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Revise Index Targets Higher

Underlined by Stronger Macro Momentum

Strategy Report

KEY HIGHLIGHTS

- 2QCY25 GDP better than our expectation – last Friday revised higher 2025 target to +4.3%yoy (from +4.0%yoy)
- Importantly, Malaysia's macro momentum grew stronger with higher sequential growth
- Construction led sequential growth on the supply side
- Investment led sequential growth on the demand side
- Cautious on Malaysia's external demand outlook due to tariffs
- Robust domestic demand to remain the key driver of Malaysia's economic growth
- Added support from pre-emptive OPR cut and the additional fiscal measures announced last month
- Raise FBM KLCI target to 1,650 points (from 1,590 points)
- Raise FBM Emas Shariah target to 12,500 points (from 12,000 points)
- Raise FBM 70 target to 18,100 points (from 17,200 points)

Last Friday, it was announced that Malaysia's GDP grew by +4.4%yoy in 2QCY25 (1QCY25: +4.4%yoy). The figure was slightly higher than our expectation of +4.3%yoy.

Better than our expectation.

Importantly, Malaysia's macro momentum grew stronger. On quarter-on-quarter basis, based on seasonally adjusted data, Malaysia's GDP expanded higher sequentially by +2.1%qoq in 2QCY25 (1QCY25: +0.7%qoq).

Stronger macro momentum.

On the supply side, the sequential increase in GDP was supported by the higher growth in construction at +5.2%qoq (1QCY25: +1.1%qoq), agriculture at +4.0%qoq (1QCY25: +1.2%qoq), services at +2.3%qoq (1QCY25: +0.7%qoq) and manufacturing at +2.1%qoq (1QCY25: +1.4%qoq). In contrast, mining & quarrying declined by a further -5.5%qoq (1QCY24: -1.9%qoq), marking two consecutive quarters of contraction.

Construction led sequential growth on the supply side.

On the demand side, private consumption spending grew by +2.1%qoq (1QCY25: +1.5%qoq), marking ten straight months of expansion. Growth was also contributed by the higher government consumption spending at +1.4%qoq (1QCY25: +0.1%qoq) and gross fixed capital formation at +6.5%qoq (1QCY25: +0.8%qoq). In contrast, net exports declined by -70.5%qoq (1QCY25: +24.7%qoq) mainly due to the rebound in real imports by +6.6%qoq (1QCY25: -0.5%qoq), whereas real exports grew slower at +0.5%qoq (1QCY25: +1.1%qoq). Consequently, Malaysia's current account surplus tumbled to a low of +RM0.3b (1QCY25: +RM16.7b).

Investment led sequential growth on the demand side.

We nonetheless remain cautious on Malaysia's external demand outlook with the US given the 19% tariffs albeit broadly similar with regional competing economies. Trump's threat of 100% tariffs on semiconductors could add further downside risk, potentially hurt the semiconductor industry and weigh on Malaysia's economic prospects. However, the tourism sector is set to play a growing role in supporting the economy, with stronger tourist arrivals and increased spending.

Cautious on external demand…

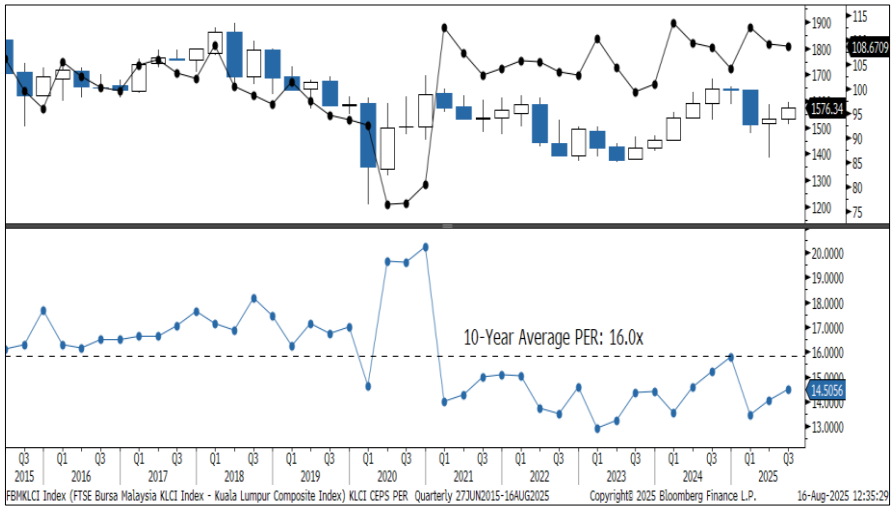
On the other hand, robust domestic demand is expected to remain the key driver of Malaysia's economic growth, helping to buffer the impact of external headwinds. Investment activity is expected to be bolstered by the ongoing advancement of multi-year projects across both private and public sectors, the rollout of catalytic initiatives under national master plans, and the accelerated realisation of approved investments. Moreover, we anticipate there will be more support to 2HCY25 growth from the recent pre-emptive OPR cut and the additional fiscal measures announced last month.

