Ceasefire on a Switch

A Look at Sector Implications as Scenario 2 (Tension Case) Play Out

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Strategy Report

KEY INVESTMENT HIGHLIGHTS

- We assess Scenario 2, where a fragile ceasefire persists amid ongoing geopolitical tension, particularly involving the Strait of Hormuz, causing sustained energy and shipping disruptions.
- Elevated oil prices are expected to moderate Malaysia's GDP growth to 3.8–4.0% in 2026 due to inflationary pressures, softer consumption, and trade volatility.
- Inflation is projected to rise to around 2.0% (upper-bound: 2.5%), driven mainly by higher energy and logistics costs, with subsidy rationalisation posing further risks.
- Equity markets are likely to remain valued below historical averages.
- We recommend seeking cover in defensive sectors.
- POSITIVE sector views include oil & gas, utilities and renewables, healthcare, REITs, construction, and consumer staples, supported by pricing resilience and demand inelasticity.
- NEUTRAL sectors include automotive, property, technology, and transportation due to cost pressures and demand sensitivity.

LATEST MIDDLE EAST CONFLICT DEVELOPMENT

A ceasefire that feels like a pause between storm fronts.

What began in early April as a two-week breathing space, brokered by Pakistan, has now started to feel less like a calm and more like a high-stakes intermission. The first Islamabad round (11–12 April) delivered something historically rare, which was a high-level engagement, but it ended without an agreement, with both sides pointing to unresolved red lines (especially nuclear constraints and reciprocal concessions). However, we believe that the "no-deal" ending still matters because it changed the tone: the diplomatic track did not die, but it lost momentum, and both sides immediately leaned back into leverage.

Washington's lever: the blockade.

After the talks stalled, the US moved from persuasion to pressure, announcing and implementing a naval blockade focused on vessels entering or leaving Iranian ports, explicitly designed to tighten economic screws while still allowing non-Iranian port traffic through the strait. In other words, the US is trying to deny Iran cash flow without owning the liability of fully shutting down an international chokepoint.

Tehran's lever: Hormuz—open "in theory," closed "in practice."

On 17 April, Iran signalled the Strait of Hormuz was "open" to commercial shipping during the Israel–Lebanon truce, but with routing/coordination requirements that underscored Iran's core message: passage is conditional, and control is the point. However, within 24 hours, that optimism evaporated as reports described Iran re-imposing strict control and maritime incidents, effectively pushing shipping behaviour back toward hesitation and reversals. This is the crucial nuance: even when Hormuz is "technically open," fear, conditions, and incidents can make it functionally constrained.

This is no longer a ceasefire—it is a bargaining arena with Hormuz the conflict's loudest amplifier.

The ceasefire was supposed to de-escalate. Instead, it has become the container for a contest: US naval pressure on Iranian ports versus Iranian control over a chokepoint the world cannot ignore. Nevertheless, that does not mean talks are doomed, but it does mean the ceasefire is increasingly performing politics. Before this war, Hormuz carried a huge share of global oil and LNG flows; now it is the fastest transmission channel from regional tension to global risk pricing. Hence, why "open/close/conditional" headlines are enough to swing sentiment sharply.

The latest developments fit our Scenario 2.

We envision Scenario 2 as a situation where essentially a ceasefire or de-escalatory framework exists but is fragile; the conflict is contained (no full return to sustained strikes), yet disruption remains persistent (especially via shipping/energy), and diplomacy continues under heavy mistrust and leverage tactics.

Why it fits.

Based on current developments, below are factors that led us to believe we are in Scenario 2:

1) **Ceasefire still exists — but it is behaving like a brittle truce**
   Even with fresh incidents and harsher rhetoric, we are not back to an unbroken cycle of major strikes. The ceasefire window is still the "container" for events, i.e. not peace, but a ceiling on escalation. What we see is neither stabilisation (clear compliance, predictable implementation) nor open resumption of kinetic warfare.

2) **Maritime disruption is ongoing — but it is selective/conditional, not a clean shutdown**
   The Strait of Hormuz is swinging between "open" declarations with conditions, coordination, or route controls, and renewed warnings, "strict management," and incidents that scare vessels into slowing, turning back, or delaying. Therefore, we surmise that disruption persists, risk premia remain elevated, but it is still a managed choke rather than a permanent, absolute closure.

3) **The conflict has shifted from air war to leverage war**
   After talks failed to produce a deal, the contest moved into U.S. economic/maritime coercion (blockade or interdiction posture around Iranian ports), versus Iran's ability to throttle Hormuz conditions (and by extension global energy nerves). It is a contained conflict expressed through calibrated pressure rather than full-scale bombardment.

4) **Diplomacy is still alive — but it is stuck on sequencing and distrust**
   In our Scenario 2, negotiations do not stop but become **harder, slower, and more conditional**: Iran signals "framework first" while the US signals "pressure continues".

5) **Regional spillover is being managed, not eliminated**
   Another Scenario 2 marker is that other theatres (like Lebanon) are being handled with stopgap arrangements such as ceasefire windows, partial pauses, diplomatic scaffolding, yet violations and accusations continue. That means the broader regional temperature is contained but unstable.

Looking at the implications of Scenario 2.

Given that we are likely in Scenario 2-type situations (in our view), we look at the implications on Malaysia's economy and our sectoral coverage in the sections below.

