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4QCY25 OUTLOOK
(with PRELIMINARY CY26 OUTLOOK)

Riding on Tailwinds but Risks Remain

Strategy Report

EXECUTIVE SUMMARY

- FBM KLCI is down -1.9% YTD but rebounded in 2QCY25 and 3QCY25 (+5.1% qoq) after US tariff clarity; Construction (+7.5%) and REITs (+7.2%), lead sector gains
- 4QCY25 risks include US policy uncertainty, new tariffs (pharma, furniture, possible semiconductors), and Middle East tensions; tailwinds include Fed rate cuts, 13MP, Budget 2026, and BUDI95
- Global growth to moderate: IMF projects +3.0% (2025) and +3.1% (2026)
- We maintain our Malaysia GDP forecast at +4.3% for 2025. Our preliminary forecast for CY26 is +4.0-4.5%
- Inflation remains low: CPI projected at +1.4% (2025) and +2.0% (2026)
- External trade faces headwinds from 19% US tariffs; diversification and FTAs to mitigate risks
- We expect OPR at 2.75% level for 4QCY25 and CY26
- We project the ringgit will remain on a strengthening trend in the 4QCY25 and to continue into 2026. We forecast ringgit to average stronger at RM4.25 in 2025 and RM4.00 in 2026 (2024: RM4.56) and moving closer to RM4.09 by end-2025 and RM3.95 by end-2026 (end-2024: RM4.47)

INDEX TARGETS:

- Going forward into 4QCY25, we expect the local equity market to gain further ground:
    1) driven by pent-up buying from return inflow of foreign funds,
    2) underpinned by healthy economy as well as corporate earnings outlook, and
    3) supported by undemanding equity valuations.
- In view of the still positive fundamental and monetary (liquidity) prospects, we maintain our FBM KLCI, FBM Emas Shariah, and FBM 70 targets for 2025 at **1,650 points** or PER25 of 15.2x, **12,500 points** or PER25 of 19.8x, and **18,100 points** or PER25 of 18.2x, respectively.
- Our preliminary targets for CY26:
    - **FBM KLCI 2026** baseline target at **1,730 points** or PER26 of 15.0x
    - **FBM Emas Shariah 2026** baseline target at **13,000 points** or PER26 of 18.8x.
    - **FBM 70 2026** baseline target at **18,800** points or PER26 of 18.9x.
- Our overall top picks as below:

	Rec.	Price (RM) @ 30/9/25	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
Mah Sing	BUY	1.11	1.51	36.0%	4.7%	40.7%	4	Y
IJM Corp	BUY	2.82	3.60	27.7%	2.8%	30.5%	3	Y
Tenaga Nasional	BUY	13.22	16.40	24.1%	4.2%	28.3%	3	Y
Fraser & Neave	BUY	27.24	32.08	17.8%	2.8%	20.6%	4	Y
UOA Development	BUY	1.82	2.04	12.1%	5.5%	17.6%	3	N
Gamuda	BUY	5.53	6.35	14.8%	1.8%	16.6%	3	Y
RHB Bank	BUY	6.60	7.21	9.2%	6.6%	15.9%	4	Y
Life Water	BUY	0.98	1.11	13.3%	2.3%	15.6%	-	-
Ta Ann	BUY	4.15	4.38	5.5%	6.0%	11.6%	2	N
Hong Leong Bank	BUY	20.52	21.71	5.8%	5.3%	11.1%	4	Y

Source: Bloomberg, MBSBR

A. MARKET PERFORMANCE

I. MARKET REVIEW

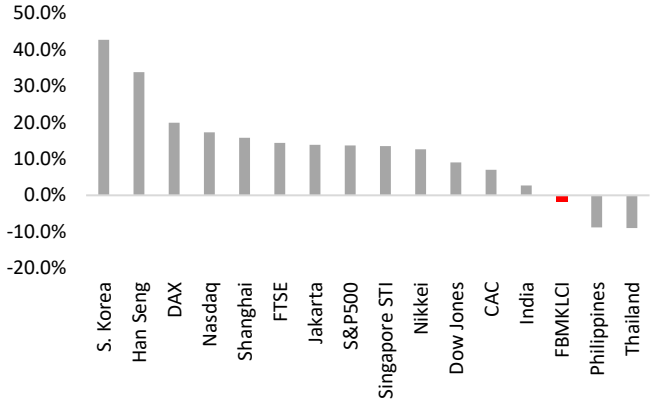
YTD FBM KLCI still lagging behind...

The FBM KLCI is one of three indices that is still registering a negative return on year-to-date basis. As of 29 September 2025, it is down -1.9%YTD. The other markets are Thailand's SET and Philippines PSEi which has posted -8.0%YTD and -8.1%YTD respectively. As such, all three indices are lagging behind its peers with South Korea' KOSPI (+43.0%YTD) and Hong Kong's Han Seng (+32.7%) being the best performers thus far for the year.

…but recovery continued in 3QCY25.

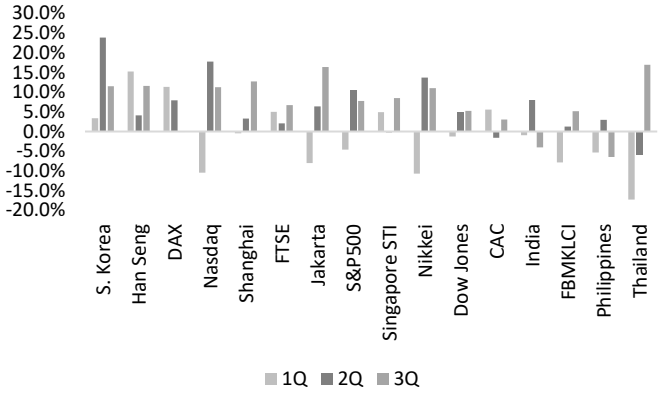
Nevertheless, observing from a quarterly perspective, we saw that the weakness in FBM KLCI for the year has been confined to 1QCY25. The index began to recover in 2QCY25 and continued to 3QCY25 where it posted +5.1%qoq gains. We opine this is due to the removal of uncertainties surrounding Malaysia's tariff rate imposed by the US, which eventually came down to 19%. This removal allowed some impetus for the performance of the FBM KLCI.

Chart 1: Comparison of Performance of FBM KLCI and Regional Peers (YTD as at 30 September 2025)



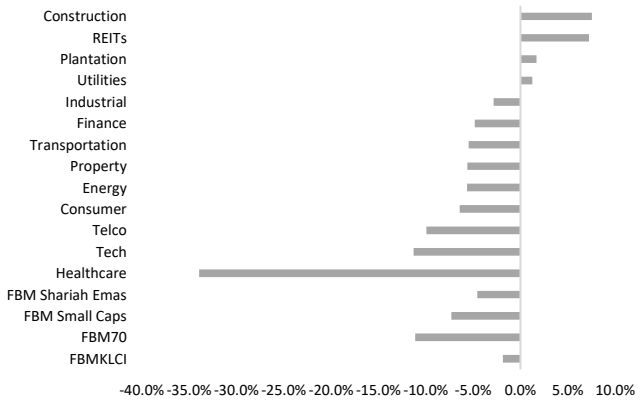
Source: Bloomberg, MBSBR

Chart 2: Comparison of Quarterly Performance of FBM KLCI and Regional Peers (as at 30 September 2025)



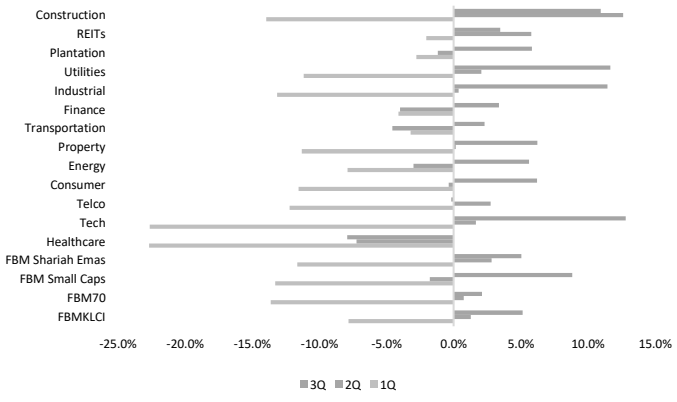
Source: Bloomberg, MBSBR

Chart 3: Comparison of Performance of Bursa Malaysia Sectoral Indices (YTD as at 30 September 2025)



Source: Bloomberg, MBSBR

Chart 4: Comparison of Quarterly Performance of Bursa Malaysia Sectoral Indices (YTD as at 30 September 2025)



Source: Bloomberg, MBSBR

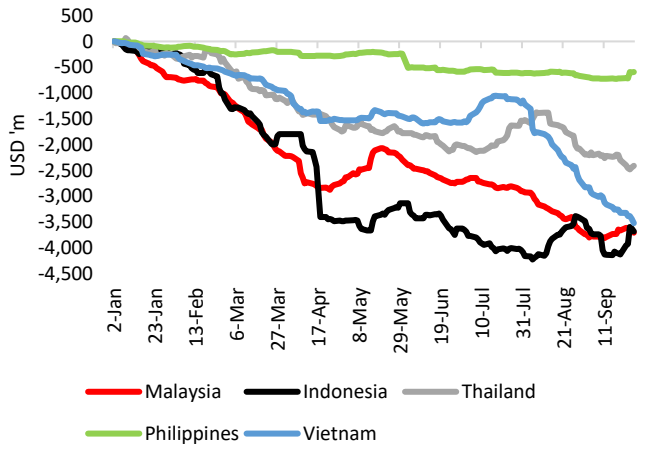
The best performing sectors for Malaysian market this year have been REITs (+8.0%YTD), Construction (+7.2%YTD) and Plantation (+1.6%YTD). We are unsurprised by the outperformance of REITs, given that we anticipated heightened volatility going into CY25. Recall, REITs was one of our top sector picks at the start of CY25. For the Construction sector, we postulate that this is due to the data centre prospect which we have been consistent in advocating despite the AI diffusion rule introduced during the last days of President Biden. In addition, Construction sector should be shielded somewhat given its domestically driven.

Sector-wise, recovery in 3QCY25 have been broad base.

In terms of foreign funds flows, except for Taiwan, all markets that we tracked have a net outflow position for this year. Malaysia has seen cumulative net foreign fund outflow of RM16.4b as of 30 September 2025, the highest since pandemic year of 2020. Nevertheless, we were comforted by the fact that FBM KLCI remains steady despite this. Furthermore, we observed there seems to be budding interest lately as September saw net inflow. We expect that with the US rate cuts, we may see foreign funds returning to our shore.

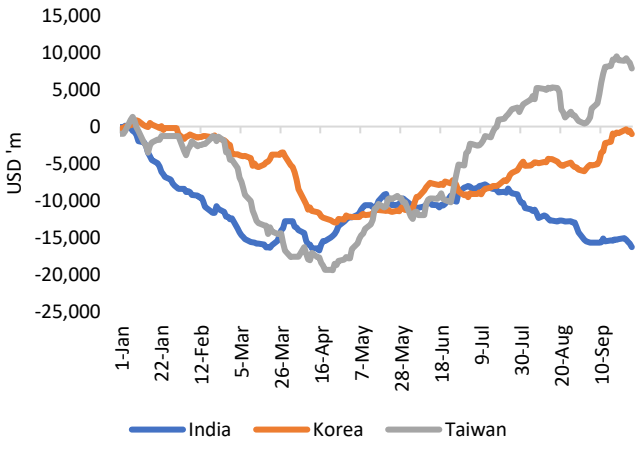
Foreign funds seem to not be participating for now but outflows reversing lately.

Chart 5: Cumulative Foreign Fund Flows into ASEAN 5 (YTD as at 26 Sept 2025)



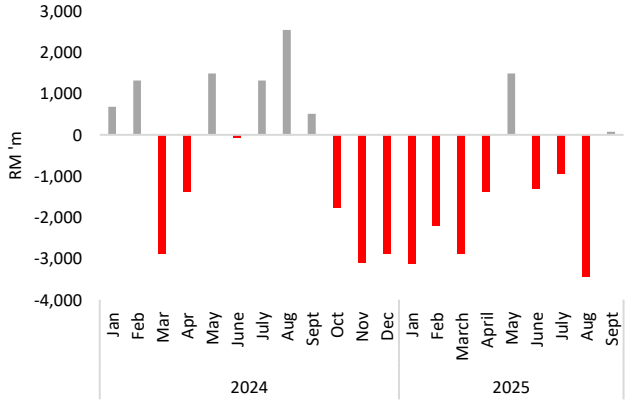
Source: Bloomberg, MBSBR

Chart 6: Cumulative Foreign Fund Flows into K.I.T. (YTD as at 26 September 2025)



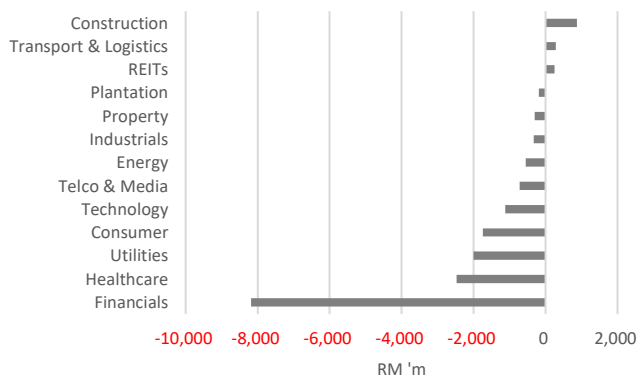
Source: Bloomberg, MBSBR

Chart 7: Monthly Foreign Fund Flows into Bursa Malaysia



Source: Bloomberg, MBSBR

Chart 8: Foreign Fund Flows into Bursa Malaysia (sectoral breakdown) - YTD as of 30 September 2025



Source: Bloomberg, MBSBR

Downside risks still linger for 4QCY25.

Going into 4QCY25, we can see that several downside risks continue to linger. Topmost for now will be policy uncertainty out of the US, especially in light of sectoral tariffs on pharmaceuticals and furniture recently announced. The key downside risk to this will be should the US announce additional tariff on semiconductors. Furthermore, we have not seen the full impact of the tariffs on US prices and consumer sentiment yet. The other continued downside risk is geopolitics with the development in the Middle East remain alarming.

But tailwind has emerged.

Despite the downside risks, we believe that on balance, it is still skewing towards the positive. We opine that several external and domestic tailwinds have recently emerged. Externally, we expect that the US Fed has resumed its easing cycle with markets expecting two more rate cuts in 4QCY25, and further two more in CY26. Historically, period of monetary easing has boosted equities market, and we expect similar trends to be repeated. Meanwhile, domestically, the 13MP, upcoming Budget 2026 and the better-than-expected BUDI95 announcement should provide support to Malaysian economy and equities market.

Will flow through into CY26, but downside risk has not faded.

Our initial thought is that these tailwinds should also flow through into CY26. However, these tailwinds are not without any downside risks. Nevertheless, at current juncture, we opine that the downside risks will not be secular in nature, which will continue to bring volatility to the markets. Hence, with the tailwinds, we are introducing our preliminary CY26 FBM KLCI target of 1,730.

II. MACRO ECONOMIC OUTLOOK

Global: Continued challenges from tighter trade rules and geopolitical tensions

Global growth to stay moderate.

The global economic growth is projected to be more moderate in 2025 and 2026 as the global trade and manufacturing activities continued to be influenced by higher tariffs and tighter trade rules. Sentiment in the global economy and financial markets is also affected by the escalation in the geopolitical tensions, particularly in the Middle East. According to the IMF, the world economy will record a moderate growth of +3.0% in 2025 and experience a slight pickup to +3.1% in 2026. Not only the growth in advanced economies will moderate to +1.5% (2024: +1.8%), even economic activities in the developing and emerging economies are expected to expand slower at +4.1% (2024: +4.3%). Among the advanced economies, the US economic growth is projected to decelerate to +1.9% (2024: +2.8%) while the euro area would be growing at +1.0% (2024: +0.9%), as trade performed better benefiting from the front-loading activities ahead of the US tariff hikes. Among the developing economies, China is projected to grow at +4.8% (2024: +5.0%), as trade and business activities affected by the higher tariffs amid continued challenges in the property market. ASEAN economies will also see its growth momentum to moderate especially countries with high exposure and dependence on external trade activities. This moderate global growth outlook will likely persist into next year as the world business and trade activities will continue to be affected by the changing trade rules, although the impact may be mitigated by efforts between countries and economic blocs to form stronger integration in terms of trade and investment.

Table 1: GDP Growth Forecast for Selected Economies

	2023	2024	2025f	2026f
World Economy	**3.5**	**3.3**	**3.0**	**3.1**
Advanced Economies	**1.8**	**1.8**	**1.5**	**1.6**
USA	2.9	2.8	1.9	2.0
Euro area	0.5	0.9	1.0	1.2
UK	0.4	1.1	1.2	1.4
Japan	1.4	0.2	0.7	0.5
Developing Economies	**4.7**	**4.3**	**4.1**	**4.0**
China	5.4	5.0	4.8	4.2
India	9.2	6.5	6.4	6.4
Indonesia	5.0	5.0	4.8	4.8
Philippines	5.5	5.7	5.5	5.9
Malaysia*	3.5	5.1	4.5	4.0
Thailand	2.0	2.5	2.0	1.7
ASEAN-5	4.1	4.6	4.1	4.1

*Note: Refers to IMF's projection not MBSBR's projection
Source: IMF World Economic Outlook

Trade deals eased some concerns, but trade weakens.

Activities and sentiment in the global manufacturing sector improved after countries announced trade deals with the US. Signs of stabilisation emerged with countries reporting renewed rise or no further declines in foreign demand and production. Meanwhile, the trade performance in 1HCY25 was better than expected because shipments of manufactured goods were boosted by frontloading activities ahead of the tariff implementation. The continued upcycle in the technology market also resulted in sustained expansion in global demand for technology and E&E products. Recent data, however, indicates that the US tariff hikes have negatively impacted shipments of goods to US as reported by several countries like China, South Korea and Malaysia. Meanwhile, the commodity trade performance is partly affected by the current low prices of crude oil, energy and selected food commodities. Going forward, we expect tariffs and price movements will continue to affect global trade performance, while the sustained moderate growth in the global economy indicates no significant change in the demand outlook.

Global inflation eased further.

Global inflation pressures have eased, contained by previous policy tightening as well as lower oil and energy prices on the back of weaker demand and ample supply. Brent crude oil prices have been hovering around USD65pb in the past couple months as amply supply limited upside pressures, which sometimes triggered by renewed escalation in geopolitical tensions. Our in-house projection anticipates Brent crude oil to hover within USD63-70pb this year and will be traded within a slightly tighter range of USD65-70pb next year in anticipation of more stable supply condition.

Moving forward, oil prices are expected to stay under pressure, weighed down by rising global inventories, and the potential dampening effect of US tariffs on global industry, which suggests ample supply in the near term. At the same time, demand growth is projected to slow amid heightened economic uncertainty and the structural shift toward cleaner energy. On the flip side, geopolitical tensions could trigger sudden and intermittent price spikes, while further OPEC+ decisions on supply cuts may introduce additional volatility to the global oil market.

The crude palm oil (CPO) prices, on the other hand, will remain elevated as our in-house projection anticipating the price to average higher at RM4,300 per tonne this year (2024: RM4,194) and then ease slightly to RM4,200 next year. Adverse weather conditions, tighter government policies and increased operating costs will result in tighter supply conditions, thus keeping prices elevated above RM4,000 per tonne.

Policy easing bias to continue.

Central banks have eased and reduce benchmark interest rates from multi-year highs. The policy easing bias will likely continue as monetary authorities shift its focus from containing inflation towards stimulating economic growth as growth momentum started to moderate. The US Fed recently cut its fed funds rate and signalled for more policy easing later this year as growth momentum moderated on the back of softer job market which will lead to weaker consumer demand. The European Central Bank (ECB) recently kept its policy rates unchanged at its end-Aug-25 meeting after series of rate cuts in the 13-month period to Jun-25. The decision was based on more balanced risks to the bloc's growth outlook and stable inflation readings in the past 3-4 months. The Bank of England (BOE) have also slashed interest rates by 5 times between Jul-24 and Aug-25 and kept its Bank Rate unchanged at 4.00% in Sep-25 policy meeting amid progress in disinflation. Similar trends are observed in East Asia as central banks such as PBOC, Bank of Korea, Bank Indonesia, Bank of Thailand and Bangko Sentral ng Pilipinas also eased their monetary policy setting in 2025 to provide more support to growth and reduce interest rates to more normal levels in line with easing inflation.

Several risks to global growth.

Global growth outlook can be weaker than expected, as economic activities may be constrained by several downside risks:

i. Firstly, final demand could fall sharper with the introduction of tighter trade rules and additional tariffs.
ii. Secondly, sentiment among businesses and consumers could weaken again in response to heightened uncertainties.
iii. Thirdly, increased volatility in the financial markets will complicate investment decisions. Both uncertainties and increased financial market volatility can be triggered by renewed escalation in geopolitical and trade tensions.
iv. Lastly, potential disruptions to the global trade and supply chain could result in increased inflation pressures. In a stagflationary environment, central banks face a delicate balancing act because policy tightening to curb inflation will risk deepening an economic downturn, while policy easing to support growth could exacerbate price pressures. Meanwhile, easing tensions because of trade deals and political truce will be positive to improve sentiment and appetite toward risky markets and assets. Meanwhile, stronger demand and greater investment and trade flows with new markets will help to cushion the adverse effects from higher tariffs and tighter trade rules imposed by the US.

