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New airline contracts to fuel AGX's 2H earnings growth

PETALING JAYA: AGX Group Bhd is poised for a stronger second half of financial year 2026 (2H26), driven by growing contributions from its aerospace logistics business and new airline contracts that are expected to ramp up progressively over the coming months, Mercury Research says.

The research house, however, downgraded the stock to "hold" from "buy" after its recent share price appreciation, while maintaining its target price at 48.5 sen.

It said the integrated logistics provider remained well positioned to benefit from resilient freight demand and its expanding presence across the Association of South-East Asian Nations.

It expects airfreight to outperform sea freight this year, supported by new aerospace logistics contracts.

"Aerospace logistics remains one of AGX's key competitive strengths. New airline accounts, including VietJet and Malaysia Airlines-related business, require lengthy vendor-registration and onboarding processes across multiple locations.

"Revenue contribution is therefore expected to build progressively rather than immediately," it said.

"The ramp-up of these airline contracts should become more visible in the 2H26."

The research house said the company's management expects second quarter of financial year 2026 (2Q26) revenue to improve from 1Q26.

It also expects 2H26 to outperform the first as the recently secured airline accounts gain traction, with 4Q likely to be the strongest of the year.

Gross profit margins are projected to remain between 24% and 25%, with potential upside from higher-margin aerospace logistics activities.

Mercury Research said geopolitical disruptions in the Middle East could provide an additional tailwind for AGX by redirecting selected air cargo volumes to Asian carriers following flight cancellations and reduced cargo capacity among Middle Eastern airlines.

This is expected to increase demand for airfreight forwarding, aircraft maintenance support and aerospace logistics services, while some time-sensitive cargo may also shift from sea freight to air transport.

The research house added that AGX is able to pass through a substantial portion of higher freight costs to customers.

Mercury Research also highlighted AGX's 30% associate, All-Link, as a key long-term strategic investment.

While AGX's stake is expected to dilute to about 23% following All-Link's proposed Singapore Exchange listing, the management does not intend to sell its shares, viewing the investment as a platform to capture long-term regional growth.