Rating: BUY (Initiation Coverage)

Current Price (SGD)	0.35 (29 Jan)
Target Price (SGD)	0.44
Potential Upside (Downside)	26%

Basic Information / Market Data

Industry	Specialty Business Services
Total Shares Outstanding / Market Cap	137.25M / SGD 48.04M
52-week Range (SGD)	0.345 – 0.415
Controlling Shareholder	Louis May Pte. Ltd.

Company Profile

LMS Compliance Ltd. provides analytical testing services. The Company offers laboratory testing and certification services for food, feed, fertilizer, pharmaceutical, and medical devices. LMS Compliance serves customers in Asia.

Company Website

https://lmscompliance.com/investor.html

Financial Summary

(RM million)

Metric	**2023A**	**2024A**	**2025E**
Revenue	20.9	25.4	29–30
EBITDA	9.57	9.13	10.7-11.4
EPS (RM cents)	5.22	4.96	5.50
P/E	22x	24x	26x

Source: Bloomberg Finance L.P., Company Data, uSMART Research Estimates

Analyst: Eng Thiam Choon
Email: research@usmart.sg

LMS Compliance Ltd (LMS.SI / LMS SP)

Executive Summary

From Laboratory Testing to ESG Assurance Platform: Regulation-Led Growth Drives Re-rating

LMS Compliance Ltd is a Singapore-listed Testing, Inspection, Certification and Assurance (TICA) provider with core operations in Malaysia and an expanding footprint across Singapore and China. The Group combines ISO-accredited laboratory testing with certification, ESG assurance and proprietary digital compliance platforms, positioning itself along the region's tightening regulatory and sustainability agenda.

FY2024 marked an inflection in growth, with revenue rising 21.4% YoY to RM25.38m, supported by resilient testing demand and early ESG traction. Margins normalized during the year—EBITDA margin eased to 36.0%—reflecting expansion costs and talent investment rather than demand weakness. Importantly, cash generation remained strong (RM6.4m operating cash flow), and 1HFY2025 results indicate post-investment stabilization.

The balance sheet remains a key differentiator. LMS enters its next phase with a net cash position of RM9.8m, providing flexibility to fund growth without dilution. The July 2025 completion of the 75% acquisition of Anchor Technology establishes entry into China's food certification market, while phased ESG and climate disclosure mandates in Malaysia and Singapore structurally lift demand for assurance, carbon accounting and compliance workflows.

Despite superior margins and net cash, LMS is still largely valued as a traditional laboratory testing business. At ~29x trailing P/E, the market underappreciates the earnings optionality from certification, ESG assurance and digital platforms. Successful integration and margin recovery could support valuation re-rating.

Investment View: Buy. Upside is driven by regulation-led growth and earnings normalization, with downsides supported by recurring compliance demand, strong cash generation and balance sheet strength.

Table of Contents

1. Investment Thesis

LMS Compliance Ltd ("LMS SP" or "the Group") offers exposure to a defensive, regulation-led Testing/Certification base with a credible pathway to higher-value ESG assurance and digital compliance workflows. The core thesis is that LMS can compound earnings through (i) structurally recurring lab-testing demand, (ii) a mix shift into certification/assurance as ASEAN climate reporting tightens, and (iii) incremental regional scale following the July 2025 completion of the 75%-stake acquisition of Anchor Technology Holdings Co. Limited ("Anchor Technology").

FY2024 validated the demand backdrop, with revenue rising +21.4% YoY to RM25.38m, albeit alongside margin normalisation (EBITDA margin 36% vs. 45.8% in FY2023) as the Group absorbed expansion costs and a lower "other income" run-rate. Importantly, LMS retains a defensive financial posture (net cash, strong liquidity), which limits balance-sheet risk while funding integration and capability build-out.

The timing is predicated on the climate-first regulatory rollout in Singapore and Malaysia. Singapore's roadmap requires all listed issuers to report climate-related disclosures (including Scope 1 & 2) from FY2025, aligned to ISSB standards, with further requirements phased thereafter. Malaysia has launched the NSRF, setting ISSB standards as baseline and implementing in phased tiers, beginning with Main Market issuers ≥ RM2b market cap in 2025 (Group 1), then broader groups in 2026–2027. This expands the addressable market for audit-ready ESG workflows and assurance, where LMS has positioned capability (including VVB status and tooling).

Ultimately, LMS is not yet a "pure SaaS" story, but a services-plus-workflow platform with improving earnings visibility, where the investment debate is whether post-investment normalisation + integration delivery can sustain a premium multiple.

<u>Summary & Recommendation</u>

Rating: BUY | Target Price: S$0.44 | Upside: ~26% vs. last close S$0.35

We initiate with BUY. Our target price is based on forward earnings, reflecting a conservative normalisation of margins post-FY2024 investment phase and incremental contributions from certification/assurance, while not baking in aggressive integration upside.

Figure 1 Base-case key anchors (illustrative)

Metric	**FY2023A**	**FY2024A**	**FY2025E (Base)**
Revenue (RM m)	20.9	25.4	~29–30
EBITDA Margin	45.8%	36.0%	~37–38%
Net Profit Margin	26.2%	20.5%	~21–22%

Note: FY2025E is anchored to 1HFY2025 run rate with modest normalisation; no "blue-sky" assumptions.
Source: LMS Compliance, uSMART Research

Top 3 Value Drivers

1) ASEAN climate-reporting rollout drives structural assurance demand: Singapore's phased climate reporting roadmap requires listed issuers to begin FY2025 climate disclosures including Scope 1 & 2, with further phasing (Scope 3 later; assurance later). Malaysia's NSRF similarly moves toward ISSB baseline adoption in tiers, starting with ≥RM2b Main Market issuers in 2025. This "compliance clock" supports recurring demand for audit-ready reporting, verification, and assurance workflows, an adjacency to LMS's core compliance DNA.

2) Mix shift optionality: certification/assurance > pure testing economics: While lab testing remains the earnings base, certification and ESG assurance can carry higher contribution margins and improve revenue quality through multi-year compliance cycles. The investment question is not whether testing demand exists, but whether LMS can raise wallet share per client via cross-sell into certification/assurance without reintroducing cost creep.

3) Post-July 2025 integration delivery (China) becomes the re-rating lever: With the Anchor Technology deal completed (July 2025), investor focus shifts from "deal completion" to integration outcomes: revenue consolidation quality, client retention, cadence of new wins, and margin discipline. Successful delivery should de-risk the regional scale narrative and reduce perceived "single-market" concentration.

Valuation Context & Key risks

LMS screens optically expensive on headline P/E, but that premium is only defensible if (i) margins stabilise as FY2024 investment fades, and (ii) incremental growth (China + ESG/certification) comes through without diluting group economics.

Key risks to watch:

- Integration drags (costs > expected, slower cross-sell, margin dilution)
- Segment concentration (testing remains dominant; higher-multiple lines fail to scale)
- Accreditation / compliance risk (binary; reputational downside is outsized)
- Regulatory pace risk (phased timelines extend; assurance demand ramps slower than expected)

Bull Case (Blue Sky)	**Bear Case (Downside Floor)**
Upside scenario assumes: (i) smooth China integration with faster-than-expected revenue consolidation, (ii) stronger mix shift into certification/assurance, (iii) operating leverage from normalised CapEx and higher utilisation. Under this, valuation could re-rate toward a regional "platform" multiple, implying S$0.60–0.65.	Downside scenario assumes: (i) continued margin compression (talent costs + integration friction), (ii) slower scaling of non-testing revenue, and (iii) de-rating to a "no-growth testing peer" multiple. In that case, valuation could compress materially despite net cash providing some buffer.

2. Business Profile & Strategy

LMS Compliance Ltd operates as a diversified Testing, Inspection, Certification, and Assurance (TICA) provider, progressively augmenting its traditional laboratory services with a technology-enabled ESG and compliance assurance model. The Group's core value proposition is underpinned by a defensive, recurring revenue base—historically characterised by a high proportion of repeat business—driven by mandatory regulatory requirements across the food, healthcare, and industrial sectors in Malaysia and Singapore. Central to this strategy is the integration of proprietary digital platforms, including the aikinz-LIMS (Laboratory Information Management System), aizenz-ISO management platform, aisinz-Global Realtime Surveillance Scheme, and aihorz site-level compliance solutions, which enhance laboratory workflow efficiency, strengthen compliance assurance, and provide a scalable foundation for regional expansion.

The Group's forward strategy is characterized by aggressive inorganic growth and the commercialization of digital sustainability tools. Significant capital allocation toward acquisitions, such as the 75% stake in Anchor Technology and the 30% investment in Prismatic Technologies, underscores management's intent to capture the fragmented Asia-Pacific compliance market. While the launch of the Aizenz GHG carbon accounting tool and the transition to IFRS S1/S2 reporting standards position the company as a first mover in regional ESG advisory, the execution remains subject to margin pressure from laboratory expansion costs and geographical regulatory variance. Investors should view the business as a high-margin TICA play that is increasingly reliant on the successful cross-border scaling of its "Conformity Assessment Technology" segment to justify its current valuation premiums.

