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AGX bonus warrants offer optional upside, but dilution risk remains

AGX Group Bhd's proposed bonus issue of warrants offers existing shareholders free optional upside, but analysts caution that the longer-term dilution impact must be weighed against the group's premium valuation and recent share price underperformance.

The ACE Market-listed integrated logistics provider last week proposed a bonus issue of up to 108.22 million warrants on the basis of one warrant for every four existing shares held.

The proposal is subject to approvals from Bursa Malaysia and shareholders at an extraordinary general meeting (EGM).

While it does not provide an immediate cash injection, it could progressively strengthen AGX's balance sheet if the warrants are exercised over their five-year tenure.

Mercury Securities Sdn Bhd views the proposal as broadly shareholder-friendly, noting that the warrants will be issued at no cost and allow investors to participate in future share price upside.

The exercise price will be fixed later by the board at a targeted premium of between 10% and 30% to the prevailing five-day volume-weighted average price, a structure that limits immediate dilution.

As at Dec 1, 2025, AGX had an issued share capital of 432.87 million shares and no outstanding convertible securities.

Assuming full exercise, the enlarged share base would rise by about 20%, remaining well within Bursa Malaysia's regulatory limit that caps potential dilution from convertible instruments at 50% of issued share capital.

Although the bonus issue itself does not raise funds upfront, Mercury Securities estimates that AGX could potentially raise about RM56.3 million assuming full exercise of the warrants at an illustrative price of 52 sen.

The proceeds are expected to be used mainly for working capital purposes, including staff costs and

Source: agxlogistics.com

AGX maintains a strong balance sheet with no outstanding convertible securities

operating expenses, with flexibility to deploy funds progressively over the life of the warrants.

Any unutilised funds may be placed in short-term deposits or money market instruments.

From an earnings perspective, the research house expects no immediate impact on profitability, aside from a one-off implementation cost of about RM230,000.

However, as and when the warrants are exercised, earnings per share would be diluted proportionately due to the enlarged share base.

Assuming full exercise, Mercury Securities estimates that financial year 2026 (FY26) core earnings per share would be reduced by about 14%.

The balance sheet impact, however, is more constructive.

Full exercise of the warrants would lift shareholders' equity from RM89.5 million to RM145.6 million, raising net assets per share from 21 sen to 27 sen.

Gearing is also expected to improve to 0.06 times from 0.10 times, reinforcing AGX's financial flexibility without additional borrowings and aligning with its asset-light business model.

Mercury reiterated its 'Buy' call on AGX, maintaining its target price (TP) of 53 sen pending approvals for the proposal.

The valuation is based on a 5.5 times FY26 estimated enterprise value-to-EBITDA multiple, which implies a forward price-earnings ratio of about 13 times — roughly a 30% premium to the broader transportation and logistics sector.

The research house justifies this premium on AGX's asset-light structure, diversified revenue streams and superior profit margins.

That said, AGX's share price performance has lagged.

The stock has declined more than 20% over the past 12 months, significantly underperforming the FTSE Bursa Malaysia KLIC (FBM KLCI).

While the bonus warrant issue may help improve liquidity and investor engagement, Mercury Securities notes that a sustained re-rating will depend on the company's ability to deliver earnings growth.

Looking ahead, the research house remains cautiously optimistic on AGX's longer-term prospects, citing easing inflationary pressures, improving economic visibility in the Asia-Pacific region and potential tailwinds from Visit Malaysia Year 2026.

Additional upside could come from aerospace logistics and maintenance, repair and overhaul activities, as well as cross-border e-commerce growth. — *TMR*