Brighter Skies Emerging

Expect FBM KLCI to Reach New Post-Covid High in 2026

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Strategy Report

KEY INVESTMENT HIGHLIGHTS

- Positive market momentum in 2HCY25 underpinned by improving fundamentals.
- In 2026, expect the positive market momentum to be sustained by sanguine economic outlook and positive earnings performance.
- Within MBSBR Universe, Financial Services to lead quantum and Industrial P&S to top percentage earnings growth.
- Local equity market supported by undemanding valuations.
- More Fed rate cuts in 2026 amid sign of weakening US job market to engender firmer Ringgit and attract return inflow of foreign funds.
- But caution over risks of (1) US output growth underperformance, and (2) major geopolitical escalations – limited probability but high consequence risk.
- We are sanguine albeit wary thus expect below average equity valuations persisting due mainly to external concerns.
- FBM KLCI 2026 baseline target at 1,750 points (new post-Covid high) or PER26 of 15.2x.
- FBM Emas Shariah 2026 baseline target at 13,000 points or PER26 of 18.7x.
- FBM 70 2026 baseline target at 18,800 points or PER26 of 16.7x.

In 2026, expect positive market momentum to continue.

The FBM KLCI recorded a -6.7% pullback in 1HCY25 before it rebounded with a gain of +6.8% thus far in 2HCY25. Going forward into 2026, we expect the local equity market to gain further ground:

1) underpinned by healthy economy as well as corporate earnings outlook,
2) supported by undemanding equity valuations, and
3) aided by pent-up buying from return inflow of foreign funds.

Positive momentum in 2H25 underpinned by improving fundamentals...

The positive momentum driving up the local equity market thus far in 2HCY25 was arguably underpinned by improving macro fundamentals amid sustained domestic expansion as well as ebbing external uncertainties particularly on the US tariff policy. Malaysia's economic growth improved to +5.2%yoy in 3QCY25 vis-à-vis +4.4%yoy in 2Q2CY5.

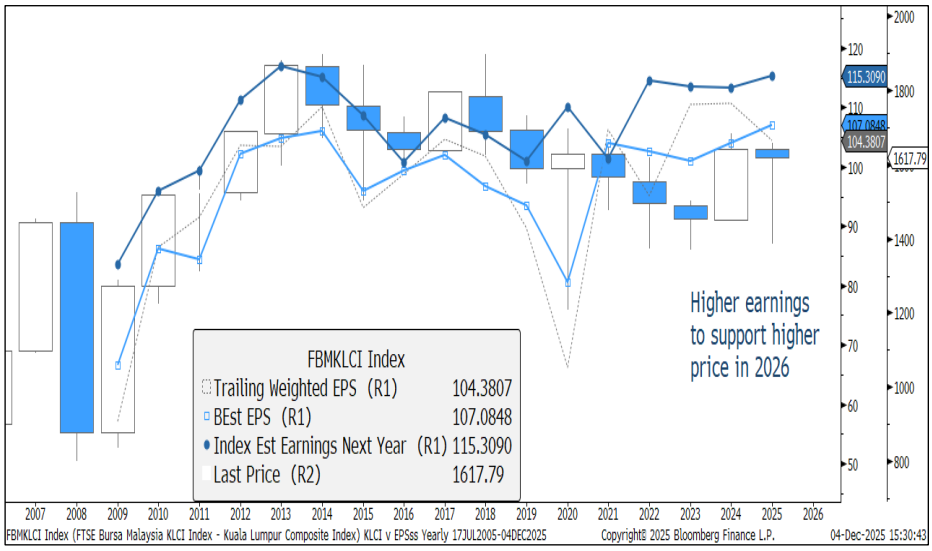
...and shall be sustained into next year by sanguine economic outlook...

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 +4.6% in 2025 and +4.3% next year. Similarly, the local corporate earnings in 2026 shall be supported by domestic drivers amid external uncertainties.

...and positive earnings performance.