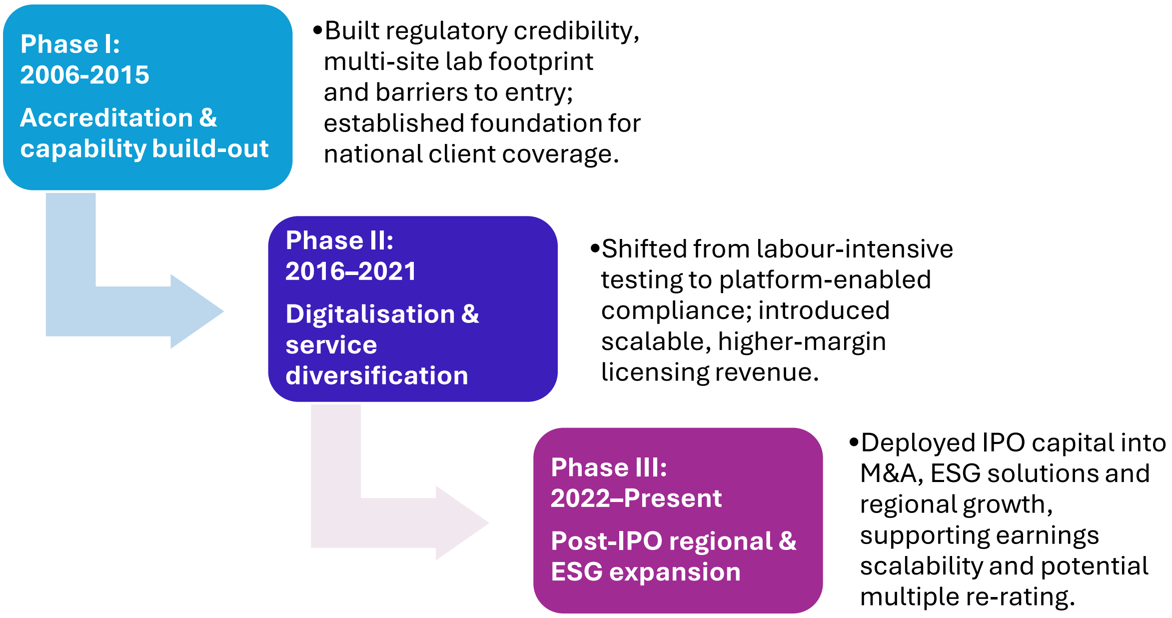
2.1. Company Overview & History

LMS Compliance Ltd. (SGX: LMS) is a Singapore-incorporated investment holding company that provides laboratory testing, inspection, certification, and assurance (TICA) services. Founded in 2006 and headquartered in Malaysia, the Group has evolved from a boutique laboratory service provider into a technology-driven compliance specialist with a regional footprint spanning Malaysia, Singapore, and China.

The Group's core value proposition resides in its "Conformity Assessment Technology" which integrates traditional testing services with proprietary cloud-based laboratory information management systems (LIMS). This allows for a scalable, recurring revenue model, with over 85% of testing revenue derived from repeat clients on a three-year rolling basis.

Corporate Evolution and Strategic Milestones

LMS Compliance's history is defined by three distinct phases: the foundational establishment of accreditation (2006–2015), the digital transformation and service diversification phase (2016–2021), and the post-IPO regional expansion phase (2022–Present).



Over nearly two decades, the Group has evolved from a conventional laboratory testing provider into a technology-enabled compliance and ESG solutions platform. Early investments in lab digitisation and accreditation established regulatory credibility, while subsequent platform launches and licensing initiatives introduced scalability and recurring revenue characteristics. Recent expansion into sustainability assurance and carbon management positions the Group to benefit from rising ESG compliance requirements, supporting a longer-term re-rating from a traditional testing multiple toward a blended services-plus-platform valuation framework.

Figure 2 Key Milestone

Year	Milestone	Strategic Significance
2006	Founding of MY CO2 Sdn. Bhd.	Establishment of the first laboratory facility in Penang, Malaysia.
2007	Launch of "aikinz-LIMS"	Transitioned to proprietary digital management of laboratory data.
2016	Launch of "aizenz"	Cloud-based platform for ISO certification workflow automation.
2018	Introduction of Electronic Certificate of Analysis (e-CoA)	Enhanced certificate security and traceability and reduced operational costs and mitigated forgery risk.
2020	Pandemic Pivot	Rapidly commercialized face mask testing; scaled digital licensing to third-party labs.
2022	SGX Catalist Listing	Raised S$3.64m (gross) to fund regional M&A and tech enhancements.
2023	ESG Integration	Accredited as an AA1000 Assurance Provider; launched carbon accounting tools.
2024	Regional M&A	Acquired 30% of Prismatic Tech; entered agreement for 75% of Anchor Technology which has completed in Jul 2025.

Source: LMS Compliance, compiled by uSMART Research

Quantitative Growth Profile (FY2019 – FY2024)

Since FY2019, LMS has maintained a steady revenue CAGR of approximately 11.8%, with a significant acceleration in FY2024 driven by increased demand in the pharmaceutical and food sectors.

Figure 3 Key Financial Metrics

Metric (RM million)	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Revenue	14.53	15.84	16.99	18.68	20.90	25.38
EBITDA	5.89	7.21	7.54	3.82	9.57	9.13
Net Profit after Tax	3.95	4.69	4.95	5.06 (1)	5.48	5.21
Net Profit Margin (%)	27.2%	29.6%	29.1%	27.1% (1)	26.2%	20.5%
Cash & Cash Equivalents	0.60	0.73	1.11	12.31	17.23	12.26

Note (1): Figures adjusted to exclude one-off listing expenses of RM4.34m.
Source: LMS Compliance, Bloomberg, compiled by uSMART Research

2.2. Product & Service Portfolio

LMS Compliance's portfolio is structured as a defensive, regulatory-driven core (Laboratory Testing) supplemented by an emerging high-margin digital and ESG advisory pivot. While the group markets itself as a technology-enabled compliance leader, the revenue mix remains heavily skewed toward traditional testing services, which act as the primary engine for cash flow and customer acquisition.

Segment Revenue Breakdown

LMS Compliance operates across five synergistic business segments, with revenue still predominantly anchored by its core Laboratory Testing operations. While Testing remains the earnings base, the Group's strategic optionality lies in its higher-margin, more scalable Certification, ESG assurance and compliance technology offerings.

The Group recorded revenue growth of 21.4% YoY in FY2024 to RM25.38m, driven primarily by higher testing volumes in food, pharmaceutical and fertiliser categories. From an institutional perspective, however, the Certification Services and Conformity Assessment Technology segments represent the longer-term "alpha" drivers given their lower capital intensity and scalability relative to physical laboratories.

Figure 4 Revenue Breakdown by Business Segment (RM million)

Segment	FY2022	FY2023	FY2024	% of FY24 Total	YoY Growth (24/23)
Laboratory Testing Services	17.9	20.0	23.8	93.6%	+18.6%
Certification Services	0.2	0.4	0.5	1.9%	+14.0%
Training and Assurance (ESG)	-	-	0.4	1.5%	N/A
Sales of Goods (Trading)	0.4	0.3	0.6	2.2%	+83.0%
Conformity Assessment Technology	0.2	0.1	0.2	0.8%	+31.7%
Total Revenue	**18.7**	**20.9**	**25.4**	**100%**	**+21.4%**

Source: LMS Compliance, Bloomberg, compiled by uSMART Research

Segment Analysis

LMS Compliance remains fundamentally a testing-led business today, but its long-term re-rating potential hinges on the successful scaling of certification, ESG assurance and compliance technology, which together offer higher-margin, lower-capital-intensity growth optionality.

1. Laboratory Testing & Assessment – *The Defensive Core*

Laboratory testing remains the Group's economic moat, contributing 93.6% of FY2024 revenue. LMS operates ISO/IEC 17025-accredited laboratories, offering more than 1,100 accredited and 10,200+ non-accredited tests across food, pharmaceuticals, medical devices and industrial products.

- Value Proposition: High switching costs driven by regulatory accreditation requirements and audit dependency. Over 85% of revenue is derived from repeat clients, typically on multi-year engagement cycles.
- Monetisation: Fee-per-test model. The FY2024 expansion of the MY CO2 (KL) facility reflects continued capacity scaling, albeit at the cost of higher depreciation (RM1.3m in FY2024) and ongoing CapEx requirements.

This segment underpins earnings stability but structurally caps margin expansion due to labour and asset intensity.

2. Conformity Assessment Technology – *Digital Enablement, Not Yet a SaaS Story*

LMS has developed a suite of proprietary compliance platforms aimed at digitising laboratory and certification workflows:

- aikinz-LIMS: Laboratory information management system to automate test workflows and reduce error rates.
- aizenz: Cloud-based ISO certification workflow platform.
- Aizenz GHG (FY2024): Carbon accounting tool covering Scopes 1, 2 and 3.
- aisinz: Global Realtime Surveillance Scheme.
- aihorz: Site-level compliance solutions.

Despite management emphasis, technology-related revenue remains a small chunk of total group revenue. We view these platforms primarily as client lock-in and ecosystem tools, enhancing stickiness to the testing and certification services, rather than standalone SaaS revenue drivers in the near term.

3. ESG Advisory & Assurance – *The Strategic Pivot*

The Group has positioned itself to capture regulatory tailwinds arising from mandatory ESG disclosure requirements on SGX and Bursa Malaysia.

- **Services:** Sustainability reporting assurance, product carbon footprint verification, and Scope 3 value chain analysis.
- **Capability Upgrade:** AA1000 Assurance Provider accreditation enables LMS to move beyond testing into independent ESG assurance.
- **Inorganic Optionality:** Acquisition of a 30% stake in Prismatic Technologies, an automated ESG data platform, signals intent to climb the ESG value chain.

While currently small in revenue contribution, ESG services offer structurally higher margins and cross-selling potential, supporting medium-term mix improvement.

4. Certification Services & Regional Expansion – *Cross-Sell and Geographic Optionality*

Certification services (ISO 9001, 22000, 45001, MS1480), conducted via MY CO2 Certification Sdn Bhd, remain a small but strategic segment.

- **Strategic Role:** Certification acts as a natural extension to testing clients, deepening client relationships and improving wallet share.
- **China Expansion:** The completion of 75% acquisition of Anchor Technology targets the food and beverage certification market, representing the Group's most significant geographic diversification beyond Malaysia to date.

Successful execution could reposition certification as a material earnings contributor and reduce reliance on domestic testing volumes.

2.3. Management, Ownership & Corporate Governance

Board Structure & Governance Oversight

LMS Compliance maintains a governance framework aligned with the Singapore Code of Corporate Governance (2018). As per the latest announcement on 2 May 2025, the Board comprises five directors, streamlined from seven at IPO, reflecting post-listing rationalisation rather than governance dilution. The Board maintains a 40% independence ratio, which is acceptable under SGX-ST Catalist Board requirements, particularly given that the Chairman is independent.

The transition of Chairmanship from Datuk Fadilah Binti Baharin, whose background was primarily technical and regulatory, to Mr. Ong Beng Chye, an Independent Chairman with finance and accounting expertise, signals a deliberate shift toward capital discipline, governance maturity and M&A execution capability. We view this transition as strategically aligned with the Group's post-IPO phase, which increasingly emphasises inorganic expansion and balance-sheet stewardship.

Figure 5 Board Composition and Independence

Name	Position	Independence	Background/Expertise
Mr. Ong Beng Chye	Independent Chairman	Independent	Finance, Accounting, Governance
Dr. Ooi Shu Geok	CEO / Executive Director	Non-Independent	ESG Strategist, Technical Management
Ms. Chong Moi Me	CDO / Executive Director	Non-Independent	Lab Operations, Business and Strategies Development
Dr. Chong Juin Kuan	Non-Executive Directors	Non-Independent	Business, Marketing
Mr. Leow Chan Khiang	Non-Executive Directors	Independent	Accounting, Corporate Finance, Manufacturing

Source: LMS Compliance, SGX, compiled by uSMART Research

Management Depth, Stability & Execution Track Record

The Group is led by its co-founders, Dr. Ooi Shu Geok (CEO) and Ms. Chong Moi Me (Chief Development Officer), whose long operating tenures (13+ years and 22+ years respectively) provide continuity and deep domain expertise across laboratory operations, compliance workflows and ESG assurance. Execution capability is evidenced by 21.4% YoY revenue growth in FY2024, successful rollout of ESG and carbon accounting services, and sustained operating margins despite rising labour and material costs. We view management stability as a key strength, particularly given the Group's regulatory-heavy operating environment, though this must be assessed alongside ownership concentration risks discussed below.

Ownership Structure, Control & Key-Man Risk

LMS Compliance exhibits a highly concentrated ownership structure, with founding shareholders exercising effective control over the Group. As at 11 March 2025, Louis May Pte. Ltd. holds 76.32% of the Company's issued share capital, while Fitcorp Value Pte. Ltd. holds 7.69%. Both entities are 100% jointly owned by Dr. Ooi Shu Geok and Ms. Chong Moi Me, resulting in a deemed interest of approximately 84.01% for each founder under the Securities and Futures Act of Singapore. Public shareholding stands at 15.47%.

From an equity perspective, this ownership profile presents a dual-edged risk-reward dynamic. On one hand, high founder ownership ensures strong alignment with long-term value creation and reduces the risk of short-term decision-making. On the other, it introduces elevated key-man risk, heightened sensitivity to succession planning, and a governance discount relative to more widely held peers.

We note, however, that management has articulated a structured internal succession pipeline for key operational and leadership roles. This pipeline extends across multiple organisational layers, including identified first-level successors as well as secondary and tertiary management tiers developed through internal rotation, regulatory accreditation and platform-driven operational exposure. While succession outcomes cannot be fully validated ex-ante, we view this multi-tier leadership development framework as a partial mitigant to key-man risk, particularly with respect to day-to-day laboratory operations, certification workflows and ESG assurance execution.

Importantly, the Group's increasing reliance on standardised digital platforms—including aikinz-LIMS, aizenZ and Aizenz GHG—has embedded a significant portion of institutional knowledge into systems and processes rather than individuals. This process institutionalisation, together with the presence of an independent Chairman and independent non-executive directors, provides additional governance safeguards for minority shareholders.

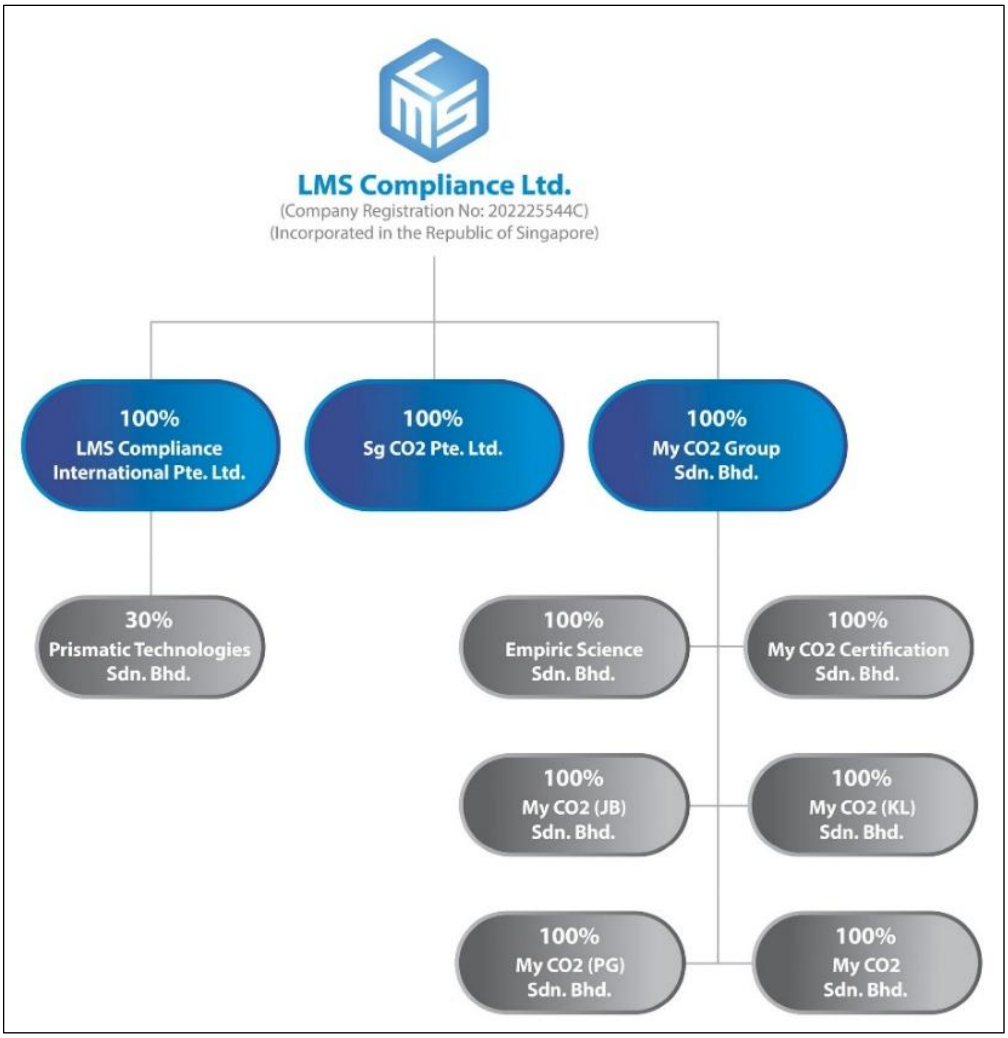
Overall, while ownership concentration remains a key monitoring consideration for institutional investors, we believe the combination of governance oversight, succession depth and process digitalisation reduces—though does not eliminate—execution and control risk over the medium term.

Group Structure & Operational Footprint

LMS Compliance adopts a holding-company structure, with operating subsidiaries spanning testing, certification, ESG technology and regional laboratories. Key subsidiaries include:

- MY CO2 Group Sdn. Bhd., wholly owned laboratory entities in Penang (PG), Kuala Lumpur (KL) and Johor Bahru (JB), supporting national coverage for testing and assessment service.
- MY CO2 Certification Sdn. Bhd., the Group's ISO/IEC 17021-accredited certification arm.
- Empiric Science Sdn. Bhd., providing laboratory equipment, chemicals and solutions.
- My CO2 Sdn. Bhd., primarily supporting the distribution of conformity assessment technologies.
- LMS Compliance International Pte. Ltd. and SG CO2 Pte. Ltd., supporting international and Singapore-facing activities.
- A 30% strategic stake in Prismatic Technologies Sdn. Bhd., an ESG data automation platform, enhancing the Group's ESG assurance and reporting capabilities.

Figure 6 Group Structure



Source: LMS Compliance

This structure supports operational segregation, regulatory clarity and targeted capital deployment, while enabling cross-selling across testing, certification and ESG services.

Financial Discipline, Solvency & Capital Management

Management's financial discipline is reflected in the Group's strong solvency metrics. LMS Compliance reported an Altman Z-Score of 14.47 in FY2024, significantly above the "Safe Zone" threshold of 2.99, indicating negligible insolvency risk. Operating margins remained healthy at 30.93%, despite cost inflation, supported by workflow digitalisation and operating leverage.

While ROE has moderated to 16.38% in FY2024 from pre-listing peaks, this reflects equity base expansion following the 2022 IPO and subsequent capital raises, rather than operational deterioration. The initiation of dividends in FY2024 (22.16% payout ratio) signals improved capital management maturity and confidence in cash flow sustainability.

Figure 7 Governance & Financial Efficiency Metrics

Metric	FY2021	FY2022	FY2023	FY2024
Independent Directors (%)	57%	57%	57%	50%
Altman's Z-Score	-	10.98	15.17	14.47
Operating Margin (%)	38.98%	14.66% (1)	40.36%	30.93%
ROE (%)	32.81%	3.56% (1)	19.12%	16.38%
Dividend Payout Ratio	-	-	-	22.16%

Note (1): FY2022 margin impacted by one-off listing expenses of RM4.34m.