…while bullish on domestic demand.

All factors considered, last Friday, our economics team have revised higher our 2025 GDP growth projection for Malaysia to +4.3%yoy from +4.0%yoy previously.

Revised higher 2025 GDP target to +4.3%yoy.

FBM KLCI



Therefore, we hereby raise our end-2025 FBM KLCI price target to 1,650 points (from 1,590 points) and 2025 PER valuation to 15.2x (from 14.6x) on better likelihood that forward earnings would outperform existing expectations. The new PER valuation target remains below its 10-year average of 16.0x.

Raise FBM KLCI target to 1,650 points on higher growth expectation.

We also ran a bottom-up valuation and found that it supports our top-down valuation. Based on our estimation, our bottom-up valuation suggests FBM KLCI target of 1,689. We expect that this will be driven by a 48.5 points contribution from the financial sector, which is the highest estimated weightage. Next highest contributor is the Utilities sector.

Bottom-up valuation supports the top-down valuation.

Estimated Sectoral Point Contribution to Bottom-Up Valuation

	Estimated weightage	Estimated Points contribution
Finance	41.3%	48.5
Utilities	16.9%	38.0
Telecommunication	9.9%	-7.2
Consumer P&S	7.2%	8.6
Industrial P&S	7.0%	3.2
Plantation	6.6%	10.7
Construction	4.8%	-2.4
Healthcare	3.6%	11.3
Transport	2.7%	2.1

Source: Bloomberg, Bursa Malaysia, MBSBR

Meanwhile, based on the breakdown of the FBM KLCI components, we estimate that TNB will be the highest contributor to a rise in the FBM KLCI (based on bottom-up valuation):

Bottom-up valuation suggests that TNB will be the highest contributors.

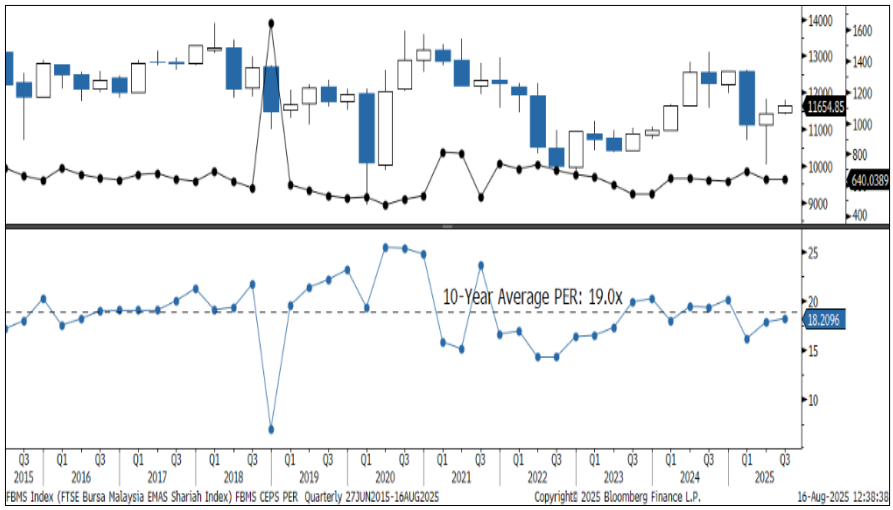
Estimated FBM KLCI Components Contribution to Bottom-Up Valuation

