Budget 2026 Preview

From an Equity Market Lens

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Strategy Report

KEY INVESTMENT HIGHLIGHTS

- Budget 2026 will be tabled on 10 October 2025; total allocation is expected at RM430 billion, slightly higher than 2025, with a fiscal deficit narrowing to -3.6% of GDP
- Revenue growth will be driven by improved tax compliance, carbon tax, health-related levies, and expiry of EV duty exemptions; GST reintroduction is ruled out
- Operating expenditure may rise to RM351 billion due to civil service salary hikes and social assistance programs, while development expenditure moderates to RM80–86 billion
- Construction and consumer sectors are likely beneficiaries
- Market outlook remains positive with GDP growth forecast at 4.0–4.5% and FBM KLCI target at 1,730 points for 2026
- Companies mentioned in the report: Gamuda (BUY, TP: RM6.35) CMSB (BUY, TP: RM1.49), MCement (BUY, TP: RM7.49), IJM Corp (BUY, TP: RM3.60), SunCon (BUY, TP: RM6.53), WCT (BUY, TP: RM0.93), MRCB (NEUTRAL, TP: RM0.56), AEON (BUY, TP: RM1.77), QL Resources (NEUTRAL, TP: RM4.33), F&N (BUY, TP: RM32.08), Life Water (BUY, TP: RM1.11), Spritzer (NEUTRAL, TP: RM2.13), Leong Hup International (BUY, TP: RM0.90), Tenaga Nasional (BUY, TP: RM16.40), Pekat (BUY, TP: RM2.03), Samaiden (BUY, TP: RM1.48) and Sunview (BUY, TP: RM0.46)

INTRODUCTION

Released our Budget 2026 expectations from a macro lens.

Budget 2026 is scheduled for tabling on 10 October 2025. We published our expectations of what Budget 2026 could announce (report here) last Friday. We believe that Budget 2026 will reflect the government's commitment to sustaining fiscal support and advancing structural reforms under the MADANI Economy Framework and the 13th Malaysia Plan (2026–2030) which will align closely with national blueprints such as the National Industrial Master Plan (NIMP) 2030, National Energy Transition Roadmap (NETR), and National Semiconductor Strategy (NSS), signalling a holistic approach to long-term growth.

Possibly another expansionary budget.

We expect the government to allocate approximately **RM430 billion**, slightly higher than the RM421 billion in 2025, while continuing to narrow the fiscal deficit to **RM78b**, or **-3.6% of GDP**. This improvement underscores Malaysia's progress in restoring fiscal space since 2021, enabling counter-cyclical measures during future downturns. Revenue is projected to rise to RM354.5b, supported by enhanced tax compliance and targeted reforms, even as petroleum-linked income faces pressure from moderate oil prices and lower Petronas dividends.

Increasing revenue will likely be a focal point.

In our opinion, taxation will remain a focal point, though the reintroduction of the Goods and Services Tax (GST) has been ruled out. Instead, the government is likely to pursue incremental measures such as higher personal income tax for top earners, carbon tax implementation, and expansion of health-related levies. The expiry of import and excise duty exemptions for fully built electric vehicles (EVs) is expected to generate significant revenue, while the phased rollout of e-invoicing will modernise tax administration and reduce leakages.

On the expenditure front, we forecast **operating expenditure** to increase to **RM351b**, driven by civil service salary adjustments and expanded social assistance programs like Sumbangan Tunai Rahmah (STR) and Sumbangan Asas Rahmah (SARA). **Development expenditure** may moderate to **RM80–86b**, with greater reliance on public-private partnerships to finance strategic infrastructure projects such as the East Coast Rail Link (ECRL), Sabah-Sarawak Link Road, and port expansions. Regional development initiatives, including incentives for the Johor-Singapore Special Economic Zone, will also feature prominently.

DE may moderate.

Key priorities include supporting MSMEs through financing and digital adoption, boosting tourism via Visit Malaysia Year 2026, and strengthening Malaysia's leadership in Islamic finance and the global halal economy. The semiconductor industry will receive targeted incentives to secure Malaysia's position in advanced manufacturing, while energy transition initiatives under NETR will accelerate renewable energy adoption, electric vehicle ecosystem development, and carbon capture technologies.

Budget 2026 is likely to continue emphasising inclusive growth and sectoral transformation.

