Authors

MBSB Research team
research@mbsb.com

4QCY26 OUTLOOK (and PRELIMINARY CY27 OUTLOOK)

Domestic Anchors, Global Fault Lines

EXECUTIVE SUMMARY

- FBM KLCI declined -1.7% in 9MCY26 and -0.8%qoq in 3QCY26 as its July-August recovery was reversed by renewed Middle East tensions, Brent crude above USD100pb, higher US Treasury yields, Fed tightening and foreign fund outflows
- 4QCY26 risks include further Fed rate hikes, elevated global bond yields, prolonged US-Iran tensions, disruption to the Strait of Hormuz and sustained energy and freight costs; tailwinds include resilient corporate earnings, domestic liquidity, potential geopolitical de-escalation and Budget 2027
- Global growth to moderate but remain resilient: IMF projects +3.0% in 2026 before recovering to +3.4% in 2027
- We forecast Malaysia's GDP growth at +5.1% in 2026, supported by robust external trade, domestic demand and investment activity; our preliminary forecast for CY27 is +4.6%
- Inflation remains manageable despite higher energy costs: CPI is projected at +2.0% in 2026 and +2.2% in 2027
- We expect the OPR to remain unchanged at 2.75% throughout 4QCY26 and CY27
- We expect the ringgit to remain broadly stable with a strengthening bias, averaging RM4.01 against the US dollar in both 2026 and 2027 and moving towards RM4.03 by end-2026 and RM3.96 by end-2027

INDEX TARGETS:

- 4QCY26 upside supported by resilient domestic growth, Budget 2027, healthy corporate earnings, domestic liquidity and potential pre-positioning ahead of the FBM KLCI expansion
- **Maintain end-CY26 FBM KLCI target at 1,770** points or PER26 15.5x
- Maintain end-CY26 FBM Emas Shariah target at 12,900 points or PER26 18.7x
- Maintain end-CY26 FBM70 target at 18,600 points or PER26 17.5x
- **Preliminary CY27 FBM KLCI target at 1,850 points** or PER27 15.4x
- Preliminary CY27 FBM Emas Shariah target at 13,600 points or PER27 18.0x
- Preliminary CY27 FBM70 target at 20,000 points or PER27 16.5x
- Domestic investment, broad-based earnings growth and improving institutional liquidity underpin our equity market outlook, although elevated global yields, geopolitical uncertainty and foreign fund outflows remain key downside risks
- Our overall top picks as below:

	Rec.	Price (RM) @ 30/9/26	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
CelcomDigi	BUY	2.57	3.54	37.7%	5.5%	43.3%	4	Y
99 Speed Mart	BUY	3.15	4.37	38.7%	1.3%	40.1%	2	N
KPJ Healthcare	BUY	2.69	3.70	37.5%	1.9%	39.4%	4	Y
Dialog Group	BUY	1.94	2.57	32.5%	2.2%	34.7%	4	Y
Sarawak Plantation	BUY	4.24	5.36	26.4%	5.9%	32.3%	3	N
Nestlé	BUY	90.00	116.10	29.0%	3.1%	32.1%	4	Y
Tenaga Nasional	BUY	12.96	16.31	25.8%	4.3%	30.1%	4	Y
SD Guthrie	BUY	6.20	7.65	23.4%	3.1%	26.5%	4	Y
MISC	BUY	7.64	9.22	20.7%	4.3%	25.0%	4	Y
Gamuda	BUY	5.18	5.60	8.1%	1.9%	10.0%	4	Y

Source: Bloomberg, MBSBR

A. MARKET PERFORMANCE

I. MARKET REVIEW

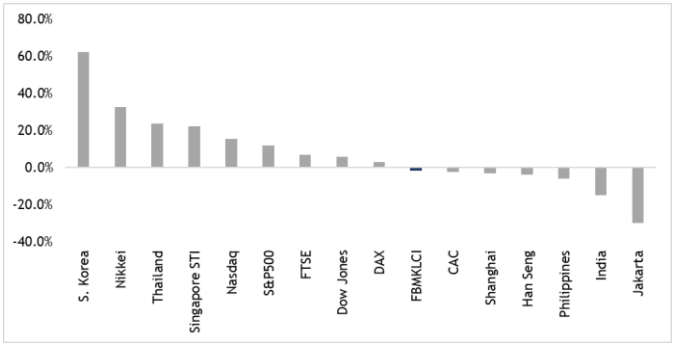
Volatile quarter

Global equity markets were volatile in 3QCY26, influenced by sharp swings in technology stocks, the prolonged US-Iran conflict, disruption to the Strait of Hormuz, higher oil prices and changing expectations for US monetary policy. Sentiment improved initially as energy prices moderated and investors anticipated only limited monetary tightening. However, the recovery reversed in September as Brent crude returned above USD100 per barrel, inflation concerns intensified and the Federal Reserve raised interest rates while signalling that further tightening remained possible. Rising US Treasury yields and renewed US dollar strength subsequently triggered a broader reduction in risk appetite, particularly across emerging markets.

FBMKLCI recovered in July and August but gave that back

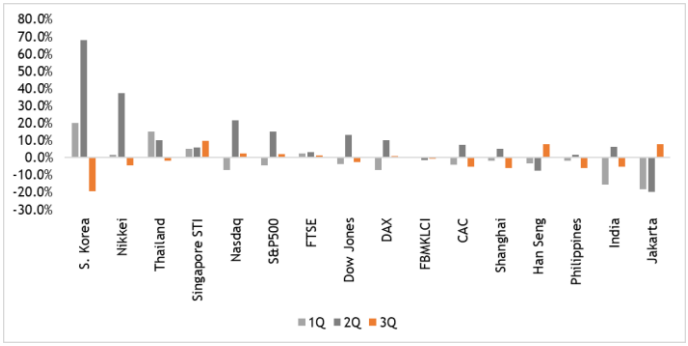
Against this backdrop, the FBM KLCI recovered strongly in July and August before surrendering its gains in September. Based on the latest level of 1,651.17 on 30 September, the index declined -0.8%qoq. This modest headline declines concealed considerable intra-quarter volatility, with the benchmark rising as high as 1,753.22 on 26 August, or 5.4% above its end-June level.