ECONOMICS & POLICY

Testing the limits of domestic resilience.

In a scenario characterised by elevated oil prices and a more protracted conflict with limited containment, we project Malaysia's GDP growth could moderate to +3.8%–4.0%, down from our baseline forecast of +4.2% (2025: +5.2%). This adjustment reflects an anticipated deceleration in private consumption spending, as inflationary pressures stemming from Middle Eastern tensions dampen both consumer and business sentiment. The labour market faces headwinds as slower activities in the services and export-oriented sectors, which are sensitive to oil price volatility and energy price shocks, weaken overall demand. While domestic activity may find support from a stable labour market, wage adjustments, and government cash transfers, the tourism sector remains vulnerable to rising jet fuel costs and reduced flight capacity. Conversely, the E&E sector may provide resilience through the ongoing tech upcycle, complemented by a potential recovery in mining exports. Despite these offsets, the outlook remains clouded by heightened global trade volatility and the risk of a 15% broad-based tariff imposed by the US. On another note, should ongoing probes (following allegations of unfair trade practices and 'structural excess capacity' in the manufacturing sector) yield adverse findings, the imposition of retaliatory duties would undermine Malaysia's industrial outlook throughout 2026.

Domestic resilience could be under threat

- **Retail trade to moderate.** Reflecting heightened inflationary pressures, we project retail trade growth to soften to +4.4-4.9% in 2026. This downward revision from our +5.5% base case accounts for the 'triple threat' of high energy costs, global trade headwinds, and the BUDI95 quota adjustment. The moderation in discretionary spending is further exacerbated by a shift in consumer sentiment; households are increasingly adopting a 'precautionary savings' stance to hedge against heightened inflationary pressures.

- **Labour market structurally intact, though with downside risks.** Accounting for softer consumer spending in the services sector and global volatility in export-oriented industries, we expect the unemployment rate to edge up to 3.3%–3.5% in 2026, up from our base case of 3.0% (2025: 3.0%). This softening is particularly acute in the services sectors that anchor approximately 4.7m jobs, (29% of the national workforce). Compounding these risks are potential punitive tariffs and allegations of 'structural excess capacity,' which threaten to dampen hiring sentiment in the manufacturing & transport sectors, which make up nearly one-fifth of the national workforce. Such headwinds pose a significant threat to consumer confidence and could create a negative multiplier effect on domestic demand.

- **Visit Malaysia Year (VMY) 2026 tourism outlook clouded by Middle East tensions.** Escalating crude oil prices and subsequent jet fuel surges could deter high-value long-haul travellers. Despite a negligible 0.4% direct exposure to the Middle East in 2025, geopolitical spillover effects threaten the wider long-haul category (3.4m; 8% of total arrivals). This risk is notable as long-haul visitors represent a critical tier of the tourism mix, trailing only Singapore (21.1m; 50%), China (4.6m; 11%), and Indonesia (4.3m; 10%). Combined with cautious travel sentiment, elevated airfares, and global flight capacity rationalisation, the Visit Malaysia Year 2026 (VMY2026) target of 47m

arrivals appears increasingly ambitious. We anticipate that current conditions could trigger a 10-15% decline from the 2025 baseline of 42.2m visitors.

- **Upside risk:** structural boost to purchasing power in 2026. Household disposable income is set for a multi-front expansion in 2026. The second phase of civil service salary adjustments (+7%), combined with the maturation of the Progressive Wage Policy, will provide a structural lift to household earnings. This is further reinforced by RM15b in government cash transfers (STR & SARA), creating a resilient floor for domestic consumer spending. Simultaneously, the E&E sector's high-value transition toward AI and advanced semiconductors, catalysed by the 13th Malaysia Plan (13MP) and the National Semiconductor Strategy (NSS), is expected to stimulate quality job creation. On the tourism front, this strengthening of domestic purchasing power should act as a critical buffer, encouraging travellers to favour domestic destinations as a hedge against the rising costs and geopolitical uncertainties currently affecting international travel. Furthermore, the extension of the Visit Malaysia Year (VMY2026) programme through the end of 2027 will provide sustained support for inbound arrivals, maintaining momentum for the tourism sector.

Inflationary upside amid rising energy risks.

In Scenario 2, we project inflation could reach +2.5% (up from +1.4% in 2025). This upside is driven by rising energy prices, which we expect to trickle down into other CPI components. Global inflation re-accelerated in Mar-26, driven by surging energy and logistics costs that manufacturers are increasingly passing on to consumers, as evidenced by Malaysian output prices hitting a 45-month high in Mar-26 PMI reading. While supply-side shocks and the impact of the prolonged war pose significant risks, Malaysia's headline inflation should remain relatively contained due to the current targeted fuel subsidies and a resilient ringgit. However, the outlook remains contingent on geopolitical stability; while a stronger currency and secure trade flows through the Strait of Hormuz could mitigate import costs, the structural damage to regional oil and gas infrastructure would likely keep energy prices elevated for years. Consequently, the government must perform a delicate balancing act regarding subsidies as elevated oil prices weigh heavily on the fiscal budget. While we expect the targeted RON95 subsidy to remain at RM1.99 for now, the next policy moves if the situation worsens or prolonged could involve further tightening eligibility, such as reducing the monthly quota from 200L to 100L. If global prices remain elevated over the long term, we may see a gradual upward price adjustment; however, this would likely be managed incrementally to ensure fuel remains more affordable than non-subsidised market rates.

