STRATEGY

Markets Pricing Friction Again

FBM KLCI Target: 1,770
FBM Emas Shariah: 12,900
FBM 70 Target: 18,600

DEVELOPMENT

- Market attention has returned to pricing friction: geopolitical friction in the Middle East and trade friction from the US tariff reset.
- The US-Iran conflict has escalated beyond minor skirmishes, with repeated US strikes on Iran and Iranian warnings against countries assisting US attacks, alongside claims of retaliatory drone strikes on US-linked regional bases.
- The Strait of Hormuz remains technically open, but traffic has slowed sharply, while Red Sea risks have risen again following Houthi-linked tanker attacks. Oil prices have reacted accordingly, moving back above USD100/bbl.
- The issue for markets is not only whether a chokepoint is fully closed, but whether slower shipping, higher insurance and rerouting costs create a renewed inflation impulse.
- Separately, the US has announced a new wave of tariffs on dozens of economies, using Section 301 as the legal basis to replace the temporary 10% tariff that was expiring.
- Tariffs are increasingly becoming an embedded feature of US trade policy, not merely a temporary negotiating tactic. This raises scrutiny on rules of origin, transshipment, forced-labour standards and supply-chain transparency.
- For Malaysia, the immediate transmission channels are inflation expectations, corporate input costs, Ringgit volatility, foreign flows, and the Fed's willingness to stay restrictive for longer.

OUR VIEW

- **Markets are pricing bottlenecks, not only explosions.** The important point about the US-Iran conflict is that markets do not wait for a full closure of the Strait of Hormuz or Bab el-Mandeb before repricing risk. Slower traffic alone is enough to lift anxiety because crude oil, LNG, freight, insurance and delivery times are forward-looking variables.
- **Oil above USD100/bbl changes the market conversation.** A sustained move above USD100/bbl raises inflation concern, complicates the Fed's rate path and pressures oil-importing economies, corporate margins and consumer sentiment. The risk is not simply higher energy prices, but a broader cost impulse moving through supply chains.
- **Shipping is the second inflation channel.** When shipping routes become riskier, insurance costs rise. When vessels reroute, delivery times lengthen. When delivery times lengthen, inventory buffers rise. Together, this makes supply chains more expensive and gives central banks less room to look through the shock.
- **Tariffs are no longer just a shock; they are becoming a cost structure.** The latest US tariff reset was not a complete surprise because markets have already lived through several rounds of tariff escalation, supply-chain rewiring and industrial-policy protectionism. What is different now is that tariff risk appears more embedded in US trade policy.
- **Asia faces risk and opportunity from the tariff reset.** Higher US tariffs can hurt exporters if demand weakens or costs pass-through becomes difficult. At the same time, supply-chain diversion can benefit alternative manufacturing bases. Malaysia has already benefited in E&E, semiconductor assembly, data infrastructure and selected manufacturing investment.
- **But Malaysia cannot be complacent.** A more aggressive tariff environment will bring closer scrutiny on rules of origin, transshipment, forced labour and supply-chain transparency. The winners are likely to be companies with credible supply chains, strong governance, transparent sourcing and genuine value-added activities.

- **The Fed is the bridge between war and tariffs.** Both stories are inflationary in different ways. The Iran conflict can lift oil, freight and insurance costs, while tariffs can lift import costs and disrupt supply chains. If both happen together, the Fed has less room to sound dovish. Nevertheless, the Fed may not want to tighten aggressively if growth slows, but if inflation expectations rise because of oil, shipping and tariffs, it may have to stay restrictive for longer. This higher-for-longer risk remains the key constraint on equity re-rating.
- **For Malaysia, the Ringgit remains the first transmission channel.** Geopolitical risk, tariff uncertainty and US rate expectations can keep pressure on emerging-market currencies, including the Ringgit. A weaker Ringgit benefits some exporters, but pressures importers, retailers, manufacturers with foreign input costs and companies with foreign-currency liabilities.
- **Foreign flows may remain cautious.** Even if Malaysian equity valuations look reasonable, foreign investors may delay returning if they are worried about currency losses. This means the market needs not only earnings resilience, but also confidence that the Ringgit can stabilise.
- **Do not panic, but separate trading from positioning.** We do not think this is a market that requires panic. If the US-Iran conflict eventually de-escalates, current volatility may create an opportunity to position for recovery rather than retreat completely. The key is to distinguish short-term commodity trades from medium-term portfolio accumulation.
- **Our base case remains a short conflict window.** We believe the risk of escalation is real, but the ability to sustain escalation may be limited. The US may have strong escalation capability, but not unlimited holding power, especially if high-intensity operations continue to consume precision-guided weapons and defensive interceptors. We therefore see a possible 3–4-week conflict window before containment, negotiation or lower-intensity posture becomes more likely.
- **Use weakness to accumulate quality 2HCY26 names.** For medium-term positioning, we would use weakness to accumulate quality names where earnings visibility, valuation upside, domestic relevance or structural catalysts remain intact. Our latest top ten picks are Petronas Chemicals, Hong Leong Bank, YTL Power, CelcomDigi, Inari Amertron, Gamuda, Mr D.I.Y., CIMB, 99 Speed Mart and Tenaga Nasional.
- **Keep a defensive spine, add recovery exposure selectively.** The common thread remains banks as market anchors, utilities as defensive growth, telcos as dividend-supported defensives, construction as execution and orderbook visibility, consumer/value retail as resilient domestic demand, selected technology as recovery exposure and petrochemicals as a cyclical recovery candidate.
- **Commodities will move first in the short term.** Oil and gas names with exposure to higher activity levels, upstream spending, maintenance work, marine services and selected midstream assets may attract trading interest. Relevant names include Deleum, Dialog Group, MISC, Petronas Gas, Petronas Chemicals, Bumi Armada and MMHE, while higher-beta names such as Velesto, Dayang, Hibiscus Petroleum, Uzma and Wasco may see interest.
- **Treat oil and gas as a trading window, not a blanket structural call.** If the conflict is short-lived, oil-linked names may rally first, but they may also give back gains once de-escalation becomes visible. We therefore prefer selective exposure rather than broad-based energy beta.
- **Plantation is another tactical beneficiary.** Any geopolitical shock that pushes energy prices higher can improve sentiment towards vegetable oils through biodiesel economics, while supply-side concerns and weather risks can support CPO prices. Key plantation beneficiaries include SD Guthrie, Johor Plantation, KLK, IOI Corp and TSH Resources.
- **We retain our revised index targets.** Reflecting our latest 2HCY26 strategy view, we maintain our targets of FBM KLCI at 1,770, FBM Emas Shariah at 12,900 and FBM 70 at 18,600.