Chart 1: Comparison of Performance of FBM KLCI and Regional Peers (YTD as at 30 September 2026)



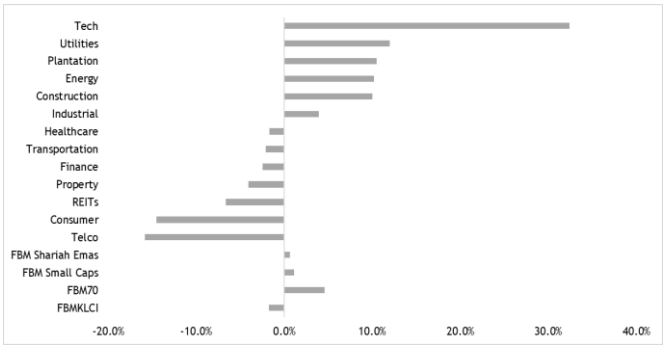
Source: Bloomberg, MBSBR

Chart 2: Comparison of Quarterly Performance of FBM KLCI and Regional Peers (as at 30 September 2026)



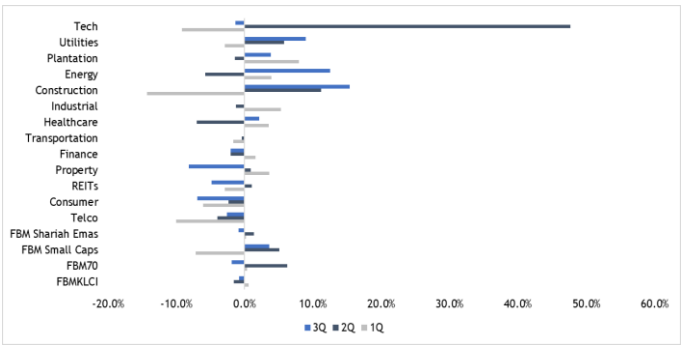
Source: Bloomberg, MBSBR

Chart 3: Comparison of Performance of Bursa Malaysia Sectoral Indices (YTD as at 30 September 2026)



Source: Bloomberg, MBSBR

Chart 4: Comparison of Quarterly Performance of Bursa Malaysia Sectoral Indices (YTD as at 30 September 2026)



Source: Bloomberg, MBSBR

Momentum into August

The recovery began in July as lower crude oil prices, easing concerns over US monetary tightening and resilient domestic fundamentals encouraged bargain hunting. The FBM KLCI gained +3.7mom, outperforming the MSCI Emerging Markets and MSCI Asia ex-Japan indices. Momentum extended into August, supported by Malaysia's stronger-than-expected 6.0% GDP growth in 2QCY26, improving earnings visibility and undemanding valuations.

Sentiment reversed in September

Market sentiment reversed in September as renewed Middle East tensions drove higher oil prices and raised concerns over the delayed effects of rising energy, freight and production costs. The Fed subsequently raised its policy rate by 25 basis points to 3.75%–4.00% and signalled that further tightening remained possible. This challenged expectations that the move would be a one-off adjustment, pushing US Treasury yields higher and triggering a broader equity de-rating.

Continued foreign funds net selling

Foreign investors briefly returned as net buyers in July, recording net inflows of approximately RM0.3bn, although this largely reflected reduced selling rather than stronger risk appetite. Foreign selling resumed as global financial conditions tightened, with net outflows reaching approximately RM908mn in September and RM5.36bn year-to-date as of 24 September. Local institutional buying cushioned the pressure but could not prevent the FBM KLCI from falling to a nine-month low of 1,643.96 on 29 September.

Sectoral performance also changed

Sector performance was mixed, reflecting the rotation towards beneficiaries of higher energy prices and domestic investment. Construction, energy and utilities led with gains of approximately +14.6%, +13.2% and +11.6%, respectively, while plantation rose around +4.1%. In contrast, technology declined approximately -1.7% following substantial earlier gains, while financial services fell around -1.8% as higher global yields and foreign selling weighed on banking heavyweights.

External factors will continue to be at play in 4QCY26, potentially moderated by Budget 2027

Looking ahead to 4QCY26, market direction will depend on whether the Strait of Hormuz begins to reopen, oil and freight costs moderate, and the Fed's September hike proves to be an adjustment rather than the start of a prolonged tightening cycle. Malaysia's resilient economic growth, corporate earnings and domestic liquidity should provide downside support, while Budget 2027 may restore attention to domestic catalysts. Nevertheless, sustained oil prices above USD100 per barrel, a longer series of Fed hike and persistently elevated bond yields would continue to constrain valuations and foreign fund flows.

II. MACRO ECONOMIC OUTLOOK

Global: Growth to moderate as policy response turns more cautious

Global growth to moderate but remains resilient amid lingering risks

The global economy is expected to remain resilient but expand at a more moderate pace. The IMF projects global GDP growth at +3.0% in 2026, slowing from +3.5% in 2025, before recovering to +3.4% in 2027. The moderation reflects the drag from the Middle East conflict, higher energy costs and softer trade momentum, partly offset by continued strength in technology-related investment and economies integrated into the global AI and semiconductor cycle. World trade growth is also expected to slow to +3.5% in 2026 from +5.0% in 2025.

Global policy settings turn more cautious amid renewed inflation pressures

Renewed inflationary pressures are likely to keep monetary policy relatively restrictive across many economies. The IMF expects global headline inflation to rise to +4.7% in 2026 from +4.1% in 2025, largely due to higher energy and food prices, before easing to +3.9% in 2027. Against this backdrop, central banks are likely to place greater emphasis on preserving price stability, with the policy response varying according to domestic inflation, growth and financial conditions. Recent actions already point in this direction: the ECB raised rates by +25bps in September, while the Bank of England kept Bank Rate at 3.75% amid concerns that higher energy prices could prolong inflation. China remains the notable exception, where policy remains accommodative given softer domestic demand and subdued inflation.