Meanwhile, social policies will focus on housing affordability, labour market reforms, and education quality. Measures such as progressive wage implementation, TVET expansion, and STEM talent development aim to raise household incomes and prepare Malaysia for demographic shifts. Broader efforts to enhance healthcare, bridge urban-rural divides, and strengthen the social safety net reflect the government's commitment to improving living standards.

Given our expectations of Budget 2026, we expect the Construction sector will continue to be a beneficiary from announcement of government's yearly budget announcement. Judging by 13MP, and our expectation of development expenditure, which would be sizeable, and this will likely benefit the construction sector. Another sector could be the consumer sector, should there be further government support, such as cash assistance. Our views on potential sectoral impact or beneficiaries are listed below.

Construction and consumer may be a likely beneficiary.

MARKET STRATEGY

The Budget 2026 is expected to ensure continued fiscal support to the economy with a slightly larger allocation of likely around RM430b (Budget 2025: RM421b). Malaysia's fiscal position, meanwhile, is expected to improve further next year on the back of continued output growth and improved fiscal collection. We forecast a lower deficit-to-GDP ratio of -3.6% in 2026 (2025e: -3.8%). The prospect of improved leverage position would lead to better sovereign risk premium and valuation of Ringgit risk assets, which could heighten its attractiveness to foreign investors.

Bigger budget allocation and improving fiscal position...

We expect Malaysia's economy to see continued domestic demand expansion in 2026, despite lingering uncertainties in external trade, with Malaysia's GDP forecasted to grow at between +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 grow by +6.4% next year.

…underpinned by macro and corporate earnings expansions.

In 2026, we foresee a situation whereby the local equity market would remain generally sanguine, premised on baseline expectations of a continued resilient macro economy and corporate earnings performance. Moreover, the prospect of return inflow of foreign funds would generate an additional fillip to the equity market. On the flip side, we advise investors

We are sanguine, albeit wary.

to tread cautiously and be wary of the evolving risk of a US recession in view of the recent weakness in its labour market situation.

We maintain our FBM KLCI, FBM Emas Shariah, and FBM 70 preliminary targets for 2026 at 1,730 points or PER26 of 15.0x, 13,000 points or PER26 of 18.8x, and 18,800 points or PER26 of 18.9x, respectively.

Maintain our 2026 preliminary targets.

SECTORAL VIEW

CONSTRUCTION ..... Maintain POSITIVE

Analyst: MBSB Research team

The 13th Malaysia Plan (13MP) provides a strong fiscal foundation for Budget-26, with RM430b in development expenditure (RM86b annually) expected to catalyse major infrastructure rollouts ahead of the next general election, due by Feb-28. Unlike previous budgets, the upcoming one is expected to signal a clear shift toward strategic project implementation, supported by subsidy rationalisation and the expanded SST framework, which have created additional fiscal space. Given the sector's strong GDP multiplier, Budget-26 is likely to reaffirm large-scale public transport, civil infrastructure, flood mitigation and rural connectivity programmes, with particular emphasis on **Sabah and Sarawak allocations**, which remain key federal development priorities. This is expected to provide multi-year visibility and meaningful order book replenishment opportunities for major civil contractors, building materials players and regionally anchored companies.

Budget-26 is likely to set the tone for pre-election infrastructure rollout.

Tender momentum is expected to pick up meaningfully from late-CY25 onwards, led by the **Penang LRT (Mutiara Line)** and **MRT3 Circle Line**. For Penang LRT, MRT Corp issued the Notice to Proceed (NTP) on 15 July 2025, officially kicking off the six-year construction timeline with initial works covering utility relocation, road widening, piling and site preparation. The next key milestone is the tender for the 5 km cross-channel bridge linking Komtar to Penang Sentral, targeted for Oct-25. This high-value marine and structural package is expected to draw strong bids from major civil contractors such as **IJM Corp (TP: RM3.60)**, **SunCon (TP: RM6.53)**, **WCT** (**TP: RM0.93)** and **MRCB (TP: RM0.56)**, given its technical complexity and strategic significance. For MRT3, the project has officially received final government approval - a long-awaited milestone that has reignited optimism for Malaysia's infrastructure cycle after years of delays. Funding will be structured through DanaInfra bond financing, which reduces fiscal strain while supporting contractors' working capital needs. The CY27-CY33 construction timeline provides seamless continuity after the completion of the East Coast Rail Link (ECRL) and RTS Link in CY26, avoiding a sectoral "air pocket." Land acquisition has already begun, paving the way for tender reissuance by mid-CY26, with contract awards expected by end-CY26 or early-CY27. Mobilisation will start with the underground package before the elevated and systems works. MRT3 carries an estimated RM31b in civil construction value across three Civil Main Contract (CMC) packages, creating sizeable order book opportunities for rail and tunnelling specialists such as **Gamuda (TP: RM6.35), IJM Corp and SunCon**, while also generating spillover demand in piling, materials, and transit-oriented development. Beyond these two flagship projects, additional catalysts that could feature in Budget-26 include the RM6.1b Northern Coastal Highway in Sarawak, the RM5.6b Sabah-Sarawak Link Road, the

