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Beneficiaries of Surprise OPR Cut

KEY INVESTMENT HIGHLIGHTS

- Bank Negara Malaysia unexpectedly cut the OPR by 25bps to 2.75%, citing downside risks to growth.
- Global growth remains robust but faces uncertainties from trade tensions and geopolitical risks.
- Malaysia's GDP growth is forecasted at +4.0% for 2025, supported by domestic spending.
- Households benefit from lower borrowing costs, boosting disposable income and spending.
- Consumer-facing sectors (retail, auto, tourism) are expected to gain from improved sentiment.
- Property sector sees improved affordability and loan eligibility, especially for mid-range housing.
- Developers like Mah Sing, Matrix Concepts, and UOA Development are well-positioned.
- REITs with high floating-rate debt (e.g., Al-Aqar, Pavilion, Sunway) benefit from lower interest costs.
- Consumer stocks like AEON, Padini, and Oriental Kopi are expected to gain from increased spending.
- Automotive sector impact is limited; MBM Resources remains a top pick.
- Overall, consumer and property sectors rated POSITIVE; REITs and auto remain NEUTRAL.

BNM cut the Overnight Policy Rate (OPR) by -25bps to 2.75% after the Jul-25 Monetary Policy Meeting, indicating that the balance of risk to the growth outlook remains tilted to the downside, stemming from a slower global trade, weaker sentiment, and lower than expected commodity production. However, the decision is contrary to our house expectations for no change in the OPR setting.

As stated in the Monetary Policy Statement (MPS), global growth continues to expand, driven by sustained consumer spending and the front-loading activities. The global growth outlook is anticipated to remain robust, underpinned by favourable labour market conditions, a less restrictive monetary policy stance, and ongoing fiscal stimulus measures. Nonetheless, this outlook remains subject to significant uncertainties, including the outcomes of trade negotiations and ongoing geopolitical tensions. These factors could also contribute to increased volatility in global financial markets and commodity prices. We observed that market sentiment has improved recently from its tariff-induced lows, fuelled by optimism surrounding trade deals and the easing in geopolitical uncertainty. However, our economics team believe the outlook remains uncertain and is likely to continue affecting market volatility.

The MPS also stated that the balance of risks to the growth outlook remains tilted to the downside, attributed to slower global trade, weaker sentiment, and lower commodity production. This somewhat aligns with our projections as we anticipate Malaysia's GDP growth to moderate to +4.0% this year, primarily supported by sustained domestic spending. Our in-house forecast incorporates an expected slower expansion in external trade, reflecting a projected moderation in demand from key markets, in the wake of recently announced tariff increases. Despite this, we maintain the view that Malaysia is well-positioned to sustain positive overall economic growth, and we believe that most risks may be moderating in 2HCY25.

A surprise OPR cut.

Global growth outlook is anticipated to remain robust but is subject to significant uncertainties.

We maintain our forecast of +4.0%yoy GDP growth for Malaysia.

The OPR, as the benchmark interest rate, influences the cost of borrowing and the overall liquidity in the financial system. While the cut caught us by surprise, we are cognizant that there will be beneficiaries to the OPR cut. One of the most immediate and visible beneficiaries of an OPR cut is households. The reduced borrowing costs increase disposable income and potentially stimulate consumer spending. Furthermore, lower financing costs make home ownership more accessible.

Industries that rely heavily on consumer spending, such as retail, automotive, hospitality, and tourism, are expected to be positively affected by an OPR cut. With increased disposable income and cheaper financing options, it may lead to consumers making discretionary purchases despite concerns about potential inflationary pressures.

The property market is another major beneficiary of an OPR cut. Lower interest rates typically lead to increased demand for housing, particularly in the mid-range and affordable segments. Prospective buyers are more inclined to enter the market when mortgage rates are favourable, leading to higher transaction volumes. Developers, in turn, may accelerate project launches, anticipating improved sales and easier access to financing. REITs is also expected to benefit, as their yields become more attractive relative to fixed-income instruments.

Below are our views on the impact on these sectors:

SECTORAL VIEW

Consumer.....Maintain POSITIVE

Bank Negara Malaysia's 25bps rate cut to 2.75%—its first since the pandemic era. The easing stance is expected to provide timely support to household consumption, which remains a key pillar of domestic growth.