External trade slowdown is dragged by external volatility.

Elevated oil prices are expected to decelerate global shipping activity, weighing on export volumes while driving up logistics costs, a trend that typically translates into higher prices, which could drag on demand. Consequently, we anticipate export growth to moderate to +3.5%–3.8%, down from our initial baseline of +4.6% (2025: +6.0%). Similarly, import growth is forecast to soften to +3.7%–4.0% (Baseline: +5.6%; 2025: +5.7%), reflecting a cooling in domestic demand due to inflationary pressures. This outlook is further clouded by external trade volatility. Despite recent legal shifts following the US Supreme Court's decision on the 'reciprocal tariffs,' Malaysia remains vulnerable to escalating Middle East tensions and a rise in global protectionism, with more targeted tariffs on specific sectors. If the semiconductor products from Malaysia were to be hit by higher tariffs, the overall stability of export performance could be significantly affected, given the size of E&E exports.

MARKET STRATEGY

Middle East conflict & oil shock.

The onset of Iran-Israel/US war has caused energy prices to surge, with Brent crude at triple-digit levels. Consequently, this oil price shock has fuelled fears that inflation will remain embedded at higher levels, forcing the US Fed to pause easing. Moreover, recent US inflation figures have come in hotter than anticipated. Our baseline scenario imputes the Brent crude hovering between USD100-120pb during the peak period while averaging USD90pb for the year.

Curtailed monetary impetus.

Accordingly, the interest rate futures market has significantly scaled back its interest rate cut expectations. As per CME FedWatch, the market is now implying zero rate cut (from earlier -50bp) attributable to a combination of Middle East conflict and persistent inflationary pressure.

Expect below average valuations persisting due to external fears.

Despite our baseline expectations of still resilient macro performance along with positive earnings growth this year, we expect local equity valuations to remain at sub-average levels. That is so as we believe the equity market would be beset by uncertainties engendered by the ongoing geopolitical conflict in the Middle East and attendant inflationary pressure.

FBM KLCI 2026 baseline target to 1,800 points or PER26 of 15.8x.

The FBM KLCI is currently trading at PER26 of 15.0x, which is below its 10-year average PER of 16.0x. Based on the prevailing 2026 consensus earnings forecast of 113.9 points, considering the moderating factors mentioned in above, we maintain our FBM KLCI 2026 baseline target of 1,800 points.

Based on the prevailing 2026 consensus earnings forecast of 934.6 points, considering the moderating factors mentioned in above, we maintain our FBM Emas Shariah 2026 baseline target of 13,100 points.

Based on the prevailing 2026 consensus earnings forecast of 1,086.6 points, considering the moderating factors mentioned in above, we maintain our FBM 70 2026 baseline target of 18,900 points.

Defensive sectors could provide some shields.

Given the current environment of uncertainties and cloudy outlook, we are recommending investors to tactically seek cover amongst defensive sectors in case situation turns for the worse. Purely defensive stocks, such as those in REITs, utilities, healthcare, and consumer staples, tend to provide consistent dividends and stability in demand (hence, earnings) regardless of the overall economic conditions. This stability and attractive dividend yields should moderate the downside risks, while not discounting the potential for price appreciation due to undervaluation as we have observed defensive sectors being a bit of a laggard.

Our top picks as highlighted during our 2QCY26 update of our market outlook and in addition to the laggards above are as follows:

Overall top picks:

	Rec.	Price (RM) @ 17/4/26	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
Leong Hup	BUY	0.77	1.07	39.0%	3.9%	42.9%	2	N
Mr D.I.Y.	BUY	1.61	2.13	32.3%	3.4%	35.7%	3	Y
YTL Power	BUY	3.71	4.94	33.2%	2.2%	35.3%	3	Y
AMMB	BUY	6.15	7.57	23.1%	4.5%	27.6%	4	Y
Pekat Group	BUY	1.60	2.00	25.0%	0.6%	25.6%	-	-
Ranhill Utilities	BUY	1.86	2.29	23.1%	0.1%	23.3%	3	Y
99 Speed Mart	BUY	3.72	4.37	17.5%	1.2%	18.7%	2	N
Tenaga Nasional	BUY	14.32	16.40	14.5%	3.9%	18.4%	4	Y
Pavilion REIT	BUY	1.81	2.00	10.5%	5.6%	16.1%	4	Y
QL Resources	BUY	3.75	4.28	14.1%	1.4%	15.5%	3	Y
Trading picks:								
Bumi Armada	BUY	0.38	0.44	17.3%	0.0%	17.3%	4	Y
Genting Plantations	BUY	5.26	5.80	10.3%	4.8%	15.0%	3	Y

Source: Bloomberg, MBSBR

SECTORAL VIEW

AUTOMOTIVE — NEUTRAL

Shift toward efficiency.