Major project tenders and upcoming infrastructure catalysts to drive momentum.

potential revival of the Kuala Lumpur–Singapore High Speed Rail, and developments under the Johor-Singapore Special Economic Zone (JS-SEZ), collectively underpinning a strong tender pipeline and sustained sector momentum into CY26.

Rural connectivity, PPP revival, DC acceleration, and East Malaysia upgrades to broaden sector uplift.

Budget-26 is also expected to address road maintenance and upgrade needs, particularly across Sabah and Sarawak, where allocations are likely to rise to support federal highway upgrades and rural connectivity. This aligns with RMK-13's plan to upgrade 2,800 km of rural and strategic roads, including Pan Borneo and Trans Borneo segments, and expand Demand Responsive Transit. The RM61b Public-Private Partnership (PPP) pipeline could revive the user-pay model for highways and transit-oriented developments, benefiting companies with strong PPP execution experience such as **Gamuda** and **IJM Corp**. Meanwhile, data centre (DC) developments are set to accelerate through CY26, underpinning demand for civil works and building materials. **MCement (TP: RM7.49)**, through its ready-mix division, is already seeing stronger volumes and margin expansion from DC and infrastructure demand. Regionally, **CMSB (TP: RM1.49)** is well-positioned to benefit directly from Sarawak infrastructure upgrades such as the Northern Coastal Highway and Sabah–Sarawak Link Road, supported by its strong cement and materials footprint in East Malaysia.

ESG and green construction could emerge as a stronger policy lever.

Budget-26 may also embed sustainability more deeply into Malaysia's infrastructure agenda. Potential measures include mandating Industrialised Building System (IBS) and Green Building Index (GBI) compliance in public housing, expanding waste-to-energy (WTE) infrastructure, promoting circular construction practices, and tightening Building Information Modelling (BIM) requirements for larger projects to improve transparency and cost control. Climate-resilient spending, particularly in flood mitigation - which includes RM12b for 43 high-priority flood mitigation projects (TBBT) and RM398 m for AI-enabled early warning systems - could accelerate, providing upside for contractors with flood management expertise such as **Gamuda** and **IJM**, as well as regional players like **CMSB**. ESG-linked initiatives may also attract foreign capital through green financing, supporting a structural shift toward greener, more efficient and transparent project delivery across the sector.

CONSUMER ..... Maintain POSITIVE

Analyst: MBSB Research team

We expect Budget 2026 to deliver broad-based support for the consumer sector.

Anchored by Visit Malaysia 2026, higher wages, and expanded social support. The government targets 35.6m tourists and RM147.1b receipts, supported by promotional spending, infrastructure readiness, and aesthetic enhancement. A clear tailwind for retailers and F&B players, we believe **AEON (BUY, TP: RM1.77)** will benefit from stronger mall footfall, while **QL Resources (NEUTRAL, TP: RM4.33)** via its FamilyMart franchise, remains positioned to serve convenience-seeking customers in transit-heavy locations**.** And **F&N (BUY, TP: RM32.08)**, **Life Water (BUY, TP: RM1.11)**, as well as **Spritzer (NEUTRAL, TP: RM2.13)**, stand to gain from higher RTD beverage and bottled water sales.

Comprehensive disposable income-linked policies are another positive.

The second round of civil service salary hikes (+7% in Jan-26), potentially wider allocations in STR/SARA, expansion of the Progressive Wage Program, and possible targeted subsidy rationalisation in sugar, cooking oil, and diesel, could lift household spending power,

sustaining mass-market consumption. This bodes well for **AEON** and for staple players like **F&N** and **Leong Hup International (BUY, TP: RM0.90),** driving demand on a structural level.

Food security and halal industry initiatives could benefit poultry producers.

As detailed in 13MP, halal industry initiatives should provide structural tailwinds for poultry players. **QL Resources (NEUTRAL, TP: RM4.33) and Leong Hup International (BUY, TP: RM0.90)** are well positioned to benefit as Malaysia accelerates its push to become a leading global halal hub. The country's internationally recognised halal certification offers an advantage in markets such as the Middle East. Budget measures to strengthen halal logistics, compliance, and export promotion would therefore expand revenue opportunities for integrated players. Conversely, excise or "sin tax" adjustments on sugar-sweetened beverages remain a downside risk for **Nestlé** and **F&N**, although product reformulation and mix management could mitigate the impact.

A move to broaden the direct tax base on the risk side.

Higher personal income tax for top earners could temper discretionary spending at the upper end of the market. However, we expect Budget 2026 to place a stronger emphasis on uplifting lower and middle-income households, with policies geared toward raising living standards, narrowing the urban-rural divide, and expanding socioeconomic assistance. Such measures should sustain broad-based consumption growth, benefiting mass-market retailers and staples. Within our coverage, our top picks remain **AEON (BUY, TP: RM1.77)**, set to benefit from higher mall footfall and resilient discretionary spending. While **F&N (BUY, TP: RM32.08)** and **Life Water (BUY, TP: RM1.11)** are well-positioned to capture RTD and bottled water demand under the heat of Visit Malaysia 2026.

PROPERTY ..... Maintain POSITIVE

Analyst: Jesssica Low Jze Tieng

Focus on improving home ownership.

For the upcoming Budget 2026, which will be announced in October 2025, we think that the government will remain focused on improving home ownership for first-time home buyers. Incentives such as stamp duty exemption and continuation of the Home Ownership Campaign could be announced in Budget 2026 to improve home ownership for the low to middle-income group. In this context, developers that have high exposure to the affordable housing segment, such as Mah Sing Group and Matrix Concepts, should benefit.

Development of new models for the property sector could be unveiled.

We think that the development of new models, which is part of the 13MP housing market reform, could be announced, such as build-then-sell and an enhanced rent-to-own scheme. While the build-then-sell model aims at lowering risk to buyers and reducing abandoned projects, the transformation to a new model may pose a financial challenge to developers with strained cash flow or high net gearing. Among developers under our coverage, IOI Properties has the highest net gearing of 0.7x, followed by Eco World Development Group at 0.55x. We think that with greater financial risk for developers under the build-then-sell model, as construction costs must be funded upfront, it will increase costs for developers and subsequently lower housing supply. Consequently, we opine that the higher market concentration among developers with stronger balance sheets and lower housing supply may lead to an increase in property selling prices.

UTILITIES AND RE ..... Maintain POSITIVE

Analyst: Royce Tan Seng Hooi

We expect the upcoming Budget 2026 to prioritise the strengthening of the grid, the push for renewable energy and energy storage adoption, in line with the longer-term National Energy Transition Roadmap (NETR).

Strengthening the grid and pushing for RE.

For starters, the government may match or potentially increase the allocation of funding to facilitate national energy transition, accelerating the clean energy buildout. RM300m was allocated under Budget 2025, triple the amount from Budget 2024.

Potentially increasing allocation.

There could also be some clarity on the upcoming LSS6, which may add another 2GW of solar capacity, coupled with battery energy storage system (BESS) requirements. This is subsequent to the recently announced winning bids of the LSS PETRA 5+, where the Energy Commission (ST) approved a total capacity of 1,975MWac.

Clarity on the upcoming LSS6?

The introduction of BESS incentives is also likely, as it is a crucial enabler of Malaysia's next renewable growth phase. As solar penetration increases among residential and commercial, and industrial (C&I), the national grid is increasingly exposed to intermittency and mid-day oversupply risks. PETRA recently 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 the 1st of December and is open to both domestic and non-domestic consumers of **Tenaga Nasional (BUY, TP: RM16.40)**. 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. All these will likely benefit solar EPCC players such as **Pekat (BUY, TP: RM2.03)**, **Samaiden (BUY, TP: RM1.48)** and **Sunview (BUY, TP: RM0.46)**.

Possible introduction of BESS incentives.