Table 1: GDP Growth Forecast for Selected Economies

	2023	2024	2025	2026f
World Economy	**3.5**	**3.5**	**3.5**	**3.0**
Advanced Economies	**1.8**	**1.9**	**1.9**	**1.7**
USA	2.9	2.8	2.1	2.3
Euro area	0.5	1.0	1.4	0.9
UK	0.4	1.0	1.4	1.0
Japan	1.4	(0.2)	1.1	0.6
Developing Economies	**4.7**	**4.5**	**4.5**	**3.8**
China	5.4	5.0	5.0	4.6
India	6.5	7.1	7.7	6.4
Indonesia	5.0	5.0	5.1	5.0
Philippines	5.5	5.7	4.4	3.9
Malaysia*	3.5	5.2	5.2	4.7
Thailand	2.0	2.9	2.4	1.9
ASEAN-5	4.1	4.8	4.5	4.1

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

China remains the major exception to the global tightening trend

Policy support is more targeted rather than broadly expansionary. Governments are likely to continue using fiscal measures to cushion the impact of elevated energy and living costs, but the IMF has stressed that such support should remain temporary and targeted given limited fiscal space and high public debt. At the same time, countries exposed to weaker domestic demand may rely more on sector-specific credit support, infrastructure spending and measures to stimulate household consumption, while economies facing stronger inflation pressures are likely to retain tighter monetary settings.

Geopolitical and policy uncertainty clouds the global outlook

The outlook for global growth continued to be influenced by several risks. A prolonged escalation in geopolitical tensions could keep global energy and transportation costs elevated, aggravate inflation and prompt further monetary tightening. Higher interest rates and bond yields could increasingly restrain private consumption and investment, while trade protectionism and geopolitical fragmentation remain additional risks to global manufacturing and trade. The US midterm election also adds policy uncertainty heading into 2027, particularly over the direction of fiscal, trade and foreign policies, with potential implications for Treasury yields, global financial conditions and geopolitical risks. On the upside, continued investment in artificial intelligence, semiconductors and digital

infrastructure, together with resilient global trade, could provide a stronger cushion to growth than currently anticipated.

US: Resilient growth despite elevated inflation and tighter financial conditions

Growth to remain around trend despite inflation concerns

US growth remains resilient and is expected to stay around its normal trend despite concerns over elevated inflation. The economy is projected to expand by +2.3% in 2026, supported by continued technology-related business investment and productivity gains. Nevertheless, recent data points to some moderation, with softer consumer confidence and elevated borrowing costs suggesting more cautious household spending. We therefore expect growth to remain positive but moderate as restrictive financial conditions gradually weigh on consumption and other interest-sensitive sectors.

Elevated inflation keeps the Fed hawkish

Inflation remains the key concern on the Fed's policy direction. Headline CPI inflation remained elevated at +3.4%yoy in Aug-26, unchanged from Jul-26, while monthly inflation accelerated to +0.4%mom from +0.1%mom, mainly reflecting higher gasoline and energy prices. Following its Sep-26 rate hike, the Fed maintained a relatively hawkish assessment, while its latest projections continue to show inflation staying above the +2.0% target. With the FOMC upgrading its projection for 2026 core PCE inflation to +3.4% (from +3.3% previously), further tightening remains possible if inflation stays persistently elevated.

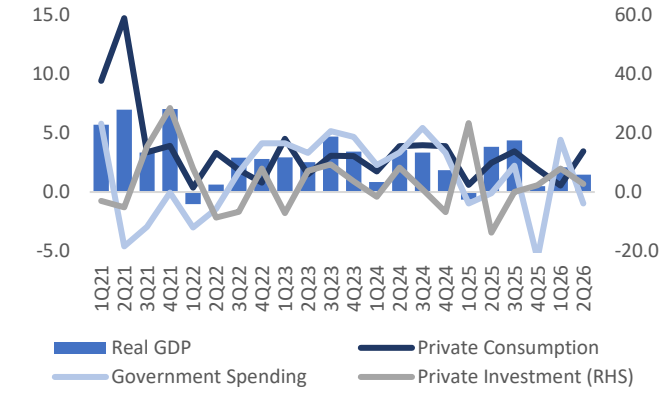
Further rate hikes remain on the table

We maintain our view that the Fed will retain a tightening bias. We forecast another +25bps hike by end-2026, followed by the possibility of an additional +25bps increase in early part of 2027 if inflation remains elevated. While the still-resilient economy provides room for further tightening, higher borrowing costs could increasingly weigh on household spending, housing and business investment.

Fiscal concerns add upward pressure on Treasury yields

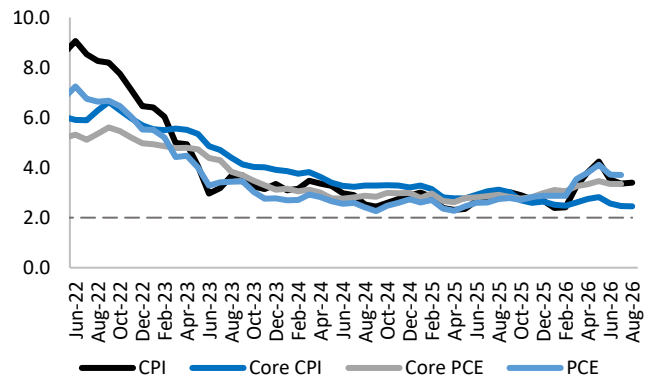
The US fiscal outlook remains another source of concern, contributing to elevated Treasury yields. Higher yields reflect a combination of tighter monetary policy expectations, persistent inflation risks, heavy government borrowing and greater scrutiny over debt sustainability. At the same time, changing perceptions of US growth and inflation continue to trigger bouts of bond-market repricing, keeping financial conditions relatively tight.

