

EG Industries Berhad (8907)

Optical Orders kick-in

Bloomberg Ticker: EG MK | Investment Horizon: 12 Months

Recommendation

We reiterate our BUY call and raise target price to RM2.06 (from RM1.84), based on unchanged FY26F PE of 16x, reflecting a bullish outlook on the photonic connectivity adoption progress.

Results Preview

We expect EG to deliver another strong quarter, particularly in its 5G wireless access and photonics-linked businesses. The latest confirmed purchase order of RM950mn for high-speed 800G optical modules and wireless access-related products provides additional visibility over FY26–FY27. On a YoY basis, earnings are expected to maintain strong momentum, underpinned by improving demand from key customers driven by the ramp-up in photonic connectivity adoption. In our view, this places mid-term earnings on a firmer footing and reduces the risk of any material disappointment versus existing expectations.

Outlook

The TAM for optical networking and silicon photonics has been revised materially upward over the past 6–12 months, driven by rising data centre deployment, which increasingly requires higher bandwidth, lower latency, and better power efficiency for GPU-to-GPU communication. We see EG as well positioned to benefit from the structural growth in photonic connectivity adoption driven by data centre-related applications, given that 800G remains a relatively scarce capability in Southeast Asia, as highlighted by management. Importantly, the customer base is broadening beyond Customer C, with Customer M newly added as an optical module customer. Additional traction is also expected from several newly onboarded customers across wireless access, network switches, AEC/DAC, and photonics-related products.

On the production front, current utilisation has improved to 70%–75% (from 60%-70% in 2QFY26), while management intends to reserve at least 20% of future capacity for onboarding new customers and higher-margin opportunities. We understand this strategy amid the current supply-constrained environment across the semiconductor industry and expect future contracts to deliver better margins.

Looking further ahead, we see multiple growth layers building into FY27–FY28:

(i) FY27 ramp-up should be driven by stronger demand for photonics-related products such as 1.6T optical modules, Linear Pluggable Optics (LPO), and Co-Packaged Optics (CPO). Accordingly, we expect margins to improve gradually as the photonics mix becomes more meaningful and consumer electronics exposure moderates. Yield improvement remains a key margin lever, with management guiding that production yield has improved from around 50% previously to 70%–80%, alongside a stronger focus on further yield optimisation.

(ii) The Thailand facility is expected to commence operations by 2026, initially targeting EV-related products for Customer T alongside energy-related applications in collaboration with a Thai private power producer partner. However, we expect the energy segment to ramp more meaningfully from FY28 onwards, supported by increasing demand for energy storage infrastructure and sustainability-linked energy solutions.

Forecast

We raise our FY26F–FY28F earnings forecasts by 12%–49% to reflect new order wins, operating leverage improvements, and expectations for further contract wins amid rising demand for photonic connectivity from data centre operators. However, we remain conservative on our margin forecasts, adopting a wait-and-see approach due to concerns over yield performance for increasingly complex orders.

Investment Risk to our Call

(i) Customer concentration risk, (ii) industry cyclicality, (iii) execution risk from capacity expansion, and (iv) labour and skilled talent constraints.

BUY ↔

Target Price: RM2.06 (+38%) ↑

Current Share Price: RM1.49

Main Market
Industrial Products & Services

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Company Overview

EG Industries Bhd (EG) is a Malaysia-based electronic manufacturing services (EMS) and upstream components total solution provider, offering full turnkey solutions from printed circuit board assembly (PCBA) to box-build assembly for sectors such as telecommunications, ICT, consumer electronics, and others.

Stock Information

Market Cap (RM'mn)	1,355.5
Issued Shares (mn)	909.1
52W High (RM)	1.59
52W Low (RM)	0.97
Estimated Free Float (%)	53.3
Beta vs FBM KLCI	0.6
3-month Average Vol. (mn)	5.2
Shariah Compliant	Yes

Consensus	FY25A	FY26F	FY27F
EPS (sen)	12.0	14.5	18.0
TP (RM)	High	Mean	Low
	1.70	1.85	2.02
Ratings	Buy	Hold	Sell
	4	0	0