Following the global oil disruption, domestic pump prices have risen sharply (RON95 at RM4.02/l, RON97 at RM5.10/l, and diesel in Peninsular Malaysia at RM5.97/l), although RON95 remains subsidised at RM1.99/l with the cap reduced from 300 litre to 200 litre since Apr-26. Based on CY25 JPJ data, petrol-powered passenger vehicles made up 85% of registrations, followed by diesel (6%), hybrids (4%) and EVs (5%). The lower BUDI95 quota is likely to accelerate a gradual shift toward more fuel-efficient options, including smaller-engine ICE vehicles, PHEVs and, for higher-mileage users, EVs, while also nudging premium buyers toward more efficient models. That said, the impact is not broad-based: average monthly fuel consumption is ~100L, with an estimated 90% of users below the new cap, limiting the extent of behavioural change. This is consistent with current demand trends, which remain concentrated in the <RM100k segment, where mass-market models (notably Perodua and Proton) accounted for 9 of the top 10 registrations in 1QCY26.

Inflation weighs on discretionary spending.

On the demand side, higher fuel costs and inflation act as a drag on discretionary spending, squeezing household budgets and prompting consumers to delay big-ticket purchases such as vehicles. For commercial vehicles, the impact is more pronounced. Operators not fully shielded by subsidies face significantly higher diesel costs, leading to more cautious capex, delayed fleet expansion, and tighter cost control. We maintain our full-year TIV forecast at 788k units (-4.0%yoy) from 821k, reflecting a moderation in the replacement cycle, with further downside risks should the situation become more prolonged.

CONSTRUCTION

POSITIVE

We are cautiously optimistic about the construction sector, underpinned by intact mega infrastructure and data centres roll out, partially dragged by project delay and building material cost inflation. Despite construction cost hikes brought about by cost inflation, we expect the impact on sector earnings is expected to remain manageable, particularly for larger contractors with stronger contractual protections and more favourable project mix. We expect sustained job flows in 2026, stemming from a) intact mega infrastructure job flows, and b) the data centre boom.

Cautiously optimistic.

The ongoing US-Iran conflict has led to a spike in energy prices, with Peninsular Malaysia diesel prices spiking c.85%. Meanwhile, higher coal prices are expected to gradually feed into building material costs such as cement and steel. However, the pace of increase should remain contained, supported by still-ample supply conditions and partially cushioned by existing material stockpiles.

Facing higher costs.

Cost pressures are expected to persist into 2Q-3QCY26 due to lag effects from earlier cost hikes, before normalising beyond 3QCY26. Based on our sensitivity analysis, we reckon a 30-35% building material cost hike will lead to a potential net margin erosion of 2-5ppt, assuming 20-30% of existing contracts are unable to fully pass back the incremental costs to clients. We envisage that if the crisis does not persist for three months, the resulting margin pressure on large contractors should remain manageable.

Persist into 2Q-3QCY26 due to lag effects before normalizing.

Large contractors generally have comparable exposure across cost-plus contracts, which allow full cost pass-through, and fixed-price contracts, which typically incorporate Variation-of-Price (VOP) clauses. Based on our assumption, cost-plus exposure is highest for Gamuda (BUY, TP: RM5.60), followed by **SunCon (BUY, TP: RM7.68)** and **IJM Corp (BUY, TP: RM3.10).** We estimate a net margin compression of 2–5ppt for Gamuda and IJM vs 1–3ppt for SunCon, as its more advanced stage of project completion limits exposure to incremental building material costs, thereby cushioning downside risks.

Exposure across cost-plus contracts.

CONSUMER

POSITIVE

Under our S2 “Tension Case” base scenario, the consumer sector faces a progressively more challenging operating environment, driven primarily by sustained elevation in oil prices and second-round effects across the cost structure. With Brent expected to peak at USD100–120/bbl and average around USD90/bbl, the impact extends beyond fuel into a broader inflationary transmission mechanism encompassing packaging, logistics, and agricultural inputs.

The consumer sector faces a progressively more challenging operating environment.

The key pressure points can be distilled into the “3Fs”: fuel, fertiliser and freight, which collectively drive cost inflation across the consumer value chain. Higher fuel prices directly raise distribution and transportation costs, particularly for logistics-intensive segments such as modern retail, beverages, and FMCG. At the same time, petrochemical-linked inputs, including plastic packaging and resin, are repriced upwards, placing additional margin pressure on beverage and packaged food producers. Freight costs have also risen amid shipping disruptions and rerouting, increasing land costs for imported raw materials and finished goods.

Key pressure points can be distilled into the “3Fs”.

More critically, the surge in fertiliser prices, with the Middle East accounting for a significant share of global urea and ammonia exports, introduces a second-order impact on food inflation. Higher fertiliser costs may lead to reduced application rates, lower crop yields, and a tighter global food supply, which in turn raises input costs for food manufacturers and protein producers. This creates a cascading effect across the food supply chain, from grains and edible oils to livestock feed and retail food prices.

Cascading effect across the food supply chain.

On the demand side, rising fuel and food costs act as a de facto tax on household income, eroding purchasing power and reshaping consumption behaviour. The immediate impact is a shift toward value-based consumption, with increased downtrading observed across discretionary categories such as dining out, apparel, and non-essential retail. While staple demand remains relatively resilient, discretionary segments face a dual pressure of weaker volumes and limited ability to pass through costs, resulting in more pronounced margin compression.

De facto tax on household income.

Importantly, the impact is not instantaneous but builds progressively as inventory buffers are depleted and procurement contracts are renewed at higher cost bases. While some companies may benefit from short-term hedging or lag effects, a prolonged conflict scenario would likely trigger a broader cost reset across the sector, with earnings pressure becoming more visible in subsequent quarters.

Importantly, the impact is not instantaneous.