	Estimated weightage	Estimated points contribution	Expected share price return
TNB	10.5%	33.7	20.4%
CIMB	10.4%	21.8	13.4%
Public Bank	11.1%	12.6	7.2%
IHH	3.6%	11.3	19.9%
Maybank	12.7%	8.2	4.1%
Maxis	1.7%	7.0	25.9%
Hong Leong Bank	2.1%	6.0	17.7%
Press Metal*	3.3%	5.6	10.7%
SD Guthrie	3.0%	5.4	11.3%
IOI Corporation	1.8%	4.5	15.7%
Mr D.I.Y.*	0.9%	3.5	25.0%
Sime Darby*	1.1%	3.1	17.3%
PPB Group	0.9%	2.7	18.8%
YTL Corp.	1.6%	2.4	9.7%
MISC	2.7%	2.1	4.9%
YTL Power	1.8%	2.1	7.4%
Sunway	2.0%	1.8	5.5%
RHB Bank	2.3%	1.5	4.2%
99 Speed Mart*	0.6%	1.0	11.3%
Kuala Lumpur Kepong	1.7%	0.7	2.8%
QL Resources	1.1%	0.7	3.8%
Petronas Gas	3.1%	-0.1	-0.2%
Petronas Dagangan	1.3%	-0.3	-1.3%
CelcomDigi	2.5%	-1.0	-2.7%
AMMB	2.6%	-1.6	-3.8%
Telekom Malaysia	3.6%	-1.8	-3.1%
Nestle (M)	1.3%	-2.2	-11.0%
Gamuda	4.8%	-2.4	-3.2%
Petronas Chemicals	1.7%	-4.1	-15.4%
Axiata	2.1%	-11.4	-34.9%

** based on consensus target price*

Source: Bloomberg, Bursa Malaysia, MBSBR

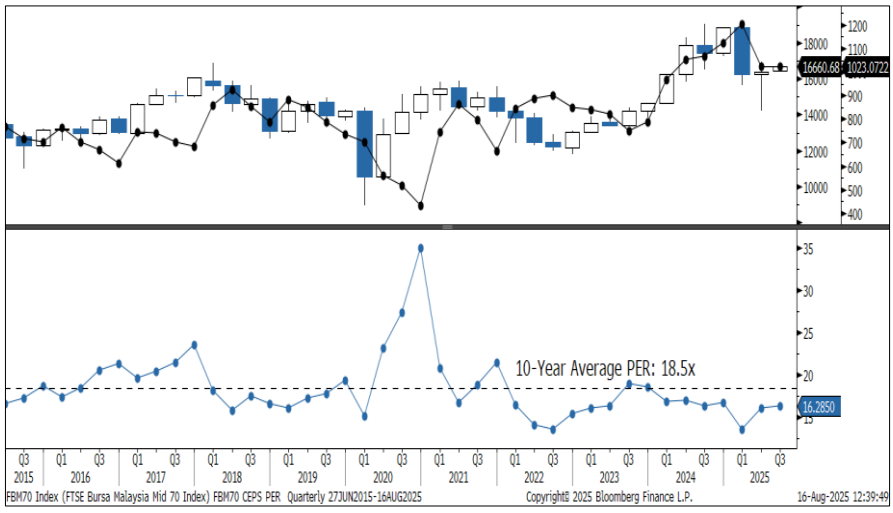
FBM Emas Shariah



Likewise, we hereby raise our end-2025 FBM Emas Shariah price target to 12,500 points (from 12,000 points) and 2025 PER valuation to 19.5x (from 18.8x). The new PER valuation target is slightly higher than its 10-year average of 19.0x.

Raise FBM Emas Shariah target to 12,500 points.

FBM 70



Also, we hereby raise our end-2025 FBM 70 price target to 18,100 points (from 17,200 points) and 2025 PER valuation to 17.7x (from 16.8x). The new PER valuation target remains below its 10-year average of 18.5x.