The consensus expects FBM KLCI earnings growth to retreat by -3.2% in 2025 and resumes its upward trajectory at +7.7% next year. We reckon the earnings recovery in 2026 should support firmer FBM KLCI exceeding the post-Covid high level of 1,696 points registered around mid-December 2020. In the broader market, based on our coverage universe of stocks listed on Bursa Malaysia as at early-December 2025, the aggregate earnings growth is forecasted at +7.4%yoy over the next financial year. All sectors are expected to show positive earnings growth.

FBM KLCI: Price & Earnings



Source: MBSBR, Bloomberg (G15); *Note: Both Y-axes are scaled to Price/Earnings ratio of 16.0x

Within the MBSBR Universe, Financial Services, Utilities and Consumer Products & Services (P&S) sectors are expected to contribute the largest quantum of earnings increment over the next financial year. Meanwhile, Industrial P&S, Consumer P&S and Technology sectors are anticipated to generate the highest percentage earnings growth in the next financial year.

Within MBSBR Universe, Financial to lead quantum and Industrial P&S to top percentage growth.

MBSBR Universe: Sectoral Earnings Forecasts (RM Million)

Sector	Current FY	Next FY	YoY (%change)
Construction	2,392	2,551	6.6
Consumer P&S	5,069	6,042	19.2
Energy	1,080	1,180	9.3
Financial Services	42,219	43,741	3.6
Healthcare	2,463	2,742	11.3
Industrial P&S	2,450	3,096	26.4
Plantation	5,548	5,799	4.5
Property	2,015	2,378	18.0
REITs	2,592	2,815	8.6
Technology	1,154	1,369	18.6
Telco & Media	5,657	5,988	5.8
Transport & Logistics	3,446	3,585	4.0
Utilities	11,175	12,409	11.0
Total	**87,260**	**93,694**	**7.4**

Source: MBSBR, Bloomberg; (FY) – Financial Year

Moreover, the PER valuation of local equity market is undemanding. The benchmark FBM KLCI is currently trading at 1,638 points or PER26 of 14.2x, a historically inexpensive valuation vis-à-vis its 10-year average PER of 16.0x.

Market supported by undemanding valuations.

After a 9-month hiatus, the US Fed resumed its rate cut action in September this year followed by a couple more in October and December. At current juncture, based on interest rate futures market data, the CME FedWatch is implying two more rate cuts totalling -50 basis points in 2026.

More Fed rate cuts in 2026…

The recent streak of underperformance in US jobs data is perturbing. The sign of weakening US labour market was arguably a key basis for the recent Fed interest rate cuts. Nonetheless, the market consensus currently remains sanguine the US economy shall avoid a recession and continue to register healthy output growth in 2026.

...amid sign of weakening US job market…

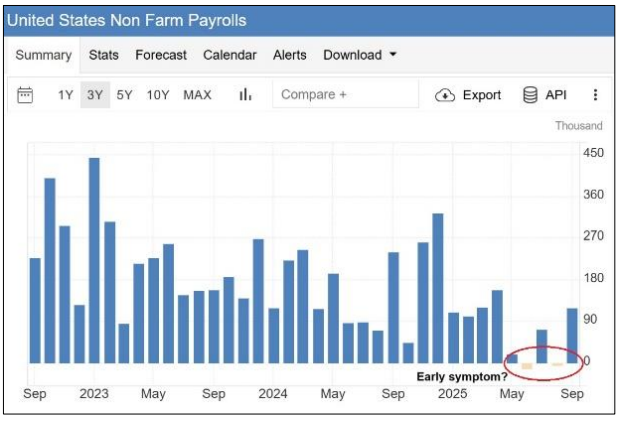
However, the prospects of declining US Dollar interest rates as well as lingering concern over US consumer spending growth due to weakening job market and weak consumer confidence may encourage some investors to redirect their funds to countries/regions with more stable interest rates and good economic growth potential. In this regard, we expect Malaysia to be able to attract some of the funds as (1) BNM is expected to keep the OPR unchanged for the foreseeable future, and (2) Malaysia economy is expected to remain healthy with resilient domestic-led growth. In 2026, with USD/MYR rate expected to break below the key 4.00 level, we expect pent-up buying from return inflow of foreign funds to aid the local equity market higher.

…to engender firmer Ringgit and attract return inflow of foreign funds.

Domestically and externally, the prevailing baseline GDP projections for next year point toward continued growth. However, we are mindful of externally driven downside risks to the baseline outlook. Foremost, the risk of severe US economic underperformance which could embroil the rest of the world. Furthermore, the risk of major geopolitical escalations albeit of limited probability but with high consequence to the economy.

But caution ahead.

NFP intermittent negative in June and August



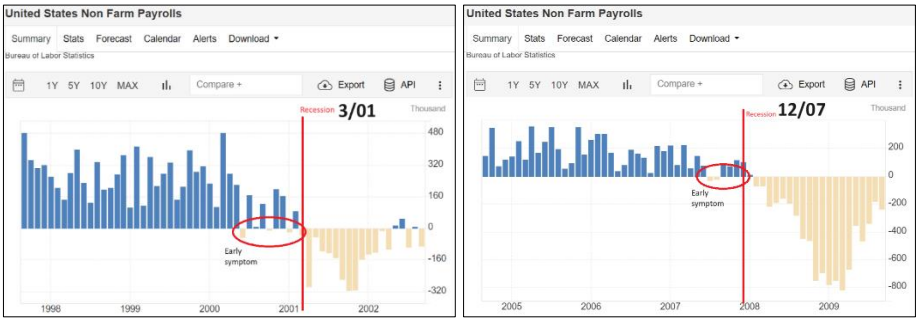
Source: Trading Economics, MBSBR

While the market consensus remains sanguine on the US economy continue registering healthy growth for this year and next, the intermittent negative US Non-Farm Payrolls (NFP) figures in June and August 2025 are concerning. Going forward, the NFP data should be closely monitored for further sign of weakness. Looking at previous US economic recessions in 2001 and 2007/8, the NFP began to intermittently fall into

Risk of US output growth underperformance.

negative territory which proved an "early symptom" to the start of output contraction several (5 to 9) months later.

NFP intermittent negative prior to start of recessions in 2001 and 2007



Source: Trading Economics, MBSBR

Major geopolitical escalations – limited probability but high consequence 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. Meanwhile, a repeat of Israel-Iran aerial war cannot be totally discounted. 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 (1) heighten the kinetic intensity, and (2) broaden the geographical theatre of war could substantially magnify the potential economic fallout onto the wider world.

Hence, we are sanguine…

Going forward, we foresee a situation whereby the equity market would remain generally sanguine premised on baseline expectations of (1) continued resilient macro economy and positive corporate earnings performance, and (2) further monetary (liquidity) easing with more interest rate cuts by the US Fed as well as other central banks. 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 lingering weakness in labour market performance. Moreover, we should also be mindful of the unsettling conditions in Eastern Europe and the Middle East, as well as the simmering situation in East Asia, which could escalate rather unexpectedly.

2026 BASELINE TARGETS

Economic and earnings growth next year supportive of higher price levels…

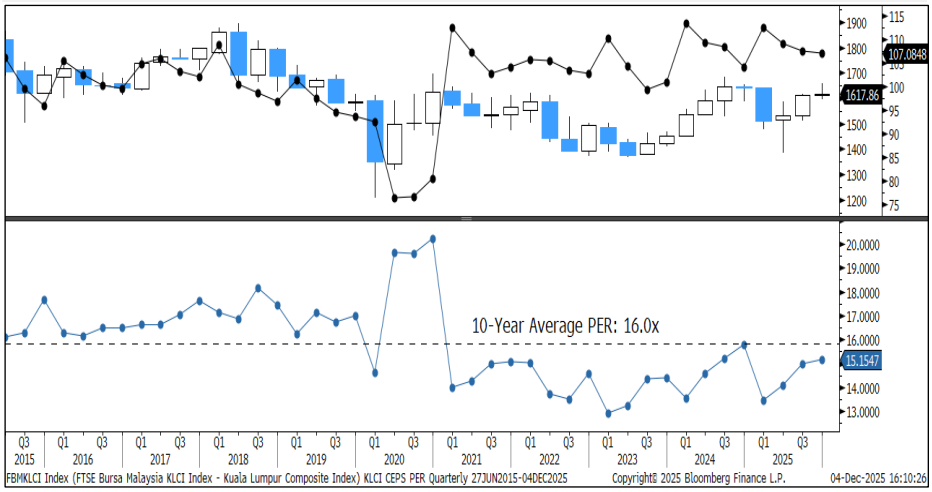
Going into next year, we expect Malaysia economy to remain healthy with our GDP growth forecast at +4.3% in 2026. Along with the baseline expectation of resilient macro performance, market consensus is forecasting the FBM KLCI to register a healthy +7.7%yoy earnings growth in 2026.

…but expect below average valuations persisting due mainly to external fears.

Despite our baseline expectations of resilient macro performance along with healthy earnings growth next year, we expect local equity valuations to remain at sub-average levels. That is so as we believe the equity market next year would be beset by recurrent fears of US economic recession coupled with uncertainties potentially engendered by President Donald Trump's volatile economic and trade policies.

FBM KLCI

Calendar Year	Earnings (Points)	YoY (%change)
CY2026 (F)	115.3	+7.7



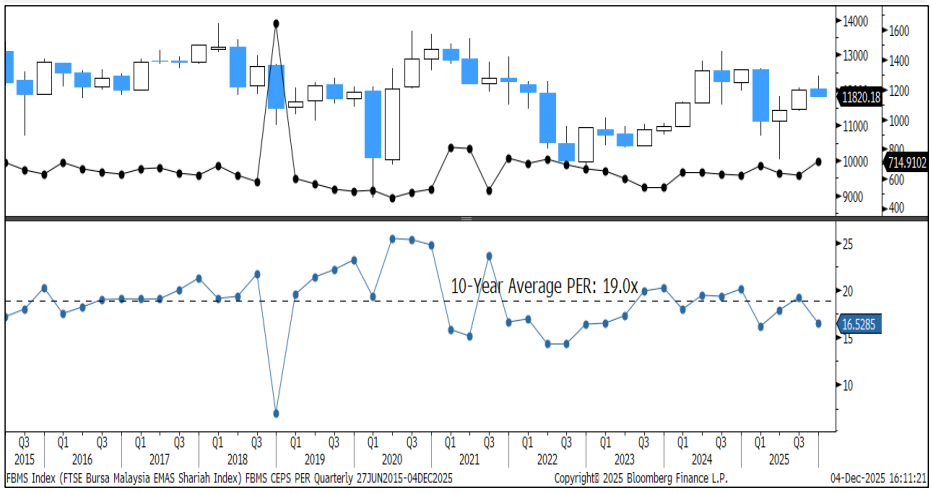
Source: MBSBR, Bloomberg (G5)

At current juncture, the FBM KLCI is trading at PER25 of 15.3x, which is below its 10-year average PER of 16.0x. Based on the prevailing 2026 earnings forecast of 115.3 points, considering the valuation limiting factors mentioned in above, we reaffirm our FBM KLCI 2026 baseline target at 1,750 points (new post-Covid high) or PER26 of 15.2x.

FBM KLCI 2026 baseline target at 1,750 points or PER26 of 15.2x.

FBM Emas Shariah

Calendar Year	Earnings (Points)	YoY (%change)
CY2026 (F)	696.0	+13.2



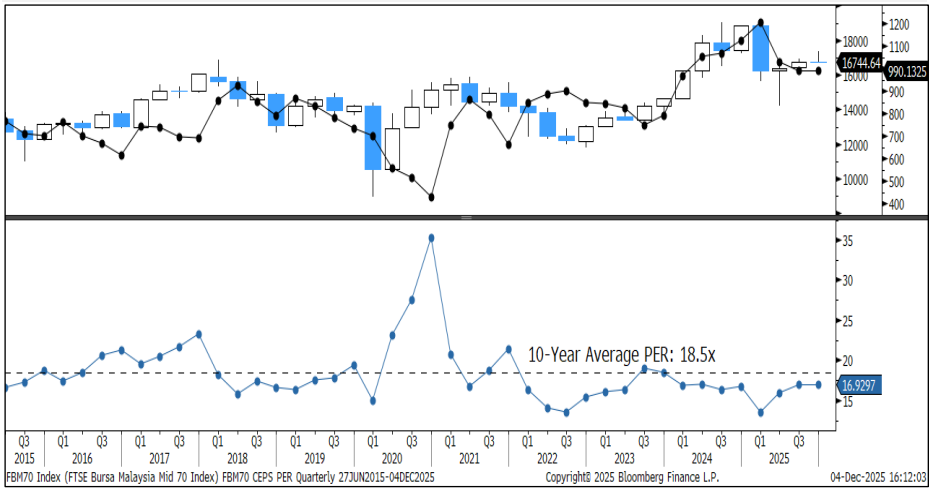
Source: MBSBR, Bloomberg (G6)

At current juncture, the FBM Emas Shariah is trading at PER25 of 19.4x, which is slight above its 10-year average PER of 19.0x. Based on the prevailing 2026 earnings forecast of 696.0 points, considering the valuation limiting factors mentioned in above, we reaffirm our FBM Emas Shariah 2026 baseline target at 13,000 points or PER26 of 18.7x.

FBM Emas Shariah 2026 baseline target at 13,000 points or PER26 of 18.7x.

FBM 70

Calendar Year	Earnings (Points)	YoY (%change)
CY2026 (F)	1,125.4	+13.7



Source: MBSBR, Bloomberg (G7)

At current juncture, the FBM 70 is trading at PER25 of 16.9x, which is below its 10-year average PER of 18.5x. Based on the prevailing 2026 earnings forecast of 1,125.4 points, considering the valuation limiting factors mentioned in above, we reaffirm our FBM 70 2026 baseline target at 18,800 points or PER26 of 16.7x.

FBM 70 2026 baseline target at 18,800 points or PER26 of 16.7x.

Meanwhile, our top picks are based mostly on the themes we believe that will play out for CY26. These are (i) Visit Malaysia Year 2026, (ii) AI-driven investments will likely continue apace in CY26, and accordingly, energy and utilities sectors should be a beneficiary as AI-driven data centers, (iii) Budget 2026 showed continuing commitment by the government to support investments in renewable energy, hence CY26 will be a busy year for RE sector. In addition to this, we have also selected stocks which have a high beta given our overall positive outlook for the equites market. Below are a summary of our sector calls and our top picks:

Stock selections based mostly on themes at play.

OVERALL TOP PICKS

	Rec.	Price (RM) @ 12/12/25	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4 Good?	Investment Highlights
Capital A	BUY	0.42	0.65	54.8%	0.0%	54.8%	3	N	Uplift from VMY2026, expanded fleet capacity, easing fuel prices, firmer MYR
YTL Power	BUY	3.29	4.92	49.5%	2.4%	52.0%	3	Y	Attractive entry point, strategic expansion into data centre and RE
Leong Hup	BUY	0.69	0.90	30.4%	3.6%	34.1%	2	N	Stable poultry demand and a broadly manageable feed-cost environment
Gamuda	BUY	4.85	6.35	30.9%	2.1%	33.0%	3	Y	Geographically diversified portfolio. Rapidly expanding in the utilities space
Tenaga Nasional	BUY	12.74	16.40	28.7%	4.0%	32.8%	3	Y	Sustained electricity demand growth, clearer tariff visibility
Pekat	BUY	1.52	2.00	31.6%	0.7%	32.2%	-	-	LSS5, LSS5+, upcoming LSS & ELP business due to the growth in DC. EPE Switchgear to be crucial contributor
Samaiden	BUY	1.37	1.70	24.1%	2.2%	26.3%	3	Y	LSS5, LSS5+, upcoming LSS, CRESS
Public Bank	BUY	4.47	5.05	13.0%	4.5%	17.5%	4	Y	Optimism on fee income, special dividend payout, loan growth
RHB Bank	BUY	7.50	7.95	6.0%	5.9%	11.9%	4	Y	High dividend yields, recoveries in multiple loan cat., good loan recovery
Sunway REIT	BUY	2.20	2.34	6.4%	4.7%	11.1%	4	N	Solid contribution from retail division;