We view this as positive for the consumer sector, as the immediate effect of lower lending rates is a reduction in monthly commitments for mortgages, personal loans, and hire-purchase financing. This effectively boosts disposable income and may encourage renewed spending across discretionary categories, particularly in fashion and dining. As such, we believe **AEON (BUY, TP: RM1.77), Padini (BUY, TP: RM2.49) and Oriental Kopi (NEUTRAL, TP: RM0.83)** are well-positioned to benefit from this policy tailwind, given their strong brand visibility and mass-market appeal.

In the staples segment, while demand is generally non-cyclical, improved consumer sentiment could support trade-up behaviour and volume recovery. This bodes well for players with premium positioning and strong pricing power. Meanwhile, businesses with higher gearing levels stand to benefit from lower interest expenses, offering some margin relief amid ongoing cost pressures from utilities and labour.

Overall, while the transmission effect may take time to fully materialise, we believe the rate cut—coupled with ongoing fiscal support measures such as civil servant pay hikes, targeted cash handouts, and EPF Account 3 withdrawals—will help cushion the near-term impact of the SST expansion and gradual fuel subsidy rationalisation. We maintain a constructive outlook on the consumer sector heading into 2HCY25.

Households are expected to benefit from the surprise cut.

Consumer-facing industries are expected to benefit.

So does the property sector.

Support for household consumption.

May encourage renewed spending across discretionary categories, particularly in fashion and dining.

In the staples segment, it could support trade-up behaviour and volume recovery.

We maintain a constructive outlook on the consumer sector.

Property.....Maintain POSITIVE

The OPR cut by 25bps is slightly positive to the property sector as it improves home affordability marginally by reducing borrowing costs and improving loan eligibility. We estimate the monthly housing loan instalment to reduce by RM70 or 3% for a variable-rate housing loan of RM500k based on the assumption of a loan tenure of 30 years and an interest rate of 3.9%. Although the reduction of housing loan instalments is not substantial, we think that it improves home affordability marginally. Besides, the lower interest rate is expected to improve loan eligibility due to borrowers' debt service ratio, which makes borrowers easier to qualify for a housing loan. Overall, the cut in OPR bodes well for new sales prospects for developers.

OPR cut improves home affordability.

While the OPR cut is expected to improve home affordability and lift demand for property in Malaysia, we see that middle-end housing developers are expected to see greater benefit from the OPR cut than developers that focus on high-end properties. Typically, middle-end housing developers target first-time homebuyers and young professionals who are more sensitive to the reduction in housing loan instalments, given the generally lower income. In this context, we see that middle-end housing developers, namely **Mah Sing Group (BUY, TP: RM1.37)**, **Matrix Concepts (BUY, TP: RM1.59)** and **UOA Development (BUY, TP: RM1.98)** to benefit from the improving home affordability of first-time homebuyers and young professionals. New sales prospects for the companies are expected to be underpinned by the stronger buying interest from first-time homebuyers.

Middle-end housing developers to benefit from OPR cut.

The cut in OPR is expected to lead to interest savings for developers. We estimate the earnings impact from interest savings to be below 2% for developers under our coverage. Notably, we estimate interest savings to lift earnings by 2% for S P Setia, ~1.5% for Eco World Development Group & Sunway Berhad & IOI Properties, and below 1% for Matrix Concepts and Mah Sing Group. Meanwhile, we expect no earnings impact from the reduction in interest rate on UOA Development as it has minimal borrowings with a net cash position. Overall, the earnings impact from interest savings to developers is minimal at below 2%.

Minimal earnings impact from interest savings.

REITs.....Maintain NEUTRAL

The 25bps OPR cut is expected to bring cost savings to REIT in terms of borrowing. Hence, REITs with high floating rate debt, namely **Al-`Aqar Healthcare REIT (NEUTRAL, TP: RM1.26)**, **Pavilion REIT (BUY, TP: RM1.69)** and **Sunway REIT (BUY, TP: RM2.10)** are expected to benefit from the OPR cut. Note that Al-`Aqar Healthcare REIT has the highest floating rate debt ratio of 100%. Pavilion REIT has the second highest floating rate debt ratio of 87.5% followed by Sunway REIT at 52% and Axis REIT at 46%. Meanwhile, KLCCP Stapled Group has a low floating rate debt ratio of 9% while IGB REIT doesn't have debt on a floating rate.

Borrowing cost savings for REIT.

