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Storms of Fire Incoming?

Possible Impact of US Strike on Iran

Strategy Report

KEY INVESTMENT HIGHLIGHTS

- The US launched airstrikes on Iran's nuclear sites, escalating the Iran-Israel conflict
- Iran vows retaliation, with potential actions including closing the Strait of Hormuz or attacking US assets
- Missile exchanges between Iran and Israel continue; US involvement sparks domestic and international criticism
- China and Russia urge de-escalation but are unlikely to let Iran's government collapse
- Oil prices expected to rise, possibly breaching USD80pb; full blockade could push prices to USD150–250pb
- Malaysia's economy may face headwinds from global trade slowdown and geopolitical risks
- Scenario analysis shows potential contraction in US and Malaysian GDP if conflict worsens
- Defensive sectors (REITs, utilities, consumer staples) recommended for stability
- Short-term trading opportunities seen in energy stocks like Bumi Armada and Deleum
- **Baseline FBM KLCI target maintained at 1,590** unless conflict escalates further

US entering the fray.

The US has seemingly entered the Iran-Israel conflict as it announced yesterday that it had struck three Iran nuclear facilities in Fordow, Natanz, and Isfahan. According to President Donald Trump it was a ""very successful attack", adding that the heavily fortified Fordow nuclear facility is "gone".

Dangerous escalation.

Foreign Minister Abbas Araghchi, warned in a post on X that the US attacks "will have everlasting consequences" and that Tehran "reserves all options" to retaliate. Meanwhile, Iran's ambassador to the UN called for an emergency Security Council meeting. Last Wednesday. Iran's Supreme Leader Ayatollah Ali Khamenei warned the US that strikes on Iran will "result in irreparable damage for them," and Iranian Foreign Ministry spokesman Esmail Baghaei declared "any American intervention would be a recipe for an all-out war in the region."

Tit-for-tat continues.

Meanwhile, the tit-for-tat missile exchange between Iran and Israel continues unabated. Hours after the US strike, Iran has carried out a barrage of missile attacks with loud explosions were heard in coastal hub Tel Aviv and Jerusalem on Sunday.

Not all in the US supports entering the conflict.

The action by President Trump to strike at Iran immediately raised some concerns among US lawmakers that he had exceeded his authority. Representative Thomas Massie, quickly posted on the social media site X; "This is not Constitutional." The move sparked condemnation from Democratic California congressman Ro Khanna as well, amongst others. It is also not unanimously supported by his MAGA movement. Among the influencers in the movement who spoke out against US involvement were former senior adviser Steve Bannon, congresswoman Marjorie Taylor Greene, commentator Tucker Carlson and Charlie Kirk, the founder of the conservative youth organization Turning Point.

Many hopes that this is a limited strike by the US either to force Iran to stop its retaliation against Israel and back to negotiations (which it was in the middle of prior to 13 June 2025) or to destroy just Iran's nuclear facilities. President Trump mentioned that the strike has destroyed those facilities, and he told reporters on Friday that he was not interested in sending ground forces into Iran. However, given how the situation will probably evolve, we are not ruling out this possibility.

Possible that it was a one and done strike?

China and Russia is positioning itself as voices of reason, calling for de-escalation of the conflict. In a call last week, Presidents Putin and Xi strongly condemned Israel's actions, calling it a breach of the UN Charter and other norms of international law. It is reported that Beijing has no interest in seeing an all-out war against Iran that could topple its government. In addition, Russia and Iran deepened its ties with the signing of a strategic partnership earlier this year, which promised greater economic and military cooperation but crucially did not include a mutual defense clause. Russia has not yet formally responded to the strikes. However, it had previously advised the US against "military intervention" in the Iran-Israel conflict. The main question, besides Iran's retaliation, remains what will Russia and China do? However, we believe that Russia and China will not likely allow Iran's government to fall.

What will Russia and China do?

There are a few options for an Iranian retaliation. Iran could retaliate by (i) closing the Strait of Hormuz which it has threaten to do, (ii) attacking US military bases in the Middle East, (iii) stepping up its missile barrage on Israel, or (iv) activating proxy groups against American and Israeli interests worldwide such as Iranian-backed Houthi rebels in Yemen which said they would resume attacks on US vessels in the Red Sea if the US joined Israel's military campaign. The danger is that such moves could escalate into a broader, more protracted conflict turning into another "forever war" which President Trump previously derided.

What now? Ways for Iran to retaliate.

While it has vowed for retaliation, it is possible that Iran may show restraint. Reports suggest that Iran have caused serious damage to Israel and has the capacity to continue with its missile barrages. Therefore, it may not be its interest to face the US at current juncture. We expect that at the very least it will potentially step up its missile strikes into Israel, though not ruling out strike against US assets in the Middle East.

It is possible that Iran will show restraint.

Following Israel's unprovoked attack on 13 June 2025, we had performed a scenario analysis to determine the impact should the conflicts continue to escalate further. However, we opine that Iran may show restraint at least for now while continuing to strike at Israel with its missilies. There is a possibility that Iran will blockade the Strait of Hormuz but a complete blockade by Iran is **not** expected at this time. The risks—economic, diplomatic, and military—outweigh the potential benefits for Tehran.

The situation has escalated, but not yet a Scenario 3 moment – much depends on Iran for now.

A blockade of the strait will inevitably push oil prices. However, even without such blockade we believe that oil prices will likely see an upward reaction next week with the threat of further escalation. We will not be surprised if Brent pass the **USD80pb** mark. As highlighted in our previous report (here), if **tensions escalate** significantly but the Strait doesn't fully close, oil could breach **USD100-120pb.** In a **full closure scenario** at an extended period, consensus projected that oil prices could easily exceed **USD150-250pb,** driven by fundamental scarcity and panic buying. Full closure is expected to remove 17-20mbpd from the market with limited alternatives.