Under the 13th Malaysia Plan, Sarawak's strategic positioning as a hydro-centric renewable hub will be reinforced through a dedicated grid link to Peninsular Malaysia, further unifying the nation's clean-energy infrastructure. Considering that 70% of Sarawak's energy comes from hydro, there is expected to be an excess of power in the state. It has been agreed in principle for a maximum of 2GW channelled from Sarawak to the Peninsular. Budget 2026 may provide some clarity on the allocation for such infrastructure.

Sarawak's strategic positioning as a hydro-centric renewable hub.

AUTOMOTIVE ..... Maintain NEUTRAL

Analyst: Amalia Zarir

There may be early signals that the blanket RON95 fuel subsidy, which presently allows Malaysians with valid driving licenses to purchase RON95 petrol at RM1.99/l up to 300 litres per month, could see further adjustments. As the BUDI95 programme was only recently rolled out, a concrete mechanism may not yet be established. Still, it is possible that higher-income

Possible refinements ahead for the RON95 subsidy framework.

households, potentially those in the top 15% of earners as previously suggested, might at some point be excluded in the next phase of subsidy reforms.

Clarity on BEV tax holidays.

There may also be greater clarity on whether battery electric vehicles (BEVs) tax exemptions will be extended, although it is unlikely. Under the current framework, fully imported (CBU) BEVs are exempt from import and excise duties until end-CY25, while locally assembled (CKD) BEVs enjoy exemptions from import duty, excise duty, and sales tax until end-CY27. The Malaysian Automotive Association (MAA) is reportedly advocating for an extension (up to CY27 for CBU EVs and CY30 for CKD BEVs), citing that adoption remains relatively low, at just 4% of total industry volume (TIV) as of 1HCY25.

Supportive measures to aid Malaysia's EV transition.

One of the key items on the industry's wishlist appears to be hybrid incentives to support the transition towards EV adoption. The MAA has reportedly proposed a 75% reduction under the existing customised incentive scheme for CKD hybrid electric vehicles, to be implemented for a period of over two years until CY27. Malaysia has set a target for xEVs (covering both BEVs and hybrids) to contribute 20% of annual TIV by CY30, though as of 1HCY25, their share remains at just 8%. There could also be announcements for further investments in EV charging infrastructure, which continues to lag behind expectations.

Tan Chong Motor Holdings Berhad (Maintain SELL, RM0.34) would benefit from the ongoing tax exemptions that CKD BEVs are entitled to via its TQ Wuling venture, supporting its push into affordable, mass-market EVs.

TRANSPORTATION ..... Maintain NEUTRAL

Analyst: Amalia Zarir

Aviation

Boosting tourism for Visit Malaysia 2026.

One of the key highlights will likely be substantial allocations towards Visit Malaysia 2026 (VMY2026). The government is expected to channel significant funding into tourism promotion campaigns to attract international visitors, complemented by incentives for airlines to expand routes and greater investments in airport infrastructure to handle rising passenger volumes. Beyond direct promotional efforts, allocations may also extend to enhancing eco-tourism and cultural initiatives, including support for UNESCO-linked sites and preserving Kuala Lumpur's status as a cultural and creative hub.

Capital A Berhad (Maintain BUY, TP: RM0.95) stands to gain from the tourism incentives, which are expected to boost inbound and domestic travel demand. This should lift passenger traffic for AirAsia Malaysia and unlock greater cross-selling opportunities across its ecosystem businesses, including Move (travel platform), BigPay (fintech), and Santan (F&B).

Port & Logistics

Supporting smart logistics and infrastructure upgrades.

We anticipate a continuation of investment tax allowances for companies engaged in smart logistics activities, aimed at encouraging digitalisation, automation, and greener supply chain practices. Additional funding may also be directed towards port upgrades and road improvements to improve connectivity and trade efficiency.

Westports Holdings Berhad (Maintain NEUTRAL, TP: RM4.90), **Swift Haulage Berhad (Maintain NEUTRAL, TP: RM0.42)**, and **Tasco Berhad (Maintain BUY, TP: RM0.72)** would stand to gain from infrastructure upgrades that not only ease congestion and reduce transit delays but also enable smoother port operations and faster haulage turnaround.

HEALTHCARE ..... Maintain POSITIVE

Analyst: MBSB Research team

Continuous prioritisation of infrastructure.