US: Economic growth to moderate amid heightened inflation concerns and softer job market

Economic growth to moderate but remain positive.

The US GDP growth rebounded to annualised +3.8%qoq in 2QCY25 (1QCY25: -0.6%qoq), backed primarily by stronger personal consumption expenditures (+2.5%qoq; 1QCY25: +0.6%qoq) and continued expansion in non-residential investment (+7.3%qoq; 1QCY25: +9.5%qoq). Although from the year-on-year perspective, the US GDP growth was sustained at +2.1%yoy (1QCY25: +2.0%; 2HCY24: +2.6%yoy), we forecast the US economy experience further moderation in 2HCY25 which will result in moderation in the full-year growth to +1.6% (2024: +2.8%). In a way we agree with the updated FOMC projection in Sep-25, where the

growth at +1.6% will reflect moderation in consumer spending, as final demand will be constrained by tariff-induced inflationary pressures, on the back of softer labour market conditions. Previous policy tightening also pose a dampening effect on consumer spending, as the high interest rates caused Americans struggling to cope with their debt servicing as shown by the elevated delinquency rates for credit cards and consumer loans, which continued to hover around 13-year highs. We assume there will be normalisation to the economic conditions next year, from escalated uncertainties from new tariffs as seen this year. Consumers will also benefit as interest rates reduced to more normal levels. On that note we expect the US economic growth will likely pick up to trend growth around +2.0%, similar to the IMF's projection.

Job market softened and inflation expectations still elevated.

The US job market conditions have softened, with jobless rate rising to nearly 4-year high of 4.3% as of Aug-25 and the nonfarm payrolls only rising by +22K (Jul-25: +79K). Revised data also shows the annual job creation until Mar-25 was -911K less than previously reported and nonfarm payrolls even recorded a decline of -13K in Jun-25, the first monthly decline since Dec-20. American consumers continued to express their concerns about rising inflation, with the 1-year inflation expectations remaining elevated at +4.7% in Sep-25 albeit easing from the recent peak of +6.6% in May-25. Although the headline CPI inflation only accelerated to +2.9%yoy in Aug-25, the Fed reiterated its cautious view that the US inflation will continue to pick up in the coming months as producers pass on cost increases because of the higher tariffs. While the core CPI inflation was unchanged at +3.1%yoy in Aug-25, the core PCE inflation, on the other hand, continued to accelerate to +2.9%yoy, the highest in 6 months.

Fed shifting back to rate cuts.

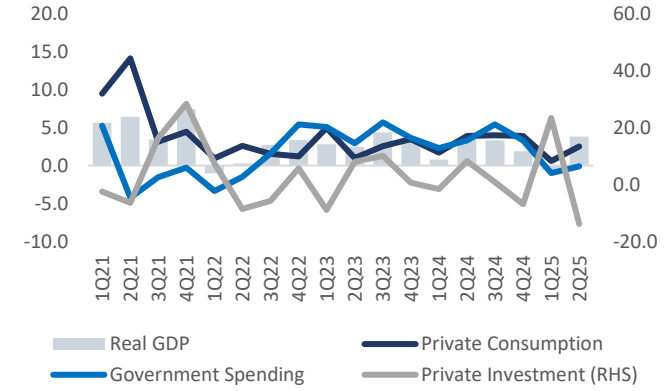
Reading from the FOMC's projection, the Fed is signalling for more rate cuts this year and next year. With the median forecast for fed funds rate has been slashed to 3.6% (from 3.9% previously), this suggests there will be 2 more rate cuts later this year. The fed funds rate futures also suggest the market expectations for further policy easing in Oct-25 and Dec-25, and followed by additional cuts in April and September next year. While renewed buildup in price pressures will complicate the future decisions for further policy easing, at least the recent data releases which shows softening of the job market and slowing growth momentum supported for the FOMC's decision in Sep-25 to reduce fed funds rate by -25bps to 4.00-4.25%. On the other hand, sustained expansion in consumer spending, as shown by the stronger private consumption in the 2Q GDP report and the retail sales expanding faster at +5.0%yoy in Aug-25 (Jul-25: +4.1%yoy), we may see a more sustained economic growth. Together with the increased price pressures, this could delay for further rate cuts by the Fed. At least until the Sep-25, the Fed indicated a more balanced pressures to ensure its dual mandate (for price stability and full employment) which will require interest rates to be adjusted (lower) to more normal levels.

Continued uncertainties as the US adjusting its trade rules and policies.

Ongoing uncertainties persist as the US continues to adjust its trade rules and policies. These policy adjustments—encompassing changes in fiscal spending and predominantly shifting tariffs and trade rules—will continue to dampen business sentiment and disrupting activities both within the US and across global markets. This is evident in recent tariff actions targeting specific sectors, including pharmaceuticals, furniture, and potential future tariffs on semiconductors. The persistent threat of additional tariffs targeting specific industries and products will continue to cast a shadow over the economic outlook for the remainder of this year and into next year. This protectionist shift presents a critical headwind to economic

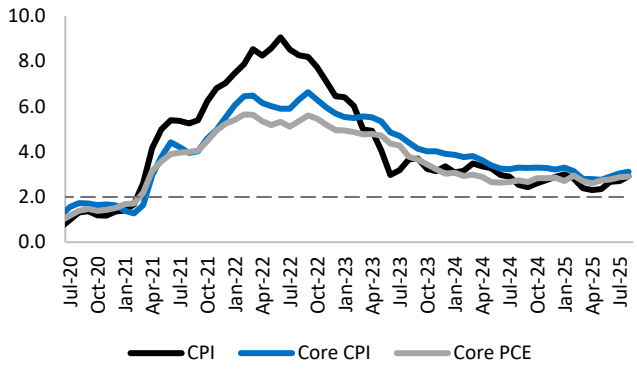
growth, creating a climate of hesitation that could delay capital expenditure decisions and curb overall economic dynamism.

Chart 9: US: Quarterly Real GDP Growth (YoY%)



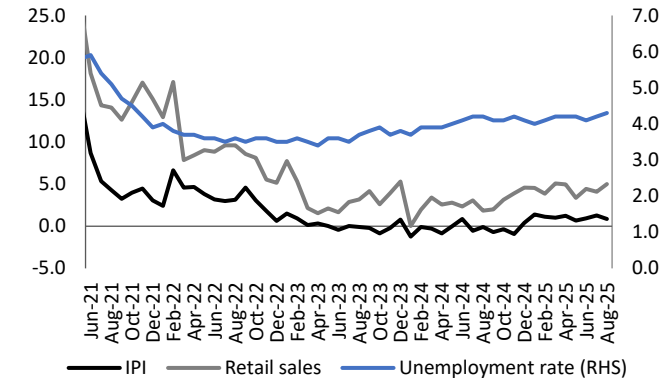
Source: Macrobond, MBSBR

Chart 10: US: CPI and Core PCE Inflation (YoY%)



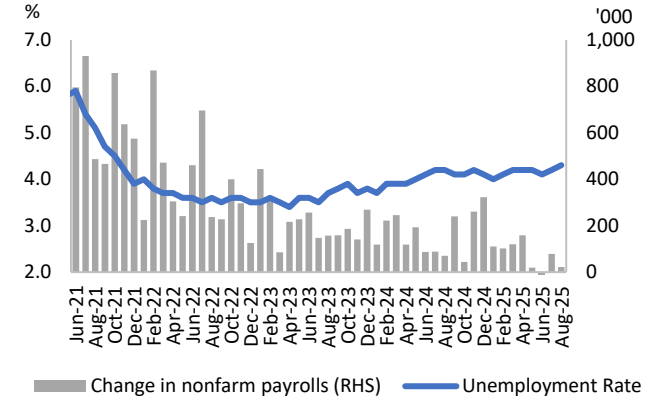
Source: Macrobond, MBSBR

Chart 11: US: Selected Economic Indicators (YoY%)



Source: Macrobond, MBSBR

Chart 12: US: Unemployment Rate (%) vs. Nonfarm Payrolls (in thousands)



Source: Macrobond, MBSBR

China: Continued focus to boost domestic demand amid challenges in the property market

Commitment and challenge to keep growth at +5.0%.

China's economy continues to face increasing challenges in sustaining growth at around 5.0%, which is the official growth target this year. This seems to be achievable as the economy maintained above +5% growth in 2QCY25, growing at +5.2%yoy albeit easing from +5.4%yoy in 1QCY25. We see a high probability that growth will moderate later this year because of the mounting trade tensions with the US and recent indication of slower consumer spending and still low inflationary pressures. As a result, we could see China's economic growth could slow to +4.8% (2024: +5.0%). The primary risk stems from the external sector as the higher US tariffs resulted in reduced shipments to the US, which plunged by -33.1%yoy in Aug-25. The weaker global trade, and ongoing trade negotiations with the US, presents continued downward pressures as additional tariffs could further constrain China's export growth. This highlights the government's push to promote greater collaboration with other economies, especially among BRICS and other emerging economies.

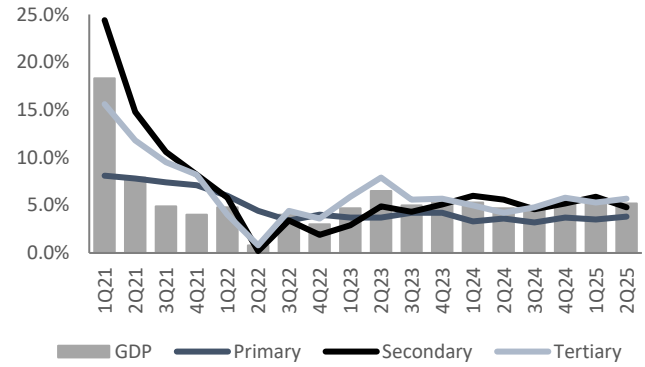
Encouraging domestic consumption as new tariffs bite.

Authorities in China have doubled down on domestic demand as the key engine of growth, which has been the continued focus to boost inwardly driven growth which will minimize destabilising effects from external trade slowdown. Policymakers are deploying a mix of fiscal and monetary measures to reduce the economy's dependence on external sources. Fiscal support includes discount vouchers for home appliances and a CNY300b ultra-long bond issuance to fund trade-in programmes for durable goods. Although there was no further policy easing in Sep-25, the People's Bank of China (PBOC) has adopted an accommodative stance, reducing the 1-year and 5-year Loan Prime Rates (LPRs) to record lows of 3.00% and 3.50%, respectively, back in May-25 to stimulate credit and stabilize the property market. We foresee the government will be ready to provide more policy supports if the domestic demand conditions were to weaken again. Concerns about the health of consumer demand re-escalated after Aug-25 data updates signalled moderation in retail sales growth for the 4th straight month, slowing to 9-month low of +3.4%yoy, and the unemployment rate rising to 6-month high of 5.3%. Thus far, the decision by PBOC to keep its policy interest rates unchanged indicates confidence that the economy will continue to expand sustainably.

Persistent low inflation also signals weak demand.

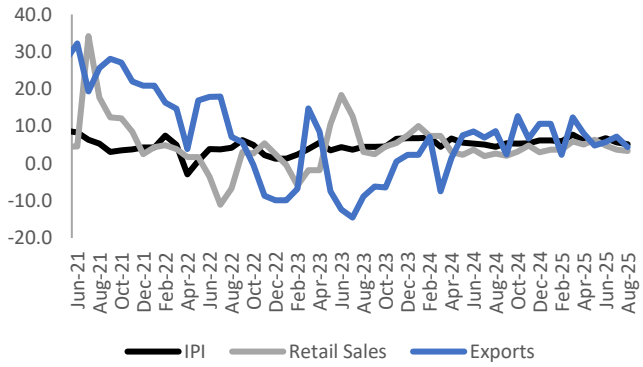
Persistent deflationary pressures continue to highlight about the limited demand pressures on general prices, explained by the weak demand as well as reduced cost pressures. The headline CPI declined by -0.4%yoy in Aug-25, falling back into deflation after 2 months of inflation, due to the sharper fall in food prices and lower transport costs. The renewed decline in Aug-25 was a continuation to the contraction in general prices from Feb-25 to May-25. Non-food inflation, however, quickened slightly to +0.5%yoy (Jul-25: +0.3%yoy) as subsidies provided by the government helped to boost demand for consumer goods. Other non-food components such as housing, clothing, healthcare and education also reported sustained price increases. Core CPI, excluding foods and energy, however accelerated further to +0.9%yoy, the fastest pace since in 18 months, still hovering below the pre-pandemic levels. Apart from weak demand, high youth unemployment rate which jumped to 18.9% in Aug-25, marking the highest reading since Dec-23, also points to the mounting economic headwinds.

Chart 13: China: Quarterly Real GDP Growth (YoY%)



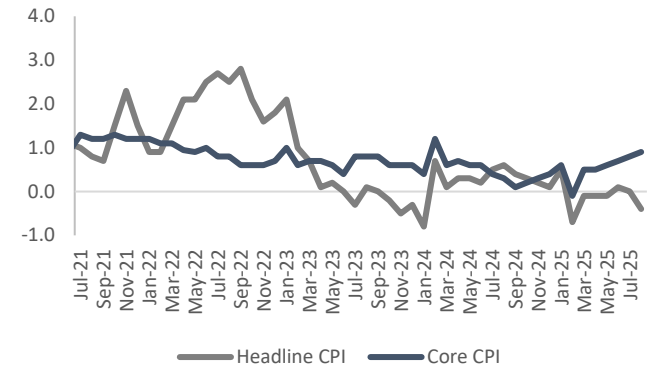
Source: IMF, MBSBR

Chart 14: China: Selected Economic Indicators (YoY%)



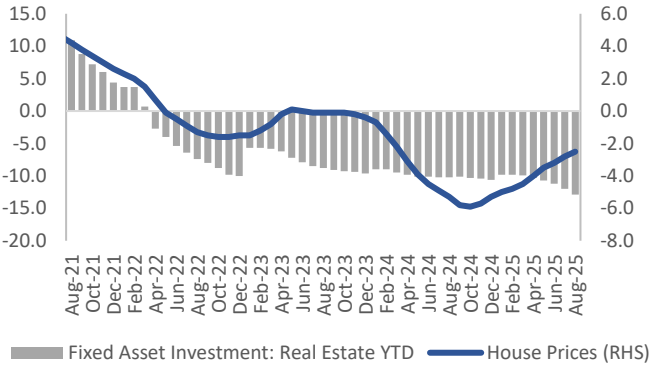
Source: Macrobond, MBSBR

Chart 15: China: CPI Inflation (YoY%)



Source: Macrobond, MBSBR

Chart 16: China: House Price vs. Fixed Asset Investment in Real Estate (YoY%)



Source: Macrobond, MBSBR

Malaysia: Growth anchored by domestic demand amid external headwinds

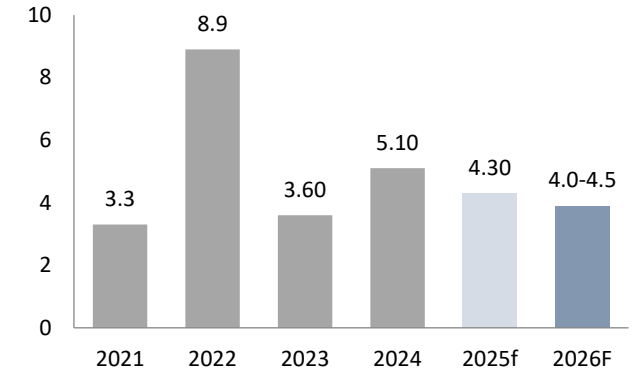
Malaysia's economy to grow at 4.3% in 2025 underpinned by sustained domestic demand.

After recording an unchanged growth from the previous quarter at +4.4%yoy in 2QCY25, Malaysia's economy is projected to experience a more moderate growth in 2HCY25 as the impact of US tariffs takes hold, weighing on external trade. Although we saw some stabilisation in manufacturing activities ahead of the tariff hike in Aug-25, we expect the pace of growth to ease further in 4QCY25 as sector-specific tariffs will adversely affect overseas sales, while businesses adjusting their supply chains and production plans to cushion transitional effects amid concerns about the future demand outlook. For the full year, we foresee Malaysia's GDP to grow at +4.3%, easing from robust growth last year (2024: +5.1%). The moderation in GDP growth is mainly attributable to softer external demand following the US tariff implementation. Nevertheless, Malaysia still gained from the increased E&E demand in line with the global tech upcycle. The sustained growth in domestic consumption and investment activities keeps Malaysia's economic growth in the positives, cushioning the impact from external slowdown.

Expect moderate growth to continue next year.

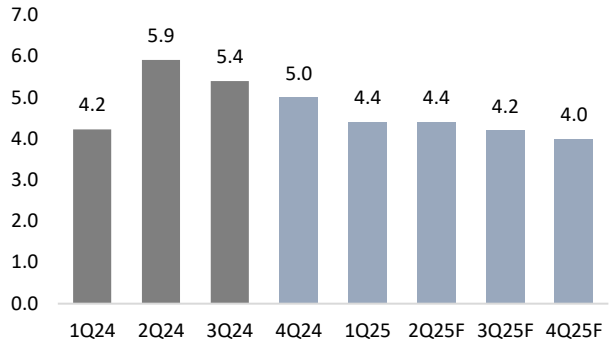
Looking ahead, we anticipate the moderate pace of growth to continue into next year. Based on our preliminary projection, Malaysia's GDP growth is expected to grow by +4.0-4.5%, underpinned by increased domestic spending. We foresee factors such as increased employment, positive wage growth, and cash assistance from the government will continue to support household spending. In addition, increased tourist arrivals, further boosted by the Visit Malaysia Year 2026, will also support domestic consumption expenditures. Increased spending by the government will also contribute positively to GDP growth next year. Investment activities will continue to expand supported by implementation of multi-year infrastructure projects and 13th Malaysia Plan (13MP) development plans. Nevertheless, downside risks remain, which can be due to weaker demand from key markets, potentially higher US tariffs on the semiconductor industry, and heightened geopolitical frictions which could disrupt global supply chains and result in renewed inflationary pressures.

Chart 17: Annual GDP (YoY%)



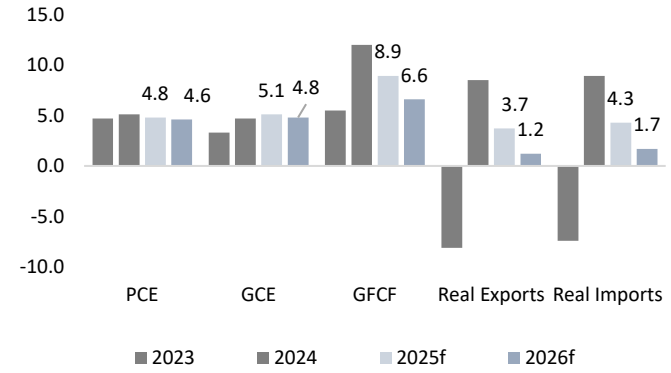
Source: Macrobond, MBSBR

Chart 18: GDP Growth Quarterly Forecast (YoY%)



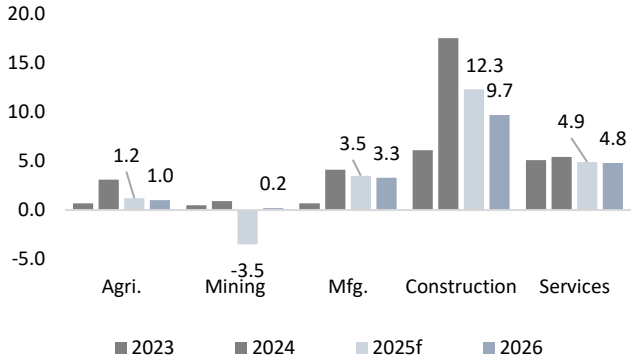
Source: Macrobond, MBSBR

Chart 19: GDP Growth by Expenditure (YoY%)



Source: Macrobond, MBSBR

Chart 20: GDP Growth by Supply (YoY%)



Source: Macrobond, MBSBR

Domestic spending is expected to remain healthy.

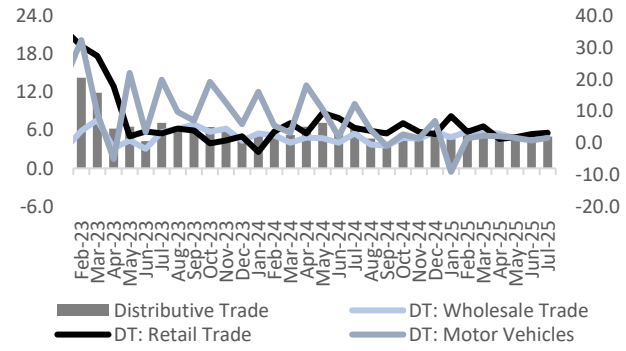
In 2QCY25, private consumption rose at slightly faster pace by +5.3%yoy (1QCY25: +5.0%yoy), signalling that demand in the domestic economy remained robust. For the rest of the year, we believe domestic consumption will be a crucial to anchor Malaysia's economic growth amid external uncertainties, supported by a firm labour market, rising wages, growing tourism activity, as well as a low and stable inflation. Private consumption is projected to grow +4.8% in 2025 (2024: +5.1%yoy) before easing further to +4.6% in 2026, reflecting only a mild slowdown as external trade challenges may still pose some spillover effects to the domestic-oriented sectors and weigh on demand.