As the OPR cut is expected to lead to lower borrowing costs, we estimate the interest savings to lift earnings by 2.8% for Al-`Aqar Healthcare REIT, 2.3% for Pavilion REIT, 1.6% for Sunway REIT and 1.1% for Axis REIT. Meanwhile, the reduction in borrowing cost is expected to be muted for KLCCP Stapled Group at 0.1% of earnings. Overall, the savings from the borrowing cost following the reduction in OPR are expected to be moderate at below 3%. On another note, the OPR cut may improve the appeal of REIT for yield-seeking investors. Nevertheless, the average yield of REIT under our coverage tapers to 4.4% following the recent increase in share prices. Hence, we maintain NEUTRAL on REIT.

Minimal earnings impact from interest savings.

Automotive.....Maintain NEUTRAL

In a surprise decision, BNM lowered the OPR by 25 basis points to 2.75% yesterday. Historically, total industry volume (TIV) moves inversely with the OPR. Higher rates generally weigh on TIV by curbing consumer spending and increasing hire purchase costs, while lower rates tend to lift demand by improving affordability. More broadly, the macroeconomic backdrop remains supportive. BNM expects inflation to remain contained this year, with our in-house forecast placing the headline CPI at an average of +2.2%, which falls at the lower end of BNM's +2.0% to +3.5% projection range. The labour market is also holding steady, with unemployment expected to be lower at 3.0% in CY25 compared to 3.3% in CY24.

BNM surprises with OPR cut.

Although the OPR cut should support sentiment, we do not believe it is sufficient to drive TIV growth this year, given the strong base. Year-to-date, TIV has declined by -5.0%yoy to 316,737 units, which is in line with our expectations at about 40% of our full-year forecast. We are keeping our CY25 TIV projection unchanged at 792,000 units, implying a -3.0%yoy contraction. The cut should support demand for entry-level cars the most, given the higher sensitivity of mass-market buyers to loan costs. However, we see the benefit for **MBM Resources (BUY, TP: RM5.36)** as relatively contained in the near term due to Perodua's conservative production guidance and planned line upgrades for this year. Nonetheless, it remains our only BUY call for the sector. We see it as an attractive opportunity, as it is trading at -1.25SD below the sector's 5-year mean. Perodua's year-to-date TIV has remained relatively resilient, down just -1.5%yoy, outperforming the broader sector performance. In addition, MBM's auto parts manufacturing arm is positioned for margin recovery as material testing costs taper off in the coming quarters.

Maintain NEUTRAL.
Selected Beneficiaries (non-exhaustive)

Company	Bloomberg ticker	Recomm.	TP (RM)	Share price as of 9/7/25 (RM)	Expected share price return	Expected dividend yield	Expected total returns	EPS25 (sen)	EPS26 (sen)	PER25 (x)	PER26 (x)
Consumer											
AEON Co.	AEON MK Equity	BUY	1.77	1.37	29.2%	3.4%	32.6%	11.4	12.1	12.0	11.3
Oriental Kopi	KOPI MK Equity	NEUTRAL	0.83	0.84	-1.2%	1.1%	-0.1%	3.1	4.1	27.1	20.5
Padini	PAD MK Equity	BUY	2.49	2.07	20.3%	5.8%	26.1%	18.2	19.7	11.4	10.5
Property											
Mah Sing	MSGB MK Equity	BUY	1.37	1.24	10.5%	3.9%	14.4%	10.2	11.5	12.2	10.8
UOA Development	UOAD MK Equity	BUY	1.98	1.81	9.4%	5.5%	14.9%	11.7	12.3	15.5	14.7
Matrix Concepts	MCH MK Equity	BUY	1.59	1.36	16.9%	6.3%	23.2%	16.4	14.2	8.3	9.6
REITS											
Al-'Aqar Healthcare REIT	AQAR MK Equity	NEUTRAL	1.26	1.26	0.0%	5.4%	5.4%	8.1	8.3	15.6	15.2
Pavilion REIT	PREIT MK Equity	BUY	1.69	1.66	1.8%	4.9%	6.7%	8.3	8.6	20.0	19.3
Sunway REIT	SREIT MK Equity	BUY	2.10	2.19	-4.1%	4.2%	0.1%	11.2	11.7	19.6	18.7
Auto											
MBM Resources	MBM MK Equity	BUY	5.36	4.51	18.8%	7.8%	26.7%	78.2	76.6	5.8	5.9

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