That said, the sector is not without support. Domestic consumption fundamentals remain relatively intact, underpinned by a stable labour market, manageable baseline inflation, and continued fiscal support through initiatives such as STR and SARA. Tourism-related spending ahead of Visit Malaysia 2026 also provides a partial offset, particularly for retail, convenience, and foodservice segments in key urban and transit locations.

But the sector is not without support.

Overall, while the near-term outlook remains supported by domestic resilience, risks are increasingly skewed to the downside under a prolonged S2 scenario. We advocate a defensive position within the sector, favouring staples and value-oriented retailers that benefit from inelastic demand and downtrading behaviour. Companies with strong pricing power, efficient cost structures, and lower exposure to imported inputs are better placed to navigate the evolving cost environment, while discretionary players remain more vulnerable to both margin pressure and demand softness. Within the sector, our top picks are **Leong Hup (BUY, TP: RM1.07)** for its defensive exposure to staple protein demand, **99 Speedmart (BUY, TP: RM4.37)** for its resilient mass-market positioning and strong leverage to downtrading behaviour, and **MR D.I.Y. (BUY, TP: RM2.13)** for its value-driven retail model and procurement scale advantages.

Near-term outlook remains supported by domestic resilience.

OIL & GAS

POSITIVE

In the absence of a formal ceasefire, coupled with continued disruptions to supply chains, we expect crude oil prices to remain elevated, averaging around USD90 per barrel. Under such conditions, the combination of sustained crude price strength and constraints on vessel movement through key transit routes, particularly the Strait of Hormuz, is likely to reinforce supply-side uncertainties and operational inefficiencies across global energy markets.

We expect crude oil prices to remain elevated.

This environment is expected to incentivise exploration and development activities in relatively lower-risk geographies, thereby supporting increased upstream activity in regions such as Malaysia.

Incentive for exploration and development activities.

Accordingly, oil majors are anticipated to accelerate capital deployment into upstream projects, with a preference for assets offering greater execution visibility and lower geopolitical exposure. In turn, we are of the view that upstream service providers would stand to benefit from a renewed flow of contract awards, which should translate into a gradual uplift in earnings, supported by expanding order books and sustained activity momentum

Anticipated to accelerate capital deployment.

Against this backdrop, we are of the view that upstream support players stand to benefit from a potential pickup in industry activity, should crude oil prices remain elevated. Our preferred exposures within this segment include Deleum Berhad (TP: RM1.92) and Bumi Armada Berhad (TP: RM0.44), which we believe are well-positioned to capture rising demand across offshore engineering, maintenance services, and floating production operations as upstream investment activity gains traction.

Upstream-support players stand to benefit.

From a downstream perspective, sustained elevated fuel prices have prompted policy responses, including the increased adoption of work-from-home arrangements across certain segments of the civil service, which may partially moderate fuel consumption. In addition, the reduction in RON95 subsidy quotas is expected to further dampen domestic fuel demand. Taking together, these developments suggest a potential downside risk to fuel consumption trends. We therefore maintain our NEUTRAL stance on Petronas Dagangan, with a target price of RM22.20.

Potential downside risk to fuel consumption trends.

PLANTATION

POSITIVE (Tactical)

Under our S2 scenario, despite stronger CPO price support from Brent-linked sentiment, planters are likely to face cost pressures across multiple fronts. On the upstream side, fertiliser remains a key swing factor that could weigh on 2Q26 performance onwards. Key inputs, such as urea (USD726/Mt; +53.7%mom, **+83.9%yoy**, +33.1%ytd), DAP (USD658/Mt, +5.1%mom, **+7.0%yoy**, +5.7%ytd) and potash (USD376/Mt; +2.2%mom, **+13.2%yoy**, +16.9%ytd), have trended higher as of March, reflecting energy-linked disruptions in the Gulf. As a primary nitrogen input, urea is critical for vegetative growth, frond development and sustaining FFB yields.

Planters are likely to face cost pressures across multiple fronts.

Large planters such as SD Guthrie typically lock in fertiliser procurement 6-12 months in advance, suggesting that most of their 2026 requirements are already secured, providing near-term cost visibility. In contrast, some peers appear to be moderating application timing to manage rising input costs, although the scope for deferral is limited given agronomic needs and the risk of compromising yields.

Large planters typically lock in fertiliser procurement.

At the smallholder level, based on our channel check, cost pressures are becoming more apparent. Initial fertiliser purchases in Jan 2026 were still manageable, with a 10-acre planted area requiring 20–25 bags, translating to RM1,800-2,000 per application. However, the 2nd round in Apr 2026 has risen to RM2,300-2,500 (**+25-28%**), driven by higher diesel prices and increased trader mark-ups. While this remains below the peak levels seen during the Russia-

Cost pressures are becoming more apparent at the smallholder level.

Ukraine conflict (RM2,800-3,500 per application), the upward trend is evident, particularly for those without forward purchasing arrangements.

Operationally, smallholders have limited flexibility to reduce application frequency. Fertiliser is typically applied 3-4 times annually, with a minimum of twice, to sustain harvesting cycles of around 2 times per month. This contrasts with corporate estates, which harvest 3-4 times weekly due to better estate management and scale efficiencies. As such, reducing application frequency is not practical. Instead, cost adjustments are likely to come from lowering dosage, with application rates potentially trimmed from 20-25 bags to about 15–18 bags per cycle.

Cost adjustments are likely to come from lowering the application dosage.

Structurally, smaller growers procure fertiliser in shorter cycles, often through 6-month tenders, exposing them more directly to spot price volatility heading into 2H26. Some may benefit indirectly if agencies such as FELDA maintain inventory buffers or secure supplies earlier, although visibility remains limited. Historically, during the Russia-Ukraine conflict, fertiliser costs surged materially, lifting the cost of production by 10-15% as the input share rose to **20–30%**. Meanwhile, because of this conflict, downstream players face additional margin pressure from rising ocean freight and insurance costs, particularly for long-haul export markets.

Downstream players may face additional margin pressure.

PROPERTY — NEUTRAL

The higher oil prices and diesel price increase the construction cost of developers, as higher transportation costs translate into higher prices for construction materials. Typically, construction costs make up 50% of the total cost for developers. While the cost for ongoing projects of developers is largely unaffected, as contracts of ongoing projects are locked in, we see that the cost for new projects will be affected, considering that contractors are likely to increase rates to pass on the higher cost of materials. Meanwhile, we see limited room for developers to increase the selling price of property to pass on the higher cost, as we think that buying sentiment is likely to be subdued due to inflationary pressure and lower disposable income. Based on our sensitivity analysis, a 10% increase in construction cost will lead to ~300-400bps contraction in gross profit margin. In a nutshell, the hike in oil prices is expected to compress the margins of developers and put a dent in earnings.

Margin compression due to higher construction costs

With higher oil prices, which will lead to a higher inflationary outlook, the disposable income of home buyers is expected to be lower, which may lead to holding back in spending on big-ticket items. Hence, we think that the prolonged high oil price will impact the property sales outlook for companies. We foresee that new property sales will be potentially weaker by 10%-15%. In this context, we see that developers that have high earnings contribution from property development, such as **Mah Sing Group (BUY, TP: RM1.25)** and **Matrix Concepts (BUY, TP: RM1.55)** are more sensitive to the weaker buying sentiment. Meanwhile, developers such as **UOA Development (NEUTRAL, TP: RM1.85)** that have high recurring income contribution from investment properties have milder earnings impact as earnings recurring income cushions the drop from property development earnings.

Lower disposable income a drag on buying sentiment

Malaysia government reduced the BUDI95 monthly quota to 200l from 300l effective April 2026. The reduction in the monthly quota is expected to increase commuting costs for people staying on the outskirts of KL. We see that it will hurt buying interest in properties located on

Township developers are the potential losers from the

the outskirts of KL. For illustration purposes, a standard B-segment ICE car delivers around 14 km/litre. A 200-litre supply can provide a driving range of approximately 2,800km. For a person staying in Seremban, the monthly driving range to the KL city centre (based on 24 working days) is estimated at 3,600km, which is higher than the 2,800km driving range from the BUDI95 quota, making it necessary to pay for unsubsidized RON95 petrol. The amount to pay for unsubsidized RON95 petrol is even higher for a car with higher fuel consumption. Hence, we see that the rising oil price may put a dent in buyers' interest in townships located on the outskirts of KL, such as Seremban 2 and Bandar Sri Sendayan.

reduction in the BUDI95 monthly quota

HEALTHCARE

POSITIVE

Healthcare Service Providers (Hospitals)

Hospitals are expected to face rising utility costs (contributed by volatile fuel prices), on top of the elevated medical inflation. As of April 2026, it was reported that prices for imported medical devices and drugs had surged as high as 40%, giving little room for hospitals to navigate their cost control, should geopolitical tension continue at its current pace. A significant operational risk has also emerged from the dwindling helium supplies, which are essential to cool MRI scanners. This may cause diagnostic delays and rationing of services, which could impact its profit margins, more so when over 75% of medical tourists sought health screening and imaging in Malaysia. On the subject of medical tourists, the rise in Jet A1 fuel price to an average of USD209pb in April 2026 (approximately +67% from Jan-26 average) could increase the price of international airfare, consequently softening medical tourism arrivals. Nevertheless, we opine that niche treatments (oncology, cardiovascular, ortho-physio, rare diseases, fertility, high-risk surgeries) would remain in high demand despite setbacks on hiking airfare prices and medical inflation, while common treatments (general treatment and surgery, cosmetics) would see a mellowed demand.

Risk from rising costs may be mitigated by the continuously high demand for high-value treatments.

Pharmaceuticals

Domestic pharmaceutical manufacturers and distributors often keep 3 to 6 months' inventory buffers. However, we opine that a prolonged Scenario 2 could potentially exhaust these reserves. 30% of Malaysia's generic drugs originated from India. While not directly influenced by the blockades in the Strait of Hormuz, the rerouting and surging insurance premiums are hiking up the Active Pharmaceutical Ingredients (APIs). For high-value biologics, insulin and oncology drugs, the risk from cold chain logistics and air-cargo disrupted by the conflict zones may result in product spoilage, and further risk delays and shortages. We opine that the potential of up to 100% surge in logistics overheads could negatively impact earnings margins in the long run. Additionally, the packaging of drugs relies heavily on petrochemical derivatives, which are currently affected by the oil price shock.

Buffer stocks exist, but imported APIs and oil-based packaging could put pressure on drug prices.