Expect an upward reaction to oil prices despite no blockade of the Strait of Hormuz. Brent could breach USD80pb.

As a small and open trading nation, Malaysia's economic growth can be impacted by changes on the external front including trade war and the escalation in the major global conflicts. In our previous scenario analysis, we assume possible scenarios where technical recession could

Recall, our scenario analysis: several scenarios affecting Malaysia's growth outlook.

lead to the US growing below +1% or even experiencing a small contraction of -0.2% if the 2 quarter declines were to be followed by zero growth for a couple quarters. In a more severe contraction to the global trade, the collapse of global demand raises the risk of global recession which will be further dragged down by the escalation in geopolitical tensions.

Table 1: Possible Scenarios of US GDP Growth and its Impact on Malaysia's GDP Growth

	US GDP Growth (%yoy)	Malaysia's GDP Growth (%yoy)	FBM KLCI Earnings Growth (%yoy)	FBM KLCI Earnings Point	FBM KLCI PER Valuation (x)	FBM KLCI Index
Baseline	1.4	4.0	(1.5)	108.9	14.6	1,590
Scenario 1: Technical recession in 1HCY25	0.7	2.7	(3.5)	106.7	14.2	1,520
Scenario 2: Mild contraction in 2025	(0.2)	1.2	(5.4)	104.6	13.8	1,440
Scenario 3: Sharper contraction in 2025 *(and slowdown in global economy and trade)*	(1.0)	0.5	(7.1)	102.8	13.4	1,380
Scenario 3+: Global economic slowdown + further escalation of geopolitical risk in the Middle East	(2.0)	(0.2)	(7.9)	101.9	12.8	1,300

Brace for even sharper slowdown if situation persist.

Escalating geopolitical risks are a significant concern, as they inherently increase global instability and lead to a slowdown in worldwide economic activities. With the -2.0% decline in the US GDP, Malaysia's economy could see a marginal decline in economic growth of -0.5%, where the external trade slowdown will also affect domestic economic activities. In this scenario, we expect there will be some hit to the domestic economy as sharper export slowdown on the back of weaker global economic growth will also result in workers, especially those in the export-oriented industries, to be laid off. At the same time, the commodity and manufacturing sectors, as well as selected services sectors (such as storage and transport services and businesses serving the manufacturing and trade sectors) will also face less encouraging growth prospects due to the impact on hirings and higher costs from higher prices of crude oil and other inputs.

Reduced global demand from other regions.

Furthermore, such conflicts often trigger economic slowdowns or recessions in key trading partners like the US, Europe, China, and Japan, inevitably leading to a reduction in global demand for Malaysian goods. This widespread geopolitical instability also tends to make investors more risk-averse, prompting capital outflows from emerging markets like Malaysia and slowing down foreign direct investment (FDI), thereby stifling economic growth and development. Moreover, any further escalation of the conflict would spread to other neighbouring countries in the Middle East, which we assume the S3+ Scenario may be in effect as we would see a sharper contraction in the US GDP growth and dragging down Malaysia's economic growth into contraction.

Sticking with our baseline for now

While we had looked at a possibility of a downside scenario, we are maintaining our baseline view for now. This is as we opine that the conflict will be contained with a tit-for-tat missile barrage and Iran's restraint reaction for now. Hence, we maintain our **FBM KLCI target of 1,590 with** PER valuation of 14.6x.

We only foresee a further downside risk to the equity market if the recent Iran-Israel military conflict escalates into a protracted war.

Taking cover in defensive stocks

We reiterate our defensive stance amid our expectation of bouts of increased volatility and uncertainty. Purely defensive stocks, such as those in REITs, utilities, healthcare, and consumer staples, tend to provide consistent dividends and stable earnings regardless of the overall market conditions. This stability and attractive dividend yields should moderate the downside risks, while not discounting the potential for price appreciation due to undervaluation.

Recommend short-term trading on Energy counters.

While we believe a defensive stance is appropriate for the medium term, we believe that investors may be able to take a short-term trading position on Energy stocks. This is in light of our expectation of higher Brent price this week and possibly longer should the situation persist. We have BUY calls for Bumi Armada (TP: RM0.70), Deleum (TP: RM1.92). There could be interest in other oil & gas players such as Yinson, Hibiscus and Petra Perdana (all non-rated).

Top picks:

	Rec.	Price (RM) @ 20/6/25	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
OIL & GAS								
Bumi Armada	BUY	0.47	0.70	48.9%	0.0%	48.9%	4	Yes
Deleum	BUY	1.64	1.92	17.1%	3.8%	20.9%	4	Yes
MISC	BUY	7.55	8.13	7.7%	4.8%	12.5%	4	Yes
DEFENSIVE PLAY								
Pekat	BUY	1.13	1.86	64.6%	0.0%	64.6%	4	No
Sunview	BUY	0.40	0.54	35.0%	0.0%	35.0%	-	No
TNB	BUY	14.22	16.40	15.3%	4.2%	19.5%	3	Yes
Spritzer	BUY	1.53	1.75	14.4%	2.5%	16.9%	3	No
F&N	BUY	28.88	32.68	13.2%	2.7%	15.8%	4	Yes
Pavilion REIT	BUY	1.55	1.69	9.0%	5.3%	14.3%	3	Yes
Petronas Dagangan	BUY	21.26	22.25	4.7%	5.6%	10.2%	4	Yes

Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology