer ramp-up and routine maintenance respectively. Second floor cleanroom renovations are progressing on schedule with completion targeted by end-August 2026. The second floor will commence with 800G production but is being configured to support 1.6T migration, with customers co-funding the incremental equipment investment required for the more demanding 1.6T toolset. Management indicated that a new customer has already been secured for the second floor, with a formal announcement pending.

Optical Modules. Production mix has decisively shifted to 800G, with the legacy 100G and 200G lines effectively phased out. 800G yields have improved further to 80% (from c.50% in 2QFY26), supporting margin expansion. 1.6T remains in NPI phase with yields tracking below 50%, consistent with the maturity gap between the two product nodes. Management is actively qualifying 1.6T with customers ahead of mass production targeted by end of this year, positioning EG ahead of the next hyperscaler migration cycle. Customer C is expected to continue topping up against the RM949m PO once second floor capacity becomes available, with management confident of incremental volume commitments. Several other customers have already passed qualification, with additional onboarding announcements expected in the coming months.

Network Switches and Plot 36 Sungai Petani. Plot 36 first and second floors have been booked by a single customer for network switch production, with completion expected by early 2027 and revenue contribution from FY27. Plot 36 has c.4x the network switch production capacity of the existing Plot 101 facility, implying total run-rate revenue potential of c.RM350m at full utilisation (versus Plot 101's FY25 network switch revenue of c.RM88m, or 8% of FY25 group revenue of RM1.1bn). Floors 1 and 2 alone could contribute c.RM176m in revenue and c.RM12m in PATAMI at full ramp, assuming the group blended net margin of 6.6%. Third and fourth floors remain in active customer negotiation, with management confident on securing tenants under the same co-

funded equipment model deployed at PG2; if secured, these floors could deliver an additional c.RM176m revenue and c.RM12m PATAMI at the same blended margin, taking total Plot 36 contribution to c.RM350m revenue and c.RM23m PATAMI at full ramp.

AEC/DAC. EG is also building out internet cable and AEC/DAC capability for other strategic accounts, broadening its value proposition into a one-stop full-stack network solutions provider. Today's volumes reflect a small initial ramp-up. Mass production is targeted by end-FY26 pending further machinery deliveries, with AEC/DAC on track to become a meaningful earnings contributor from FY27 onwards alongside optical modules.

Thailand Expansion. The Prachinburi facility remains on track for end-2026 completion, with anchor customers already secured for the initial production run. Production ramp will commence in FY27, with the recent equity uplift in NDR providing the operational platform for the planned EV, energy storage, and DC power device pipeline. Management reiterated that the Thailand build-out was customer-driven, with strategic accounts preferring a purpose-built facility to meet their audit and operational standards. The Thailand acquisition is the enabler for these customer commitments.

Margins and China+1 Tailwinds. Gross margins are now tracking in the double digits, reflecting the favourable product mix shift towards 800G and improving yields. Most input components were fixed-price arrangements contracted with customers in the prior year, providing meaningful insulation against current cost inflation cycles. China+1 diversification continues to support new customer onboarding momentum, with management noting that several incremental customers have already qualified and additional announcements are in the pipeline.

Outlook: 4QFY26 near-term: Management guided for a strong sequential rebound, driven by: (i) full ramp of PG2 first floor at 80% utilisation with 800G yields at 80% (from c.50% in 2QFY26); (ii) initial revenue recognition from the RM949m PO from Customer C; (iii) decisive product mix shift toward 800G with legacy 100G/200G lines phased out; and (iv) double-digit gross margins supported by the higher-value mix and fixed-price input contracts. FY27 step-change: Material earnings step-up expected in FY27, anchored by: (i) PG2 second floor commencing 800G production from end-August 2026 with a new customer secured pending formal announcement; (ii) 1.6T mass production targeted by end-2026 once yields cross the commercial threshold; (iii) AEC/DAC mass production at Sungai Petani by end-FY26; (iv) Plot 36 first and second floors commencing network switch production for an anchor customer and (v) Thailand Prachinburi production ramp for EV, energy storage, and DC power device customers already secured. FY27–28 multi-vertical growth: AEC/DAC, Plot 36 network switches, and Thailand's EV/energy platform add growth verticals largely uncorrelated to the consumer electronics cycle, broadening EG's addressable market well beyond traditional EMS, with China+1 diversification continuing to underpin customer onboarding momentum.

