EG Industries Berhad (8907)

Optical Upswing

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BUY

TP: RM1.84 (+44%)

Current Share Price: RM 1.28

Valuation

Our target price is based on:

FY26F PE of 16x, which is in line with the peers' average forward PE and its 5-year historical PE, given its robust demand outlook and strong earnings growth potential.

Results Report | **Growth** | **Investment Horizon : 12 months**

Results Review

EG's 1QFY26 core PATAMI came in within our expectations at 23% of our full-year forecast. YoY, 1QFY26 revenue grew 1.7%, supported by stronger sales in 5G wireless access and photonics-related products, network switches, and consumer electronic products. Core PATAMI also improved by 19.8%, driven by a more favourable product mix and better production yield. QoQ, 1QFY26 revenue rose twofold due to the reclassification of revenue under agent arrangements; hence, we believe the comparison is not meaningful. Core PATAMI increased 6.4%, mainly lifted by an improved product mix.

Outlook

We remain optimistic about EG's outlook, supported by (i) robust demand for optical modules and network switches driven by the expansion of wireless networking technologies and rising requirements from hyperscale data centers both locally and globally, (ii) the onboarding of new customers, and (iii) margin improvement from a more favourable product mix. Its Batu Kawan plant continues to install additional high-speed Surface Mount Technology (SMT) lines to cater to growing global demand for optical modules and advanced solutions from key customers. As such, we expect the Batu Kawan plant to continue ramping up in the coming quarters. We keep our FY26-FY28F forecasts unchanged. We also maintain our BUY call with a target price of RM1.84, based on an unchanged FY26F PE of 16x.

Key Assumption

		Unchanged	
Revenue growth	**FY2026F**	**FY2027F**	**FY2028F**
5G wireless access & photonic	80%	30%	24%
Consumer electronics	50%	20%	15%
Network switches	100%	40%	30%

Results Summary

FYE 30 Jun (RMmn)	1QFY25	4QFY25	1QFY26	QoQ (%)	YoY (%)
Revenue	338.6	104.9	344.4	*>100*	*1.7*
EBITDA	54.6	46.1	47.2	*2.2*	*-13.6*
Depreciation	-13.6	-13.4	-16.4	*22.8*	*20.9*
EBIT	41.0	32.8	30.7	*-6.2*	*-25.0*
Pretax Profit	34.4	21.7	24.5	*13.0*	*-28.9*
Taxation	-0.2	-2.0	-0.5	*75.0*	*-150.0*
Net Profit	34.2	19.7	24.0	*21.9*	*-29.9*
PATAMI	35.8	22.3	24.2	*8.9*	*-32.2*
Core PATAMI	19.7	22.2	23.6	*6.4*	*19.8*
Margin (%)					
EBITDA	16.1	44.0	13.7		
Pretax	10.2	20.7	7.1		
Core PATAMI	5.8	21.1	6.8		

Financial Exhibits

FYE 30 Jun	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Revenue (RMmn)	1,144.2	1,087.2	1,842.0	2,344.4	2,846.7
EBITDA (RMmn)	107.7	177.6	185.2	231.4	270.7
Pretax profit (RMmn)	49.7	80.4	101.1	134.4	163.9
PATAMI (RMmn)	49.7	84.1	104.5	139.0	169.5
EPS (sen)	10.7	9.2	11.5	15.3	18.6
PER (x)	12.0	13.8	11.1	8.4	6.9
Core PATAMI (RMmn)	62.9	91.8	104.5	139.0	169.5
Core EPS (sen)	13.5	10.1	11.5	15.3	18.6
Core EPS growth (%)	25.0	(25.1)	13.8	33.0	21.9
Core PER (x)	9.5	12.7	11.1	8.4	6.9
Net DPS (sen)	1.0	0.5	0.5	0.5	0.5
Dividend Yield (%)	0.8	0.4	0.4	0.4	0.4
ROE (%)	12.1	15.3	15.0	16.9	17.3
P/BV (x)	2.2	1.9	1.6	1.4	1.1