Medical Equipment and Devices

We anticipate that high-end equipment (MRI, CT Scanners) will have a major impact on freight surcharges, consequently causing delayed orders. However, manufacturers and distributors are highly likely to pass these costs down to the hospitals, potentially delaying expansions which demand newbuilds. On that note, hospitals are also likely to shift from aggressively obtaining hardware to optimising software and maintenance during the commencement of Scenario 2.

Freight surcharges would lead to full optimisation instead of new orders.

Gloves and Consumables

This subsector would be the most severely impacted due to its heavy reliance on gas to operate its factories, and petrochemical feedstock as the raw material for its products. The price of butadiene (a core ingredient for nitrile latex) has reportedly climbed to nearly 70% since the conflict began. This would lead to higher ASPs of up to +50% to protect margins. Smaller players are expected to see severe disruption in the supply chain. Furthermore, the hiking energy cost is a major headwind, which would be the downfall against Chinese glovemakers who utilise coal-based energy instead of gas. While we believe glove manufacturers could shift to rubber latex to maintain competitiveness and pass on the cost through the hiked ASPs, the vacuum from the feedstock supply could still jeopardise margins should Scenario 2 prolong.

Aggressive ASP hike expected to combat supply chain disruptions.

In conclusion, for Scenario 2, the most negatively impacted on a prolonged basis would be Gloves and Consumables. This is followed by Hospitals, largely due to the ongoing medical inflation. Medical Devices and Pharmaceuticals could be impacted by the lower supply and higher prices of raw materials. However, these may be mitigated through passing on the cost to buyers (MOH, hospitals and clinics, other distributors) and the government's initiatives to reduce imports of generics and certain biopharmaceutical products. As such, we expect **KPJ Healthcare (NEUTRAL, TP: RM2.92 (under review))** and **Pharmaniaga Bhd (BUY, TP: RM0.37)** to be the most positive exposure to Scenario 2, with the former having the lowest geopolitical risk and the latter being protected by government concession and national security importance.

Lesser international exposure and better governmental support shield against the tension.

REITs — POSITIVE

The prolonged hike in oil prices will increase inflationary pressure on the economy. That will decrease the disposable income of people and reduce consumer spending at malls. While the rental income of REITS is generally fixed during the lease period, the lower consumer spending will lower the turnover rent contribution of REITS. REITS with higher turnover rent will see their earnings more sensitive to the reduced consumer spending at malls. Notably, IGB REIT (NEUTRAL, TP: 2.84) has the highest turnover rate of 15%, followed by Sunway REIT (NEUTRAL, TP: RM2.39) at ~10% and Pavilion REIT (BUY, TP: RM2.00) at ~8%. Overall, REITS are fairly shielded from the economic uncertainties with minimal downside from the turnover rent portion. Generally, the rental reversion outlook for REIT remains positive with the expectation of positive mid-single-digit rental reversion.

Lower consumer spending is negative to REITS with higher turnover rent

Visit Malaysia 2026 (VMY2026) is an important catalyst to the REIT sector in 2026, as tourist arrivals are anticipated to increase to 47m. Note that Malaysia recorded tourist arrivals of ~42m in 2025. The higher tourist arrivals are a tailwind to the hotel and retail sector in Malaysia. Nevertheless, the hike in jet fuel prices has led to an increase in long-haul flight ticket prices, which puts travel demand at risk. Besides, the rising global inflationary outlook makes travel a non-essential expense, hence reducing tourist arrivals. The less rosy outlook for tourist arrivals is expected to be negative to REITS with exposure to the hotel segment, namely KLCCP Stapled Group, Pavilion REIT and Sunway REIT, as lower tourist arrivals reduce average room rate and occupancy rates of hotels. Note that the hotel segment contributed 14.2% to the total net property income of **Sunway REIT (NEUTRAL, TP: RM2.39).** Meanwhile, the hotel division contributed 3% of the net property income of **Pavilion REIT (BUY, TP: RM2.00)** while the hotel

Rising oil prices a wild card for VMY2026

segment made up 2.7% to total operating profit of **KLCCP Stapled Group (NEUTRAL, TP: RM8.80).**

TECHNOLOGY — NEUTRAL

The Middle East conflict could potentially impede the production of semiconductors that are currently powering artificial intelligence advances. This is in the form of a material shortage of critical minerals and other elements. In this regard, we note that there are two key materials identified that could be at risk: helium and sulfuric acid. The disruption could potentially impact the development of the front-end semiconductor manufacturing process, which will eventually trickle down to the back-end process. Our channel check indicates that there is no negative observations so far. Nonetheless, the development is closely monitored.

Could potentially impede the production of semiconductors that are currently powering AI.

Helium is an irreplaceable, high-demand resource in semiconductor manufacturing, essential for cooling silicon wafers and creating inert atmospheres during chip fabrication. At this juncture, the United States and Qatar dominate global helium production, together accounting for over 75% of the total, with the U.S. (approx. 42-45%) and Qatar (approx. 30-33%) leading in output. Notably, the attack on the world's largest LNG export facility, i.e. Ras Laffan Industrial City, which produces helium as a byproduct, has halted operation.

Helium disruption.

Apart from Helium, the Middle East tension could potentially affect the supply of sulphur. The Gulf states account for approximately 44% of the global Sulphur production, in accordance with the United States Energy Information Administration. When converted to Sulphuric acid, there are five main uses which include chemical manufacturing, metal processing, batteries, cleaning products, agriculture, and fertilisers. For semiconductors specifically, it is a crucial chemical used to clean and etch silicon wafers that are found in semiconductors. Thus, it prevents foreign substances from degrading the quality, reliability, and yield of semiconductors.