Chart 5: US: Quarterly Real GDP Growth (YoY%)



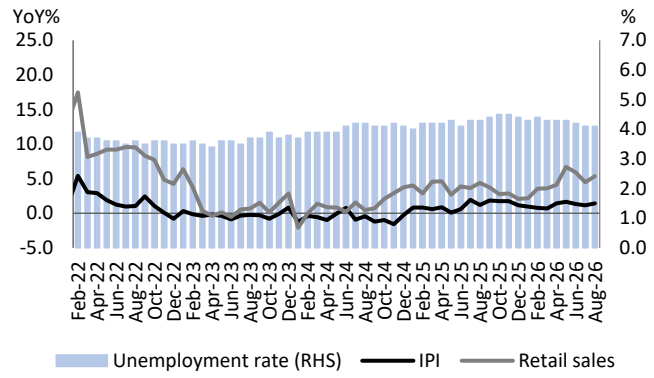
Source: Macrobond, MBSBR

Chart 6: US: CPI and Core PCE Inflation (YoY%)



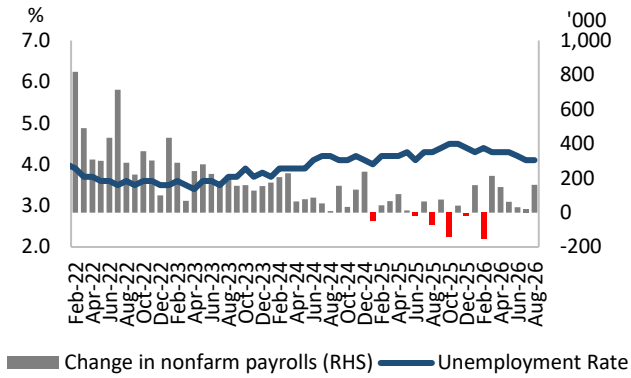
Source: Macrobond, MBSBR

Chart 7: US: Selected Economic Indicators



Source: Macrobond, MBSBR

Chart 8: US: Unemployment Rate (%) vs. Nonfarm Payrolls (in thousands)



Source: Macrobond, MBSBR

China: Continued policy support to strengthen domestic demand

Growth moderating towards lower end of official target

China's economy continues to expand, although growth remains uneven between the external and domestic sectors. The IMF predicts China's economy to grow by +4.6% in 2026, moderating from +5.0% in 2025. This would place growth toward the lower end of the government's official +4.5% to +5.0% target range for 2026. More importantly, the slowdown in recent quarters —with GDP growth easing to +4.3%yoy in 2QCY26— reinforced concerns that growth could fall short of the official target range if domestic demand remains weak. Manufacturing and exports continue to provide important support, particularly from technology-related demand, but consumption, property investment and private-sector confidence remain relatively subdued.

Domestic demand remains the key weak spot

China's economy continues to expand, although growth remains uneven between the external and domestic sectors. Manufacturing and exports remain important sources of support, particularly from technology-related demand. The official manufacturing PMI returned marginally to expansion at 50.1 in Sep-26 (Aug-26: 49.8), while the private-sector measure strengthened to 52.1 (Aug-26: 51.5). Nevertheless, domestic activity remains softer, with consumption, property investment and private-sector confidence continuing to lag the strength in industrial production and exports. Although retail sales recovered to +1%yoy in Jun-26 (May-26: -0.6%yoy), but the growth moderated again to +0.6%yoy in Jul-26 and slowed further to +0.4%yoy in Aug-26.

Targeted policy measures to support consumption and property market

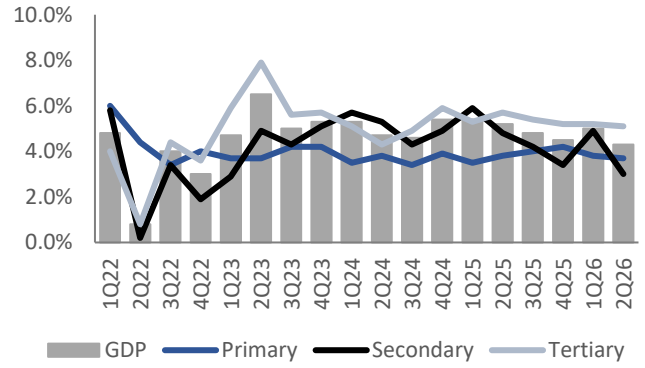
The moderation in domestic demand has prompted Beijing to intensify targeted policy support. The latest package combines monetary; credit and fiscal measures aimed at supporting investment and household spending. The PBOC lowered the pledged supplementary lending rate by -25bps to 1.50%, while expanding targeted financing for infrastructure, technology, agriculture, small businesses and private firms. Mortgage-interest subsidies and faster government bond issuance are also aimed at supporting the property market, household spending and infrastructure investment.

China remains an exception to the global tightening trend

We expect China's policy stance to remain accommodative into 2027, particularly given subdued domestic inflation, weak credit demand and persistent pressures in the property sector. Further targeted monetary and fiscal easing remains possible if consumption and private investment fail to strengthen. While resilient technology exports should continue to provide support, China's growth outlook will

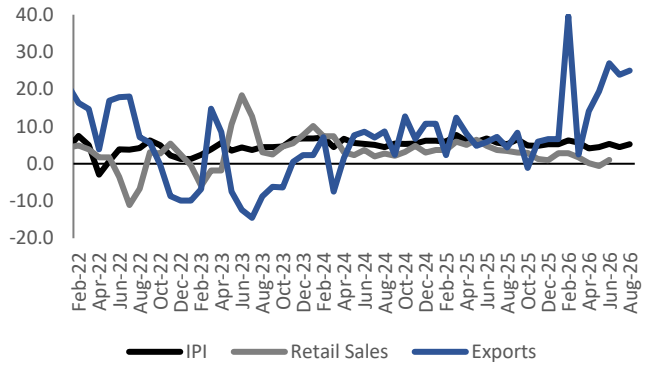
increasingly depend on whether recent policy measures can generate a more durable recovery in domestic demand.