Aligning with the 13th Malaysia Plan (13MP), Health White Paper (HWP) and Madani Economy Framework (MEF), as well as the Malaysia Medical Tourism Year 2026 (MMTY26) which would be in tandem with Visit Malaysia 2026, we opine that the upgrading and expansion of healthcare facilities will continue to be a highlight for Budget 2026 under the healthcare sector. We expect the focus will remain on upgrading existing public hospitals and clinics in underserved areas, as well as ensuring urban and suburban facilities are well-equipped with digital health infrastructure and systems. In previous years, this constituted 5-10% of the budget allocated for the healthcare sector, which is among the highest among other healthcare incentives. Additionally, medical staff shortages, sustainable funding mechanisms and aged care may be addressed in Budget 2026.

Stronger support from consumer spending and PPP.

The prominence of disease prevention initiatives, especially for non-communicable diseases (NCDs), is expected to strengthen primary care in both public and private sectors in a bid to reduce the burden on hospitals and promote early diagnostics and screening. In supporting the Ministry of Health's (MOH) ongoing health awareness campaign, we noted that there may be potential incremental excise hikes on tobacco, alcohol, vape and sugar, in which the tax revenue generated will possibly be channelled into other healthcare initiatives. Additionally, we anticipate that the allocation will remain supportive of the continuation and enhancement of collaboration between public and private hospitals (through programmes such as the Hospital Services Outsourcing Programme (HSOP)) to leverage the private sector's capacity and capability, while improving efficiency in the public sector.

Expected more emphasis on pharmaceuticals.

Medical security had been a concern for Malaysia, notably after the COVID-19 outbreak and the shortages of crucial drugs for NCDs against increasing demand. Thus, the most concrete policy measure is to enhance local manufacturing and reduce reliance on single-source suppliers. This prompted MOH to propose the Off-Take Policy 2.0 in CY25, which aims to: (i) offer local pharmaceutical companies 3-year government contracts with a potential 2-year extension to produce off-patent drugs with scarce suppliers, (ii) promote investments in local manufacturing capabilities, and (iii) increase competition and domestic supply, subsequently lowering drug prices for the public sector. The pharmaceutical sector is also a core part of NIMP 2030, which promotes the development of high-value medicines and biosimilars. We opine that Budget 2026 may consider allocations to encourage the diversification of the pharmaceutical supply chain, as well as strategic procurement of generic drugs and biosimilars for both public and private sectors.

Maintain POSITIVE.

All in all, we reiterate our positive stance on the sector before the announcement of the Budget 2026. In previous national budget plans, the sector has consistently been a major

priority (Top 2 allocation), although funding may vary depending on other economic drivers that may be more prioritised for CY26. The high allocation for the healthcare sector is a testament to the government's ongoing incentives for the citizens, in ensuring affordable and accessible medical support, subsequently uplifting the individuals' socio-economic standing.

Before the Budget 2026 announcement, we believe that major hospital networks – notably **KPJ Healthcare (NEUTRAL, TP: RM2.65)** and **IHH Healthcare (BUY, TP: RM8.18)** – will benefit from the public-private partnerships, as well as from the increased consumer spending on medical treatments and medical tourism, in tandem with the rising ageing population and increased NCD prevalence. Another expected beneficiary would be **Pharmaniaga (BUY, TP: RM0.32).** The potential securement of a government concession for its halal human insulin, along with the already existing concession for various generic drugs and biosimilars, is a key driver for the group to leverage on, especially after its exit from PN-17, expected in CY26.

TECHNOLOGY ..... Maintain NEUTRAL

Analyst: Martin Foo Chuan Loong

Some form of fiscal support which is aligned with the NSS and NIMP 2030.

For the upcoming budget 2026, we would expect that there would be some form of fiscal support which is aligned with the National Semiconductor Strategy (NSS) and New Industrial Master Plan (NIMP) 2030. We view one of the key areas would be to developing the capabilities in advanced packaging. To recall, one of the key initiatives under the NSS is the establishment of an Advanced Packaging Programme and Technology Centre to foster innovation and collaboration. Such support would help to partially allay the concern on initial start-up cost and/or capital expenditure.

On another note, the Malaysia Semiconductor Industry Association (MSIA) is seeking cost relief, talent incentives, as well as stronger support for research, development, commercialisation and innovation to strengthen the country's semiconductor industry. MSIA's budget wish list includes managing rising costs of doing business by seeking relief on stamp duty (exemptions for employment and intercompany contracts, deferment and clearer guidelines) and Sales & Service Tax relief for broader B2B exemptions, relief for capital-intensive industries, investment-linked exemptions supported by incentives for energy efficiency and automation investments.

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STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is expected 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