Potentially also sulphur.

Given the conflict, the price of these niche elements has also increased sharply in recent times, in some cases by more than oil. Notably, we understand that the bulk of the helium supply is sold via long-term contracts. This indicates that price signals will emerge slowly, even as supply tightness. However, the extent of the impact will depend on the proportion of spot business needed. Meanwhile, the price of sulfur has been on an uptrend through 2024 and 2025. This was driven by heightened demand from the metals sector alongside increased demand for fertiliser production. In recent months, the price was further pushed following the outbreak of the war in the Middle East.

The price of these niche elements has also increased sharply.

As a precautionary move, corporates have accelerated their efforts to diversify and strengthen the supply chain as well as ramp up the stockpiling plans. Thus, creating a more resilient supply chain is critical to ensure the survival and development of the semiconductor industry.

Efforts to diversify and strengthen the supply chain.

TRANSPORTATION — NEUTRAL

Aviation

Incomplete cost pass-through despite resilient demand.

Under our S2 "tension" scenario, sustained elevated oil prices (USD100–120/bbl) translate into higher jet fuel costs, which are clearly negative to airline profitability. Based on AirAsia's short-haul operations, using data from CY16 onwards (excluding distortions from COVID lockdown periods), higher fuel prices are margin-dilutive, with unit margins (RASK-CASK) declining as fuel costs increase (R^2 = 0.48). While airlines demonstrate pricing power, as reflected in the strong positive relationship between fuel prices and unit revenue (RASK; R^2 = 0.70), the uplift in fares and surcharges is insufficient to fully offset cost increases. Importantly, load factors remain broadly stable despite higher fares, suggesting demand remains relatively resilient. Overall, this points to incomplete cost pass-through, leaving margins structurally sensitive to fuel volatility.

Capacity discipline and route-based pricing to mitigate fuel pressure.

In response, airlines are actively adjusting capacity to cushion the impact of elevated fuel costs. Industry-wide, the focus has been on reducing flight frequencies rather than eliminating routes, preserving network presence while managing costs. Domestically, Batik Air Malaysia has temporarily cut about -35% of scheduled flights, with fuel costs rising from about 30% to 35% to about 50% to 55% of operating expenses. For **AirAsia X Bhd (Non-rated),** which now houses the AirAsia aviation business, group capacity has been reduced by about -10%, alongside fare increases of about +30% to +40%. AirAsia has also implemented fuel surcharges on a route-based basis, with an overall increase of about +20%, reflecting varying cost dynamics across markets. It was previously guided that a USD1 per barrel change in jet fuel price has an RM81m impact on AirAsia X's net operating profit. For **Capital A Bhd (Maintain BUY, TP: RM0.77),** the only aviation services entity directly exposed to higher fuel costs is Teleport. However, this is mitigated bypass-through mechanisms and its close integration with AirAsia, enabling real-time pricing adjustments and agile rerouting.

Port

Diesel price volatility.

Rising unsubsidised diesel prices are currently the most immediate drag on **Westports Holdings Bhd's (Maintain NEUTRAL, TP: RM4.90)** profitability. The group procures unsubsidised diesel pegged to MOPS, with annual consumption typically around 50-52m litres. In CY25, fuel expenses accounted for 16.6% of operating costs, compared to 23.2% in CY22 when oil prices spiked in 1HCY22, driving total fuel costs up sharply by about +68.9%yoy to RM201.0m. We estimate that every USD10 per barrel movement in diesel prices would translate into a roughly 1.5% to 2.5% impact on net profit over our forecast horizon.

UTILITIES AND RENEWABLE ENERGY — POSITIVE

We expect the impact of global energy prices to be neutral.

The ongoing tension in the Middle East has triggered a spike in global energy prices, with Brent crude oil hovering close to the USD100 per barrel mark. Year-to-date, coal and gas prices have surged +26.0% and +54.3%, but we expect this to be neutral to Tenaga Nasional thanks to the Automated Fuel Adjustment (AFA) mechanism, which replaced the Imbalance Cost Pass-Through (ICPT) mechanism since Jul-25. The AFA allows automatic monthly tariff adjustments

based on the current fuel prices and foreign exchange rates, allowing for more responsive and up-to-date tariff settings, as compared to a six-month lag in the past.

In Singapore, we view that YTL Power International – through Power Seraya - will be able to benefit from higher electricity tariffs, and potentially sharper increases expected in the latter part of 2026, according to the Energy Market Authority (EMA). The fuel cost risk at Power Seraya in Singapore will largely be neutral moving forward as future gas procurements are effectively centralised via GasCo, a state-owned entity to centralise procurement and supply of gas to the power sector. YTL Power will still be able to benefit from gas contracts signed earlier at lower prices.

A higher and more volatile fossil-fuel backdrop should strengthen the economic case for green electricity, especially for commercial and industrial users looking to reduce exposure to grid tariff volatility.

Should strengthen the economic case for green electricity.

Our top picks are **Tenaga Nasional (BUY, TP: RM16.40)**, **YTL Power International (BUY, TP: RM5.63)**, **Pekat (BUY, TP: RM2.00)** and **Samaiden (BUY, TP: RM1.73)**.

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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