- **Retail trade remained resilient, but downside risks persist.** Malaysia's distributive trade grew by +5.0%yoy in Jul-25 (Jun-25: +4.8%yoy), supported by stronger expansion across all major segments—retail trade (+5.6%yoy), wholesale trade (+5.4%yoy), and motor vehicle sales (+1.6%yoy). For 7MCY25, growth moderated to +4.9%yoy (7MCY24: +5.9%yoy), reflecting softer momentum. We project distributive trade to expand by +4.2% in 2025 and ease slightly to +4.1% in 2026. Nonetheless, downside risks remain, particularly from tariff-related disruptions that could dampen the export-oriented manufacturing sector, which employs around 2.9m workers (17% of the total workforce). Any pressure on manufacturing activity and wages may spill over to household spending, posing a drag on retail demand.
- **A healthy labour market persists.** In Jul-25, unemployment rate held steady at the 10-year low rate of 3.0%, while labour force participation rate remained at a high of 70.8%

for four consecutive months. With employment growth continuing to outpace labour force expansion, the unemployment rate is projected to average 3.0% in 2025 (2024: 3.3%) and ease further to 2.9% in 2026, supported by positive labour market conditions and job creation across industries. The upcoming civil servant wage hike at end-2025, along with the ongoing rollout of the progressive wage policy, will further bolster wage growth and strengthen domestic purchasing power.

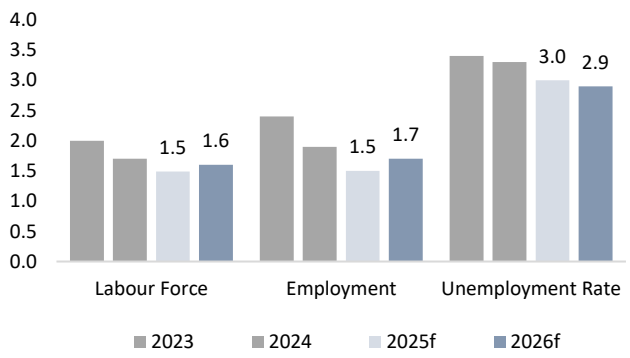
- **Upbeat momentum in Malaysia's tourism sector.** On the tourism front, stronger tourism activity is expected to support overall consumption. In Jun-25, total tourist arrivals grew marginally by +1.6%yoy, reaching a total of 2.4m (May-25: 2.1m). Meanwhile in the first six months of 2025 tourists' arrivals accelerated by +8.7%yoy, totalling 12.8m (6M2024: 11.8m), reflecting a continuous uptrend in the tourism sector recovery. Malaysia is targeting 45m tourist arrivals in 2025, with 28% of the goal achieved to date. Tourism Malaysia's initiatives, including the visa liberalisation plan and the Malaysia Mega Sale Campaign (MMSC) 2025, are expected to spur spending ahead of Visit Malaysia 2026, when tourist arrivals are projected to reach 47m. The tourism sector will remain a key growth driver for the services sector.
- **Low and stable inflation remains.** Low and stable inflation is expected to keep price pressures contained and support consumer spending. This trend should persist through year-end and into 2026, with CPI projected at +1.8% in 2025 (2024: +1.8%) before edging slightly higher to +2.0% in 2026, reflecting the mild impact of policy changes. According to the latest data, consumer prices rose to +1.3%yoy in Aug-25 (Jul-25: +1.2%yoy), the highest level since Apr-25. Core CPI also picked up to +2.0%yoy after holding steady at +1.8%yoy for the previous three months, reflecting a slight build-up in underlying inflationary pressures.
- **Implementation of RON95 subsidy.** Effective 30th September, the government set the price of RON95 petrol at RM1.99 per litre, well below the market rate of ~RM2.50–RM2.60, using a simple MyKad verification system. This measure is expected to deliver meaningful savings for households, boosting disposable income, supporting purchasing power, and potentially lifting discretionary spending across the economy. In addition to easing living costs, the lower fuel price will help contain inflation by reducing transport expenses, stabilising consumer prices, and anchoring inflation expectations. However, other policy measures, such as the SST expansion effective 1st July 2025, are likely to weigh on discretionary spending, even as demand for staples remains relatively resilient.

Chart 21: Distributive Trade Sales Forecasts (YoY%)



Source: Macrobond, MBSBR

Chart 22: Labour Market Forecasts (%)



Source: Macrobond, MBSBR

Broad-based sectoral growth to continue amid external trade pressures.

Key economic sectors are set to continue expanding this year, despite headwinds from a challenging global trade environment. The rollout of key national masterplans, i.e. the 13th Malaysia Plan (13MP), alongside NIMP 2030 and NETR, as well as Budget 2026, which emphasizes targeted incentives, strategic investments, and support for innovation, is set to catalyse growth in high-value, high-potential sectors and strengthen Malaysia's ascent up the global value chain.

- **Services:** In 2QCY25, private consumption rose at slightly faster pace by +5.1%yoy (1QCY24: +5.0%yoy). For the remainder of the year, the services sector will be supported by sustained household spending, underpinned by favourable labour **market** conditions, improving wage prospects, the ongoing recovery in tourism, and a low and stable inflation environment. We project the sector to expand by +4.9% in 2025 before moderating slightly to +4.8% in 2026. Additional momentum will come from the second round of civil service pay hikes and the recent increase in the minimum wage, both of which are expected to boost disposable incomes and strengthen household consumption. The sector will also benefit from higher tourist arrivals and receipts, particularly with the Visit Malaysia Year 2026 campaign. Meanwhile, price pressures are expected to remain contained despite policy adjustments, including diesel subsidy rationalisation, utility tariff revisions for the industrial sector, and the expansion of SST. Importantly, the rollout of RON95 subsidy rationalisation is anticipated to bolster the services sector, as lower fuel prices translate into meaningful household savings, further supporting disposable incomes and consumer spending.
- **Manufacturing:** The expansion in the manufacturing sector slowed down to +3.7%yoy in 2QCY25 (1QCY24: +4.1%). The moderation in manufacturing GDP growth was due to the weaker decline in production for refined petroleum products (-3.3%yoy; 1QCY24: +0.3%yoy). For the rest of the year, manufacturing production will continue to expand on the back of resilient domestic demand, though weaker external demand may weigh on overall output. For the full year, we foresee the sector growing by +3.5%, before moderating slightly to +3.3% in 2026. The moderation reflects persistent external trade headwinds and softer demand from major trading partners. We remain cautious of uncertainties from higher tariffs and tighter trade rules, which could dampen external demand and constrain export-oriented industries. The weaker total trade data in Aug-25 (-1.9%yoy; Jul-25: +3.6%yoy), with Malaysia's exports to the US plunging by double digits, underscores the tariff impacts and highlights the downside risks to the manufacturing outlook.
- **Construction:** In 2QCY25. the construction sector moderated further but still sustaining robust double-digit growth (+12.1%yoy; 1QCY25: +14.2%yoy). The value of work done expanded by +12.9%yoy to RM43.9b during the quarter, marking the 13th straight quarter of positive momentum. Towards the end of the year, the construction sector will be supported by manageable cost pressures, resilient private sector demand, and stronger execution of public projects. For the full year, we project construction to grow robustly but softer at +12.3% before moderating further to +9.7% in 2026. Key growth drivers include major infrastructure projects such as the LRT3, RTS Link and ECRL, alongside the RM430b federal development expenditure under the 13th Malaysia Plan (13MP), which translates into an average of RM86b annually. The sector will also benefit from active industrial job flows and the multi-year infrastructure roadmap under 13MP, encompassing public transport expansion, flood mitigation works, and other large-scale development initiatives. Our constructive outlook on the sector is further reinforced by

the sustained momentum in data centre investments, which will also support sustained rise in capital goods imports.

- **Mining:** The mining sector saw a sharper contraction of -5.2%yoy in 2QCY25 (1QCY25: -2.7%yoy), mainly due to a steeper decline in natural gas output (-8.1%yoy; 1QCY25: -2.2%yoy). Crude oil production, however, recorded a softer fall of -1.6%yoy (1QCY25: -4.6%yoy). Looking ahead, production in the mining sector is expected to remain subdued, reflecting weak output of both crude petroleum and natural gas in recent months. This can be linked to the lower external demand. For the full year, we forecast mining to contract by -3.5% (2024: +0.9%) before recovering modestly by +0.2% in 2026.
- **Agriculture.** The agriculture sector strengthened with faster growth of +2.1%yoy in 2QCY25 (1QCY25: +0.7%yoy), supported by a rebound in palm oil output (+5.3%yoy; 1QCY25: -3.1%yoy). For the remainder of the year, however, the monsoon season is expected to weigh on sector productivity by disrupting harvesting and manuring activities. As such, we forecast activities in the agriculture to expand modestly by +1.2% in 2025 (2024: +3.1%), and to continue growing at +0.9% next year. External demand is expected to increase supported by strong CPO demand from main market like India. CPO production is also anticipated to weaken in the early months of 2026 due to seasonal factors. Looking ahead, more agricultural development initiatives are expected to be rolled out to enhance food security and promote high-value agri-commodities, supporting the sector's long-term prospects.

External trade uncertainties and heightened geopolitical tensions.

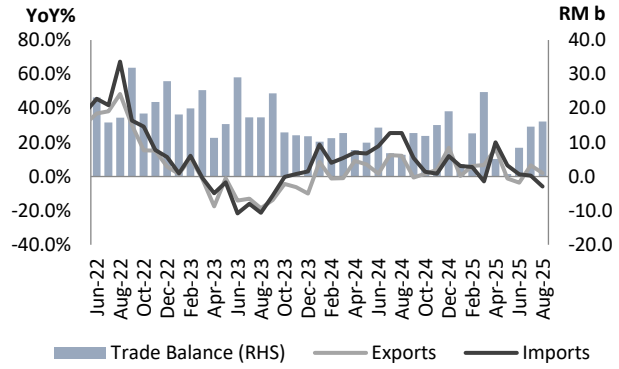
To recap, Malaysia currently faces a 19% tariff on goods exported to the US, broadly in line with regional peers such as Vietnam (20%), Indonesia (19%), and the Philippines (19%). Most of the planned US tariff measures remain in place, including a 50% tariff on steel and a baseline tariff of 10%, which could weigh on a wide range of Malaysian exports such as machinery, medical equipment, and rubber products. Shipments of furniture to the US, With the US being the largest market for Malaysia's furniture exports, the recent announcement by the US to impose 30% tariffs on upholstered furniture from 1 October 2025 will likely have a substantial negative impact on the furniture demand from the US. Looking ahead, the higher tariffs will continue to pose a headwind to Malaysia's export performance next year, particularly to the US. At the same time, China's subdued domestic demand continues to cloud the broader trade outlook, although there was a pick-up in exports to China in Jul-25 and Aug-25. Overall, for 2025, we forecast export growth to moderate to +2.0% in 2025 (2024: +5.7%), while import growth is expected to ease to +4.5% (2024: +13.2%), reflecting a more cautious outlook amid trade uncertainties. We foresee the external trade performance will continue to be subdued next year due to the effect of higher US tariffs on final demand, with risk of further tightening of the trade rules.

- **Weaker trade momentum following Aug-25 tariff measures.** Malaysia's trade weakened following the implementation of tariffs in Aug-25, with total trade contracting by -1.9%yoy (Jul-25: +3.6%yoy). This reversed the growth recorded in the previous month and marked the second monthly decline of the year. The weaker performance was driven by a sharp fall in imports (-5.9%yoy; Jul-25: +0.6%yoy), the lowest reading since Sep-23, alongside a moderation in export growth to +1.9%yoy (Jul-25: +6.5%yoy). For the first eight months of 2025 (8MCY25), total trade expanded at a slower pace of +3.8%yoy (8MCY24: +10.9%yoy), reaching nearly RM2.0t. Exports during this period grew by +3.9%yoy (8MCY24: +6.0%yoy) to around RM1.0t, while imports rose more moderately by +3.6%yoy (8MCY24: +16.7%yoy) to nearly RM0.95t. Consequently, the trade surplus widened to RM86.1b (8MCY24: RM80.2b). Export growth was underpinned

by stronger shipments of E&E products, machinery and equipment, as well as a rebound in palm oil exports. These gains helped offset continued declines in exports of LNG, crude petroleum, and petroleum products.

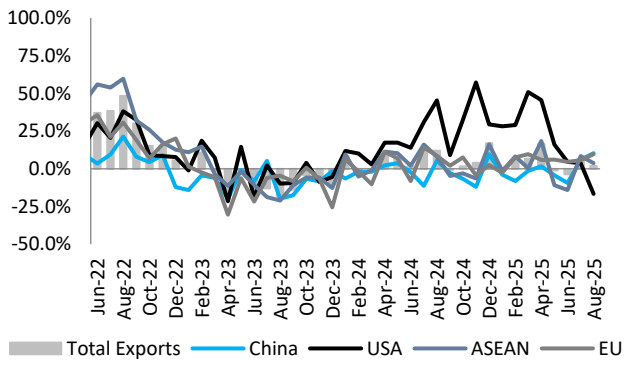
- **Semiconductor tariff risks:** Although the semiconductor sector, accounting for around 24% of the broader E&E category—has so far been exempted from the tariff measures, we remain cautious of potential policy shifts. The exemption is reportedly temporary, and tariffs could still be imposed pending the outcome of an ongoing investigation. As a strategic, high-value segment of advanced manufacturing, semiconductors are closely linked to the administration's reshoring agenda. On the domestic front, the government has assured that the semiconductor industry will receive greater emphasis under the upcoming Budget 2026. This commitment is aligned with the objectives of the National Semiconductor Strategy (NSS), underscoring Malaysia's ambition to strengthen its role in the global semiconductor value chain.
- **Diversification and FTA to mitigate tariff pressures on Malaysia's trade.** Although trade tensions between the US and China have somewhat eased, the global trade landscape remains uncertain, with potential geopolitical risks in the Middle East adding another layer of volatility. At the same time, sustained import growth, driven by robust demand for capital goods, could place pressure on Malaysia's trade balance. On a more positive note, the expansion of bilateral trade, deeper regional supply chain integration, and reduced reliance on the US market are expected to cushion the impact of tariffs. Ongoing efforts to strengthen trade partnerships and diversify export destinations, alongside Malaysia's 18 ratified free trade agreements, will be key in mitigating some of the adverse effects of the new measures. In addition, the country's wide FTA network and continued investment in higher-value manufacturing should provide partial offsets to external headwinds, supporting medium-term trade resilience. Looking ahead, the success of these strategies will hinge on how effectively Malaysian exporters adapt to shifting global trade dynamics. In the near term, resilience in key sectors such as E&E and palm oil, together with stronger regional demand, will be critical in offsetting the drag from weaker US-bound shipments.

Chart 23: External Trade Performances (YoY%)



Source: Macrobond, MBSBR

Chart 24: Exports by Major Markets (YoY%)



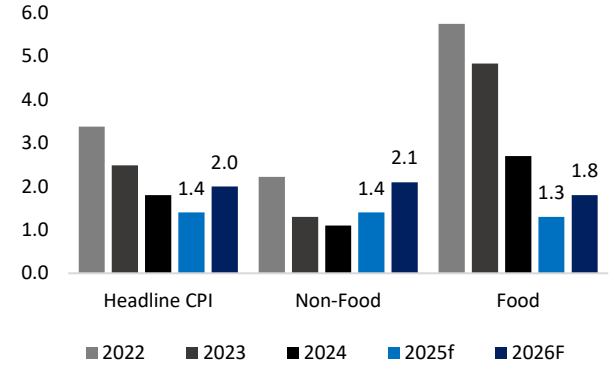
Source: Macrobond, MBSBR

We expect Malaysia's CPI inflation to moderate to +1.4% for 2025 (2024: +1.8%), reflecting slower price increased compared to our earlier projection of +1.8%. Our recent downward revision to inflation outlook considers the continued milder-than-expected inflation readings in the recent months. Overall, we expect that the source of price pressures will be driven by

Inflation has been milder than projected.

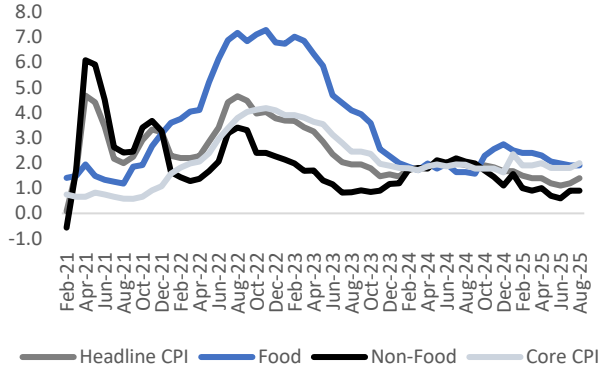
both supply and demand. The pickup in inflation in the coming months, however, will be more modest than initially projected based on two key factors: First, cost pressures remained subdued in the recent months as reflected by the continued fall in PPI. Second, the delay in the rollout of the targeted RON95 subsidy will slow the rate of price increases. Furthermore, the 6-sen reduction of the subsidised RON95 petrol price to RM1.99 a litre will specifically help to limit upward pressure on transport charges. On the flipside, the Jul-25 OPR cut is expected to fuel a buildup in demand pressures, stimulating greater consumer spending. This will be further supported by a healthy labour market with positive employment and wage growth, pro-consumption fiscal measures, and the delay in the subsidy adjustment. Although the government also extends the subsidised RON95 price to selected commercial vehicles, potential rise in logistic costs could push inflation higher. We assume the renewed rise in cost pressures and gradual buildup in demand pressures would push inflation higher towards +2.0% next year. The prevailing low prices for global oil and other commodities, however, would constrain upward pressures on the domestic fuel and energy costs. Although the effects of various policy changes on inflation have been rather limited and contained, we remain cautious that policy adjustments could lead to higher cost pressures.

Chart 25: Inflation Forecast (YoY%)



Source: Macrobond, MBSBR

Chart 26: Inflation by Major Components (YoY%)

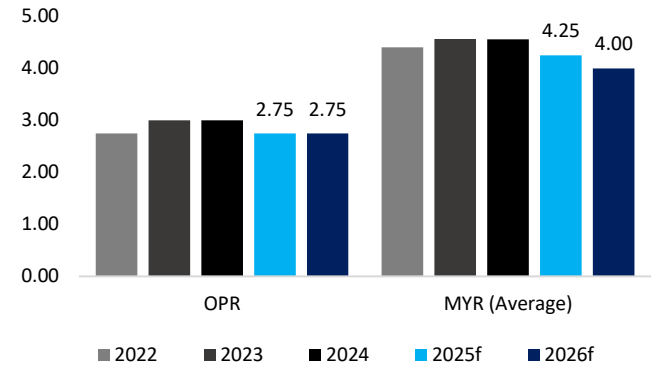


Source: Macrobond, MBSBR

OPR to remain at 2.75%.

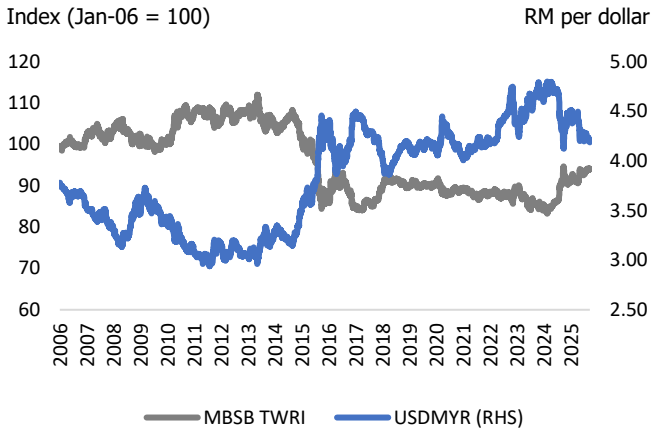
Based on our assessment of prevailing economic growth and inflationary trends, we project that the current Overnight Policy Rate (OPR) of 2.75% will be maintained by Bank Negara Malaysia (BNM) for the remainder of 2025. We believe this rate remains appropriate for supporting sustainable economic expansion. We also view that BNM's decision to keep OPR unchanged in Sep-25 signals a more confident view on Malaysia's economic prospects, in contrast to the pre-emptive rate cut in Jul-25 which was decided to support the economy amid heightened uncertainties. We anticipate that the policy easing will continue to provide support to the economy, with the full impact likely unfolding into next year. We believe that the pre-emptive rate cut in Jul-25 was a one-off measure, rather than an initiation of a rate-cutting cycle, in light of still encouraging domestic spending and healthy labour market conditions. While we anticipate a renewed but gradual rise in inflationary pressures attributable to supply-side factors on the back of policy adjustments, we do not foresee this prompting additional OPR recalibration by BNM. Hence, with inflation remaining under control and growth to be sustainable, we expect OPR will remain at 2.75% throughout 2026.

Chart 27: Monetary Policy & USDMYR Forecast (%)



Source: Macrobond, MBSBR

Chart 28: USDMYR vs MIDF Trade-Weighted Ringgit Index (TWRI)



Source: Macrobond, MBSBR

Ringgit to appreciate further as interest rate differentials narrow.