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



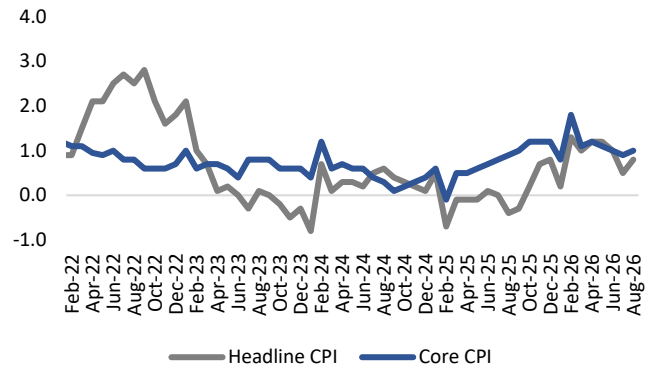
Source: IMF, MBSBR

Chart 10: China: Selected Economic Indicators (YoY%)



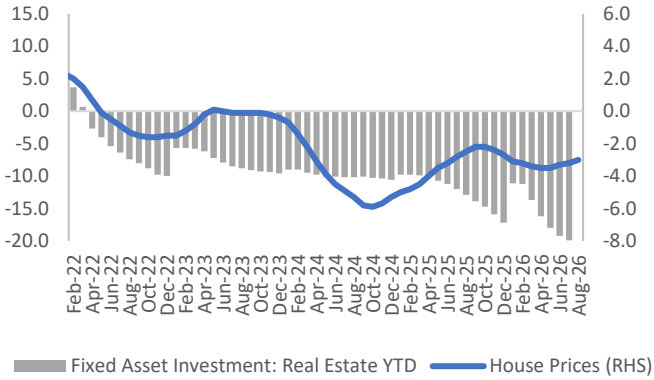
Source: Macrobond, MBSBR

Chart 11: China: CPI Inflation (YoY%)



Source: Macrobond, MBSBR

Chart 12: China: House Price vs. Fixed Asset Investment in Real Estate (YoY%)



Source: Macrobond, MBSBR

Malaysia: Upside to economic growth from robust external trade amid external headwinds

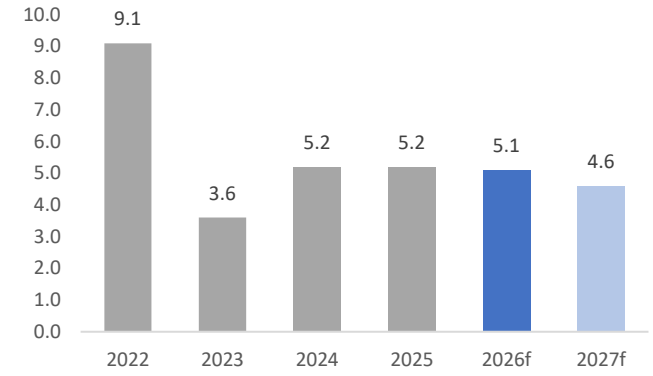
Growth to remain resilient backed by robust exports and growing domestic demand

Malaysia's economic growth is expected to remain resilient, with GDP projected to expand by +5.1% in 2026, sustaining growth above +5.0% for the third consecutive year. While we expect the pace of growth to moderate in 2HCY26 from the relatively strong expansion recorded in 1HCY26, this largely reflects a fading base effect rather than a material weakening in underlying economic conditions. Domestic demand should remain supportive, underpinned by a healthy labour market, positive wage growth and well-contained inflation, while tourism-related activities should benefit from Visit Malaysia 2026 and the F1 event at the start of 4QCY26. At the same time, robust external demand, particularly for E&E products, should continue to make an important contribution to overall growth.

Investment activities remain encouraging

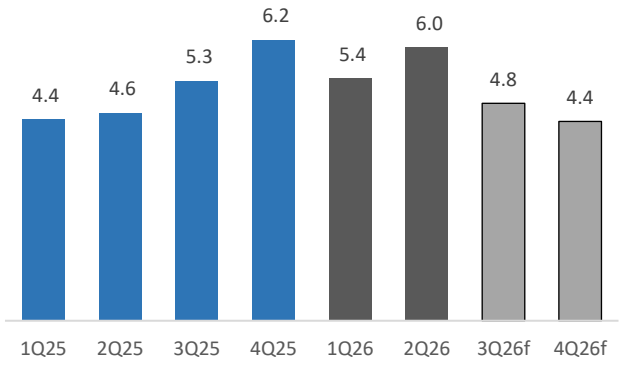
Progress in major infrastructure projects and sustained investment in technology-related manufacturing and data centres should continue to support construction and investment activity. Meanwhile, ongoing investments associated with the energy transition and renewable energy development should provide an additional source of growth, reinforcing Malaysia's medium-term investment outlook.

Chart 13: Annual GDP (YoY%)



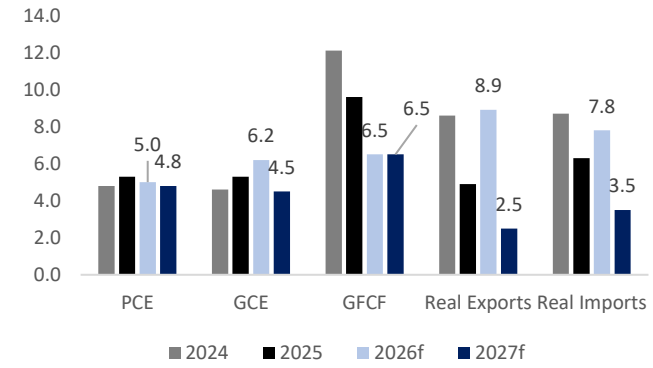
Source: Macrobond, MBSBR

Chart 14: GDP Growth Quarterly Forecast (YoY%)



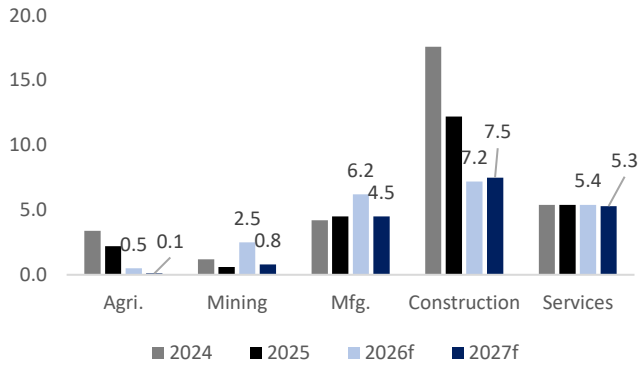
Source: Macrobond, MBSBR

Chart 15: GDP Growth by Expenditure (YoY%)



Source: Macrobond, MBSBR

Chart 16: GDP Growth by Supply (YoY%)