Source: LMS Compliance, Bloomberg, compiled by uSMART Research

2.4. Strategic Growth Levers

LMS Compliance's growth trajectory is increasingly decoupled from legacy laboratory testing, pivoting toward a high-margin, tech-enabled "Compliance-as-a-Service" (CaaS) model. While Laboratory Testing Services remains the dominant revenue contributor (93.57% of FY2024 turnover), the strategic focus has shifted toward ESG advisory, digital tool integration, and aggressive inorganic expansion into the North Asian market. The efficacy of these growth levers is reflected in the 21.4% YoY revenue surge in FY2024, though net profit margins faced temporary compression due to the expiration of government grants and foreign exchange volatility.

Figure 8 Financial Metric

Metric	FY2022	FY2023	FY2024	LTM
Revenue (RM million)	18.7	20.9	25.4	26.1
EBITDA Margin	20.4%	45.8%	36.0%	36.5%
Net Profit Margin	3.9% (1)	26.2%	20.5%	20.1%
ROE	3.56%	19.12%	16.38%	-

Notes (1): One-off listing expenses is included.

Source: Bloomberg, compiled by uSMART Research

ESG and Decarbonization: The Primary Value Driver

Management is repositioning the Group to capture the accelerating regulatory demand for ESG disclosures across the Asia-Pacific region. The transition from basic testing to Scope 1, 2, and 3 GHG emissions verification represents a significant move up the value chain.

Key developments in this lever include:

- **Aizenz GHG:** A proprietary digital tool designed to automate carbon accounting and tracking. By digitizing the collection of indirect value chain emissions (Scope 3), which can comprise up to 95% of an organization's footprint, LMS creates high switching costs and recurring service dependencies.
- **Accreditation Leadership:** As an AA1000 licensed assurance provider, LMS is positioned to service the mandatory ESG reporting requirements enforced by SGX and Bursa Malaysia.
- **SME Integration:** Strategic partnerships with the Malaysian Semiconductor Industry Association (MSIA) allow LMS to aggregate a fragmented SME market that lacks the internal infrastructure for ESG compliance.

Geographic and Vertical Expansion via M&A

LMS maintains a robust balance sheet with RM12.26 million in cash and cash equivalent (FY2024), providing significant "dry powder" for inorganic growth. The company is actively pursuing a "hub-and-spoke" regional strategy:

Target/Initiative	Stake	Strategic Rationale	Status
Anchor Technology	75%	Entry into China's F&B certification market.	Completed 2025
Prismatic Technologies	30%	Automated ESG data collection capabilities.	Completed 2024
MY CO2 (KL) Expansion	100%	Capacity upgrade with advanced analytical tech.	Completed 2024

The 75% acquisition of Anchor Technology is particularly critical, as it provides a beachhead in China, diversifying the Group's geographic risk away from its 90%+ reliance on the Malaysian market.

Digital Transformation and Scalability

The Group's proprietary Conformity Assessment Technology, anchored by aikinz-LIMS and aizenZ, functions as both a commercial and operating scalability lever. Beyond external licensing, digitalisation has reshaped LMS Compliance's internal operating model, enabling capacity expansion without proportional increases in physical infrastructure or headcount.

Digitisation of regulatory documentation, testing workflows and certification records has reduced reliance on physical document storage, allowing the Group to optimise space previously required for manual filing and defer incremental laboratory expansion as volumes grow. Workflow automation has also improved labour productivity by reducing manual data entry and repetitive tasks, enabling experienced operational staff to be redeployed into higher value-added, client-facing and sales-related roles. We view this internal conversion as structurally more efficient than external hiring, given shorter ramp-up time and lower training costs.

End-to-end systemisation—from project initiation and sample submission to certification issuance—has enhanced process standardisation, traceability and audit readiness, while strengthening client engagement through system-led communication. Although technology-related revenue remains a small portion of total turnover, we believe digitalisation has already delivered tangible operating leverage, supporting margin resilience within an otherwise asset- and labour-intensive business model.

3. Industry & Market Landscape

3.1 Sector Overview: The Convergent TIC and ESG Landscape

The Testing, Inspection, and Certification (TIC) sector in Southeast Asia is undergoing a structural shift from traditional safety compliance toward integrated Environmental, Social, and Governance (ESG) assurance. LMS Compliance operates at the intersection of these mandates, leveraging its ISO-accredited laboratory infrastructure to capture market share in a regional green economy estimated to require US$1.5 trillion in investments by 2030.

The Group's core revenue remains anchored in laboratory testing. However, the strategic pivot toward "Conformity Assessment Technology" and "ESG Advisory" represents the high-alpha growth engine, capitalizing on the mandatory adoption of IFRS S1 and S2 disclosure standards by the Singapore Exchange (SGX) and Bursa Malaysia.

3.2 TAM/SAM and Market Dynamics

While the global TIC market is mature, the Southeast Asian niche for food safety, pharmaceutical testing, and carbon accounting exhibits higher-than-average growth due to tightening local regulations and the "30 by 30" food security initiative in Singapore.

Market Segment	Estimated CAGR (Region)	Primary Drivers
Food & Beverage Testing	7–9%	Stringent traceability; Food safety certification; Export requirements.
ESG & Carbon Assurance	15–20%	Mandatory Scope 1, 2, and 3 reporting; IFRS S1/S2 alignment.
Digital LIMS Solutions	About 12%	Laboratory automation; demand for real-time data transparency.

Source: Mordor Intelligence, Fortune Business Insights, Global Market Insights, PR Newswire, Pharmiweb.com, DataHorizzon, compiled by uSMART Research

Revenue Velocity: LMS demonstrated a 21.4% YoY revenue increase in FY2024 (reaching RM 25.38 million), significantly outperforming the broader industrial services sector. This growth is largely inorganic and expansion-driven, including the 75% acquisition of Anchor Technology for entry into the Chinese F&B certification market.

3.3 Competitive Intensity (Porter's Five Forces Analysis)

LMS occupies a tier-2 regional position, competing against global tier-1 giants (SGS, Intertek, Bureau Veritas) by offering localized expertise and lower cost-bases, while maintaining equivalent international accreditations (ISO/IEC 17025).

Threat of New Entrants	**Low**	High barriers to entry exist due to the necessity of technical accreditations (ISO/IEC 17025/17021) and the long-term nature of client trust. LMS maintains an 85%+ repeat client rate, creating a formidable "moat" against new local players.
Bargaining Power of Suppliers	**Low**	Suppliers of laboratory consumables and analytical instruments are fragmented. LMS's trading segment allows it to vertically integrate some consumable costs.
Bargaining Power of Buyers	**Moderate**	While the testing is mandatory, large pharmaceutical or F&B clients can exercise pricing pressure. LMS mitigates this by embedding its proprietary digital platforms (aikinz-LIMS) into client workflows, increasing switching costs.
Threat of Substitutes	**Low**	Compliance is legally mandated; there are no viable substitutes for accredited laboratory verification.
Intensity of Rivalry	**High**	LMS faces intense competition from global giants. As shown in the Peer Comparison table, global peers trade at higher multiples but often possess lower localized agility in the ASEAN SME market.

3.4 Macro and Regulatory Catalysts

The Group operates in a regulatory-driven industry where demand is shaped less by economic cycles and more by compliance mandates and policy direction. In this context, the convergence of ESG regulation, digital compliance requirements and food safety standards across Southeast Asia and China represents a set of structural, multi-year catalysts rather than near-term cyclical drivers. These developments directly expand the addressable market for accredited testing, certification and ESG assurance providers such as LMS Compliance.

Tailwinds:

- **Mandatory ESG Assurance:** The regulatory shift from voluntary disclosure to mandatory assurance—particularly for Scope 1 and Scope 2 GHG emissions by 2027 across major Asian jurisdictions—creates a structural demand tailwind for accredited ESG assurance providers. LMS is well-positioned to benefit through MY CO2 Certification, which holds AA1000 assurance accreditation, enabling the Group to participate in higher-value ESG verification and assurance engagements rather than low-margin reporting preparation work.
- **Digitalisation of Compliance and Reporting:** The introduction of IFRS S1 and S2 has materially increased compliance complexity, particularly for SMEs that lack the resources to engage Tier-1 global consultants. LMS's Aizenz GHG platform addresses this gap by providing a system-led solution that integrates data capture, carbon accounting and audit-ready documentation. We view

this as a structural enabler for scalable ESG service delivery, improving client acquisition efficiency while reinforcing LMS's role as a long-term compliance partner.

- **Food Safety and Export Regulation Tightening:** Ongoing tightening of food safety, traceability and export certification requirements across ASEAN and China continues to support sustained demand for accredited food and pharmaceutical testing. This is particularly relevant in the context of China market entry via Anchor Technology, where regulatory compliance is a prerequisite for cross-border food trade and certification.
- **Policy-Driven Sustainability Investment Cycle:** Southeast Asia's green transition—supported by national decarbonisation roadmaps, carbon pricing discussions and sustainability-linked financing frameworks—is expected to drive multi-year demand for carbon accounting, product footprint verification and independent assurance. LMS's positioning at the intersection of laboratory testing, certification and ESG assurance provides optionality to capture this demand without a material increase in fixed asset intensity.

Overall, we view the convergence of ESG regulation, digital compliance requirements and food safety standards as structural rather than cyclical tailwinds, reinforcing the long-term relevance of LMS's service offerings and supporting earnings visibility beyond traditional laboratory testing cycles.