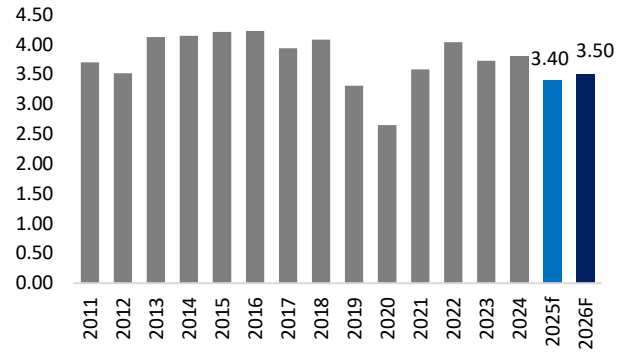
We project the ringgit will remain on a strengthening trend in the 4QCY25 and to continue into 2026. This outlook is supported by our expectations that the interest rate differential between the OPR and the Fed's fed funds rate will narrow. Further rate cuts by the Fed and an increase in global risk appetite will facilitate a recovery in capital flows into the emerging markets, with Malaysia as one of the beneficiaries. On that note, we expect financial market dynamics will continue to be the primary driver of the ringgit's overall performance. With OPR to remain unchanged well into 2026, the Fed is expected to carry out another 1-2 rate cuts in the latter part of 2025 and potentially additional rate cut in 2026. Fundamentally, we expect Malaysia's strong economic growth, elevated commodity prices, and continued current account surplus will also support the ringgit. We project ringgit to average stronger at RM4.25 in 2025 and RM4.00 in 2026 (2024: RM4.56) and moving closer to RM4.09 by end-2025 and RM3.95 by end-2026 (end-2024: RM4.47). This outlook remains subject to significant uncertainties, including potentially more tariff measures, trade fragmentations, and ongoing geopolitical tensions, which could contribute to increased volatility in global financial markets and commodity prices.

10Y MGS yield to stabilize around 3.40% at year-end.

Based on our latest projection, we foresee the yield for 10-year Malaysian Government Securities (MGS) yield to stabilize around 3.40% and then increase slightly to 3.50% for 2026. Based on the recent MGS performance, the compressed spread between the MGS and OPR, has been hovering between +50-60bps, lower than the average +98bps in 2015-2025 and mainly attributable to the expectation of an OPR cut previously. However, we expect that the spreads to slightly widen and to persist in the medium term as we do not expect another OPR cut in 2025 and 2026. With the Fed continuing its policy easing, we expect the interest rate differential to gradually decrease. Consequently, we anticipate that the OPR-MGS spread will normalise as market participants react to the lower probability for additional OPR cut. However, we think the widening spreads could be limited as we anticipate a near-term shift of capital flows into the MGS market, further supported by growing concerns over the US fiscal outlook and further rate cuts, which could divert capital away from the UST market. Continued capital flows into the MGS market will exert downside pressure on the MGS yield this year, including the yield spreads against OPR across the curve. While the MGS yields tend to follow the trend in US treasury yields, we noticed that the recent sensitivity of the movement in the MGS market has reduced and somewhat decoupled. In other words, the volatility in the UST may have less impacts on the MGS market, with the Fed's dot plot and market expectation

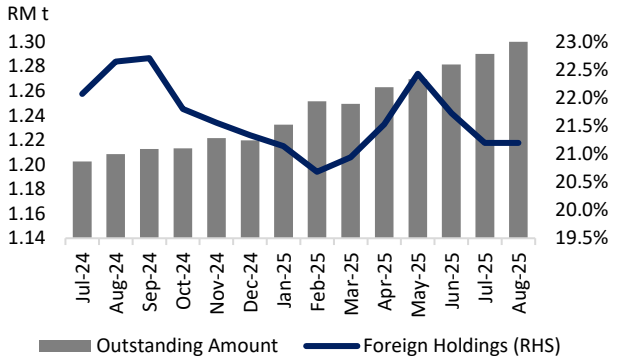
both signal 2 more rate cuts later this year. Malaysia's ongoing fiscal consolidation efforts, including the expanded SST coverage and fuel subsidy rationalization, will continue to enhance investor confidence and attract more capital inflows into the MGS market. This is further supported by the country's robust growth fundamentals, particularly on the domestic front, and stable and manageable inflation.

Chart 29: Average 10-Year MGS Yield Forecast (%)



Source: Bloomberg, MBSBR

Chart 30: Share of Foreign Holdings of Total Outstanding Government Bonds (%)



Source: Macrobond, Bondstream, MBSBR

Challenging external environment to pressure Malaysia's exports.

The implementation of tariffs is reshaping the global trade landscape, weighing heavily on Malaysia's export-reliant sectors. The outlook is further clouded by the prospect of weaker external demand from key trading partners. Malaysia's exports remain subject to 19% US tariffs (and potential more sector-specific tariffs), which will continue to be a drag on overall trade performance. Geopolitical tensions in the Middle East add another layer of risk, which can disrupt key global trade routes and commodity prices. As an open economy, Malaysia is also highly exposed to economic developments of its major trading partners. Mounting risks to US consumer spending, amid economic uncertainty and a weakening labour market, could prompt households to limit spending and increase precautionary savings. The full impact of the new tariffs is expected to materialize in the coming months, potentially eroding real disposable incomes and further softening US final demand. Meanwhile, persistent deflationary pressures, subdued consumption, and ongoing stress in China's property market risk undermining private sector demand. Weaker economic picture in these two countries is expected to weigh further on Malaysia's exports. Taken together, these headwinds point to a challenging external environment that could dampen Malaysia's trade performance in the near term.

Table 2: Selected Macroeconomic Data: Past Performance and Latest Projection (%)

(YoY %) Unless Stated Otherwise	2022	2023	2024	2025F	2026F [P]
Real GDP	8.9	3.6	5.1	4.3	**4.0-4.5**
Govt. Consumption	5.1	3.3	4.7	5.1	4.8
Private Consumption	11.3	4.7	5.1	4.8	4.6
Gross Fixed Capital Formation	6.8	5.5	12.0	8.9	6.6
Govt. Investment	5.3	8.6	11.1	6.6	5.5
Private Investment	7.2	4.6	12.3	9.6	6.9
Exports of goods & services;	14.5	(7.9)	8.3	3.7	1.2
Goods Exports	11.0	(12.5)	5.3	1.9	0.4
Services Exports	58.3	32.9	25.5	12.4	4.3
Imports of goods & services;	16.0	(6.8)	8.2	4.3	1.7
Goods Imports	14.4	(10.9)	8.9	4.4	2.0
Services Imports	25.7	16.1	5.7	3.8	0.4
Net Exports	(1.5)	(22.2)	9.2	(4.7)	(8.4)
Agriculture etc.	1.3	0.7	3.1	1.2	0.9
Mining & Quarrying	3.5	0.5	0.9	(3.5)	0.2
Manufacturing	8.2	0.7	4.2	3.5	3.3
Construction	5.1	6.1	17.5	12.2	9.7
Services	11.3	5.1	5.3	4.9	4.8
Exports of Goods (f.o.b)	24.9	(8.0)	5.7	2.0	(0.2)
Imports of Goods (c.i.f)	31.0	(6.4)	13.2	4.5	1.4
Headline CPI Inflation (%)	3.4	2.5	1.8	1.4	2.0
Current Account, % of GDP	3.2	1.1	1.4	1.4	1.6
Fiscal Balance, % of GDP	(5.6)	(5.0)	(4.1)	(3.9)	(3.6)
Federal Government Debt, % of GDP	60.3	64.3	64.6	64.5	63.7
Unemployment Rate (%)	3.8	3.4	3.3	3.0	2.9
Brent Crude Oil (Avg), USD per barrel	102.0	82.2	79.9	63.0 - 70.0	65.0 – 70.0
Crude Palm Oil (Avg), MYR per tonne	5,262	3,813	4,194	4,300	4,200
USD/MYR (Avg)	4.40	4.56	4.56	4.09	4.00
USD/MYR (End-period)	4.35	4.59	4.47	4.25	3.95
MGS 10-Yr Yield (Avg)	4.07	3.86	3.83	3.40	3.50
MGS 10-Yr Yield (End-period)	4.04	3.73	3.84	3.40	3.53
Overnight Policy Rate (%)	2.75	3.00	3.00	2.75	2.75

[P] preliminary forecast
Source: Macrobond, National Sources, MBSBR

III. MARKET OUTLOOK

In 4Q25, expect positive market momentum to continue.

The local equity market rebounded in the second half of this year with its main benchmark FBM KLCI recorded gain of +5.1% thus far in 3QCY25 largely propped by net purchases among local investors. Going forward into 4QCY25, we expect the local equity market to gain further ground:

4) driven by pent-up buying from return inflow of foreign funds,

5) underpinned by healthy economy as well as corporate earnings outlook, and
6) supported by undemanding equity valuations.

More Fed rate cuts in 4Q25…

At its recent meeting, the FOMC alluded to more interest rate cuts later this year after its initial -25 basis points in September. Meanwhile, the interest rate futures market is anticipating 2 more rate cuts this year totalling -50 basis points as well as multiple rate cuts in 2026.

...amid sign of moderating US economy…

The recent streak of underperformance in US Non-Farm Payrolls (NFP) data is perturbing. The sign of US economic growth moderating arguably underpinned the recent US Fed decision to again cut rate after a 9-month hiatus. At this juncture, the market consensus nonetheless remains sanguine on the US economy continue registering positive growth for this year and next.

…to attract return inflow of foreign funds.

However, the prospects of (1) declining US Dollar interest rates, and (2) moderating US economic growth, may encourage some Wall Street investors to redirect their funds to countries/regions with more stable interest rates and higher growth vis-à-vis the US economy. In this regard, we expect Malaysia to be able to attract some of the redirected funds as (1) BNM is expected to keep the OPR unchanged for the foreseeable future, and (2) Malaysia is estimated to register relatively higher economic growth. In 4Q25, we expect pent-up buying from return inflow of foreign funds to help drive the local equity market higher.

Positive market momentum underpinned by improving fundamental performance...

The positive momentum driving up the local equity market thus far in 3Q25 was arguably underpinned by improving economy and corporate earnings performance. Malaysia's economic growth risen to +2.1%qoq in 2QCY25 vis-à-vis +0.7%qoq in 1QCY25. Similarly, corporate earnings recovered with the aggregate normalized earnings of FBM KLCI rebounded +1.0%qoq in 2QCY25 vis-à-vis -4.3%qoq in 1QCY25.

…and to be sustained by sanguine outlook…

Going forward, we expect Malaysia economy to see continued expansion in domestic demand despite lingering uncertainties in external trades. We estimate Malaysia's GDP to grow +4.3% this year and +4.0-4.5% in 2026. Similarly, the local corporate earnings shall be sustained by domestic drivers amid external uncertainties. The consensus expects annual earnings growth of FBM KLCI to take a breather at -2.2% this year and resumes its upward trajectory at +6.4% in 2026.

…while supported by undemanding equity valuation.

Moreover, the valuation of local equity market is relatively undemanding. The 10-year average PER of FBM KLCI stands at 16.0x current year earnings. The FBM KLCI is currently (23 September) trading at 1,603 points or PER25 of 14.8x, a historically depressed valuation level.

But caution ahead.

Domestically and externally, the prevailing GDP estimate and projection for this year and next point toward continued positive growth. However, we are mindful of externally driven downside risks to the baseline outlook. Foremost, the risk of US recession which could implicate the rest of the world. Furthermore, the asymmetrical risks of geopolitical conflicts which present limited upside but big downside.

Risk of US recession.

While the market consensus is hitherto sanguine on the US economy continue registering growth for this year and next, the recent streak of underperformance in US Non-Farm Payrolls (NFP) data is nonetheless concerning. Going forward, the NFP data should be closely monitored as it could generate early symptom in regard the outlook of the US economy.

Looking at previous US economic recessions in 2001 and 2008, the NFP began to intermittently fell into negative territory, several (5 to 9) months prior to the start of recession.

Geopolitical conflicts present limited upside but big downside risk.

The ongoing Russia-Ukraine war is not foreseen to actively spread to other countries in the region despite recent limited incursions into bordering NATO territories. Likewise, the ongoing Israel-Palestine war. Meanwhile, a repeat of Israel-Iran war cannot be totally discounted. Nonetheless, these conflicts have so far engendered limited impact on Malaysia's economy and corporate earnings performance, thus exerted limited bearing on the equity market. However, while not foreseen, major escalations that significantly heighten the intensity and broaden the theatre of war would substantially magnify the potential economic fallout onto the wider world.

Hence, we are sanguine…

Going forward, we foresee a situation whereby the world's equity market would remain generally sanguine premised on baseline expectations of (1) further monetary (liquidity) easing with more interest rate cuts by the US Fed as well as other central banks, and (2) continued resilient macro economy and corporate earnings performance. Moreover, the prospect of return inflow of foreign funds would generate an additional fillip to the local equity market.

…albeit wary.

On the flip side, we advise investors to tread cautiously and be wary of evolving risk of US recession in view of the recent weakness in labour market situation. Moreover, we should also be mindful of the unsettling situation in Eastern Europe and the Middle East which could escalate rather unexpectedly.

Maintain our 2025 targets.

In view of the still positive fundamental and monetary (liquidity) prospects, we maintain our FBM KLCI, FBM Emas Shariah, and FBM 70 targets for 2025 at **1,650 points** or PER25 of 15.2x, **12,500 points** or PER25 of 19.8x, and **18,100 points** or PER25 of 18.2x, respectively.

Preliminary 2026 targets

Continued macro and earnings growth next year…

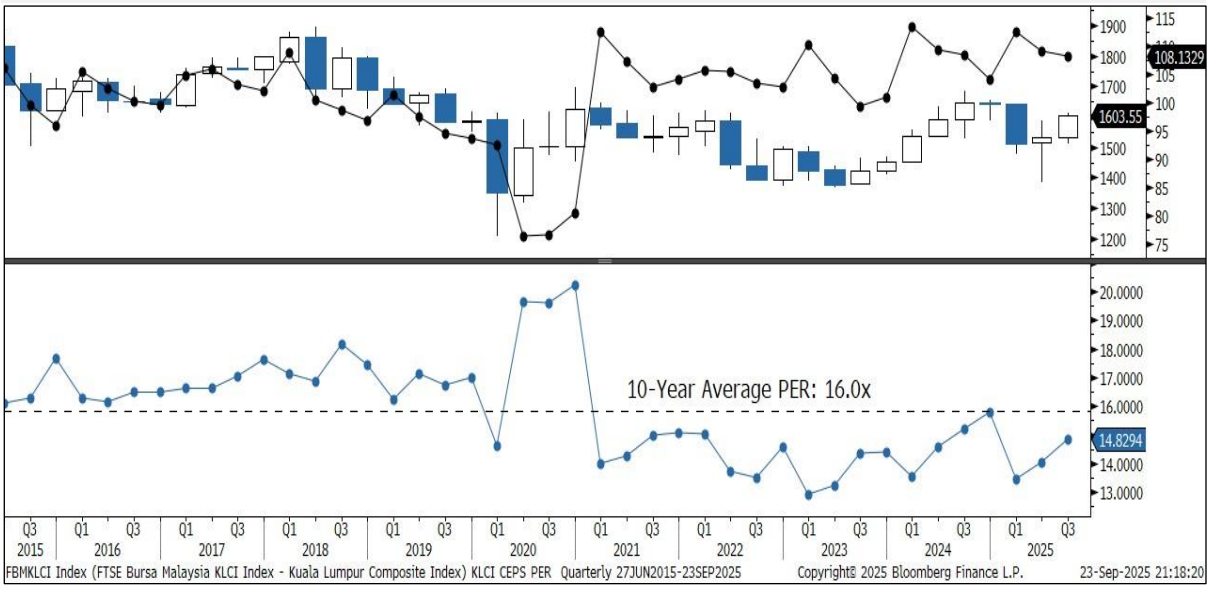
Going into next year, we expect Malaysia economy to remain healthy with our preliminary GDP growth forecast at +4-.0-4.5% in 2026. Along with the baseline expectation of rather resilient macro performance, market consensus is forecasting the FBM KLCI to register a healthy +6.4%yoy earnings growth in 2026. Furthermore, the FBM Emas Shariah and FBM 70 are projected to register quite robust +9.9%yoy and +12.3%yoy earnings growth next year, respectively.

…but expect rather stagnant valuation due to recurring external fears.

Despite our baseline expectations of resilient macro performance along with healthy earnings growth next year, we expect equity valuation to remain relatively stagnant. That is so as we believe the local equity market next year would be beset by recurring fears of US economic recession.

FBM KLCI

Calendar Year	Earnings (Points)	YoY (%change)
CY2026 (F)	115.0	+6.4



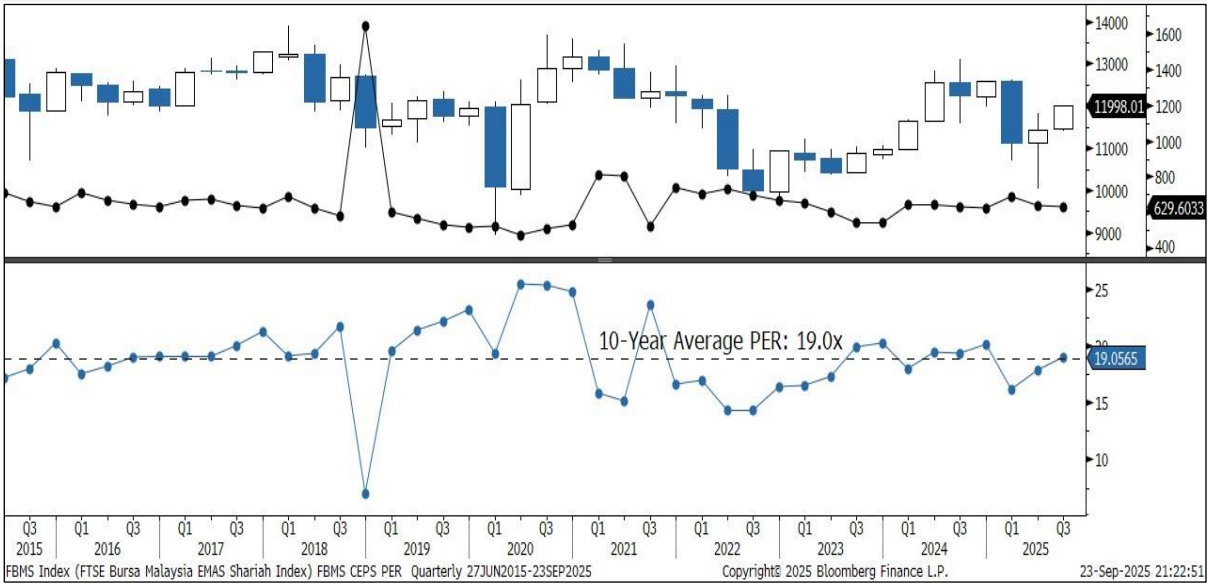
Source: MBSBR, Bloomberg (G5)

At current juncture, the FBM KLCI is trading at PER25 of 14.8x. Based on the prevailing 2026 earnings forecast of 115.0 points, we introduce our preliminary FBM KLCI 2026 baseline target at 1,730 points or PER26 of 15.0x.

Preliminary FBM KLCI 2026 baseline target at 1,730 points or PER26 of 15.0x.

FBM Emas Shariah

Calendar Year	Earnings (Points)	YoY (%change)
CY2026 (F)	692.1	+9.9



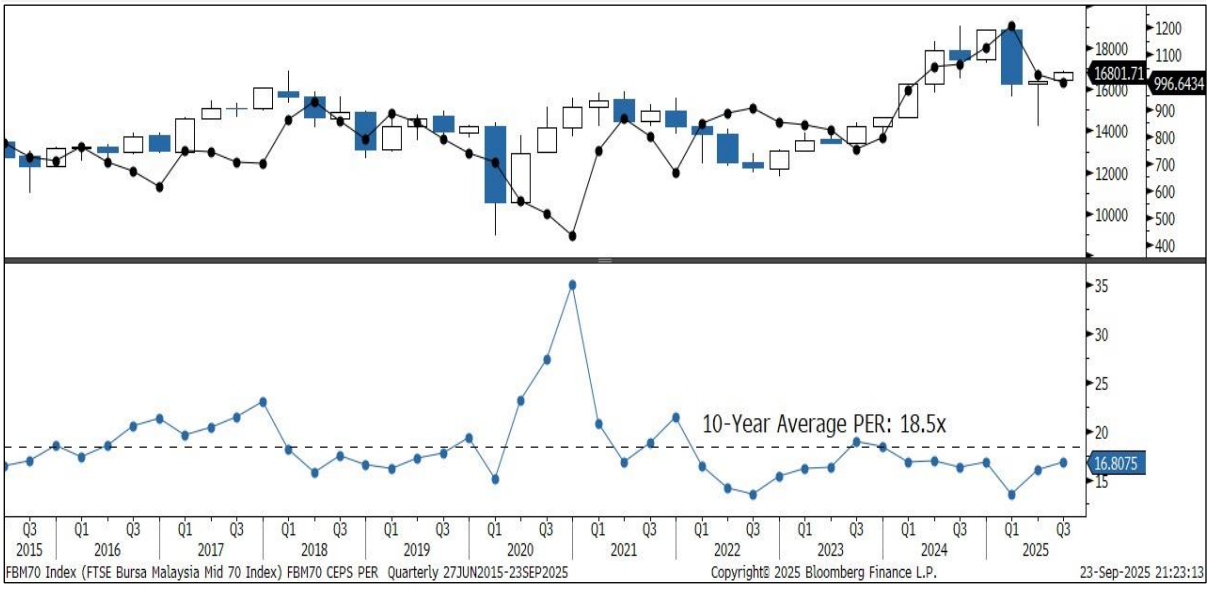
Source: MBSBR, Bloomberg (G6)

At current juncture, the FBM Emas Shariah is trading at PER25 of 19.1x. Based on the prevailing 2026 earnings forecast of 692.1 points, we introduce our preliminary FBM Emas Shariah 2026 baseline target at 13,000 points or PER26 of 18.8x.