Source: Macrobond, MBSBR

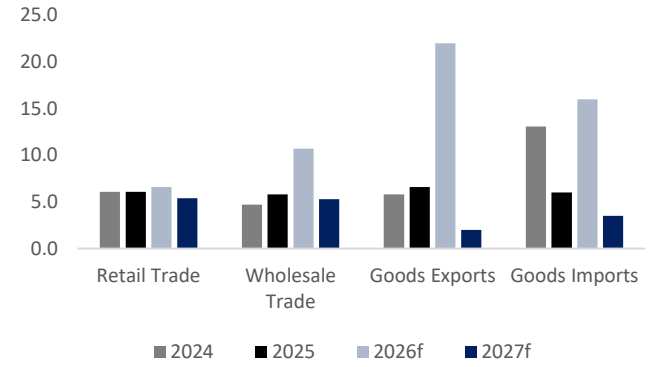
Potential upside from strong external trade

Nevertheless, external trade could surprise on the upside. Resilient demand for E&E products, supported by the global technology and semiconductor cycle, could result in net exports making a larger positive contribution to growth this year. Malaysia continues to benefit from strong global demand for technology and manufactured goods, with exports and imports expanding by +31.2%yoy and +22.4%yoy, respectively, in the first eight months of 2026. The stronger-than-expected performance suggests full-year trade growth could exceed our projection, potentially contributing a larger boost to GDP growth this year. Strong order books and continued demand related to AI, data centres and advanced electronics could sustain Malaysia's E&E exports into 2027, providing an important buffer against the risk of weaker domestic and global demand.

Healthy job market, supportive of domestic spending

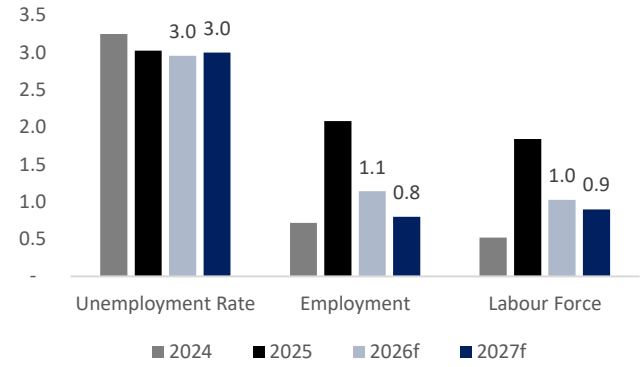
Malaysia's labour market remains healthy despite concerns over higher job losses this year. Overall employment conditions have stayed resilient, keeping the unemployment rate broadly stable at around 3.0%. Labour force participation also remained at historical high of 70.9%. Overall, the healthy job market should continue to support household income and consumer confidence, thereby sustaining a favourable outlook for domestic spending.

Chart 17: Domestic and External Trade Forecasts (YoY%)



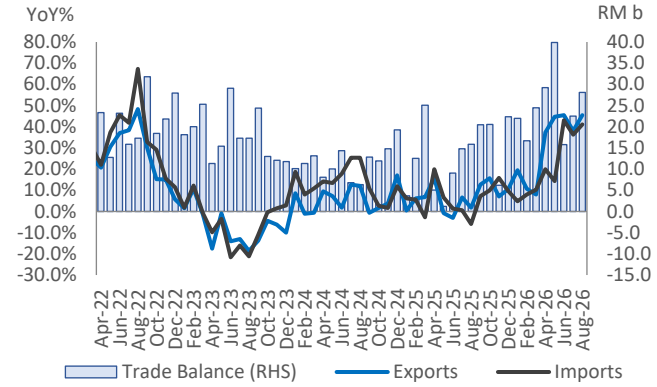
Source: Macrobond, MBSBR

Chart 18: Labour Market Forecasts (%)



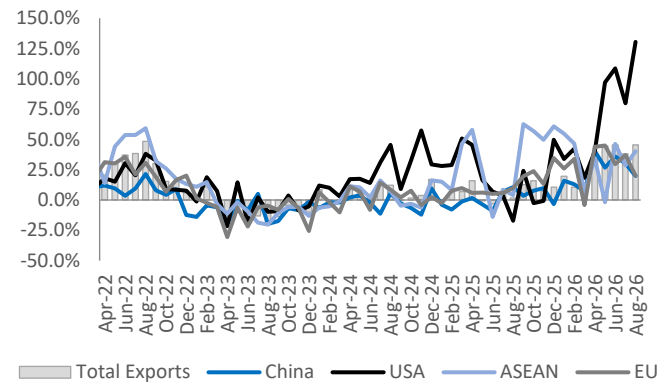
Source: Macrobond, MBSBR

Chart 19: External Trade Performances (YoY%)



Source: Macrobond, MBSBR

Chart 20: Exports by Major Markets (YoY%)



Source: Macrobond, MBSBR

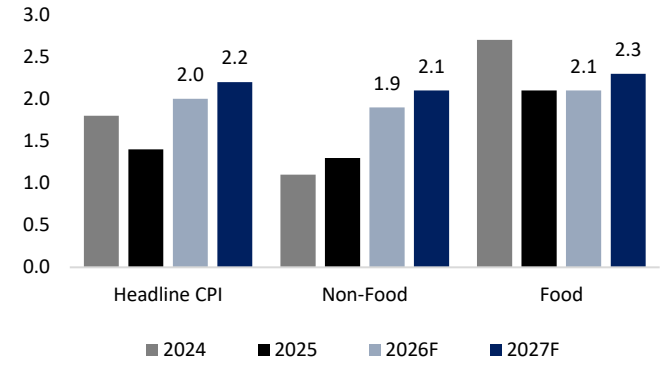
Inflationary pressure remains a risk

Domestic inflation outlook faces growing upside risks driven by sustained high global oil prices, which are amplifying both production costs and retail price pressures. While the existing price cap on subsidised RON95 continues to buffer domestic consumers, it significantly expands the nation's fiscal deficit. A prolonged period of elevated crude prices increases the likelihood of a fuel subsidy rationalisation, which would immediately pass through into headline CPI. Consequently, significant upside price risks persist, particularly for segments excluded from the BUDI95 targeted subsidy framework who face the immediate impact of recent hikes in unsubsidised fuel prices. Meanwhile, businesses are not fully shielded from the oil price hikes. As MSMEs face a surge in unsubsidised fuel costs, the resulting spike in logistics and operational overheads will likely trigger a cost pass-through to consumers; evidenced by the cost pressures in Malaysia hitting a double-digit growth as the producer price index jumped to +10.7%yoy in Aug-26, increasing from +9.7%yoy, and marking a straight sixth month of growth.