4. Competitive Positioning & SWOT Analysis

LMS Compliance operates as a specialized, high-margin niche player within the regional Testing, Inspection, Certification, and Assurance (TICA) sector. While the firm lacks the global scale of industry titans such as Eurofins Scientific or Bureau Veritas, it leverages a high-touch, localized laboratory network in Malaysia and Singapore that caters specifically to the underserved SME and mid-market segments. The core competitive advantage rests on a proprietary digital ecosystem—comprising aikinz-LIMS and the recently launched Aizenz GHG—which creates a functional "lock-in" effect for clients requiring seamless integration of laboratory data with regulatory ESG reporting. By positioning itself at the intersection of traditional laboratory testing and digital sustainability assurance, LMS is exposed to regulatory-driven demand arising from Southeast Asia's transition to a green economy, with cumulative transition spending estimated at approximately US$1.5 trillion by 2030, according to the Southeast Asia's Green Economy 2023 Report.

The firm's strategic positioning reveals a pivot from commoditized laboratory services toward high-value ESG assurance and carbon accounting, a move intended to offset the inherent scalability limits of physical lab facilities. Financially, LMS maintains a superior EBITDA margin profile (frequently exceeding 40% historically) and a robust net cash position, providing significant dry powder for its 2025 inorganic expansion strategy into China. However, from a skeptical investment perspective, the company faces high segment concentration, with Laboratory Testing Services accounting for over 93% of FY2024 revenue. This chapter evaluates whether the firm's technological moat and strategic acquisitions can effectively mitigate the risks of regional margin compression, rising labor costs, and the intensifying competition from global Tier-1 players moving down-market into the ESG advisory space.

4.1. Peer Group Benchmarking

LMS Compliance operates in a regulatory-driven industry where demand is shaped less by economic cycles and more by compliance mandates and policy direction. While the global TIC landscape is dominated by large multinational players such as SGS, Bureau Veritas and Intertek, regulatory enforcement and compliance execution remain inherently localised, creating structural opportunities for regionally embedded providers. In this context, LMS Compliance positions itself as a specialised Southeast Asian TICA player, combining local regulatory familiarity with a digital compliance overlay that enhances service scalability and margins.

Comparative Universe & Valuation Multiples

The peer group for LMS is bifurcated between global multi-billion-dollar conglomerates and regional specialists. Despite its micro-cap status (Mkt Cap: ~SGD 57.7m), LMS trades at a valuation premium relative to its localized scale, reflecting its high-growth trajectory in the ESG assurance and digital conformity sectors.

Figure 9 Peer Group Valuation & Financial Benchmarking (LTM/Current)

Company Name	Region	Market Cap (SGD)	P/E (x)	Net Profit Margin (%)	ROE (%)
LMS Compliance Ltd	SEA	57.7M	29x	20.5%	17.5%
Centre Testing Intl	China	4.73B	26x	15.5%	13.9%
ALS Ltd	Global	10.4B	43x	8.7%	19.7%
SGS SA	Global	30.0B	29x	8.9%	99.2%
Bureau Veritas SA	Global	18.5B	18x	8.4%	34.2%
Intertek Group	Global	12.1B	20x	10.7%	29.9%
Eurofins Scientific	Global	19.6B	30x	8.1%	15.1%
Peer Median	**--**	**12.1B**	**29x**	**8.9%**	**19.7%**

Source: Bloomberg Terminal Data (extracted on 19 Jan 2026), compiled uSMART Research

LMS Compliance's Net Profit Margin of 20.5% significantly outperforms the peer median of 8.9%. This delta is largely attributable to the Group's lean operational structure in Malaysia and the increasing contribution from high-margin digital products like aikinz-LIMS and aizenz, which carry lower COGS than traditional laboratory testing.

Operational Efficiency & Growth Metrics

LMS reported a 21.4% Revenue Growth in FY2024, triple the selected peer median growth rate of 6.4%. While the Big TIC players struggle with the inertia of large-scale legacy assets, LMS has utilized its smaller base to pivot aggressively into the ESG disclosure market.

Figure 10 Operational Benchmarking

Metric	LMS Compliance	Peer Median	Rationale
Revenue Growth	21.4%	6.4%	LMS captures rapid SME ESG adoption in SEA.
EBITDA Margin	36.0%	22%	Lower labor costs in Malaysia vs. Global HQ costs.
CapEx/Sales	11.0%	6%	Higher relatives spend on lab expansion (KL facility).
LF Net Debt/EBITDA	-1.0x	1.4x	LMS maintains a net cash position; peers are levered.

Source: Bloomberg Terminal Data (extracted on 19 Jan 2026), compiled uSMART Research

LMS's negative Net Debt/EBITDA provides a distinct dry powder advantage. While global peers are focused on deleveraging or modest buybacks, LMS is executing an inorganic growth strategy, evidenced by the 75% acquisition of Anchor Technology to penetrate the Chinese food certification market.

Strategic Roadmap Benchmarking

LMS is transitioning from a traditional "Labour-as-a-Service" testing model toward a "Software-plus-Assurance" framework. This differentiates the Group from global TIC peers, which typically deploy digital tools as internal efficiency enhancers rather than monetisable, client-facing solutions.

- Digital Conformity vs. Traditional Testing: While Tier-1 TIC players rely on scale and asset-heavy laboratory networks, LMS embeds its proprietary platforms (aikinz-LIMS, aizenZ, Aizenz GHG) into both operations and client workflows. These platforms improve labour productivity, reduce incremental space requirements and increase client stickiness, supporting scalable growth in SME-dominated ASEAN markets.
- ESG Assurance Maturity: Unlike peers where ESG services are often ancillary, LMS has built dedicated ESG assurance capabilities through AA1000 accreditation and targeted digital tools. This positions the Group to capture higher-value ESG assurance work as mandatory disclosure requirements expand.
- Inorganic Growth Optionality: LMS's net cash position provides flexibility to pursue bolt-on acquisitions, such as Anchor Technology, enabling capability expansion without materially increasing financial risk.

Overall, while lacking the scale of Tier-1 TIC conglomerates, LMS's roadmap emphasises digital-enabled compliance, ESG assurance depth and capital-efficient expansion, supporting faster earnings compounding relative to the broader TIC sector.

4.2. Comparative Financial Metrics

LMS Compliance operates within the global TICA industry. While significantly smaller by market capitalization than the "Big Three" (SGS, Intertek, and Bureau Veritas), the company's financial profile is characterized by superior margin performance and a robust net-cash balance sheet, albeit trading at a premium on enterprise value multiples relative to the peer median.

Valuation Multiple Comparison

LMS is currently valued at a Price-to-Earnings (P/E) ratio of 29x, aligning closely with the peer median. However, on an Enterprise Value (EV) basis, LMS trades at a significant premium. The company's EV/EBITDA of 17x stands approximately 30% above the peer median of 13x, suggesting that the market is pricing in sustained high-margin growth or potential scarcity value in the Southeast Asian ESG/compliance niche.

We believe this premium reflects a combination of margin resilience, a net cash balance sheet, and scarcity value as a listed, regionally focused ESG and compliance platform in Southeast Asia. Unlike global TIC peers, whose growth is constrained by scale inertia and capital intensity, LMS offers exposure to faster-growing ESG assurance and digital conformity segments within an underpenetrated SME market. That said, the valuation embeds execution expectations, particularly around ESG monetisation and inorganic expansion. Any slowdown in scaling non-testing revenue or margin dilution from expansion could see multiples converge toward the peer median.

Figure 11 Relative Valuation Multiples (Current/LTM)

Company	Market Cap (SGD)	P/E (x)	EV/EBITDA (x)	LF P/BV (x)	Div Yield (%)
LMS Compliance Ltd	57.7M	29x	17x	4.6x	2.55%
Centre Testing Intl	4.73B	26x	-	3.4x	0.99%
ALS Ltd	10.4B	43x	19x	7.2x	1.64%
SGS SA	30.0B	29x	15x	28.9x	3.34%
Bureau Veritas SA	18.5B	18x	12x	8.0x	3.31%
Intertek Group	12.1B	20x	11x	6.6x	3.49%
Eurofins Scientific	19.6B	30x	12x	3.8x	0.83%
Peer Median	12.1B	29x	13x	5.8x	2.55%

Source: Bloomberg Terminal Data (extracted on 19 Jan 2026), compiled uSMART Research

Operational KPI Benchmarking

LMS exhibits a margin profile that significantly exceeds global industry averages. The company's EBITDA margin of 35.98% (FY2024) is roughly 1,434 basis points higher than the peer median of 21.64%. This discrepancy is likely attributable to LMS's high-margin digital conformity assessment technology and a leaner regional operational structure compared to the capital-intensive global laboratory networks of its larger peers.

Figure 12 Efficiency and Profitability Metrics (FY2024)

Metric	LMS Compliance	Peer Median
Revenue Growth	21.4%	6.4%
EBITDA Margin	36.0%	22%
Net Profit Margin (%)	20.5%	8.9%
Return on Equity	17.5%	19.7%
CapEx/Sales	11.0%	6%

Source: Bloomberg Terminal Data (extracted on 19 Jan 2026), compiled uSMART Research

4.3. Integrated SWOT Assessment

LMS Compliance presents a high-margin, "asset-light" profile within the TICA sector. While the Group's small-cap status limits its economies of scale compared to global peers, its superior profitability metrics and fortress balance sheet provide a strategic buffer for its aggressive pivot into ESG assurance and regional M&A.

Strengths (S)	Weaknesses (W)
• Superior Profitability: Net profit margin of 20.5% (FY2024), materially above global TIC peers, driven by proprietary digital platforms that reduce labor intensity. • Strong Balance Sheet: Net cash position (Net Debt/EBITDA -1.0x) provides funding flexibility for inorganic expansion, including new market entry. • High Revenue Visibility: 85%+ repeat clients and 95% recurring compliance revenue support predictable cash flows.	• Sub-Scale Revenue Base: FY2024 revenue of RM25.4m remains immaterial versus global TIC peers, limiting access to multi-country enterprise contracts. • Segmental Concentration Risk: 93.6% of revenue is still derived from laboratory testing, with higher-multiple digital and certification segments contributing <3%, raising re-rating risk if diversification stalls. • Near-Term Margin Pressure: FY2024 net profit declined 4.9% YoY despite strong revenue growth, reflecting rising OPEX from talent build-out and capacity expansion ahead of margin realisation.