Preliminary FBM Emas Shariah 2026 baseline target at 13,000 points or PER26 of 18.8x.

FBM 70

Calendar Year	Earnings (Points)	YoY (%change)
CY2026 (F)	1,119.5	+12.3



Source: MBSBR, Bloomberg (G7)

At current juncture, the FBM 70 is trading at PER25 of 16.8x. Based on the prevailing 2026 earnings forecast of 1,119.5 points, we introduce our preliminary FBM 70 2026 baseline target at 18,800 points or PER26 of 18.9x.

Preliminary FBM 70 2026 baseline target at 18,800 points or PER26 of 18.9x.

IV. STOCK SELECTIONS

With the US tariff on Malaysia landing at 19%, we believe that it has removed a major uncertainty for the Malaysian market. In addition, we expect that the expected US rate cuts will provide tailwinds for our market in 4QCY25. Domestically, Budget 2026 to be announced on 10 October 2025 may provide some impetus in certain sectors, combined with the BUDI95 announcement and 25bps OPR cut earlier. As such, we are slightly more upbeat in 4QCY25.

Slightly upbeat in 4QCY25.

We continue to like the construction sector, backed by a combination of easing cost pressures, resilient private sector demand, and stronger public project execution. We see momentum is also improving on the demand side. Major infrastructure projects, such as Penang LRT and MRT3, have begun moving albeit at very early stage. Data centre demand also remains structurally strong. Coupled with active industrial job flows and the multi-year public infrastructure roadmap under RMK-13, we expect earnings visibility to strengthen into 2HCY25.

Construction will continue to be a flavour for 4QCY25.

We have turned positive on banks.

The banking sector, despite the presence of some headwinds, remains resilient with extremely attractive dividend yields. We believe the sector's fundamental outlook remains sound, with robust earnings (even factoring in NIM compression), manageable asset quality, large-scale recoveries, and better loan growth expected in the months ahead.

Consumer a laggard but with some fundamental support.

We also continue to like the consumer sector, underpinned by resilient macro fundamentals, targeted policy support, and structural growth drivers. Universal cash aid, subsidised fuel, deferred toll hikes, and wage enhancements and the 25bps OPR cut, continues to reinforce household disposable income and support spending across both staples and discretionary categories. Meanwhile, labour market conditions remain firm. Additionally, tourism recovery adds a further uplift, boosting retail, F&B, and convenience demand ahead of Visit Malaysia 2026. On the cost side, softer inputs alongside a firmer ringgit should alleviate margin pressures, offsetting the impact of expanded SST and higher CPO costs. Overall, the combination of demand resilience, policy tailwinds, and easing cost pressures provides a constructive backdrop for earnings visibility, positioning the sector to deliver resilient performance into 4QCY25 and beyond.

Our overall sector calls.

We make no changes to our sector calls in this report. The summary of our sector calls is as follows.

POSITIVE: Banking, Construction, Consumer, Healthcare, Property, Utilities (Power) & RE

NEUTRAL: Automotive, Gloves, Plantations, Oil & Gas, REITs, Technology, Telecommunication, Transportation

NEGATIVE: None

Top ten picks based on sectoral views and some tactical plays.

Our top ten picks for 4QCY25 are based mostly on our sectoral views. However, we are also including some tactical picks to take advantage of positive developments, such as picks in the plantation sector to take advantage of potential rise in CPO price in 4QCY25, and laggard picks in the property sector which we believe the buying sentiment should remain positive due to stable house price outlook in Malaysia. Our top ten picks are as follows:

Overall Top Ten Picks

	Rec.	Price (RM) @ 30/9/25	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
Mah Sing	BUY	1.11	1.51	36.0%	4.7%	40.7%	4	Y
IJM Corp	BUY	2.82	3.60	27.7%	2.8%	30.5%	3	Y
Tenaga Nasional	BUY	13.22	16.40	24.1%	4.2%	28.3%	3	Y
Fraser & Neave	BUY	27.24	32.08	17.8%	2.8%	20.6%	4	Y
UOA Development	BUY	1.82	2.04	12.1%	5.5%	17.6%	3	N
Gamuda	BUY	5.53	6.35	14.8%	1.8%	16.6%	3	Y
RHB Bank	BUY	6.60	7.21	9.2%	6.6%	15.9%	4	Y
Life Water	BUY	0.98	1.11	13.3%	2.3%	15.6%	-	-
Ta Ann	BUY	4.15	4.38	5.5%	6.0%	11.6%	2	N
Hong Leong Bank	BUY	20.52	21.71	5.8%	5.3%	11.1%	4	Y

Shariah Top Ten Picks

	Rec.	Price (RM) @ 30/9/25	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
Mah Sing	BUY	1.11	1.51	36.0%	4.7%	40.7%	4	Y
Aeon Co.	BUY	1.30	1.77	36.2%	3.7%	39.8%	4	Y
IJM Corp	BUY	2.82	3.60	27.7%	2.8%	30.5%	3	Y
Tenaga Nasional	BUY	13.22	16.40	24.1%	4.2%	28.3%	3	Y
Fraser & Neave	BUY	27.24	32.08	17.8%	2.8%	20.6%	4	Y
UOA Development	BUY	1.82	2.04	12.1%	5.5%	17.6%	3	N
Gamuda	BUY	5.53	6.35	14.8%	1.8%	16.6%	3	Y
Life Water	BUY	0.98	1.11	13.3%	2.3%	15.6%	-	-
Ta Ann	BUY	4.15	4.38	5.5%	6.0%	11.6%	2	N
Sunway Construction	BUY	6.05	6.53	7.9%	2.1%	10.0%	3	Y

Small/Mid-Caps Top Ten Picks

	Rec.	Price (RM) @ 30/9/25	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
Mah Sing	BUY	1.11	1.51	36.0%	4.7%	40.7%	4	Y
Aeon Co.	BUY	1.30	1.77	36.2%	2.2%	38.4%	4	Y
IJM Corp	BUY	2.82	3.60	27.7%	2.8%	30.5%	3	Y
Sunview	BUY	0.37	0.46	24.3%	0.0%	24.3%	-	-
Fraser & Neave	BUY	27.24	32.08	17.8%	2.8%	20.6%	4	Y
UOA Development	BUY	1.82	2.04	12.1%	5.5%	17.6%	3	N
Life Water	BUY	0.98	1.11	13.3%	2.3%	15.6%	-	-
IOI Corp	BUY	3.95	4.42	11.9%	2.7%	14.6%	4	Y
Ta Ann	BUY	4.15	4.38	5.5%	6.0%	11.6%	2	N
Sunway Construction	BUY	6.05	6.53	7.9%	2.1%	10.0%	3	Y

Source: Bloomberg, MBSBR

B. SECTORAL OUTLOOK

POSITIVE CALL SECTORS

I. BANKING ..... Maintain POSITIVE

More clarity on headwinds

Analyst: Samuel Woo

Most banks are guiding for NIM compression as a result of the recent OPR cut. Regardless, liquidity is plentiful, implying much space for pricier FD release of loan/deposit optimisation to offset NIM compression in subsequent quarters. On the other hand, most banks are optimistic about investment income and forex gains to offset weaknesses in NII.

NOII to buoy topline, while NIMs to compress.

The consensus is that there will be some degree of asset quality normalisation expected in 2HCY25, and larger recoveries expected in select banks. Vantris Energy Bhd (fka Sapura Energy) has already announced the issuance of new shares and redeemable convertible unsecured Islamic debt securities (RCUIDS) as part of settlement terms to Maybank, RHB, and CIMB… which is a promising start.

Expect heavy recoveries, while asset quality problems will likely impact a few banks.

This is primarily coming from a pickup in corporate loans, after a weak first half of the year. Banks seem less worried about potential tariff impacts, as pipelines are already filled in for now. A strong liquidity situation backs up the growth. We are less optimistic about residential mortgages – especially the primary market, where more banks are flooding into right now.

Loan growth outlook for CY25 is not amazing… but some pickup expected in 2HCY25.

Lower loan growth expectations for CY25 and less skittishness over Basel III implementation have led to multiple hints of higher dividend payouts at year's end.

Dividend outlook is bright.

The added clarity banks were able to provide in 2QCY25's earnings season has been helpful. The bottom line is that asset quality is not a major issue, and that earnings outlook is preserved: there are plenty of means to offset NIM compression and the larger provisions' impact on the bottom line. This stability and certainty, coupled with higher-than-normal dividend yields, make Malaysian banks a prime beneficiary for emerging market inflows – especially when headwinds are well priced in. Our preferred pick is **RHB Bank (BUY, TP: RM7.21)** for recoveries expected in multiple loan categories, particularly SME and foreign segments, as well as the possibility of higher-than-average dividend payout in FY25. We also like **HL Bank (BUY, TP: RM21.71)** for improved dividend payout and yields and sharp NOII growth (especially regional offerings) from its recent transformations.

Maintain POSITIVE.

II. CONSTRUCTION ..... Maintain POSITIVE

Final approach, ready for take-off

Analyst: MBSB Research team

Data from the Department of Statistics Malaysia (DOSM) showed that for the thirteenth consecutive quarter, the construction sector remained on a positive trajectory, albeit growing at a slower pace compared to the first quarter, registering a +12.9%yoy growth in 2QCY25 versus +16.6%yoy in 1QCY25. Out of RM43.9b value of work done, 37.1% or equivalent to RM16.3b was in civil engineering, primarily in the construction of utility projects (RM8.1b) and construction of roads and railways (RM6.0b) activities. The value of work done for non-residential buildings and residential buildings amounted to RM12.4b (28.2%) and RM10.0b (22.8%), respectively. Meanwhile, special trade activities contributed RM5.2b (11.9%), mainly in sites preparation (RM1.5b); electrical installation (RM1.2b); and plumbing, heat, and air-conditioning installation (RM1.1b). Additionally, the private sector remained the main driver of growth in the construction sector, contributing RM28.2b (64.2%). Nearly 61.1% of completed works value was concentrated in Selangor, Johor, the Federal Territories and Sarawak, with Selangor recording the highest construction work done value at RM9.7b. As of Jul-25, a total of 8,997 projects has been awarded in CY25, with a total value of RM111.3b. This was slightly lower than the same period in CY24 where 11,333 projects were awarded, with a total value of RM130.9b.

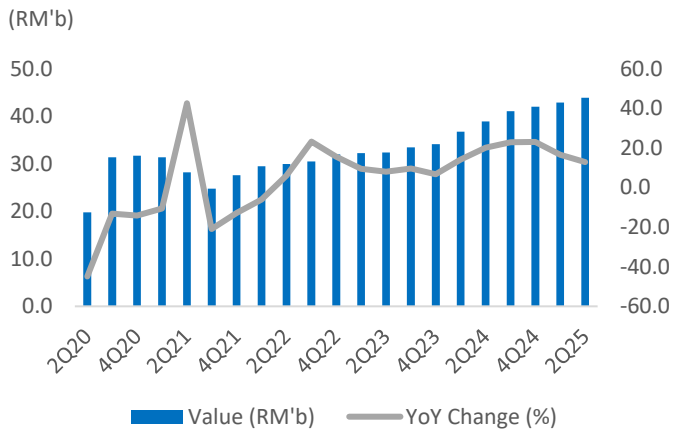
Remained on positive trajectory.

Overall, we see this as a positive development despite the headwinds suffered by the construction sector in 1HCY25, attributed to delays in project rollouts within the pipeline and global trade tensions. We expect a slight pickup in job flows in 2HCY25, with the gradual rollout of major public-sector infrastructure projects such as the Penang LRT as well as the potential award of up to six large-scale data centre facilities worth approximately >RM1.5b each.

Updates on mega projects.

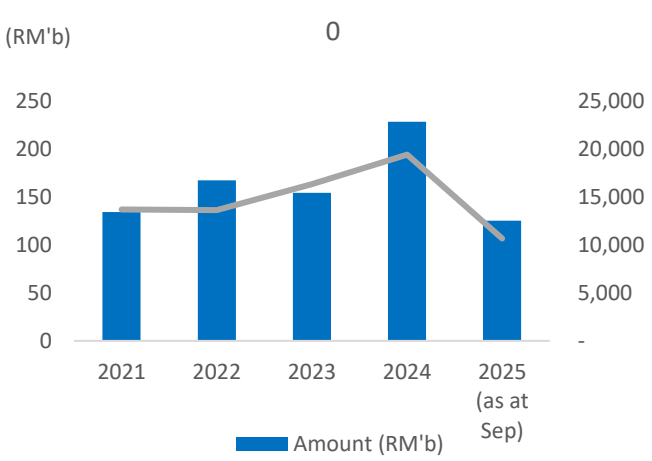
Our economics team has maintained their forecasted growth for the construction sector in CY25 at +12.8% for now. Penang LRT (Mutiara Line) saw its first major breakthrough earlier this year when the Gamuda-led SRS Consortium secured the first civil works package worth over RM8.0b, covering a 24km stretch from Komtar to Silicon Island. Following the fulfilment of post-award conditions, MRT Corp issued the Notice to Proceed (NTP) on Jul 15, 2025, officially kicking off the six-year construction timeline. Works will begin with utility relocation, road widening, piling and site preparation. The next major milestone will be the tender for the 5km cross-channel bridge linking Komtar to Penang Sentral, which is expected to draw strong bids from established civil contractors such as IJM Corp, Sunway Construction, WCT Holdings and MRCB given its high-value marine and structural scope. Additionally, the MRT3 Circle Line has officially received final government approval, marking a long-awaited milestone and reigniting optimism for Malaysia's infrastructure cycle after years of delays. Funding is expected to be structured through DanaInfra bond financing, reducing fiscal strain and easing contractors' working capital requirements, while the CY27-CY33 construction timeline offers seamless continuity post-ECRL and RTS completions in CY26, avoiding a sectoral "air pocket." Land acquisition has commenced, paving the way for tender reissuance by mid-CY26, with contract awards likely by end-CY26 or early CY27 and mobilisation starting with underground works before elevated and systems packages. The project carries an estimated RM31.0b in civil construction value across three main CMC packages, creating significant order book opportunities for contractors, while also generating spillover demand in piling, materials supply, and transit-oriented development, reinforcing MRT3's role as a cornerstone of Malaysia's infrastructure-led growth agenda. Other upcoming projects that could boost the sector include the RM6.10b Northern Coastal Highway in Sarawak, the RM5.60b Sabah-Sarawak Link Road and the potential renewal of the KL-SG High Speed Rail project. The Johor-Singapore Special Economic Zone (JS-SEZ) is also expected to be a key catalyst for construction demand moving forward.

Chart 31: Value of construction work done



Source: DOSM, MBSBR

Chart 32: No. of Construction Projects and Value (RM'b)



Source: CIDB, MBSBR

Data centres.

Major construction firms, notably Gamuda, IJM, and SunCon, continue to capitalise on the upward trajectory of data centres in Malaysia. Their capabilities in digital infrastructure and Industrialised Building Systems (IBS) have enabled them to secure significant data centre (DC) projects, particularly from hyperscale clients with demanding timelines. SunCon's outstanding order book stood at RM6.72b as at Jun-25, with 45% attributed to DC-related works. IJM, similarly, have secured four DC projects in Johor in FY25/26 and are actively bidding for additional hyperscale jobs with values exceeding RM1.0b. The demand for DC projects remains resilient, undeterred by recent external pressures including expanded U.S. export restrictions on high-end AI and semiconductor chips and initiatives such as Stargate. Despite these challenges, momentum has persisted, with no evident slowdown in hyperscale's investment. In fact, the current tender landscape remains active, and multiple U.S. multinationals are aggressively deploying capital across Southeast Asia, including Malaysia.

While sectoral dynamics are evolving, with the implementation of a 6% Sales and Service Tax (SST) on construction services from Jul-25 and rising electricity tariffs by TNB, DC investments have proven relatively insulated, supported by long-term hyperscale lease models and cost pass-through structures. Malaysia also retains a substantial competitive advantage in build economics, with average DC construction costs for core and shell with basic MEP services estimated at ~USD1,365 per square metre, significantly undercutting Singapore, where comparable builds often exceed USD3,000 per square metre. Notably, Microsoft is on track to launch its first cloud region in Malaysia by end-CY25, comprising three data centres, while Oracle has pledged over USD6.50b to establish its own public cloud region locally. These developments underscore the structural growth of Malaysia's DC sector, offering substantial opportunities for contractors able to execute with speed, quality, and innovation. We expect DC projects to remain a key growth engine for the construction sector throughout 2HCY25 and into CY26.

RMK-13: Multi-sector infrastructure and development catalysts.

The 13th Malaysia Plan (RMK-13) sets out a substantial multi-year pipeline anchored by a projected RM430.0b federal development allocation (RM86.0b/year average), complemented by RM120.0b in GLIC funding and RM61.0b in PPP and private capital, with public investment projected to grow by about +3.6% per annum and to average roughly RM112.9b per year. Key

priorities include the expansion of public transport infrastructure, with major rail projects such as LRT3 in the Klang Valley, the RTS Link linking Johor to Singapore, the ECRL, and the Penang Mutiara Line, together with feasibility studies for the TransBorneo Railway in Sabah and Sarawak, positioning rail as a core mobility strategy for both Peninsular Malaysia and East Malaysia. This is supported by accelerated Transit-Oriented Development initiatives across Kuala Lumpur, Selangor, Negeri Sembilan, Johor and Penang as well as along the ECRL corridor, which are expected to stimulate demand for mixed-use developments and to fast-track housing delivery through IBS and GBI compliance.

Flood mitigation remains a key focus, with RM12.0b allocated to 43 high-priority TBBT projects together with RM3.0b for the Sungai Golok PLSB and RM398.0m for AI-enabled early-warning systems, and, as referenced in the YAB Prime Minister's speech, these sit within a broader pool of 103 projects totaling over RM20.0b, covering major river-basin works across Kelantan, Selangor, Terengganu, Johor, Sarawak, Kedah, Sabah and Perak.

Infrastructure expansion under the PPP framework is expected to revive the user-pay model, with upcoming projects such as the West Ipoh Span Expressway, the Putrajaya-Bangi Expressway, the Ipoh Sentral TOD and LPT3, creating opportunities for institutional and sovereign co-investments while reinforcing private-sector participation in large-scale builds. This will be complemented by 2,800km of rural and strategic road upgrades, including the Pan Borneo, Trans Borneo, Central Spine Road and key PLUS segments, together with first- and last-mile enhancements through 300 demand-responsive transit vans, 1,200 buses and 217 passenger trains, improving connectivity between urban, semi-urban and rural areas. Education infrastructure also forms a significant component, with RM67b allocated to enhance access and quality, particularly in rural Sabah, Sarawak and Kelantan, through the construction of new schools, vocational training centres and higher-education facilities.

Maintain POSITIVE.

We maintain our **POSITIVE** stance on the construction sector, backed by a combination of easing cost pressures, resilient private sector demand, and stronger public project execution Steel bar prices have continued to ease on a year-on-year (-7.63%) basis despite a YTD increase (+1.47%) and despite recent monthly fluctuations, while cement prices remain stable due to disciplined domestic production and raw material cost control, ensuring a favourable cost environment for contractors. These cost dynamics, paired with gradual easing of labour constraints and the ability to pass through SST and tariff-related costs, continue to support profitability in ongoing projects. Momentum is also improving on the demand side. The Penang LRT has officially mobilised following the Notice to Proceed, while MRT3 land acquisitions are underway, unlocking the RM31b civil works portion of the project pipeline. Data centre (DC) demand also remains structurally strong, with contractors continuing to secure hyperscale mandates as part of Southeast Asia's ongoing digital infrastructure boom, supported by robust leasing demand, cost competitiveness, and long-term client partnerships. Despite expanded U.S. chip export restrictions and rising electricity tariffs, hyperscale investment appetite remains undeterred, particularly from U.S. multinationals. Coupled with active industrial job flows and the multi-year public infrastructure roadmap under RMK-13 – including large-scale public transport infrastructure expansion, flood mitigation, and the projected RM430.0b federal development allocation, complemented by RM120.0b in GLIC funding and RM61.0b in PPP and private capital, we expect earnings visibility to strengthen into 2HCY25.

Top picks.

Our top picks for the construction sector remain **Gamuda (BUY, TP: RM6.35), SunCon (BUY, TP: RM6.53), IJM Corp (BUY, TP: RM3.60)** and **Malayan Cement (BUY, TP: RM7.49)**. SunCon remains highly attractive given persistent and robust demand for data centre construction projects, driven by Malaysia's accelerating digital transformation and ongoing foreign investments into hyperscale facilities. IJM Corp's diversified earnings base, notably its strategic international exposure through key projects in the UK via its subsidiary JRL, positions the company favorably against domestic market volatility, providing a resilient earnings buffer. Meanwhile, Gamuda's strong overseas presence and continued execution excellence in large-scale infrastructure projects and data centres underpin a stable growth trajectory. Finally, Malayan Cement stands out as the primary beneficiary of Malaysia's upcoming infrastructure boom.