Raise FBM 70 target to 18,100 points.

While we have revised our FBM KLCI, FBM Emas Shariah and FBM 70 targets, we are maintaining our top picks for now. We continue to believe that the balance of risk seems to be trending towards positive in 2HCY25. However, this we opine that we should not fully abandon our defensive stance as we are cognizant of the potential of the downside risks to linger, mainly stemming from external factors such as the uncertainties surrounding U.S. trade policy and geopolitics. Therefore, we maintain our recommendations having a more balance approach for 2HCY25 given the aforementioned balance of risks. Our top picks are as follows:

No change to our top picks for now.

MBSBR Top Picks

	Rec.	Price (RM) @ 15/8/25	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4 Good ?
Malayan Cement	BUY	5.40	7.49	38.7%	1.9%	40.6%	3	N
Mah Sing	BUY	1.21	1.51	24.8%	4.0%	28.8%	4	Y
Tenaga Nasional	BUY	13.62	16.40	20.4%	4.0%	24.4%	3	Y
Life Water	BUY	0.83	1.00	21.2%	1.6%	22.8%	-	-
UOA Development	BUY	1.75	2.04	16.6%	5.7%	22.3%	3	N
IHH Healthcare	BUY	6.82	8.18	19.9%	1.5%	21.5%	3	Y
Fraser & Neave	BUY	27.60	32.68	18.4%	2.8%	21.2%	4	Y
Hong Leong Bank	BUY	20.00	23.09	15.5%	4.0%	19.5%	4	Y
Pekat	BUY	1.56	1.86	19.2%	0.0%	19.2%	-	-
Gamuda	BUY	5.70	5.42	-4.9%	1.8%	-3.2%	3	Y

** under review*

Source: Bloomberg, MBSBR

Top Shariah Stock Picks

	Rec.	Price (RM) @ 15/8/25	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4 Good ?
Malayan Cement	BUY	5.40	7.49	38.7%	1.9%	40.6%	3	N
Samaiden	BUY	1.15	1.59	38.3%	1.3%	39.6%	3	Y
Tenaga Nasional	BUY	13.62	16.40	20.4%	4.0%	24.4%	3	Y
Life Water	BUY	0.83	1.00	21.2%	1.6%	22.8%	-	-
IHH Healthcare	BUY	6.82	8.18	19.9%	1.5%	21.5%	3	Y
Fraser & Neave	BUY	27.60	32.68	18.4%	2.8%	21.2%	4	Y
Pekat	BUY	1.56	1.86	19.2%	0.0%	19.2%	-	-
UOA Development	BUY	1.75	1.98	13.1%	5.7%	18.9%	3	N
Mah Sing	BUY	1.21	1.37	13.2%	4.0%	17.2%	4	Y
Gamuda	BUY	5.70	5.42	-4.9%	1.8%	-3.2%	3	Y

** under review*

Source: Bloomberg, MBSBR

Top Small-Mid Caps Stock Picks

	Rec.	Price (RM) @ 15/8/25	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4 Good ?
Malayan Cement	BUY	5.40	7.49	38.7%	1.9%	40.6%	3	N
Samaiden	BUY	1.15	1.59	38.3%	1.3%	39.6%	3	Y
IJM Corp	BUY	2.96	3.74	26.4%	2.7%	29.1%	3	Y
Life Water	BUY	0.83	1.00	21.2%	1.6%	22.8%	-	-
IHH Healthcare	BUY	6.82	8.18	19.9%	2.2%	22.1%	3	Y
Fraser & Neave	BUY	27.60	32.68	18.4%	2.8%	21.2%	4	Y
Pekat	BUY	1.56	1.86	19.2%	0.0%	19.2%	-	-
UOA Development	BUY	1.75	1.98	13.1%	5.7%	18.9%	3	N
Mah Sing	BUY	1.21	1.37	13.2%	4.0%	17.2%	4	Y
Spritzer	BUY	1.69	1.75	3.6%	2.1%	5.6%	3	N

** under review*

Source: Bloomberg, MBSBR

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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