Category	Score	Materiality	Weighted Score
Environmental	29	45%	2.8
Social	28	25%	1.4
Governance	28	30%	1.7
Total	85	100%	5.9

Key Assumption

Revenue Growth	Actual		Before			After		
	FY24	FY25	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F
5G wireless access & photonic	-33%	95%	80%	30%	24%	110%	77%	24%
Consumer electronics	-8%	-48%	50%	20%	15%	50%	20%	15%
Network switches		651%	100%	40%	30%	100%	40%	30%

Key Financial Metrics

FYE 30 Jun	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Revenue (RM'mn)	1,144.2	1,087.2	2,010.3	3,116.9	3,802.5
EBITDA (RM'mn)	107.7	165.9	197.1	288.6	350.9
Pretax profit (RM'mn)	49.7	80.4	113.0	191.6	244.1
Net profit (RM'mn)	49.7	84.1	116.9	198.1	252.4
EPS (sen)	10.7	9.2	12.9	21.8	27.8
PER (x)	14.0	16.1	11.6	6.8	5.4
Core net profit (RM'mn)	62.9	80.1	116.9	198.1	252.4
Core EPS (sen)	13.5	8.8	12.9	21.8	27.8
Core EPS growth (%)	25.0	(34.6)	45.9	69.5	27.4
Core PER (x)	11.1	16.9	11.6	6.8	5.4
Net DPS (sen)	1.0	0.5	0.5	0.5	0.5
Dividend Yield (%)	0.7	0.3	0.3	0.3	0.3
ROE (%)	12.1	13.3	16.5	22.2	22.4
P/BV (x)	2.6	2.2	1.9	1.5	1.2

Financial Exhibits

Income Statement

FYE 30 Jun (RMmn)	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Revenue	1,144.2	1,087.2	2,010.3	3,116.9	3,802.5
Operating expenses	(1,036.5)	(921.3)	(1,813.2)	(2,828.3)	(3,451.7)
EBITDA	107.7	165.9	197.1	288.6	350.9
Depreciation	(42.1)	(54.1)	(54.6)	(67.3)	(77.1)
EBIT	65.6	111.8	142.5	221.3	273.8
Net int income/(expense)	(29.0)	(35.8)	(29.7)	(29.7)	(29.7)
Exceptional gains / (losses)	13.2	3.9	0.0	0.0	0.0
Associates' contribution	(0.1)	0.5	0.2	0.0	0.0
Pretax profit	49.7	80.4	113.0	191.6	244.1
Tax	(0.7)	(2.7)	(1.7)	(2.9)	(3.7)
Minority interest	(0.7)	(6.4)	(5.6)	(9.4)	(12.0)
PATAMI	49.7	84.1	116.9	198.1	252.4
Core PATAMI	62.9	80.1	116.9	198.1	252.4

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	131.8	138.7	148.2
Total non-current assets	597.8	649.4	705.9	699.7	686.2
Cash and equivalents	89.2	97.3	154.1	289.9	554.2
Inventories	520.6	615.9	593.5	726.1	736.6
Receivables	327.7	197.0	209.3	264.7	260.4
Other current assets	1.6	1.3	-	-	-
Total current assets	939.1	911.5	956.9	1,280.7	1,551.2
Payables	409.0	331.0	336.3	458.6	466.2
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	788.9	911.1	918.7
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	708.2	892.4	1,128.3
Treasury shares	(7.4)	(6.1)	(6.1)	(6.1)	(6.1)
Minority Interest	8.2	15.7	21.3	30.7	42.8

Cash Flow Statement

FYE 30 Jun (RMmn)	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Pretax Profit	49.7	80.4	113.0	191.6	244.1
Depreciation & amortisation	38.7	48.7	50.5	63.1	72.9
Working capital changes	19.9	(46.5)	15.4	(65.7)	1.4
Cash tax paid	(1.9)	(0.6)	(1.7)	(2.9)	(3.7)
Others	44.3	33.1	4.2	4.2	4.2
C/F from operation	150.8	115.1	181.4	190.3	318.9
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	56.8	135.7	264.3
Free Cash Flow	(65.3)	68.4	61.4	140.3	268.9



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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

IPO Note:

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

NEUTRAL: Total stock return expected to below +15% over 12-month period