III. CONSUMER ..... Maintain POSITIVE

Policy and tourism tailwinds anchor 4QCY25 consumption

Analyst: MBSB Research team

Domestic demand remains resilient.

Malaysia's consumer sector is expected to stay firm in 4QCY25, supported by healthy fundamentals and policy-driven measures to bolster household incomes. Retail trade growth held steady in Jul-25, rising +5.6%yoy to RM67.0b (Jun-25: +5.4%yoy), though sales eased -0.8%mom as post-festive demand tapered. Cumulatively, 7M25 sales climbed +5.9%yoy to RM466.6b, underscoring the resilience of household spending. Labour market conditions remain robust, with unemployment steady at 3.0% and job creation continuing to outpace labour force growth, while inflation remains subdued (headline: +1.2%yoy; core: +1.8%yoy), preserving real disposable incomes. Into 4QCY25, retail momentum should be anchored by stable labour market dynamics, benign inflation, and targeted fiscal support under Ekonomi MADANI. Seasonal catalysts from school holidays and year-end festivities are also expected to provide a further boost to discretionary spending, complementing steady mass-market demand and sustaining sector resilience into year-end.

Tourism rebound accelerates, setting the stage for structural upside.

Malaysia welcomed a remarkable 12.9m tourist arrivals in 1HCY25, surging +8.8%yoy from 11.8m in 1HCY24 and closing in on the pre-pandemic peak of 13.4m in 1HCY19. These strong rebound underscores the resilience of the tourism recovery, driven by vibrant ASEAN inflows, a sharp pickup in Chinese arrivals under the visa-waiver scheme, and improving global air connectivity. Tourism has re-emerged as a vital growth engine for Malaysia's services sector, delivering broad-based spillovers across retail, F&B, hospitality, and cultural activities, while reinforcing overall consumer demand.

Budget 2026 to catalyse Visit Malaysia 2026 preparations.

Looking ahead, preparations for Visit Malaysia 2026 are expected to intensify, with the government targeting 31.4m arrivals in 2025 and 35.6m in 2026, alongside projected receipts of RM147.1b. Policy initiatives around visa facilitation, infrastructure upgrades, and global marketing will be key enablers, while Budget 2026—scheduled for tabling on 10 Oct-25—is anticipated to provide additional allocations to accelerate readiness. Industry stakeholders, including MATTA, have emphasised the need for seamless airport operations, efficient baggage handling, and improved group-arrival facilities, noting that airports remain the critical "first point of entry" shaping visitor experience. They also highlighted the importance of stronger coordination among government agencies, local councils, and operators to ensure

safe, clean, and well-lit infrastructure, supported by stricter enforcement against illegal operators. In parallel, the Federal Territories Ministry has expressed hopes that the MoF will back efforts to enhance Kuala Lumpur, Putrajaya, and Labuan through beautification and promotional programmes ahead of VMY2026. For the consumer sector, rising tourist inflows provide a structural uplift, translating into stronger demand across FMCG, convenience retail, and discretionary categories. Key beneficiaries include **Spritzer (NEUTRAL, TP: RM2.13)** and **Life Water (BUY, TP: RM1.11)**, which are well-positioned to capture higher bottled water demand; **Oriental Kopi (SELL, TP: RM1.03)**, supported by increased footfall in urban and travel-centric outlets; and **QL Resources (NEUTRAL, TP: RM4.33)**, leveraging its FamilyMart franchise to serve convenience-seeking tourist demand. In our view, tourism-driven consumption will reinforce earnings visibility and provide a resilient tailwind for the consumer sector into 4Q25 and beyond.

Fiscal and monetary support underpin spending.

The operating environment remains constructive despite the expanded SST, anchored by supportive fiscal and monetary measures. Household purchasing power is being reinforced through the Ekonomi MADANI framework, including targeted cash transfers under the SARA programme and the newly introduced BUDI25 scheme, which fix RON95 petrol at RM1.99/litre (a 6 sen reduction from RM2.05) to directly lower fuel expenses and lift disposable income. At the same time, Bank Negara's first post-pandemic rate cut to 2.75% has eased borrowing costs across mortgages, personal loans, and hire-purchase financing, reducing household financial burdens. Labour market conditions remain robust, with unemployment steady at 3.0%—the lowest in a decade—providing further support to consumption. Looking ahead, structural reforms under the 13th Malaysia Plan, including the progressive wage policy and a higher labour income share of GDP, will underpin medium-term spending power. Collectively, these drivers are expected to offset SST-related pressures and sustain earnings resilience across both staple and discretionary consumer segments into year-end.

Benign cost backdrop anchors sector outlook.

Commodity and currency trends remain supportive for the consumer sector, with broad-based softness across key inputs and a firmer ringgit providing cost relief as of 19 September 2025. Lower sugar prices (raw: -10% YTD, white: -6% YTD) and lower cocoa price (-31% YTD) are easing input pressures for beverage and dairy producers such as **F&N (BUY, TP: RM32.08)** and **Nestlé (SELL, TP: RM77.90)**, while softer PET resin (-2% YTD) is reducing packaging and bottling costs for **Spritzer (NEUTRAL, TP: RM2.13)** and **Life Water (BUY, TP: RM1.11)**. Feed costs also remain benign, with soybean meal (-11% YTD) and corn (-4% YTD) supporting poultry margin recovery at **QL Resources (NEUTRAL, TP: RM4.33)** and **Leong Hup International (BUY, TP: RM0.90)**. Coffee inputs are mixed, with Arabica higher (+12% YTD) but Robusta lower (-15% YTD), offering partial relief to manufacturers with diversified sourcing. The main outlier is CPO, which rose +6% YTD and continues to pressure palm-intensive producers such as **Hup Seng (NEUTRAL, TP: RM0.92)**. Meanwhile, the ringgit strengthened 6% YTD to 4.21/USD, enhancing import cost efficiency and cushioning overall sector input costs. Overall, the combination of softer commodities, stable feed prices, and currency appreciation should reinforce margin stability and earnings resilience across staples, beverages, and poultry segments into 4QCY25.

Maintain POSITIVE on the Consumer Sector.

We reiterate our **POSITIVE** stance on the consumer sector, underpinned by resilient macro fundamentals, targeted policy support, and structural growth drivers. The Ekonomi MADANI framework—featuring universal cash aid, subsidised fuel, deferred toll hikes, and wage enhancements—together with Bank Negara's -25bps OPR cut, continues to reinforce household disposable income and support spending across both staples and discretionary

categories. Labour market conditions remain firm, with unemployment at a decade-low of 3.0%, while inflation stays subdued, preserving real purchasing power. Tourism recovery adds a further uplift, with ASEAN and Chinese arrivals boosting retail, F&B, and convenience demand ahead of Visit Malaysia 2026. On the cost side, softer sugar, cocoa, and feed inputs alongside a firmer ringgit should alleviate margin pressures, offsetting the impact of expanded SST and higher CPO costs. Overall, the combination of demand resilience, policy tailwinds, and easing cost pressures provides a constructive backdrop for earnings visibility, positioning the sector to deliver resilient performance into 4QCY25 and beyond.

Top picks in the sector.

Our top picks in the sector are **F&N (BUY, TP: RM32.08), AEON (BUY, TP: RM1.77), and Life Water (BUY, TP: RM1.11)**. We favour F&N for its dominant position in the RTD and RTG beverage segments, which continue to benefit from rising mobility and tourism-led consumption, while its upstream dairy integration in Gemas and capacity expansion in Cambodia should enhance long-term earnings visibility. AEON remains well-placed to capture mass-market demand through its extensive retail footprint and enjoys steady contributions from its Property Management Services division, with further upside from tenant mix optimisation and rental reversions. Life Water provides a differentiated Sabah-centric play on tourism and packaged water demand, with capacity-doubling initiatives and softer PET resin costs supporting an accelerated earnings trajectory.

IV. HEALTHCARE ..... Maintain POSITIVE

Malaysia's healthcare sector poised for continuous growth and guarded by headwinds

Analyst: MBSB Research team

Healthcare megatrends to continue driving hospital growth.

Healthcare providers had been on track in its growth trajectory, in tandem with the global healthcare megatrends, which include: (i) technological adoption, (ii) regional collaborations, (iii) firm regulations and policies, and (iv) persistent demographic pressures (i.e. increased aging population and higher NCD prevalence). Malaysia's revenue growth for healthcare providers is expected to increase at a 5-Y CAGR of 6% (2025-2030) to approx. RM72b-75b. The investment in digital transformation (including AI-powered contact centres and unified data systems), as well as the ongoing expansions and modernization, will continue to improve operational efficiency for domestic hospitals, both private and public. The growing demand for more personalized and specialized care in tandem with the rise of aging and aged populations is expected to support the sector. Malaysia, in particular, is poised to leverage on medical tourism, which will be a major focus for healthcare providers in CY26, given that CY26 will be Malaysia's Medical Tourism Year. Additionally, we expect government incentives for public healthcare will remain a centrepiece in the upcoming Budget 2026. However, downside risks remain on: (i) financial pressures due to underpayments and medical inflation, (ii) workforce shortages, (iii) DRG implementation, and (iv) lack of public-private integration.

Continuous government support to encourage local pharma manufacturing.

For the pharmaceutical sector, we noted that global growth is fragmented. In North America, drug pricing remains the major setback for growth and encourages shifting to high-value therapeutic areas and multi-indication trials, which are few and far between in terms of availability and cost per patient. On a positive side, we opine that AI will accelerate drug R&D, clinical trial design, and rare disease diagnosis. For Malaysia, the largest market for the

remaining CY25 continues to be oncology drugs, which is projected to reach a market volume of RM1.3b in CY25. In terms of growth, consensus anticipated a 5-Y CAGR of 5% (2025-2030) for market volume to reach over RM9.3b by 2030. While this is minimal in comparison to global markets (USD1.5t by 2030), we believe that demand for generic drugs will continue to grow, along with the ongoing positive reception of biopharmaceuticals which include insulins and vaccines. Moving forward into CY26, we expect that the focus will be on regulatory harmonization to facilitate the import and local production of innovative drugs, generics, and traditional medicines. We opine that there will be continued efforts to encourage local manufacturing of pharmaceuticals to reduce import dependency, aligning with Malaysia's national economic master plans. However, we also noted on the downside risk which includes: (i) raw material volatility, (ii) supply chain disruption, (iii) concession risks, and (iv) everchanging and complex regulations and compliance.

Medical gloves expected to bottom out by CY26.

The medical gloves subsector is returning to a stable, long-term growth trajectory, but we still expect major shifts in supply chain dynamics. Since the end of the Covid-19 pandemic, the sector has been plagued with various challenges as demand normalises which led to oversupply situation. Nevertheless, global demand continues to recover, buoyed by steady restocking activities, rising surgical volumes and high hygiene awareness worldwide. Consensus believed demand is projected to reach pre-pandemic levels (approx. volume: 370b pieces per year) by CY26. Moving forward, while we expect nitrile gloves to remain the dominant for medical gloves, we noted that there is also a growing trend towards biodegradable and sensor-enabled smart gloves, subsequently driving innovation growth for the subsector. Other long-term drivers include: (i) growing aging population, (ii) rising incidence of NCDs that require surgical and diagnostic procedures, and (iii) stricter global regulations on infection control. Heading towards CY26, we believe the subsector will face a period of strategic defence by utilizing the tariff advantage in the US to boost volumes (tariff hikes imposed by the US on medical-grade nitrile gloves from China could potentially reach 100% by CY26), while simultaneously improving efficiency by accelerating automation and cost optimization. While the subsector is expected to recover gradually, we remain vigilant on the downside risks, including: (i) structural oversupply, (ii) low factory utilization rate (below 50% capacity), and (iii) tight competition with China. All being said, we view that the current business landscape is not favourable for the local glove manufacturer.

Maintain POSITIVE.

All in all, we retain our positive stance for the healthcare sector. Despite the internal challenges as well as the impact of the economy on healthcare supply and demand, we opine that Malaysia's healthcare ecosystem is poised for steady, multi-faceted growth in the remaining months of CY25 and into CY26, with the latter driven by demographic megatrends and strategic government initiatives, including Budget 2026 and Medical Tourism Year 2026. However, we also noted the risk in efficiency, cost and competition across all subsectors. Considering the growth projections and the challenges, our **TOP PICK** is **IHH Healthcare (BUY, TP:RM8.18).** We like IHH for its diverse exposure, given its operatorship in Malaysia, Singapore, Türkiye, India and Greater China. This lessened its susceptibility to Malaysian regulatory risks while benefitting from government support and incentives. IHH is also poised to accelerate growth by adding beds across key markets and leveraging high-yield services, with high potentiality to better offset inflation due to its premium brand and higher-end patient mix. We believe IHH is a defensive player moving forward, attributed by its sheer size and diversification which will shield it from domestic risks while ensuring stable, accelerated earnings growth despite global headwinds.

V. INSURANCE ..... Maintain POSITIVE

A challenging 2HCY25

Analyst: Samuel Woo

We expect this to provide some offset from tightening margins, and potentially slower growth (as a milder economic forecast is expected in 2HCY25).

Investment windfall due to lowering MGS yields.

In 1HCY25, **Allianz (BUY, TP: RM23.12)** was able to keep its health loss ratios noticeably low: far lower than the sector average. Management retains its stance that healthcare inflation figures will likely come in much lower this year – 1HCY25's figures have already shown promising signs.

Some insurance companies are managing health loss ratios better than others.

Expect higher combined ratios in 2HCY25, as the monsoon season brings about heightened flood risk. Insurers have also voiced concern about earthquakes – whether there will be added risks, and whether new programmes will come out of this.

Natural disasters: Monsoon season and earthquakes.

This was reported by **Allianz (BUY, TP: RM23.12)** – other insurers have ramped up competition at the start of 2HCY25, likely to reclaim the market share previously taken away by Allianz.

Expect higher competition among general players in 2HCY25.

Under normalised circumstances, the additional costs can be easily passed on to customers via a premium price hike. However, BNM's interim measures are complicating the issue – hence, expect a negative earnings impact for at least the next two years. STMB's family segment expects an RM20m per year impact – Allianz's life segment expects a limited impact, given its lower reliance on bancassurance. In contrast, general insurers shrug off any potential impact, as they are eligible for business-to-business (B2B) exemption.

SST impact will hit life/family insurers harder than general peers.

The insurance sector faces its fair share of headwinds. We think some players will face a challenging 2HCY25, but we remain positive on longer-term prospects. Investment windfall should provide some offset to weaker growth and tighter margins. The sector still has cheap valuations and solid dividend yields. Our preferred pick is **Allianz (BUY, TP: RM23.12)** due to its healthy dividend yields, with upside possibility if normalisation occurs, as well as ALIM tackling healthcare inflation well (as shown by its low health loss ratios). We also like **STMB (BUY, TP: RM3.70)** due to its cheap valuations, which we think already prices in its numerous headwinds – many of which will be resolved over time anyway.

Maintain POSITIVE.

VI. PROPERTY ..... Maintain POSITIVE

Outlook remains stable

Analyst: Jesssica Low Jze Tieng

We see that property sector will stay supported by the healthy buying interest in 4QCY25 and CY26. With stable house price outlook in Malaysia coupled with healthy economic outlook, we believe that buying interest on property will stay supported. Based on data released by Bank Negara Malaysia (BNM), total loan application for purchase of property in 7MCY25 is marginally

Favourable outlook for buying sentiment.

higher at RM374.4b (+1.2%yoy), indicating buying interest remains solid. This is following growth of 4.9%yoy in 2024. Looking forward, overall sentiment on property market in Malaysia will remain supported by The Johor Bahru–Singapore Rapid Transit System (RTS) and Johor-Singapore Special Economic Zone (JS-SEZ) which should lift demand for property in Malaysia.

Higher residential overhang in 2QCY25 contributed by increase in Kelantan.

According to data release by National Property Information Centre (NAPIC), residential overhang in Malaysia climbed for third consecutive quarters in 2QCY25. Residential overhang spiked to 26,911 units in 2QCY25 from 23,515 units in 1QCY25, representing an increase of 3,396 units. The residential overhang in 2QCY25 is at its highest level since 2023. The surge in residential overhang was mainly contributed by Kelantan which saw residential overhang jumped by 1,990 units. Residential overhang in Kelantan made up largely by condominium/apartment in Kota Bahru with price ranging RM200k-RM300k which contributed 1,946 units of residential overhang. Despite the rising nationwide residential overhang figure, the residential overhang in key states largely stable. Residential overhang in KL and Penang was lower in 2QCY25 while Selangor and Johor reported increase in residential overhang. Overall, we are not overly concerned on this rising residential overhang.

Corporate exercise to unlock value.

We see a slew of corporate exercise by property companies in CY26 which will lift overall sentiment on property companies. Property companies are embarking on corporate exercise such as IPO to unlock the value of its business divisions. Notably, Sunway Berhad is targeting to list its healthcare arm, Sunway Healthcare Holdings by 1QCY26. Similarly, S P Setia is in the midst of listing its investment properties into REIT which will unlock value of its investment properties and bode well for capital structure management of the company. Besides, IOI Properties Group is also planning to REIT its investment properties with key asset being IOI City Mall in Putrajaya. We see that the slew of IPO by property companies will support sentiment on property companies. We expect spillover effect to other property companies that have valuable assets which could be potentially listed for value unlocking.

Maintain POSITIVE on property sector.

We see that outlook for property sector in 4QCY25 and CY26 should remain positive, underpinning the catalysts from JS-SEZ, RTS and MM2H. Buying sentiment should remain positive due to stable house price outlook in Malaysia. Our top picks for the sector are **Mah Sing Group (BUY, TP: RM1.51), Matrix Concepts (BUY, TP: RM1.65) and UOA Development (BUY, TP: RM2.04).** We remain positive on Mah Sing as earnings of property development division will remain support by the solid sales of M Series projects while the entry into high end property market should help lift property sales. Likewise, we like Matrix Concepts as development of MVV City will serve as the earnings catalyst beyond FY26. Besides, we see good sales prospect for Matrix Concepts due to resilient demand for landed homes projects in Negeri Sembilan. As for UOA Development, the maiden launch of Johor project is expected to provide catalyst to new sales beyond FY26. Dividend yield of UOA Development is attractive at 5.7% while its balance sheet is healthy at net cash position.

VII. UTILITIES (POWER) and RENEWABLE ENERGY ..... Maintain POSITIVE

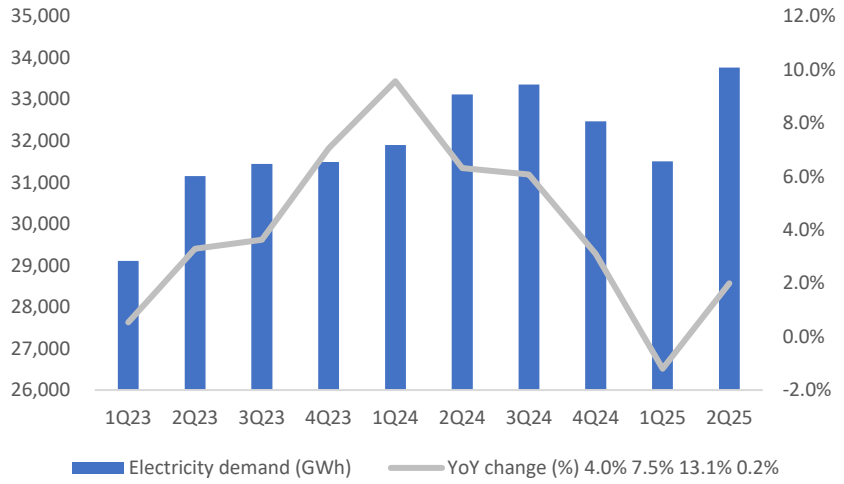
Solid electricity demand; hive of solar EPCC activities

Analyst: Royce Tan Seng Hooi

Demand remains solid.

Electricity demand rose +2.0%yoy to 33,768 GWh, driven mainly by the commercial and domestic sectors. The commercial sector saw a growth of +7.9%yoy to 12,555GWh, powered by the stronger consumption fuelled by data centre operations, business services and retails. We expect data centres to continue being a key player for electricity consumption. 2QCY25 saw data centre energy consumption rise +21.5%qoq to 836GWh from 1,016GWh. Peak electricity demand hit another new high on the 28th of May, reaching 21.05GW at 8.30pm, a positive indication that reflects the growing energy needs in Malaysia. We expect electricity demand to remain robust in 4QCY25, with an expected growth of between 2.8% to 3.8% in CY25.

Chart 33: Quarterly electricity demand



Source: TNB, MBSBR

Data centres to continue driving demand.

In terms of load utilisation of data centres, it has also grown rapidly by 3.2x year-on-year, from 190MW in Jun-24 to 603MW in Jun-25. Under the Green Lane pathway to support data centre players, Tenaga has completed a total of 24 projects with a total capacity of 3.5GW. The utility giant has also inked seven new Energy Supply Agreement (ESA) this year, securing an additional 733MW. All in, there are a total of 47 data centre projects with a secured capacity of 6.7GW. This makes up about 20% of the country's generation capacity.

Additional capacity from gas-fired plant.