Forecast. No changes to FY26F/FY27F/FY28F. Core earnings forecasts remain RM108.0m / RM173.9m / RM203.1m, implying a 3-year EPS CAGR of 40%. Double-digit gross margin guidance, new customer announcements, Plot 36 floors 3 and 4 contracting, and Thailand NDR consolidation remain upside catalysts that we have yet to incorporate. Key upside risks include faster 1.6T qualification, earlier Plot 36 ramp, and stronger AEC/DAC volumes.

Valuation and Recommendation. Maintain **BUY** with an unchanged **TP of RM2.69**, based on 14.5x FY27F EPS of 18.6 sen. EG trades at 9.7x FY27F PE, which we view as undemanding for a company delivering a 40% three-year EPS CAGR, locking in hyperscaler capacity ahead of schedule, and successfully transitioning into a high-margin photonics and full-stack network solutions provider. Re-rating potential remains significant as the second floor ramp, new customer announcement, Plot 36 floors 3 and 4 contracting, and AEC/DAC mass production become visible through FY27.

Earnings Summary

FYE Jun (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Revenue	1144.2	1087.2	1631.8	2640.1	2959.9
EBITDA	120.4	169.1	201.5	276.3	308.4
Pre-tax profit	49.7	80.4	109.4	180.2	210.6
Net profit	49.7	84.1	108.0	173.9	203.1
Core net profit	56.1	73.3	108.0	173.9	203.1
Core EPS (sen)	6.0	7.8	11.5	18.6	21.7
P/E (x)	29.9	23.0	15.6	9.7	8.3
P/B (x)	2.7	2.5	2.3	1.9	1.6
EV/EBITDA (x)	18.1	12.9	10.9	7.8	6.6
Dividend Yield (%)	0.6%	0.3%	0.3%	0.3%	0.3%
Net Gearing (%)	0.9	0.8	0.7	0.5	0.3

Source: Company, Apex Securities

Financial Highlights

Income Statement

FYE Jun (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Revenue	1144.2	1087.2	1631.8	2640.1	2959.9
EBITDA	120.4	169.1	201.5	276.3	308.4
EBIT	78.2	115.9	147.8	223.8	251.6
PBT	49.7	80.4	109.4	180.2	210.6
Tax	-0.7	-2.7	-6.3	-10.8	-12.6
Profit After Tax	49.0	77.7	103.0	169.4	198.0
Minority Interest	-0.7	-6.4	-5.0	-4.5	-5.1
Net Profit	49.7	84.1	108.0	173.9	203.1
Exceptionals	6.4	-10.7	0.0	0.0	0.0
Core Net Profit	56.1	73.3	108.0	173.9	203.1

Key Ratios

FYE Jun (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Core EPS (sen)	6.0	7.8	11.5	18.6	21.7
P/E(x)	29.9	23.0	15.6	9.7	8.3
BVPS	0.67	0.73	0.77	0.94	1.15
P/B(x)	2.7	2.5	2.3	1.9	1.6
EV/EBITDA (x)	18.1	12.9	10.9	7.8	6.6
DPS (sen)	1.0	0.5	0.5	0.5	0.5
Dividend Yield (%)	0.6%	0.3%	0.3%	0.3%	0.3%
EBITDA margin (%)	10.5%	15.6%	12.4%	10.5%	10.4%
EBIT margin (%)	6.8%	10.7%	9.1%	8.5%	8.5%
PBT margin (%)	4.3%	7.4%	6.7%	6.8%	7.1%
PAT margin (%)	4.3%	7.1%	6.3%	6.4%	6.7%
NP margin (%)	4.3%	7.7%	6.6%	6.6%	6.9%
CNP margin (%)	4.9%	6.7%	6.6%	6.6%	6.9%
ROE (%)	10.6%	11.9%	15.1%	19.8%	18.9%
ROA (%)	3.7%	4.7%	5.7%	7.4%	7.9%
Net gearing (%)	93.6%	80.5%	70.6%	53.4%	32.2%