Opportunities (O)	Threats (T)
• ESG Assurance Expansion: Mandatory IFRS S1/S2 and SGX/Bursa ESG rules expand TAM; AA1000 accreditation and Aizenz GHG position LMS to capture underserved SMEs. • Regional M&A Arbitrage: Singapore listing enables scrip-led acquisitions of fragmented regional labs at 4 – 6x EBITDA, potentially accretive versus LMS's current valuation. • Food Security Regulation: Singapore's "30 by 30" initiative supports demand for food forensics and vertical farming certification, with higher barriers to entry than standard testing.	• Aggressive Peer Consolidation: Global TIC leaders may pursue tuck-in acquisitions or price-based competition in ASEAN, compressing margins for smaller regional players. • Regulatory Standardization Risk: Harmonization of ESG and testing standards could favor large, globally integrated providers with scale advantages and broader accreditation coverage. • Execution Risk in Cross-Border Expansion: Overseas acquisitions (e.g. China entry) carry integration, regulatory and cultural risks that could delay earnings accretion.

5. Financial Performance, Quality & Valuation

This section assesses LMS Compliance Ltd's financial performance and valuation through the lens of earnings quality, balance sheet resilience, and capital efficiency, with particular focus on whether the Group's expansion into ESG advisory and digital conformity solutions can structurally mitigate the margin constraints inherent in laboratory-based testing.

FY2024 marked a period of accelerated top-line growth but margin normalization. Revenue increased 21.4% YoY to RM25.38m, reflecting sustained demand for regulated testing services and early traction in ESG-related offerings. Net profit margin declined to 20.5% (FY2023: 26.2%), driven primarily by the lapse of non-recurring government grants and higher operating expenditure associated with capacity expansion, ESG capability build-out, and regional scaling, rather than deterioration in underlying demand.

From a financial quality perspective, LMS maintains a strongly defensive balance sheet, closing FY2024 in a net cash position with operating cash flow of RM6.4m (Bloomberg) and an Altman Z-score of 14.47, underscoring low solvency risk. However, returns metrics have moderated, with ROE declining to 16.4%, reflecting equity base expansion post-listing and increased asset intensity during the current investment phase.

Valuation remains the most sensitive element of the investment case. At approximately 29x trailing P/E and 17x EV/EBITDA, LMS trades above industrial testing peers on earnings multiples, though at a discount on a price-to-book basis. This implies that the market is attributing value to future margin expansion from digital platforms and ESG assurance, while remaining cautious on execution risk. Near-term valuation re-rating is therefore contingent on demonstrable operating leverage and margin stabilization as recent investments mature.

5.1. Historical Financial Analysis

Figure 13 Historical Financial Snapshot (FY2020–FY2024)

Metric (RM million)	FY2020	FY2021	FY2022	FY2023	FY2024
Revenue	15.8	17.0	18.7	20.9	25.4
YoY Growth (%)	9.0	7.3	9.9	11.9	21.4
EBITDA (Adj.)	7.2	7.5	3.8	9.6	9.1
EBITDA Margin (%)	45.5	44.4	20.4	45.8	36.0
Net Income (Adj.)	4.7	5.0	5.1 (1)	5.5	5.2
Net Profit Margin (%)	29.6	29.1	27.1	26.2	20.5
Operating Cash Flow	6.9	5.2	2.5	6.1	6.4
CapEx	(1.1)	(0.7)	(0.8)	(1.2)	(2.8)

Note (1): Figures adjusted to exclude one-off listing expenses of RM4.34m.

Source: LMS Compliance, Bloomberg, compiled by uSMART Research

Top-line growth has accelerated post-IPO, but margin preservation has weakened during the investment phase. From FY2020–FY2024, LMS delivered a 12.5% revenue CAGR, with growth inflecting sharply in FY2024 (+21.4% YoY) driven by higher testing volumes and early contributions from ESG advisory services. However, earnings growth has lagged revenue, with net income CAGR of only 2.7%, reflecting rising operating costs and the normalization of non-recurring income.

Margins remain structurally strong but have compressed from cycle highs. EBITDA margin declined from 45.8% in FY2023 to 36.0% in FY2024, while net profit margin fell from 26.2% to 20.5%, driven by (i) the roll-off of government grants, (ii) higher headcount and facility expansion costs, and (iii) initial scaling costs associated with ESG advisory and digital platforms.

Cash generation remains sound despite elevated reinvestment. Operating cash flow of RM6.4m continues to comfortably fund the current CapEx cycle (RM2.8m in FY2024), though free cash flow margins compressed as reinvestment intensity increased. Importantly, earnings quality remains intact, with cash flow tracking underlying profitability rather than one-off items.

FY2024 marks a transition year where growth has accelerated ahead of profitability normalization. The historical record supports earnings durability, but near-term financials reflect a deliberate shift toward scale and capability building rather than margin maximization.

1HFY2025 Trading Update: Stabilisation Phase Post-FY2024 Investment Cycle

Figure 14 1HFY2025 Key Financial Metrics

Metric (RM million)	1HFY2025	1HFY2024	YoY
Revenue	**12.9**	12.2	+5.8%
Net Profit	**2.77**	2.74	+1.1%
Net Profit Margin	**21.4%**	22.4%	(100 bps)
Operating Cash Flow	**2.6**	2.6	Flat
Cash & Equivalents	**11.9**	12.3	Stable

Source: LMS Compliance, compiled by uSMART Research

LMS Compliance reported stable 1HFY2025 results, reflecting a consolidation phase following the FY2024 investment cycle. Revenue rose 5.8% YoY to RM12.9m, driven by continued growth in laboratory testing (+6.4%) and strong momentum in certification (+32.6%) and training & assurance (+80.4%), partially offset by weaker trading revenue.

Earnings were largely flat, with net profit up 1.1% YoY to RM2.77m, as higher staff and depreciation costs continued to weigh on margins. Operating cash flow remained stable at RM2.6m, while the balance sheet stayed defensive with RM11.9m cash and no material leverage.

Operationally, the Group strengthened its ESG positioning with VVB accreditation in June 2025, while the Anchor Technology acquisition was completed in July 2025, shifting focus toward integration and revenue consolidation in 2H2025.

5.2 Operating Outlook & Balance Sheet Health

Figure 15 Balance Sheet & Liquidity Snapshot (FY2020–FY2024)

Metric (RM million)	FY2020	FY2021	FY2022	FY2023	FY2024
Cash & Cash Equivalents	0.7	1.1	12.3	17.2	12.3
Total Debt	4.6	4.2	3.0	2.7	2.5
Net Cash	(3.9)	(3.0)	9.3	14.5	9.8
Net Debt / EBITDA	0.5x	0.4x	(2.4x)	(1.5x)	(1.0x)
EBITDA / Interest	27.2x	32.7x	18.2x	53.8x	47.1x
Current Ratio	3.0x	2.7x	10.8x	9.5x	7.6x
Quick Ratio	0.8x	0.9x	7.3x	6.9x	4.6x
Operating Cash Flow	6.9	5.2	2.5	6.1	6.4

Source: LMS Compliance, Bloomberg, compiled by uSMART Research

Balance Sheet Strength Provides Strategic Optionality: LMS enters FY2025 with a fortress balance sheet, maintaining a net cash position of RM9.8m and Net Debt/EBITDA of -1.0x. This conservative capital structure materially de-risks the Group's ongoing expansion phase and provides flexibility to absorb integration costs from recent acquisitions without balance sheet strain. Interest coverage remains exceptionally strong at ~47x, insulating earnings from financing volatility and allowing management to prioritize strategic reinvestment over capital preservation.

Liquidity Remains Excessive, Not Constraining: Liquidity metrics remain well above sector norms, with a Current Ratio of 7.6x and Quick Ratio of 4.6x in FY2024. While cash balances normalized from FY2023 following elevated CapEx and minority investments, operating cash flow of RM6.4m comfortably covered expansionary spend. This suggests no near-term funding risk even under conservative stress scenarios. The key item to monitor is working capital discipline. Accounts receivable grew +36.8% YoY, outpacing revenue growth (+21.4%), reflecting a mix shift toward larger corporate ESG and certification clients with longer payment cycles rather than deterioration in credit quality. Management execution on collections will be a key indicator of cash conversion sustainability in FY2025.

CapEx Cycle Peaks Ahead of Margin Normalisation: FY2024 marked a step-up investment year, with CapEx rising to RM2.8m (11.0% of sales), primarily allocated to (1) MY CO2 (KL) facility expansion; (2) Laboratory automation; (3) Development of Aizenz GHG digital tools. The elevated CapEx/Depreciation ratio of 2.2x confirms the Group is in a growth-investment phase rather than maintenance mode. Importantly, LMS remained free-cash-flow positive (RM3.6m) despite this reinvestment cycle, reinforcing earnings quality. Looking ahead, we expect CapEx intensity to normalize toward 6–7% of sales as major infrastructure upgrades are completed, setting the stage for operating leverage as revenue scales.

Operating Outlook: Growth Sustained, Margins in Transition: The near-term operating outlook is defined by a growth–margin trade-off. Revenue momentum remains strong, supported by regulatory-driven demand for testing, certification, and ESG assurance. However, EBITDA margin compression from 45.8% (FY2023) to 36.0% (FY2024) reflects (1) roll-off of government grants; (2) higher skilled-talent costs; (3) upfront expansion expenses. These pressures are structural but not permanent. As digital platforms (Aizenz, aikinz-LIMS) scale and new facilities reach higher utilization, margin recovery should follow. The key inflection will be whether incremental ESG revenue carries software-like contribution margins, validating the strategic pivot.