The deadline for the latest request for proposal (RFP) for gas-fired power plants by the Energy Commission (ST) closed recently, particularly Category 2, on the 12th of September. This is for new generation capacities, or greenfield developments. Among those that have indicated their interest to participate in this category include Tenaga Nasional and YTL Power International. The deadline for Category 1 which ended earlier, was for existing facilities or additional capacities. Tenaga had previously revealed that it submitted six bids under Category 1, which we believe may likely be for PPA extensions for its Tuanku Jaafar PD1 (703MW) and PD2 (708MW), both gas-fired power plants that will be expiring in Aug-28 and Jan-30 respectively.

All these bodes well for Tenaga from both angles, its generation business and also the upgrading of its infrastructure for transmission and distribution.

Better price signals from AFA.

Recall that ST introduced the Automatic Fuel Adjustment (AFA) mechanism to replace the Imbalance Cost Pass-Through (ICPT) mechanism, switching to a monthly tariff adjustment instead of the previous half-yearly starting Jul-25. This allows automatic monthly tariff adjustment based on current fuel prices and foreign exchange rates, allowing for more responsive and up-to-date tariff settings. The base tariff under Regulatory Period 4 (RP4), which will run from 2025-2027, is set at 45.40 sen/kWh. The months of Aug-25 and Sep-25 saw rebates of -1.45 sen/kWh and -1.10 sen/kWh respectively, on the back of lower fuel prices and favourable foreign exchange rates. The AFA allows automatic monthly tariff adjustment based on current fuel prices and foreign exchange rates, allowing for more responsive and up-to-date tariff settings. This provides better clarity on Tenaga's cash flow prospects and ensures that its regulated generation-and-retail margins remain largely insulated from volatile coal, or gas prices. Recall that under RP4, the base capex has been given a +29.1% boost to RM26.6b, on top of an additional RM16.3b of contingent capex. As of 1HCY25, Tenaga has utilised 43.3% of its budgeted capex of RM12b for 2025 (RM10b from base capex and RM2b from contingent capex), with committed projects being mainly for demand growth.

Solar EPCC players to remain busy until CY27.

Most Corporate Green Power Programme (CGPP) projects should now be in the final legs of its engineering, procurement, construction and commissioning (EPCC) progress, some of which are expected to reach commercial operation date (COD) by the year end. Following this, solar EPCC companies will be kept busy until CY27 with sizeable solar farm EPCC projects under LSS5, of which more project awards can be expected before the year ends. The ST also recently announced the winning bids of the LSS PETRA 5+, approving a total capacity of 1,975Mwac. We estimate that this can generate up to RM5.9b of EPCC opportunities and contract awards can be expected potentially by 1QFY26. We can also expect the ST to soon announce the bidding cycle for LSS6, which may add another 2GW of solar capacity, coupled with battery energy storage system (BESS) requirements.

Solar ATAP to replace NEM.

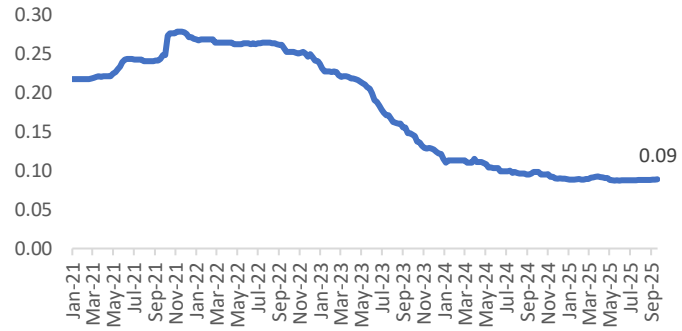
As we alluded to in the previous quarter, the government may consider further quota allocation under the Net Energy Metering (NEM) programme after its deadline in Jun-25 with the additional 100MW quota. Just two weeks ago, the Ministry of Energy Transition and Water Transformation (PETRA) announced the Solar Accelerated Transition Action Programme (Solar ATAP), a hybrid version of the NEM and self-consumption (SelCo). This will be rolled out on 1 December 2025 and is open to both domestic and non-domestic consumers of Tenaga. This is a replacement of the previous NEM and aims to speed up rooftop solar adoption by allowing larger installs, using market-based offsets and streamlining registration. Similar to NEM, consumers can export surplus solar energy to the grid in exchange for credits, but this will now be based on the system marginal price (SMP) rather than a 1-to-1 retail offset, which is expected to be more sustainable In the long-term.

Rising module prices but remains manageable.

Based on data from Bloomberg, solar panel prices have risen +0.8%mom, to USD0.09/watt. The concerns are that prices may rise moving forward following China's anti-involution campaign starting Jul-25 to crack down on low-price disorderly competition. Despite some firms slashing capacity by about 30% to combat the oversupply situation. We do not expect any major impact at the moment, especially for utility-scale solar projects as solar EPCC players

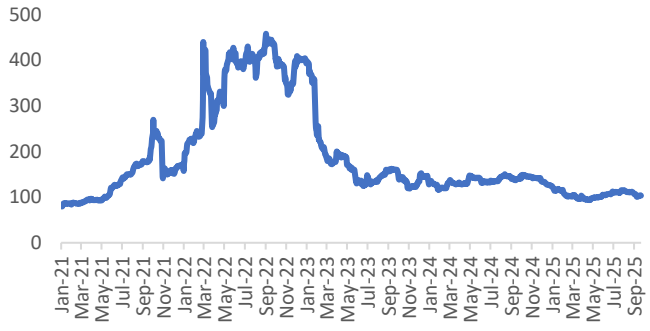
have specific arrangements with their respective manufacturers, and some have already locked in their module prices previously for their large-scale projects.

Chart 34: Solar panel prices (USD/watt)



Source: Bloomberg, MBSBR

Chart 35: Coal price trend



Source: Bloomberg, MBSBR

Clear and firm policies under NETR.

The CGPP, LSS5 and expansion of the NEM mentioned above are all aligned with the National Energy Transition Roadmap (NETR), a long-term, firm policy layout that is expected to provide a strong, multi-year catalyst for the power utilities sector. An overarching goal is raising the RE capacity mix to 70% by 2050 from 23% in 2020 which necessitates a more than quadrupling in annual RE installations to 2.2GW/annum by 2050. We have previously estimated that solar will be increasingly dominant accounting for 25%/39%/52%/58% share of the capacity mix in 2035/2040/2045/2050, growing at CAGR of 14% between 2025-2050. This underpins a multi-year growth story for solar EPCC companies and also asset-owners, through power generation over the long-term.

Maintain POSITIVE.

We maintain our POSITIVE stance on the Utilities sector. The latest tariff framework under RP4 provides greater stability and transparency, especially through the dynamic AFA that removes the lag in fuel-cost recovery thus, protecting **Tenaga Nasional (BUY, TP: RM16.40)** from fuel price swings. Electricity demand is also expected to be strong this year, with a projected growth of 2.8% to 3.8%. Meanwhile, the recently closed RFP for new gas-fired power generation capacity also presents a positive catalyst for the sector. The renewable energy (RE) subsector remains our top preference, being the key immediate-term beneficiaries of RE initiatives, the aggressive rollouts of LSS schemes and the longer-term National Energy Transition Roadmap (NETR). We view that solar remains a multi-year growth engine, on top of the incoming BESS requirements, which will benefit EPCC players. We have BUY recommendations on all the solar EPCC stocks under our coverage, namely – **Samaiden (TP: RM1.48)**, **Pekat (TP: RM1.86)** and **Sunview (TP: RM0.46)**. In the asset owner space, we like **YTL Power (BUY, TP: RM4.88)** which stronger earnings expected from Wessex Water due to higher tariffs and its expansion into the data centre space. It is also expected to make a comeback in the domestic power generation space through its 100MW allocation under LSS PETRA 5+ and potentially from the greenfield gas power station under the latest ST RFP.

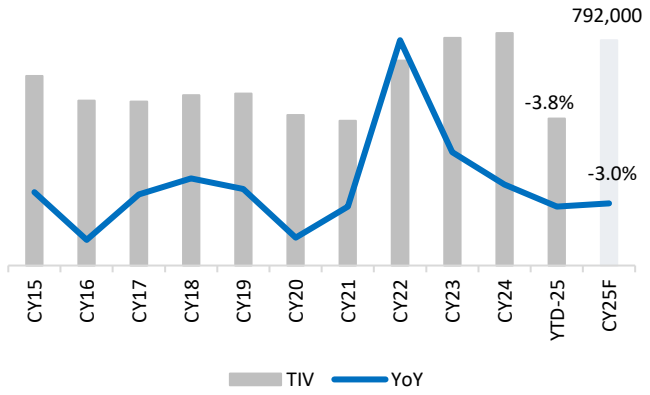
NEUTRAL CALL SECTORS

VIII. AUTOMOTIVE ..... Maintain NEUTRAL

Policy framework yet to settle

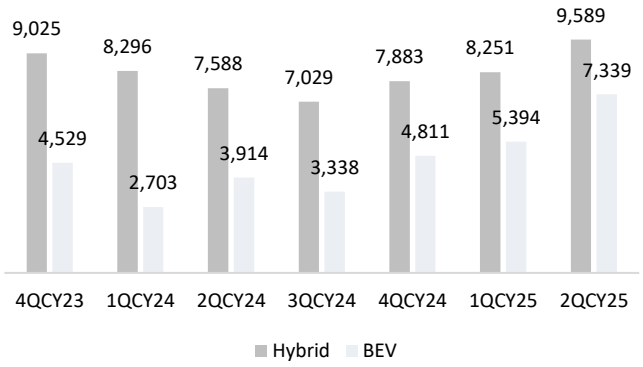
Analyst: Amalia Zarir

Chart 36: Annual TIV Trend (Units)



Source: MAA, MBSBR

Chart 37: Quarterly Hybrid and BEV Sales



Source: MAA, MBSBR

Vehicle sales are reaching expectations.

The Malaysian Automotive Association (MAA) reported that the total industry volume (TIV) for Aug-25 stood at 73,041 units (+4.3%mom, +0.6%yoy). On a year-to-date basis, TIV slipped to 516,862 (-3.8%yoy), which is consistent with our forecast, accounting for 65% of our full-year estimate. The downturn was primarily driven by the commercial vehicle segment (-15.8%yoy), whereas the passenger vehicle segment (-2.7%yoy) showed a milder decline. Zooming in on the passenger vehicle segment, national marques were more resilient with TIV easing just -2.0%yoy. In contrast, non-national marques collectively posted a sharper -4.3%yoy decline in 8MCY25, pressured by rising competition from newer Chinese entrants. These players bucked the overall sector trend, delivering strong growth through competitively priced, feature-rich offerings. Among the non-national marques, Japanese brands were among the hardest hit, with Honda's market share slipping to 30% (from 34%), Mazda to 4% (from 7%), and Nissan to 2% (from 3%), while Toyota's share held steady at 29%.

EV shift gathers pace.

Notably, EV adoption in Malaysia has remained encouraging, with EV registrations by MAA members nearly doubling to 12,733 units (+92.4%yoy) in 1HCY25. This trend was broadly expected and will likely continue into 4QCY25, as consumers accelerate purchases before the scheduled year-end expiry of CBU EV incentives. Meanwhile, BYD, currently the leading EV marque in Malaysia (ahead of Proton and Tesla), is establishing its first local assembly facility at KLK TechPark in Tanjong Malim, with production targeted to begin in 2HCY26. This is timely given that the CKD EV tax incentives are effective until the end of CY27. We remain cautious of the added competition it could bring to Proton and Perodua, which are only starting to build their presence in the EV space. Malaysia has a targeted xEVs (which includes both BEVs and hybrid vehicles) to account for 20% of annual TIV by CY30. As of 1HCY25, their share stands at

8%. EV charging infrastructure is still falling short, with PLANMalaysia reporting only 42% progress toward the year-end goal of 10k charging points.

The BUDI95 programme provides a limited boost.

On another front, the government has just introduced the BUDI95 programme, which allows Malaysians with a valid driving license to purchase RON95 petrol at a subsidised rate of RM1.99 per litre, verified via MyKad, with a monthly cap of 300 litres. Under this revised framework, non-citizens and other ineligible groups will be charged the full market price. We view this as mildly positive for TIV, as it helps keep fuel costs manageable and may also encourage consumers to gravitate toward fuel-efficient models to stay within the monthly quota. Cheaper fuel also may, in some ways, put the brake on EV adoption in the near term as the relative savings from switching become less compelling. That said, fuel cost is ultimately just one aspect of car ownership, with purchase decisions still largely determined by needs and financial standing. Looking ahead, we expect higher-income groups (the top 15th percentile of income earners) to be excluded in the next phase of reforms. At that stage, affected buyers may consider downtrading or switching to hybrids/EVs. Like EVs, hybrid car registrations have also defied the broader sector trend, rising to 17,840 units (+12.3%yoy) in 1HCY25.

Supportive macroeconomic backdrop.

Headline inflation inched up to +1.3%yoy in Aug-25 (Jul-25: +1.2%yoy), in line with expectations, and is projected to average +1.4%yoy for the year, slightly below BNM's target range of +1.5% to +2.3%. Bank Negara Malaysia (BNM) has also lowered the OPR to 2.75% in Jul-25, a level expected to be maintained for the rest of the year, which could help lift buying sentiment. Moreover, the labour market is expected to stay resilient, with the unemployment rate forecast to ease to an average of 3.0% in CY25 (from 3.3% in CY24), underpinned by steady employment growth and continued job creation, especially within domestically oriented services. These factors are expected to lend support to household spending.

OMV-based excise duty changes for CKDs are still unclear.

As a recap, the enforcement of the revised excise tax framework under PU(A) 402/2019 – Excise Tax Regulations (Determination of Value of Locally Produced Goods for Excise Tax Purposes) has been postponed to Jan-26. The '402', or open market value (OMV) excise duty revision, broadens the scope of taxable components for CKD vehicles by factoring in non-manufacturing costs such as sales, marketing, administrative expenses, and profit. This is expected to drive up the prices of locally assembled CKD models, though the extent of the increase remains uncertain at this point. According to MAA, the OMV/402 will proceed as scheduled, but a revised calculation method aimed at softening its impact will be announced, which we expect to be detailed in 4QCY25.

Maintain NEUTRAL.

Closing out the year, we retain our **NEUTRAL** view on the automotive sector given the still fluid policy backdrop. After enjoying a multi-year upswing driven by backlogged orders, the sector appears to be tapering off, with a gradual downcycle taking shape in CY25. We expect TIV to ease by -3.0%yoy to 792k units (CY24: 816,747 units) this year, which is broadly consistent with MAA's projection of 780k units (-4.5%yoy). Our sole **BUY** call in the sector is **MBM Resources (TP: RM5.54)** given that: (i) the stock is trading at -1.0SD below its 5-year sector average while offering an attractive dividend yield of +6.8%, (ii) demand in the affordable mass-market segment has remained relatively resilient, and (iii) margins in the auto parts manufacturing division are expected to improve once the material testing for raw material localisation completes.

IX. GLOVES ..... Maintain NEUTRAL

Competition not abating anytime soon

Analyst: MBSB Research team

Lacking the selling point.

We maintain our **NEUTRAL** recommendation on the glove sector. Since the end of the Covid-19 pandemic, the sector has been plagued with various challenges as demand normalises which led to oversupply situation. The situation has been made worse with the ongoing tariff situation which we view serves as a double-edged sword. On one hand, Malaysia glove manufacturers will benefit from the lower tariff as compared to its peers from China, especially for the U.S. markets. However, as the Chinese glove manufacturers direct its attention to the non-U.S. markets, competition in these markets has intensified considerably for the Malaysian glove manufacturers. Notably, due to better cost structure, the former can offer a much more competitive pricing. To overcome this, Malaysian glove manufacturer would need to differentiate their offerings by moving into specialised products although volume may be low. Also, they would need to ramp up their cost management initiatives effort. All being said, we view that the current business landscape is not favourable for the local glove manufacturer.

U.S. tariff in effect.

Since Aug 2025, the U.S. imposes a 19% tariff on its exports on the export of gloves Malaysia's glove manufacturing sector. The duty mirrors similar tariffs in Thailand (19%), the Philippines (19%) and Vietnam (20%) while China faces even higher barriers at 55%. The tariff comes as Chinese glove manufacturers ramp up their productions in the Southeast Asia region. We view the tariff would give Malaysian glove manufacturer a competitive advantage over its Chinese peers in the U.S. market. However, there could be higher order from some US customers who has been advocating a "wait and see" approach and delay large-volume orders. Historically, the U.S. markets accounts for about close to 20% of Malaysia' s total glove exports and is the single largest market. Fortunately, gloves are not a discretionary purchase. This will help, to a certain extent, minimise the impact on weak order.

Heightened challenges outside the U.S. market.

The tariff further propelled the Chinese's glove manufacturers to aggressively expand the non-U.S. markets. Note that they have better cost structure due to lower energy cost given the application of coal instead of natural gas and higher production efficiency premised on the higher level of automation. China also enjoys economies of scale when purchasing the raw material. As such, they would be able to provide a more competitive pricing to the prospective customers. To overcome this, Malaysian glove manufacturers are moving into specialised products such as chemo-rated, surgical and clean room gloves as well as ESG-compliant offerings. These products also carry better profit margin. Thus, there is a need to boost R&D spending to expand the range of specialised products.

Turning to cost efficiency.

Apart from product diversification, Malaysian glove manufacturers need to be more aggressive in its cost reduction program. This is in view of escalating energy costs, including electricity and natural gas and higher labour costs due to a rising minimum wage. Increasing the level of automation would help to improve production efficiency, reduce the headcount and at the same time limit human management issues. Adopting the latest robotics and AI-based technologies in the production facilities would certainly lend a hand toward improving

the production efficiencies. However, we view that there is little can be done to manage the cost of raw material cost.

Note that this will be our last report in which we cover the sector separately from the Healthcare sector. Moving forward, our coverage of the glove sector will be part of our coverage of the healthcare sector.

Combining sector coverage with healthcare sector.

X. OIL & GAS ..... Maintain NEUTRAL

Downward risks persist

Analyst: MBSB Research team

Downward pressure on prices to remain as demand slows.

The global oil market is currently facing downward pressure on prices, driven by a significant and growing supply surplus. Looking ahead, Brent crude is projected to trade between USD65 and USD70 per barrel for the remainder of 2025 and into 2026, with little hope for a major recovery in the 1HCY26. This oversupply has been catalysed by OPEC+ accelerating production beyond market expectations, coupled with a remarkable increase of 2.2m bpd from non-OPEC suppliers. In total, oil supply is expected to rise by 2.3m bpd in 2025, creating a challenging landscape for prices.

While demand is also on the rise, it is growing at a more tempered pace, with forecasts indicating an increase of 0.7 to 0.9m bpd in 2025. This demand surge is primarily propelled by non-OECD Asian countries, particularly India and China, which have played a crucial role in stabilizing prices. However, geopolitical tensions—most notably the Israeli airstrikes on Qatar in early September—have injected an additional layer of uncertainty into the market, threatening the established balance of power and energy trade in the critical Middle East.

In summary, the oil market is navigating a complex environment marked by a surplus of crude oil and a fragile equilibrium between rising supply, moderate demand, and unpredictable external influences. Given these challenges and the volatility of supply and demand, we project that Brent crude will average between USD65 and USD70 per barrel in 4QCY25.

Upstream: more time for a turnaround.

In light of the persistent volatility in crude oil prices, upstream exploration and production (E&P) companies find themselves in a precarious position as we approach the end of the year. This uncertainty is also poised to significantly impact oil and gas service and equipment (OGSE) players, who may face substantive cuts in capital expenditure (Capex) for both new projects and essential maintenance work.

The recent financial results for 1HFY25 from PETRONAS paint a concerning picture: the Group's revenue has plunged by -16%yoy, and core net profit fell -20%. When we delve deeper into the upstream sector, the situation is even more alarming, with revenue dropping by -24%yoy, driven by reduced sales volumes of crude oil and condensate, alongside lower average realized prices. Moreover, PETRONAS' upstream division has witnessed a staggering -42% decline in Capex, plummeting from RM14.8b to RM8.6b.

Based on the troubling performance of PETRONAS' upstream division—evident in both its financial outcomes and its Capex spending, we strongly contend that this downturn is likely to

persist, extending into the latter half of 2025 and well into 2026, as the deteriorating market fundamentals show no signs of recovery. Furthermore, the ongoing PETRONAS-PETROS saga presents an additional risk, exacerbating the challenge to PETRONAS' Capex and casting further doubt on the viability of future investments in the upstream sector. It is crucial for stakeholders to recognize these trends and prepare for a potentially prolonged period of volatility and restrained spending.

Midstream: resilient business model provides some comfort.

The segment is expected to remain resilient and provide stability during the last quarter of 2025, despite lower crude oil prices and an unpredictable geopolitical landscape. This resilience is primarily due to companies in this sector being protected from short-term price volatility through long-term fee-based contracts. Storage facilities are seen as a defensive growth option amid the challenges faced in the sector, as anticipated lower crude oil prices are likely to drive demand for storage. Moreover, the rising demand for LNG, particularly in Asia, along with the substantial new demand for natural gas generated by the expansion of power-intensive data centers, is expected to positively impact the financial performance of LNG companies in the near term. In terms of oil and gas transportation, any escalation of regional tensions could lead to an increase in the crude oil risk premium—the additional amount investors require to take on the risks associated with holding a volatile commodity. This increase would likely result in higher charter rates.

Downstream: Petrochemical's recovery delayed.