Assumptions

USD/RM	4.03	4.00	4.00
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Valuations

	FY27F
Core EPS (RM)	18.6
P/E multiple (x)	14.5
Fair Value (RM)	2.69
ESG premium/discount	0.0%
Implied Fair Value (RM)	2.69

Source: Company, Apex Securities

Balance Sheet

FYE Jun (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Cash & cash equivalent	89.2	97.3	169.3	164.3	228.7
Receivables	327.7	197.0	295.7	478.4	536.3
Inventories	520.6	615.9	741.6	947.2	1061.9
Other current assets	1.6	1.3	1.2	1.3	1.3
Total Current Assets	939.1	911.5	1207.8	1591.1	1828.2
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	801.3	898.4
Other Current Liabilities	7.7	10.8	10.8	10.8	10.8
Total Current Liabilities	857.4	794.3	966.6	1232.7	1269.7
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	874.0	1072.4
Minority interest	8.2	15.7	10.7	6.2	1.1
Total Equity	528.2	617.2	715.6	880.3	1073.6

Cash Flow

FYE Jun (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Pre-tax profit	49.7	80.4	109.4	180.2	210.6
Depreciation & amortisation	42.1	53.2	53.7	52.5	56.8
Change in working capital	19.9	-46.5	-60.1	-82.3	-75.6
Others	39.0	28.1	-6.3	-10.8	-12.6
Operating cash flow	150.9	115.1	96.7	139.6	179.1
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	72.0	-5.1	64.5
Beginning cash & cash equivalent	52.6	89.2	97.3	169.3	164.3
Ending cash & cash equivalent	89.2	97.3	169.3	164.3	228.7

ESG Matrix Framework:

Environment

Parameters	Rating	Comments
Climate	★★★	Scope 1 emissions fell 61% yoy to 69 tCO2e in FY25 while 2,501 solar panels (2.68 MWp) offset 7,878 tonnes CO2, though Scope 2 rose to 20,290 tCO2e on expanded reporting scope and PG2 ramp-up
Waste & Effluent	★★★	Total waste declined 4.4% yoy to 326 tonnes in FY25 with recyclable materials accounting for 70% of waste diverted from disposal
Energy	★★★	Energy consumption rose 21.2% yoy to 26.76m kWh in FY25 driven by PG2 commissioning, though solar energy generation remained stable at 10% of usage
Water	★★★	Water consumption fell 3.0% yoy to 87,680 m3 and discharge plunged 45.8% to 14,256 m3 after SMTT eliminated the product washing process
Compliance	★★★	Zero fines, penalties or non-monetary sanctions for environmental non-compliance; ISO 14001:2015 certified

Social

Diversity	★★★	43% female employees (FY24: 40%) with 48% female representation in managerial roles and 20% at board level
Human Rights	★★★	Enforces BCOC and ACAB Policy; whistleblowing policy in place with reports addressed to ARMC Chairman
Occupational Safety and Health	★★	Zero fatalities sustained over three consecutive years with LTIR improving to 0.14 (FY24: 0.40); ISO 45001:2018 certified
Labour Practices	★★★	Recipient of EPF Best Employer Awards for Kedah/Perlis (Nov 2024) with 75% employee satisfaction score and 10,093 training hours invested

Governance

CSR Strategy	★★★	RM168k community investment benefitting 19,620 people including flood aid, blood drives and road rejuvenation; FTSE4Good Bursa Malaysia constituent
Management	★★	5-member board averaging age 52 with 1/5 female director (20%) and 3/5 Independent Directors (60%)
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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(a) nil.