SHARIAH TOP PICKS

	Rec.	Price (RM) @ 12/12/25	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4 Good?	Investment Highlights
IJM Corporation	BUY	2.18	3.60	65.1%	3.7%	68.8%	3	Y	Legacy low-margin projects nearing completion, secured RM5.3b; 66.0% in DC
AEON Co.	BUY	1.07	1.66	55.1%	4.0%	59.2%	4	Y	Well-positioned to capture higher mall footfall and sustained demand across general merchandise and supermarkets
Capital A	BUY	0.42	0.65	54.8%	0.0%	54.8%	3	N	Uplift from VMY2026, expanded fleet capacity, easing fuel prices, firmer MYR
Mr D.I.Y.	BUY	1.49	2.20	47.7%	3.6%	51.2%	3	Y	Policy-supported mass-market spending and favourable CNY/MYR
Gamuda	BUY	4.85	6.35	30.9%	2.1%	33.0%	3	Y	Geographically diversified portfolio. Rapidly expanding in the utilities space
Tenaga Nasional	BUY	12.74	16.40	28.7%	4.0%	32.8%	3	Y	Sustained electricity demand growth, clearer tariff visibility
Pekat	BUY	1.52	2.00	31.6%	0.7%	32.2%	-	-	LSS5, LSS5+, upcoming LSS & ELP business due to the growth in DC. EPE Switchgear to be crucial contributor
Samaiden	BUY	1.37	1.70	24.1%	2.2%	26.3%	3	Y	LSS5, LSS5+, upcoming LSS, CRESS
TSH Resources	BUY	1.27	1.48	16.5%	2.0%	18.5%	3	Y	Undervalued
Malayan Cement	BUY	6.79	7.60	11.9%	1.8%	13.7%	3	N	Industry upcycle with strong pipeline of civil & private projects

TOP FBM70 & SC TOP PICKS

	Rec.	Price (RM) @ 12/12/25	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4 Good?	Investment Highlights
IJM Corporation	BUY	2.18	3.60	65.1%	2.2%	67.3%	3	Y	Legacy low-margin projects nearing completion, secured RM5.3b; 66.0% in DC
AEON Co.	BUY	1.07	1.66	55.1%	4.0%	59.2%	4	Y	Well-positioned to capture higher mall footfall and sustained demand across general merchandise and supermarkets
Zetrix AI	BUY	0.83	1.25	50.6%	4.6%	55.2%	4	Y	AI prospects and blockchain
Capital A	BUY	0.42	0.65	54.8%	0.0%	54.8%	3	N	Uplift from VMY2026, expanded fleet capacity, easing fuel prices, firmer MYR
Leong Hup	BUY	0.69	0.90	30.4%	3.6%	34.1%	2	N	Stable poultry demand and a broadly manageable feed-cost environment
Pekat	BUY	1.52	2.00	31.6%	0.7%	32.2%	-	-	LSS5, LSS5+, upcoming LSS & ELP business due to the growth in DC. EPE Switchgear to be crucial contributor
Samaiden	BUY	1.37	1.70	24.1%	2.2%	26.3%	3	Y	LSS5, LSS5+, upcoming LSS, CRESS
TSH Resources	BUY	1.27	1.48	16.5%	2.0%	18.5%	3	Y	Undervalued
Malayan Cement	BUY	6.79	7.60	11.9%	1.8%	13.7%	3	N	Industry upcycle with strong pipeline of civil & private projects
Sunway REIT	BUY	2.20	2.34	6.4%	4.7%	11.1%	4	N	Solid contribution from retail division; Sunway Pyramid & Sunway Carnival

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STOCK RECOMMENDATIONS

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

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

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