The downstream petrochemical subsector is grappling with considerable challenges, and a full recovery is not expected until fiscal year 2026. This situation is primarily driven by a persistent oversupply, especially in the Asia-Pacific region. Although China's "Anti-Involution" policy and South Korea's capacity rationalization efforts seek to stabilize the market by encouraging the retrofitting of older facilities and a strategic shift toward specialty chemicals, we contend that their overall impact will be limited. The expected decline in capacity from these initiatives will be significantly overshadowed by the vast new ethylene capacity projected to come online in China by fiscal year 2027. Consequently, oversupply and heightened competition are poised to remain major risks for the foreseeable future, underscoring the urgent need for more robust and effective measures to address these challenges.

Concerning the distribution and marketing of petroleum products, after gaining more clarity on the rationalization of RON95's subsidy, we firmly believe that the 300-liter cap will effectively meet the needs of most consumers. However, it is crucial to acknowledge that the downstream segment is still grappling with significant downside risks. The combination of slow economic activity and persistently weak market conditions poses a potential threat to the stability and growth of this segment.

Maintain NEUTRAL.

Given the expectation of weakening crude oil prices in the second half of calendar year 2025 and beyond, we maintain a neutral outlook for the sector. The forecast of a crude oil surplus suggests limited upside potential, as this surplus is likely to drive prices down, severely impacting upstream and downstream operations linked to these fluctuations. However, we believe that midstream players will demonstrate notable resilience, bolstered by a projected surge in demand for crude oil storage in the near to mid-term. This dynamic positions them favorably, even amid challenging market conditions.

Our Top Pick is MISC Bhd (BUY, TP:8.13).

We like MISC due to its diversified portfolio in energy-related maritime solutions, including a strong presence in LNG and petroleum shipping, offshore solutions, FPSOs, and marine &

heavy engineering. Its commitment to sustainability and a future-focused approach, demonstrated through investments in decarbonization technologies, strategic partnerships and a robust balance sheet, positions it well to navigate the energy transition. The company's established reputation for operational excellence and its pursuit of integrated technical and economic regulations aligns with the industry's significant shift towards cleaner energy. Additionally, MISC's stable balance sheet and cash flow, including a consistent dividend payout, warrants an overweight, considering the positive trajectory and stability of the maritime industry in the long run.

XI. PLANTATION ..... Maintain NEUTRAL

Minimal upside potential

Analyst: MBSB Research team

CPO price to remained elevated in the remaining months.

Jumping into 4QCY25, we anticipate that Indonesia's supply risks following impending B50 implementation in 1Q2CY6 would contain the CPO price movement, providing an upside to Malaysia CPO price, ranging from RM4,600 to RM5,000/Mt level. The CPO prices may be caught in confluence of rebound in local output, higher closing stocks, weaker demand from major importing countries due to strengthening ringgit – lower spread discount against other veg oils, making the volatility behind CPO price to persist, to average CPO price of RM4,867 (+14.4%qoq) in said quarter.

Production to taper off.

Based on MPOB data, we have seen Malaysia production started to be sluggish, as August data showed weakness in production at 1.86m tonnes (+2.3%mom; -2.1%yoy; -0.2%Ytd) versus prior year. The softer output was dragged by Peninsular estates (-1.8%mom) which offset by eastern states of Sabah (+4.0%mom) and Sarawak (+14.6%mom). The FFB yield however was stronger at 10.99Mt/Ha on the back of supportive average OER in mills circa 19.58% (+0.1%), thanks to the fewer wet weather days. We anticipate production to be volatile for the 4QCY25 on combination end of high peak crop months coupled with weak upcoming La Niña event. The latest report from Met Malaysia indicates that Malaysia may experience a short-lived La Niña episode after this Sept (final phase of Southwest Monsoon) with a probability of 71% until this December. This expected to slow down window of estate related activities.

Relatively high stockpile.

Ending stockpiles in August maintained its psychological above 2.0m circa 2.88m tonne (+4.2%mom, +16.9%yoy), despite slower in production no thanks to the eased exports numbers, which fell to 1.32m tonnes (-0.3%mom, -13.6%yoy, -10.8%ytd). There was a mixed demand in the basket, where CPO, PPO and PO were down by -6.3%yoy, -15.5%yoy and -13.6%yoy, whilst the PK, PPO and Biodiesel were up +25.7%yoy, +26.7%yoy and +2.9%yoy, respectively, following higher demand of lauric acid products – due shortage coconut oil in the market following weaker supply from Philippines. Meanwhile, Oleo export contracted by -15.9%yoy, signalling subdued restocking activity in both food and Oleo industries. This is somewhat unusual, given the upcoming Mooncake and Deepavali festivals in China and India.

Subdued import from major importing countries.

The major importing countries such as India and China orders were weak in August shipments circa 255,577 tonnes (-20.2%mom, +1.3%yoy, -20.2%ytd) and 83,271 tonnes (+23.9%mom, -11.8%yoy, -38%ytd), despite healthy refining margin in past June and July months, where

correction of PO price made PO cheaper than the rival oils. Note that, June and July's spread discount between the PO and SBO were approximately around USD330/Mt and USD243/Mt, 17-60% higher than 3y-average of USD207/Mt, yet demand remained subdued despite the widened spread discount and reduced India's import tax (from 27.5% to 16.5%), indicating that the attractive price differential failed to stimulate additional buying interest. Meanwhile, the demand from Europe anticipated to stay encouraging thanks to the delayed of EUDR implementation for another year.

Maintain NEUTRAL.

Looking ahead, we maintain our **NEUTRAL** call on the sector with newly average CPO price of RM4,300/Mt and RM4,200/Mt for CY25 and CY26 respectively. The outlook remains hazy in between supply and demand dynamic, where shortage for PO might be coming driven by policies such as impending B50 implementation by Indonesia in 1QCY26. In tandem, SBO may possibly see supply crunch due to US EPA's proposed higher blending requirement. However, we opine that the US risks give us limited upside to the sector as PO disqualification in many US biofuel rules and the state policy favour "domestic" or already certified low-carbon feedstocks. Meanwhile demand as discussed earlier remained weak from major importing countries despite widened spread discount between the SBO. We like small cap players like **Ta Ann (BUY, TP:RM4.38)** and **Sarawak Plantation (BUY, TP:RM2.88)** given that stocks price correlation to the CPO above 0.80 and the dividend yield more than 5.0%.

XII. REIT ..... Maintain NEUTRAL

Yield compression

Analyst: Jessica Low Jze Tieng

Decent earnings prospect.

Earnings of REIT were encouraging in 1HCY25 with Sunway REIT recorded highest earnings per unit (EPU) growth of +24.6% in 1HFY25, underpinning by increase in rental income of Sunway Pyramid Mall and reconfiguration of Oasis wing. Meanwhile, Axis REIT reported encouraging EPU growth of +9.4% in 1HFY25 due to decent performance of industrial assets. On the other hand, IGB REIT registered EPU growth of +9% in 1HFY25 due to solid performance of Mid Valley Megamall and The Gardens Mall. Looking forward into 4QCY25 and FY26, we think that earnings outlook will remain positive mainly due to positive rental reversion as shopper footfall at malls remain high while performance of industrial assets should remain resilient.

Retail REIT benefits from strong retail sales.

We think that earnings outlook for retail REIT should remain positive due to sustained momentum of retail industry which will support tenant sales and footfall at shopping malls. Retail sales in Malaysia were resilient at RM466.6b in 7MCY25, an increase of +5.9%yoy, underscoring strength of retail industry in Malaysia. Meanwhile, food & beverage business at malls are resilient due to social gathering and dining at malls, thanks to ample parking space and ambient environment of shopping mall.

Higher tourist arrivals a bone to REIT.

We see that retail industry in Malaysia should also support by the higher tourist arrivals. Note that Malaysia recorded higher tourist arrivals of 12.85m (+8.8%yoy) in 1HCY25. Meanwhile, tourist arrivals are expected to be higher going forward due to Visit Malaysia 2026 campaign which aims to attract over 35m tourist arrivals. Hence, we expect retail REIT with malls at tourist hotspots such as Pavilion REIT, KLCCP Stapled Group, Sunway REIT and IGB REIT to

benefit from the higher tourist arrivals. Besides, the expected higher tourist arrivals will support occupancy rate and room rate of hotels. Hence, we see that KLCCP Stapled Group, Sunway REIT and Pavilion REIT with hotels under its portfolio to benefit from the higher tourist arrivals.

Yield compression.

KL REIT Index was in the red in August 2025, losing -2.6% which we think was due to narrowing yield spread between 10-year MGS yield and yield of REIT. Spread between KL REIT aggregate yield and 10-year MGS yield narrowed to below 150bps in July which is below its long-term average of 164bps. Looking forward, we think that the narrowing yield should keep upside of REIT limited and as MGS yield is expected to remain at 3.4% level. Current spread between aggregate yield of KL REIT and 10-year MGS yield is at 156bps which we think is unattractive to investors.

Maintain NEUTRAL on REIT.

While fundamental of REIT are expected to remain stable with rental reversion outlook staying positive, we think that the yield compression of REIT should keep upside of REIT limited. Average yield of REIT under our coverage is at 4.6% which we think is unappealing. Hence, we maintain our NEUTRAL stance on REIT. Our only BUY call for REIT under our coverage is Pavilion REIT with a TP of RM1.88. Earnings prospect for Pavilion REIT is expected to remain positive as we expect growing contribution from Pavilion KL Mall and Pavilion Bukit Jalil. We see Pavilion KL Mall to continue growing organically on the back of positive rental reversion due to the strategic location of the mall. Meanwhile, earnings of Pavilion Bukit Jalil should improve due to low base rental and stable shopper footfall.

XIII. TECHNOLOGY ..... Maintain NEUTRAL

Better sequential performance in 4QCY25 but not without risk

Analyst: Martin Foo Chuan Loong

Steadily recovering.

We are keeping our **NEUTRAL** recommendation on the technology sector. We anticipate sequential recovery in the end-market continues to be seen in 4QCY25. This is supported by the easing trade and tariff risk as well as new model launches particularly in the case of smartphone and automotive. However, we remain doubtful on the year-over-year growth prospects as the pace of recovery has not been forthcoming. Meanwhile, there remains downside risk to the sector, depending on the severity of the upcoming semiconductor tariff by the US. This is especially so, if Malaysia's semiconductor companies do not fall within the supply chain of companies that might be exempted from the tariff. Locally, we could expect some positivity from the upcoming budget 2026. This could potentially lift the sentiments. At this juncture, we do not have any BUY recommendation for semiconductor companies under our coverage. From valuation point of view, almost all semiconductor companies under our coverage is currently trading at +1 SD above the five-year means. Comparatively, only Inari Amertron Bhd lagged behind its peers, trading at the five-year mean.

Budget 2026 goodies to lift sentiment?

According to Finance Minister II, Datuk Seri Amir Hamzah Azizan, good news is awaiting the semiconductor industry in the 2026 budget to be tabled on 10 October 2025. Note that his ministry had completed consultations with all ministries and government agencies and taken in proposals from the state governments. We view one of the focus areas could potentially be

advanced packaging. To recall, one the key initiatives under the National Semiconductor Strategy is the establishment of an Advanced Packaging Programme and Technology Centre to foster innovation and collaboration. Thus, we foresee that there could be some financial assistance for advanced packaging. This would help to alleviate the concern on capital expenditure and/or start-up cost. Note that based on our channel check, there has been limited progress on advanced packaging at this juncture.

Looming semiconductor tariff by U.S.

The United States is expected to put a "not that high, but fairly substantial tariff" on semiconductors coming into the country. To recall, in August 2025 U.S. President Donald trump hinted on potential 100% tariff on semiconductor from firms that do not invest in the United States. Notably the tariff would have negative impact for major exporting countries like Malaysia. However, there could be a chance that Malaysia may not face the full impact as about 65% of Malaysia's semiconductor exports to the US come from American companies operating in Malaysia. Additionally, a clue on the potential of companies being exempted from the tariff could be seen from the list of attendees at the recent Trump's AI dinner. Notable attendees primarily consist of the tech titans from the "Magnificent Seven" namely Apple, Amazon, Microsoft, Google, Meta, OpenAI and Oracle. Apart from these, CEOs of AMD and Micron Technologies were also present.

iPhone 17 sales in the limelight.

Following the launch of iPhone 17, newswire reported that there is strong demand for iPhone 17, leading to potential output in iPhone 17 production. At this juncture, it appears that the higher demand mainly revolves around the standard iPhone 17 as opposed to iPhone 17 Pro and iPhone Air models. Demand for iPhone 17 Pro could potentially be dampened by the elevated pricing while iPhone Air is facing some challenges in China, one of the big iPhone markets, because of regulatory issues with the eSIM-only design. There is also various review which suggested that there are build quality issues such as scuffs and scratches which raises durability concerns. On a separate note, we do see much progress on Apple's AI strategy at this juncture. Given Malaysia's semiconductor companies in the smartphone supply chain, the well-being of iPhone 17 would potentially affect the financial performance of these companies.

A sequentially better quarter for automotive.

Based on historical trend, automotive purchase will usually trend higher towards the end of the year. Coupled with the continuous global shift towards the increasing adoption of electric vehicles and new model line-up, we expect automotive demand of 4QCY25 to trend higher as compared to the earlier quarters This will create positive momentum in the supply chain. Nonetheless, we do not discount the possibility that economic uncertainties may partially ease the growth momentum.

XIV. TELECOMMUNICATION ..... Maintain NEUTRAL

Heightened uncertainty in 4QCY25

Analyst: Martin Foo Chuan Loong

Limited upside in service revenue?

We are maintaining our **NEUTRAL** recommendation on the telecommunication industry. In 1HCY25, locally we see that the telco faces challenges to grow the service revenue, especially the prepaid segment. We anticipate that potentially there is further downside risk in growing

the prepaid segment. This is following the recent announcement by the Communication Minister that MyDigital ID will be made mandatory for all prepaid SIM card registrations in Malaysia earliest by November 2025. Nonetheless, we any slowdown in the prepaid segment could be supported by the better performance from the postpaid and enterprise segment. We also continue to see various efforts by the telcos to boost the revenue from the enterprise segment. There is also uncertainty surrounding DNB should MOF Inc. proceed with the planned divestment by end of this year.

All in, **Maxis Bhd (BUY, TP: RM4.19)** remains our top pick in view of better revenue performance as compared to its peers, operational excellence as well as anticipation of slightly higher dividend payout in 4Q25. On the contrary, we have a **SELL** recommendation for **Axiata Group Bhd (TP: RM1.88)** due to expectations of earnings pressure from the Indonesia's operation, strengthening of Ringgit as well as potential delay in monetising its infrastructure assets.

Potential downside risk for the prepaid segment.

Recently, the Communication Minister announced that My Digital ID will be made mandatory for all prepaid SIM card registration in Malaysia. This will be enforced earliest by November 2025. Some potential implications include i) stricter verification, ii) longer registration time, iii) potential rejections as well as iv) privacy and compliance concerns. We view that in the near-term these implications could translate into slower onboarding for new prepaid subscribers. To overcome this, the telcos would need to implement a new robust system to minimise the new registration hiccups. Also, the telcos could be more aggressive in minimising the prepaid subscriber churn. At this juncture, existing prepaid and postpaid subscribers does not seem subjected to such requirement.

U Mobile building up its competitiveness.

U Mobile remains aggressive in improving its offering, especially 5G. From network perspective, it has been collaborating with various parties such as SACOFA, MICTH and OCK to deliver strong and consistent 5G coverage across Malaysia. It is also fortifying its consumer offering which include introduction of device care flexible swap plan, iPhone deal, free 5G router. For enterprise segment, there is 5G business bundles from RM39/month for MSMEs.

Another shake up in DNB's shareholder structure?

Celcomdigi, Maxis and YTLP stake has increased their respective stake in DNB to 19.44% post the divestment from U Mobile. This adds up to 58.3% while MOF Inc. owned up the remaining 41.7%. Should the telcos take up MOF's stake in DNB, their respective stake would increase further to 33.3%. This could potentially mean further financial commitment from each of the telcos. Also, should DNB losses MOF as its shareholder, we are unsure if there is any privilege that the former may lose out.

Defensive quality leads to steady dividend payout.

Given the relative steady revenue stream and prudent cost management, the telcos have been steadfast in its dividend commitment. Nonetheless, in terms of payout frequency, we would prefer CelcomDigi and Maxis given its quarterly dividend payout. From yield perspective, we view that Maxis current dividend yield of around 4.6% is much more attractive as compared to its peers. Note that we anticipate that in 4QCY25 Maxis will announce additional dividend of 1sen on top of the usual 4sen quarterly payout.

XV. TRANSPORTATION ..... Maintain NEUTRAL

Striding forward

Analyst: Amalia Zarir

Aviation

Air travel is near pre-pandemic levels.

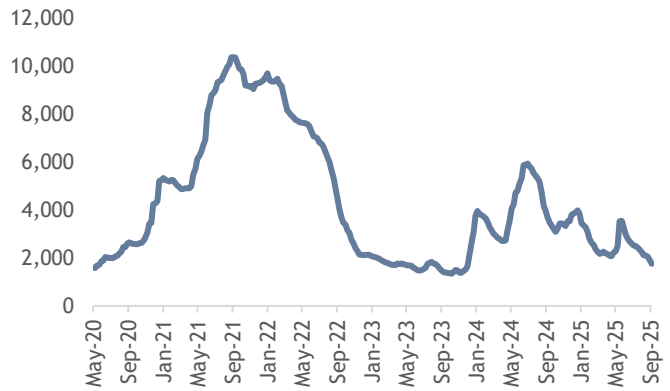
According to the Civil Aviation Authority of Malaysia (CAAM), the aviation sector is on course for a full recovery this year. The cumulative passenger traffic between Jan-25 and Jul-25 reached 61.2m, progressing steadily toward the annual projection of 105.8m to 112.9m passengers. The recovery was said to be driven by expanded seat capacity, the government's 30-day visa exemption for visitors from China and India, as well as the launch of new routes. To recap, Malaysia's passenger traffic had recovered to about 89% of pre-COVID levels in CY24. As part of preparations for Visit Malaysia 2026, Malaysia Airports Holdings Berhad (MAHB) aims to attract 12 more airlines by this year-end, with eight already secured as of Jun-25. At KLIA, five carriers have begun operations, three from China (Loong Air, Hainan Airlines, and Juneyao Air), along with British Airways and Sri Lanka's FitsAir.

Airlines see brighter skies.

Local airlines are entering CY26 with expanding fleets, though yields are normalising as ASEAN capacity returns and average fares ease from post-pandemic highs. Jet fuel is becoming a tailwind, with the average jet fuel prices in 9MCY25 down -12%yoy. Meanwhile, a stronger MYR, internally forecast to average RM4.30/USD (CY24: RM4.56), should ease operating costs, though margins are likely to remain tight as airlines rely on high load factors to spread expenses. Maintenance, repair and overhaul (MRO) conditions have also improved markedly from the past 2-3 years as OEMs expand parts and engine capacity, turnaround times shorten, enabling more reliable fleet use. Still, persistent engine repair backlogs and skilled labour shortages mean airlines would likely keep some operational buffer to guard against disruptions. To note, for Capital A, each USD1 change in fuel price impacts net profit by about USD15.6m, while a 1% shift in USDMYR affects monthly costs by roughly USD2.0m since 70% of expenses are in USD.

Port & Logistics

Chart 38: Ocean Freight Rates (USD/FEU)



Source: Drewry, Bloomberg, MBSBR

Chart 39: Air Freight Rate (USD/kg)



Source: Drewry, Bloomberg, MBSBR

Cooling freight rates.

The cost of freight transport has significantly eased versus last year, a result of carriers adding capacity and rebalancing supply and demand. Based on Drewry's data, the World Container Index (WCI) shows that the average freight rates for 40-foot containers on eight major routes have declined -36% year-to-date versus the same period last year. Similarly, air cargo rates have stabilised at more manageable levels as passenger flights (and belly capacity) returned, even though e-commerce shipments continue to fill planes. This cooling of freight costs provides relief to shippers and has allowed supply chains to flow more smoothly heading into year-end, with fewer bottlenecks. Barring any new shocks, shippers may expect a more predictable environment heading into the peak 4QCY25 season.

Storage capacity nears limit.

Most warehouse facilities for the logistics companies under our coverage are reporting near-full occupancy (at >90% utilisation) even as new supply comes on stream, indicating that demand is keeping up with warehouse development. Key drivers, including e-commerce growth, 3PL expansion, and resilient manufacturing output, continue to fuel absorption of new space, with many upcoming warehouses securing significant pre-leasing before completion. Seasonal peak activity in 4QCY25, when retailers and exporters typically build inventories for year-end sales, is likely to add a short-term demand uptick, but the surge should be manageable under current conditions.

Maintain NEUTRAL.

Tasco (BUY, TP: RM0.72) remains our top pick in the sector, underpinned by its appealing valuation. It is currently trading at -1.0SD below its 5-year historical mean. Although freight rates could see some swings, Tasco has included a new clause (effective Jul-24) that allows price revisions if market rates rise more than 10% above the tendered price, offering protection against sharp rate fluctuations. About 80% of its forwarding business is generally done through tenders, with the remaining 20% based on spot rates. Notably, during volatile periods, customers tend to favour shorter-term contracts, which typically yield better margins. Meanwhile, we anticipate an improvement in its contract logistics division this financial year, driven by recent customer wins. We also expect earnings to be partly supported by the Investment Tax Allowance (ITA) that the Group is eligible for.

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MBSB INVESTMENT BANK (formerly known MIDF 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