Financial Exhibits

Income Statement

FYE 30 Jun (RMmn)	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Revenue	1,144.2	1,087.2	1,842.0	2,344.4	2,846.7
Operating expenses	(1,036.5)	(909.6)	(1,656.8)	(2,113.0)	(2,576.1)
EBITDA	**107.7**	**177.6**	**185.2**	**231.4**	**270.7**
Depreciation	(42.1)	(54.1)	(54.6)	(67.3)	(77.1)
EBIT	**65.6**	**123.5**	**130.6**	**164.1**	**193.6**
Net int income/(expense)	(29.0)	(35.8)	(29.7)	(29.7)	(29.7)
Exceptional gains / (losses)	13.2	(7.8)	0.0	0.0	0.0
Associates' contribution	(0.1)	0.5	0.2	0.0	0.0
Pretax profit	**49.7**	**80.4**	**101.1**	**134.4**	**163.9**
Tax	(0.7)	(2.7)	(1.5)	(2.0)	(2.5)
Minority interest	(0.7)	(6.4)	(5.0)	(6.6)	(8.1)
PATAMI	**49.7**	**84.1**	**104.5**	**139.0**	**169.5**
Core PATAMI	**62.9**	**91.8**	**104.5**	**139.0**	**169.5**

Balance Sheet Statement

FYE 30 Jun (RMmn)	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Fixed assets	503.1	537.2	574.1	560.9	538.0
Other long term assets	94.7	112.2	131.2	135.4	141.3
Total non-current assets	**597.8**	**649.4**	**705.3**	**696.3**	**679.3**
Cash and equivalents	89.2	97.3	181.4	353.0	539.4
Inventories	520.6	615.9	543.8	548.0	554.5
Receivables	327.7	197.0	191.8	199.1	195.0
Other current assets	1.6	1.3	-	-	-
Total current assets	**939.1**	**911.5**	**917.0**	**1,100.1**	**1,288.9**
Payables	409.0	331.0	308.2	346.1	351.0
Short term borrowings	440.8	452.5	452.5	452.5	452.5
Other current liabilities	7.7	10.8	-	-	-
Total current liabilities	**857.5**	**794.3**	**760.7**	**798.6**	**803.5**
Long term borrowings	142.9	141.9	141.9	141.9	141.9
Other long term liabilities	8.3	7.4	2.5	4.2	5.8
Total long term liab.	**151.2**	**149.3**	**144.4**	**146.1**	**147.7**
Shareholders' Funds	**520.0**	**601.5**	**696.5**	**824.3**	**981.1**
Treasury shares	(7.4)	(6.1)	(6.1)	(6.1)	(6.1)
Minority Interest	8.2	15.7	20.7	27.3	35.4

Cash Flow Statement

FYE 30 Jun (RMmn)	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Pretax Profit	49.7	80.4	101.1	134.4	163.9
Depreciation & amortisation	38.7	48.7	50.5	63.1	72.9
Working capital changes	19.9	(46.5)	54.5	26.4	2.4
Cash tax paid	(1.9)	(0.6)	(1.5)	(2.0)	(2.5)
Others	44.3	33.1	4.2	4.2	4.2
C/F from operation	**150.8**	**115.1**	**208.6**	**226.1**	**240.9**
Capex	(216.1)	(46.7)	(120.0)	(50.0)	(50.0)
Others	11.8	19.7	0.0	0.0	0.0
C/F from investing	**(204.3)**	**(27.0)**	**(120.0)**	**(50.0)**	**(50.0)**
Debt raised/(repaid)	(7.3)	(4.4)	0.0	0.0	0.0
Dividends paid	0.0	(4.5)	(4.5)	(4.5)	(4.5)
Others	105.2	(71.5)	0.0	0.0	0.0
C/F from financing	**97.9**	**(80.4)**	**(4.5)**	**(4.5)**	**(4.5)**
Net change in cash flow	**44.4**	**7.7**	**84.1**	**171.6**	**186.4**
Free Cash Flow	**(65.3)**	**68.4**	**88.6**	**176.1**	**190.9**

Investment Risk

1. Intense competitive environment. EG operates in a highly competitive EMS market, facing pressure from large global players and lower cost regional rivals. Sustained pricing competition could erode margins and market share.

2. Customer concentration. More than 51% of revenue is contributed by CIG and this revenue share continues to grow. Loss or downsizing of any key client could lead to abrupt volume declines and margin pressure.

3. Capital-intensive expansion & upstream transition. Ongoing investment in Smart Factory 4.0, new tooling and upstream component fabrication require hefty capex, stretching free cash flow and heightening execution risk.

4. Geopolitical & trade policy risk. Shifts in regional trade agreements, export controls or new tariffs could disrupt EG's positioning as of the China+1, Taiwan+1, Vietnam+1 supply chain diversification strategies and prompt customers to relocate orders elsewhere.

Tradeview Research Investment Rating System

Equity:

BUY: Total stock return expected to exceed +15% over 12-month period

HOLD: Total stock return to be between -15% and +15% over a 12-month period

SELL: Total stock return expected to below -15% over a 12-month period

TRADING BUY: Total stock return expected to exceed +10% over 6-month period

TRADING SELL: Total stock return expected to below -10% over a 6-month period