5.3. Earnings Forecasts & Modelling Assumptions

Following a stabilisation phase in 1HFY2025, LMS Compliance is entering a second-half execution phase that is expected to define full-year performance. While interim results reflected modest headline growth, underlying operating indicators and post-acquisition momentum point to a meaningful acceleration in 2H, particularly following the consolidation of Anchor Technology.

We model mid-teens revenue growth over FY2025–FY2026, with upside skewed toward the upper end of this range should second-half execution track ahead of expectations. Growth is supported by resilient laboratory testing demand, continued scaling of certification and ESG assurance services, and incremental contribution from China following the July 2025 acquisition. Importantly, our base case assumes measured consolidation rather than immediate step-change growth, leaving room for positive variance.

On profitability, margins are expected to stabilise in FY2025, reflecting the absorption of prior-year investment costs and steady operating cash generation observed in 1HFY2025. As fixed costs at the MY CO2 (KL) facility are increasingly absorbed and ESG advisory capacity utilisation improves, we see scope for sharper-than-modelled net income recovery in the second half. We do not assume a return to FY2023 peak margins in the near term but believe downside risk to margins has materially narrowed.

Overall, earnings visibility is improving, and risk-reward is increasingly skewed to the upside if current momentum sustains through 2H2025. Valuation re-rating will hinge less on headline revenue growth and more on evidence that incremental scale—particularly from China and ESG assurance—can be delivered without renewed margin dilution.

5.4 Earnings Quality & Cash Flow Check

LMS Compliance's earnings quality remains intact, despite margin compression during its recent investment phase. Operating cash flow in 1HFY2025 (RM2.6m) remained broadly aligned with reported net profit, indicating no material reliance on accruals or aggressive revenue recognition.

The margin decline observed since FY2024 appears cyclical rather than structural, driven by front-loaded investment in capacity expansion, ESG assurance capability, and higher depreciation. There is no evidence of cost leakage translating into balance sheet stress.

Importantly, the Group maintains a net cash position and strong liquidity, providing downside protection through the Anchor Technology integration phase. Rising receivables warrant monitoring but are consistent with a shift toward larger corporate and ESG-related contracts rather than deterioration in credit quality.

Conclusion: Earnings risk reflects execution timing, not earnings integrity—supporting the use of forward-looking valuation multiples.

5.5. Valuation Analysis & Price Target

Valuation Approach

We value LMS Compliance Ltd. on a forward earnings basis, which we view as the most appropriate methodology given the Group's net cash balance sheet, high proportion of recurring regulatory-driven revenue, and improving earnings visibility following its FY2024 investment and expansion phase. With FY2024 marking a margin trough, valuation is increasingly driven by earnings normalisation rather than asset replacement value. DCF analysis is used as a secondary cross-check to validate the implied valuation range but is not relied upon as the primary pricing mechanism at this stage of the earnings cycle.

Target Price Derivation

Our valuation is anchored on a forward EPS of RM 0.055, derived from a simple annualization of 1H FY2025 earnings with modest margin normalisation, reflecting continued revenue momentum and incremental contribution from higher-margin certification and ESG-related services. Importantly, this forecast excludes any aggressive assumptions around acquisition synergies or China-related upside, preserving a conservative bias.

Applying a target P/E multiple of 26.0x—representing a modest discount to global TIC peers to account for LMS's smaller scale and liquidity profile—we derive a fair value of RM 1.43 per share, equivalent to SGD 0.44 per share (RM/SGD: 0.3053, Bloomberg MYRSGD Spot Exchange Rate 1-year average). This implies approximately ~26% upside potential from the latest closing price of SGD 0.35.

As a valuation cross-check, our target price implies a forward EV/EBITDA multiple in the mid-teens, broadly in line with global TIC peers, providing comfort that the earnings-based valuation is not stretched.

6. ESG Analysis & Sustainability

LMS Compliance has repositioned ESG from a reporting obligation into a commercial growth lever. By adopting IFRS S1 and S2 standards in FY2024—ahead of many regional listed companies—the Group demonstrates reporting maturity aligned with its expansion into AA1000-accredited ESG assurance and digital carbon accounting via Aizenz GHG. Management's approach of using its own decarbonisation roadmap as a live deployment case strengthens product credibility while converting internal compliance costs into client-facing solutions.

- **Environmental Risk & Resilience:** LMS's direct environmental footprint is limited given its service-based model, though operations remain exposed to physical climate risks in Malaysia and Singapore. Notably, LMS is among few micro-caps to quantify climate-related EBITDA impacts through 2050, estimating cumulative exposure of ~RM1.7m, mitigated by ~RM1.2m of planned resilience CapEx. While these figures are immaterial at a group level, they imply ongoing reinvestment requirements to maintain operational continuity. More importantly, environmental regulation acts as a net revenue catalyst, driving demand for pollutant testing, fertilizer analysis and mandatory carbon reporting—key contributors to FY2024's 21.4% revenue growth.
- **Social Capital & Execution Risk:** Human capital is a critical execution risk as LMS shifts from pure testing into ESG assurance and digital solutions. Management has identified talent retention and ESG culture lapses as material risks, with a quantified long-term impact of ~RM0.5m each if unmitigated. While current margins remain robust (20.5% net profit margin in FY2024), labour tightness for certified auditors and lab specialists could pressure profitability as ESG demand scales. Socially, LMS's core business serves a defensive public-interest function—ensuring product safety and regulatory compliance—supporting high client retention (>85%) and reputational resilience. However, any lapse in safety or ethics would have outsized downside, given accreditation remains the Group's most valuable intangible asset.
- **Governance Quality & Control Risk:** Governance structures broadly align with the Singapore Code of Corporate Governance (2018), including separation of Chairman and CEO roles and 2 independence directors. ESG risks are embedded into enterprise risk management using a double-materiality framework, supported by system-level controls via aikinz-LIMS and aizenZ. That said, ownership concentration remains the dominant governance risk, with executive founders controlling ~84% of equity. While alignment is strong, minority protection relies heavily on board's independence and disclosure discipline. The use of a group subsidiary for first-party ESG assurance under ISO 14064-1, though technically valid, requires continued audit committee oversight to avoid perceived self-review risk.

From a valuation standpoint, ESG is more revenue-material than risk-material for LMS. Climate and social risks are manageable and financially immaterial on an annualised basis, but ESG-driven services—particularly carbon accounting and ESG assurance—are scaling rapidly (>80% YoY growth) and carry structurally higher margins (50–55%) than core testing. The market's current ~30x P/E and ~18x EV/EBITDA imply confidence in ESG monetisation. However, this premium remains sensitive to execution. Any slowdown in ESG regulatory enforcement or margin dilution from talent costs could compress multiples toward the 15–18x industrial testing median.

7. Catalysts & Risks

Investment timing for LMS Compliance is now driven by post-acquisition execution rather than deal completion. FY2024 revenue growth (+21.4% YoY to RM25.38m) confirms resilient compliance-driven demand, but the earnings profile remains sensitive to cost normalization and integration efficiency. With Anchor Technology acquisition completed on 11 July 2025, near-term re-rating hinges on whether management can translate the expanded footprint into (i) faster earnings conversion, (ii) mix shift into certification/ESG assurance, and (iii) sustained margin discipline.

Regulatory tailwinds remain intact, but it is important to be precise: Malaysia is implementing ISSB-aligned reporting via the NSRF on a phased basis by issuer group, while Singapore's regime is climate-first with mandatory Scope 1 and 2 disclosures for all issuers from FY2025, with additional requirements phased by timeline/issuer group.

7.1 Near-term Catalysts (next 6–18 months)

- ✓ **Anchor Technology integration (post-completion execution):** Following the completion of the Anchor Technology acquisition on 11 July 2025, market attention has shifted from transaction certainty to integration execution. The investment impact will depend on the quality of revenue consolidation, client retention, and the ability to cross-sell certification and assurance services without diluting group margins. Key near-term indicators include the disclosed revenue contribution from Anchor Technology, integration-related costs, and the operating cadence of the China platform.
- ✓ **Malaysia ISSB / IFRS S1–S2 adoption tailwind (phased, tiered):** Malaysia's National Sustainability Reporting Framework (NSRF) introduces a phased, tiered adoption of ISSB-aligned disclosures, with Group 1 Main Market issuers (≥ RM2b market capitalisation) leading the rollout under a climate-first approach before broader sustainability requirements are enforced. As reporting obligations expand across issuer tiers, demand for ESG assurance, carbon accounting, and audit-ready sustainability workflows is expected to rise, directly supporting LMS's ESG assurance and digital compliance service roadmap.
- ✓ **Singapore climate reporting tightening (climate-first; Scope 1 & 2 mandatory from FY2025):** Singapore's enhanced climate reporting regime mandates Scope 1 and Scope 2 emissions disclosures for all listed issuers from FY2025, with ISSB-aligned requirements progressively incorporated and timelines refined in 2025. While not all sustainability disclosures are mandatory at this stage, the tightening climate-first framework sustains compliance-related spending, reinforcing demand for carbon accounting tools, standardized reporting workflows, and independent assurance capabilities.
- ✓ **Margin normalisation and operating leverage:** Despite robust revenue growth in FY2024, margins softened due to normalized government grants, foreign exchange volatility, and expansion-related operating costs. A near-term re-rating requires confirmation that these pressures were transitory rather than structural. Investors will focus on staff cost intensity, utilization improvements at the MY CO_2 (KL) facility, and incremental margins on new revenue to assess whether operating leverage is re-emerging.

✓ **Capital management and dividend visibility:** LMS maintains a net cash balance sheet and has articulated a ~20% dividend payout policy, providing a potential valuation floor during the current execution phase. Market confidence will depend on management's ability to balance dividend continuity with post-acquisition integration needs and further inorganic opportunities. Clear capital allocation signals will be important in anchoring investor expectations.