- Below are our picks for short term trading opportunities (commodities-linked):

Name	Rec.	TP / FV (RM)	Investment highlights
Deleum	BUY	1.65	Production enhancement and maintenance exposure; should benefit from higher upstream activity and brownfield spending.
Dialog Group	BUY	2.55	Midstream and infrastructure-style exposure; tank terminals, maintenance and specialist services offer more defensive oil-price participation.
MISC	BUY	9.22	LNG and petroleum shipping exposure; higher shipping risk premium and tight vessel availability support defensive energy-logistics angle.
Petronas Gas	BUY	19.25	Regulated gas infrastructure, utilities and regasification exposure; fits the defensive energy-infrastructure bucket.
Petronas Chemicals	BUY	6.60	Cyclical recovery candidate; higher oil and product prices may help sentiment, but earnings still depend on spreads and operating recovery.
Bumi Armada	BUY	0.48	FPSO and offshore production exposure; leverage to upstream project activity but higher-beta and more trading-oriented.
MMHE	BUY	0.57	Heavy engineering and marine repair exposure; orderbook and vessel repair activity provide operational support.
Velesto	Non-rated	NA	Jack-up drilling exposure; benefits if elevated oil prices sustain drilling demand and rig utilisation.
Dayang Enterprise	Non-rated	NA	Topside maintenance and marine vessel utilisation exposure; benefits from stronger maintenance, construction and modification activity.
Hibiscus Petroleum	Non-rated	FV: 2.82	Upstream producer with direct oil-price sensitivity; higher crude prices provide earnings torque.
Uzma	Non-rated	NA	Upstream services and production solutions; contract wins and Petronas-linked activity support recovery potential.
Wasco	Non-rated	NA	Pipe coating, fabrication and energy infrastructure exposure; benefits from project execution and international energy capex.
SD Guthrie	BUY	7.00	Large-cap plantation proxy with stronger CPO and palm kernel price leverage; also benefits from land monetisation and production recovery momentum.
Johor Plantations	Non-rated	FV: 1.51	Pure plantation exposure with RSPO/premium selling-price angle; tactical beneficiary of stronger CPO and weather-driven supply concern.
KLK	NEUTRAL	20.15	Integrated planter with upstream and downstream exposure; stronger CPO prices support earnings, while integrated operations provide scale.
IOI Corp	NEUTRAL	4.42	Large-cap liquid plantation exposure; benefits from upstream CPO but also carries downstream margin sensitivity.
TSH Resources	NEUTRAL	1.28	Mid-cap plantation exposure; earnings supported by palm-product prices, FFB trends and operating-cost discipline.
Ta Ann	BUY	6.08	More resilient FFB production profile, which was less impacted by recent dry weather conditions, alongside relatively steadier realised CPO prices.
Genting Plantations	BUY	5.80	CPO price beneficiary but upside more valuation- and execution-constrained; downstream, milling and cost factors remain important.

Source: MBSB Research

- Below are our top picks:

	Rec.	Price (RM) @ 24/7/26	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
Hong Leong Bank	BUY	21.98	30.50	38.8%	4.7%	43.4%	4	Y
Mr D.I.Y.	BUY	1.58	2.13	34.8%	3.4%	38.2%	3	Y
YTL Power	BUY	4.15	5.65	36.1%	1.9%	38.1%	3	Y
Petronas Chemicals	BUY	4.92	6.60	34.1%	2.8%	36.9%	4	Y
Inari Amertron	BUY	2.20	2.95	34.1%	2.2%	36.3%	4	Y
Gamuda	BUY	4.30	5.60	30.2%	2.3%	32.6%	4	Y
CelcomDigi	BUY	2.85	3.54	24.2%	5.0%	29.2%	4	Y
CIMB Group	BUY	7.68	9.29	21.0%	6.1%	27.0%	4	Y
99 Speed Mart	BUY	3.69	4.37	18.4%	1.1%	19.6%	2	N
Tenaga Nasional	BUY	14.36	16.40	14.2%	3.9%	18.1%	4	Y

Source: Bloomberg, MBSBR

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STOCK RECOMMENDATIONS

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

SECTOR RECOMMENDATIONS

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

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

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

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