7.2 Key Risks to the Investment Thesis

- **Integration under-delivery (Anchor Technology):** If China integration dilutes margins, delays cross-selling, or fails to deliver meaningful earnings accretion, the premium narrative weakens.
- **Segment concentration persists:** If revenue remains heavily skewed to core lab testing and higher-multiple segments fail to scale, valuation may compress toward traditional testing peers.
- **Accreditation / compliance is binary:** Loss or suspension of critical ISO accreditations would be materially adverse given the compliance-led revenue model.
- **Regulatory implementation risk (pace and scope):** Malaysia/Singapore requirements are phased; slower enforcement, extended timelines, or limited assurance demand could delay ESG monetisation.
- **Liquidity and control constraints:** Founder control/high concentration reduces float and can restrict institutional sizing and exit flexibility (Catalist micro-cap constraint).
- **ESG assurance independence / perception risk:** Where internal assurance structures exist, investor perception and audit committee oversight matter to maintain credibility in ESG-linked revenue.

Appendix Table 1: Income Statement

In RM millions except per share data	2020 Y 31/12/2020	2021 Y 31/12/2021	2022 Y 31/12/2022	2023 Y 31/12/2023	2024 Y 31/12/2024
Revenue	**15.839**	**16.988**	**18.676**	**20.902**	**25.384**
+ Sales & Services Revenue	15.839	16.988	18.676	20.902	24.994
+ Other Operating Income	0.536	0.289	0.488	2.667	0.464
- Operating Expenses	10.052	10.655	16.426	15.133	17.985
+ Depreciation & Amortization	0.885	0.920	1.078	1.137	1.280
+ Other Operating Expense	9.166	9.735	15.348	13.996	16.484
Operating Income (Loss)	**6.323**	**6.622**	**2.738**	**8.436**	**7.863**
- Non-Operating (Income) Loss	0.129	0.012	0.326	0.843	0.044
+ Interest Expense, Net	0.115	0.006	0.159	(0.030)	(0.008)
+ Interest Expense	0.265	0.231	0.210	0.178	0.194
- Interest Income	0.150	0.225	0.051	0.208	0.202
+ (Income) Loss from Affiliates	-	-	-	-	(0.060)
+ Other Non-Op (Income) Loss	0.014	0.006	0.167	0.873	0.112
Pretax Income (Loss), Adjusted	**6.194**	**6.610**	**2.412**	**7.593**	**7.819**
- Abnormal Losses (Gains)	-	-	-	-	0.011
+ Asset Write-Down	-	-	-	-	0.011
Pretax Income (Loss), GAAP	**6.194**	**6.610**	**2.412**	**7.593**	**7.808**
- Income Tax Expense (Benefit), GAAP	1.504	1.662	1.692	2.112	2.600
+ Current Income Tax (Benefit), GAAP	1.504	1.662	1.692	2.117	2.578
+ Deferred Income Tax (Benefit), GAAP				(0.005)	0.022
Income (Loss) from Cont Ops, GAAP	**4.690**	**4.948**	**0.720**	**5.481**	**5.208**
Income (Loss) Incl. MI, GAAP	**4.690**	**4.948**	**0.720**	**5.481**	**5.208**
Net Income, GAAP	**4.690**	**4.948**	**0.720**	**5.481**	**5.208**
Net Income Avail to Common, GAAP	**4.690**	**4.948**	**0.720**	**5.481**	**5.208**
Net Income Avail to Common, Adj	**4.690**	**4.948**	**0.720**	**5.481**	**5.217**
Net Abnormal Losses (Gains)	-	-	-	-	0.009
Net Extraordinary Losses (Gains)	-	-	-	-	-

Source: Bloomberg

Appendix Table 2: Balance Sheet

In RM millions except per share data	2020 Y 31/12/2020	2021 Y 31/12/2021	2022 Y 31/12/2022	2023 Y 31/12/2023	2024 Y 31/12/2024
Total Assets					
+ Cash, Cash Equivalents & STI	0.73	1.11	12.31	17.23	12.26
+ Cash & Cash Equivalents	0.73	1.11	12.31	17.23	12.26
+ Accounts & Notes Receiv	2.71	2.66	2.91	3.21	4.39
+ Accounts Receivable, Net	2.71	2.66	2.91	3.21	4.39
+ Other ST Assets	10.12	7.96	7.19	7.52	10.69
+ Prepaid Expenses	0.07	0.74	0.22	0.44	0.48
+ Misc ST Assets	10.05	7.21	6.97	7.08	10.22
Total Current Assets	**13.56**	**11.72**	**22.62**	**28.07**	**27.43**
+ Property, Plant & Equip, Net	9.51	9.27	8.96	9.01	10.68
+ Property, Plant & Equip	11.96	12.32	12.56	13.47	15.68
- Accumulated Depreciation	2.45	3.05	3.60	4.46	5.00
+ Other LT Assets	-	-	-	-	0.60
+ Investments in Affiliates	-	-	-	-	0.60
Total Noncurrent Assets	**9.51**	**9.27**	**8.96**	**9.01**	**11.28**
Total Assets	**23.07**	**20.98**	**31.57**	**37.08**	**38.72**
Liabilities & Shareholders' Equity					
+ Payables & Accruals	1.77	1.71	1.37	2.26	2.86
+ Accounts Payable	1.53	1.61	1.31	2.07	2.50
+ Accrued Taxes	0.24	0.10	0.06	0.18	0.36
+ ST Debt	2.49	2.31	0.33	0.34	0.36
+ ST Borrowings	2.21	2.07	0.09	0.09	0.09
+ Other ST Liabilities	0.28	0.25	0.40	0.35	0.38
+ Deferred Revenue	0.28	0.25	0.40	0.35	0.38
Total Current Liabilities	**4.54**	**4.27**	**2.10**	**2.94**	**3.60**
+ LT Debt	2.11	1.86	2.67	2.37	2.14
+ Other LT Liabilities	0.57	0.55	0.64	0.59	0.59
+ Deferred Tax Liabilities	0.30	0.32	0.41	0.41	0.43
+ Misc LT Liabilities	0.27	0.23	0.23	0.19	0.16
Total Noncurrent Liabilities	**2.68**	**2.41**	**3.32**	**2.96**	**2.73**
Total Liabilities	**7.21**	**6.68**	**5.42**	**5.90**	**6.32**
+ Common Stock	2.33	2.33	11.29	11.29	11.29
+ Retained Earnings	13.52	11.97	12.69	17.72	18.88
+ Other Equity	0.01	0.01	2.18	2.17	2.22
Equity Before Minority Interest	**15.86**	**14.31**	**26.16**	**31.18**	**32.39**
Total Equity	**15.86**	**14.31**	**26.16**	**31.18**	**32.39**
Total Liabilities & Equity	**23.07**	**20.98**	**31.57**	**37.08**	**38.72**

Source: Bloomberg

Appendix Table 3: Cash Flow Statement

In RM millions except per share data	2020 Y 31/12/2020	2021 Y 31/12/2021	2022 Y 31/12/2022	2023 Y 31/12/2023	2024 Y 31/12/2024
Cash from Operating Activities					
+ Net Income	4.69	4.95	0.72	5.48	5.21
+ Depreciation & Amortization	0.89	0.92	1.08	1.14	1.28
+ Non-Cash Items	0.43	(0.01)	0.80	(0.63)	0.58
+ Other Non-Cash Adj	0.43	(0.01)	0.80	(0.63)	0.58
+ Chg in Working Capital	0.91	(0.67)	(0.11)	0.11	(0.70)
+ Inc (Dec) in Other	0.91	(0.67)	(0.11)	0.11	(0.70)
Cash from Operating Activities	**6.92**	**5.20**	**2.49**	**6.09**	**6.37**
Cash from Investing Activities					
+ Change in Fixed & Intang	(1.13)	(0.70)	(0.79)	(1.18)	(2.67)
+ Disp in Fixed & Intang	-	0.01	-	-	0.12
+ Disp of Fixed Assets	-	0.01	-	-	0.12
+ Acq of Fixed & Intang	(1.13)	(0.71)	(0.79)	(1.18)	(2.79)
+ Purchase of Fixed Production Assets	(1.13)	(0.71)	(0.79)	(1.18)	(2.79)
+ Other Investing Activities	(5.11)	3.03	0.37	0.20	(3.45)
Cash from Investing Activities	**(6.24)**	**2.33**	**(0.42)**	**(0.98)**	**(6.12)**
Cash from Financing Activities					
+ Dividends Paid	-	(6.50)	-	(0.45)	(4.04)
+ Cash From (Repayment) Debt	(0.63)	(0.65)	(1.39)	(0.50)	(0.53)
+ Cash (Repurchase) of Equity	0.08	-	10.52	-	-
+ Increase in Capital Stock	0.08	-	10.52	-	-
Cash from Financing Activities	**(0.55)**	**(7.15)**	**9.14**	**(0.95)**	**(4.58)**
Effect of Foreign Exchange Rates	-	-	-	0.75	(0.65)
Net Changes in Cash	**0.13**	**0.37**	**11.21**	**4.92**	**(4.97)**
Cash Paid for Taxes	**1.26**	**1.79**	**1.64**	**1.99**	**2.41**

Source: Bloomberg

Investment Rating Definitions

Short-term Company Rating: Based on the company's share price performance relative to the current price six months from the date of the report:

- Buy: The company's share price outperforms the benchmark index by ⩾ 20%
- Outperform: The company's share price outperforms the benchmark index by 5%–20%
- Hold: The company's share price change is within ±5% of the benchmark index
- Neutral: No judgment is made on the company's share price performance within the next 12 months

Long-term Company Rating:

- A: The company's long-term growth potential is above the industry comparable average
- B: The company's long-term growth potential is in line with the industry comparable average
- C: The company's long-term growth potential is below the industry comparable average

Important Disclosures