The increase in PPI reflects that producer prices have been rising at the fastest pace since Jun-22, signaling producer-level cost pressures intensifying amid mounting disruptions from the war in Iran. Inflationary risks remain weighted to the upside due to persistent supply-side cost pressures. While strong consumer spending continues to provide a modest tailwind to core inflation, recent moderate readings suggest demand-side pressures are well-contained, mitigating immediate risk of broader price spiral. We assume the renewed rise in cost pressures and gradual buildup in demand pressures would push inflation higher towards +2.2% next year.

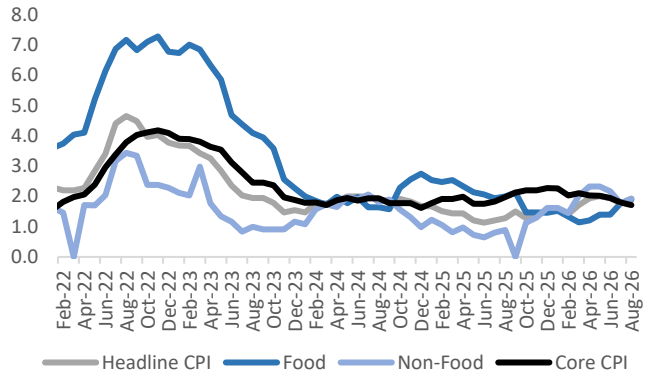
The current elevated prices for global oil and commodities may provide further upward pressure on domestic prices.

Chart 21: Inflation Forecast (YoY%)



Source: Macrobond, MBSBR

Chart 22: Inflation by Major Components (YoY%)

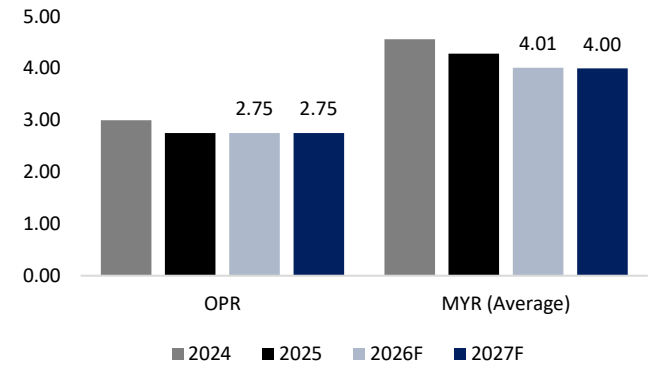


Source: Macrobond, MBSBR

Backed by steady domestic growth dynamics and well-contained inflation, Bank Negara Malaysia (BNM) is expected to maintain a steady policy posture, keeping the Overnight Policy Rate (OPR) at 2.75% through year-end, and well into 2027. BNM kept the OPR unchanged after the Sep-26 policy meeting, affirming the strength of domestic growth amid manageable headline inflation. This decision reflects BNM's willingness to look through geopolitically driven external cost pressures while preserving monetary policy stability to support domestic demand. However, the growth trajectory remains exposed to geopolitical risks and external uncertainties. At the moment, we maintain our 2026 inflation forecast at +2.0% and inflation to increase to +2.3% for 2027, supported by the upside bias from higher energy and production costs. Nevertheless, we believe supply-driven inflation will not prompt BNM to raise the OPR as demand-pull inflation remains well-contained because consumers trim their discretionary spending to absorb higher energy-related costs.

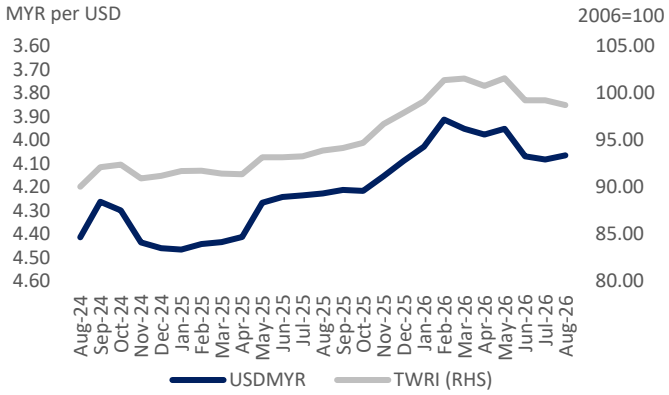
OPR to remain unchanged

Chart 23: Monetary Policy & USDMYR Forecast (%)



Source: Macrobond, MBSBR

Chart 24: USDMYR vs MIDF Trade-Weighted Ringgit Index (TWRI)



Source: Macrobond, MBSBR

Despite continued volatility arising from changing expectations over the Fed's policy path, we maintain our expectation for the ringgit to average around RM4.01 in 2026 before ending the year at around RM4.03. Our outlook projects the DXY to temporarily strengthen to 1QCY27 before halting the rate rises, before transitioning into a broader dollar easing cycle for the year gradually. We expect that the

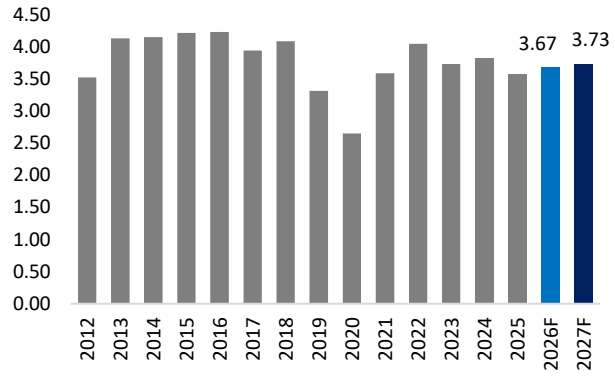
Ringgit to gradually appreciate in 2HCY27

policymaker will later be less hawkish from 2Q27 onwards, which may trigger some reversal of fund flows back to the EM space. Therefore, the ringgit is poised to appreciate toward RM3.96 driven by robust domestic fundamentals, including steady FDI realisation in tech/infrastructure, structural GLC/GLIC earnings repatriation, and disciplined fiscal consolidation. We project the ringgit to average stronger at RM4.00 in 2027 and move closer to RM3.96 by the end of 2027. This outlook remains subject to significant uncertainties, including potentially more tariff measures, trade fragmentation, and ongoing geopolitical tensions, which could contribute to increased volatility in global financial markets and commodity prices.

10Y MGS yield to end the year towards 3.78%

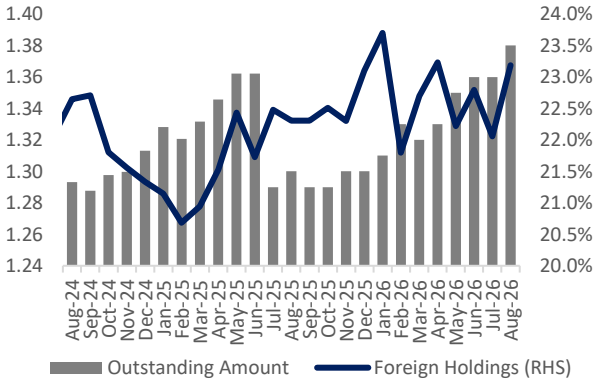
Given the recent rise in global bond yields, including MGS yields, we believe that the 10-year MGS yield may close the year nearing 3.76%, as we expect some moderation towards the end of this year. For 2027, we continue to expect yields to moderate towards year-end, supported by Malaysia's relatively firm domestic fundamentals and an eventual easing in global yields once markets gain greater clarity on the Fed's policy path. The 10Y MGS–OPR spread is set to normalise, easing nearer towards 85–95 bps by 4Q27 as global rate expectations stabilise. We also expect that the UST10Y will ease lower and break below the 5% level on expectations of post-peak Fed easing, while we expect the MGS10Y yields to trace this global rally lower. The MGS yields are anchored by domestic institutional liquidity (EPF, KWAP, PNB) rather than foreign speculative capital. Therefore, we expect that yields may close next year at around 3.76%. In the interim, bond markets face elevated near-term volatility, driven by geopolitical risks, global trade uncertainty, and evolving Fed guidance that continues to demand a higher risk premium.

Chart 25: Average 10-Year MGS Yield Forecast (%)



Source: Bloomberg, MBSBR

Chart 26: Share of Foreign Holdings of Total Outstanding Government Bonds (%)



Source: Macrobond, Bondstream, MBSBR

External headwinds remain the key downside risk

Escalating geopolitical tensions could keep energy and input costs elevated, adding to inflationary pressures and potentially prompting tighter monetary conditions globally. Persistently high inflation and elevated cost pressures could also weigh on household and business spending, particularly if final demand weakens. In addition, tighter global trade policies and rising protectionism could adversely affect Malaysia's external trade outlook and export-oriented industries.

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

(YoY %) Unless Stated Otherwise	2023	2024	2025	2026F	2027F [P]
Real GDP	3.6	5.2	5.2	**5.1**	**4.6**
Govt. Consumption	4.3	4.6	5.3	6.2	4.5
Private Consumption	4.6	4.8	5.3	5.0	4.8
Gross Fixed Capital Formation	5.4	12.1	9.6	6.5	6.5
Govt. Investment	8.5	11.1	10.3	7.6	5.8
Private Investment	4.5	12.4	9.4	6.2	6.8
Exports of goods & services;	(7.9)	8.6	4.9	8.9	2.5
Goods Exports	(12.5)	5.9	2.9	8.0	1.5
Services Exports	32.9	24.2	15.2	13.0	5.5
Imports of goods & services;	(6.8)	8.7	6.3	7.8	3.5
Goods Imports	(10.9)	9.6	6.6	7.9	3.7
Services Imports	16.1	5.0	5.0	7.2	2.5
Net Exports	(22.2)	6.7	(15.6)	31.4	(10.0)
Agriculture etc.	0.4	3.4	2.2	0.5	0.1
Mining & Quarrying	0.5	1.2	0.6	2.5	0.8
Manufacturing	0.7	4.2	4.5	6.2	4.5
Construction	5.9	17.6	12.2	7.2	7.5
Services	5.2	5.2	5.4	5.4	5.3
Exports of Goods (f.o.b)	(8.0)	5.7	6.0	22.0	2.0
Imports of Goods (c.i.f)	(6.4)	13.2	5.5	16.0	3.5
Headline CPI Inflation (%)	2.5	1.8	1.4	2.0	2.2
Current Account, % of GDP	1.1	1.4	1.6	2.5	2.0
Fiscal Balance, % of GDP	(5.0)	(4.1)	(3.7)	(3.7)	(3.4)
Federal Government Debt, % of GDP	64.3	64.6	65.3	65.0	64.0
Unemployment Rate (%)	3.4	3.3	3.0	3.0	3.0
Brent Crude Oil (Avg), USD per barrel	82.2	79.9	68.2	85 - 90	85 - 95
Crude Palm Oil (Avg), MYR per tonne	3,813	4,194	4,305	4,400	4,350
USD/MYR (Avg)	4.56	4.56	4.28	4.01	4.01
USD/MYR (End-period)	4.59	4.47	4.06	4.03	3.96
MGS 10-Yr Yield (Avg)	3.86	3.83	3.58	3.58	3.67
MGS 10-Yr Yield (End-period)	3.73	3.84	3.53	3.56	3.76
Overnight Policy Rate (%)	3.00	3.00	2.75	2.75	2.75

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

III. MARKET OUTLOOK

A washed out 9M26 due to external headwinds

The FBM KLCI fell -1.7% in 9M26 (until 30 September). As recent as around late August, the FBM KLCI was up by +4.4%ytd. However, all the gains were wiped out during the past month due to external headwinds, namely (1) US Fed raised policy interest rate with expectations of more to come, (2) Brent crude oil prices reverted to triple-digit, (3) Long-term UST yields shot up to multidecade highs, (4) USD/MYR rate climbed higher, and (5) foreign funds continued exiting the local listed equities.

In 4Q26, expect market to adopt an optimistic albeit cautious posture

Going forward into 4QCY26, we expect the local equity market to adopt an optimistic albeit cautious posture. The optimism shall be underpinned by several tailwinds, namely healthy macro as well as corporate earnings outlook and

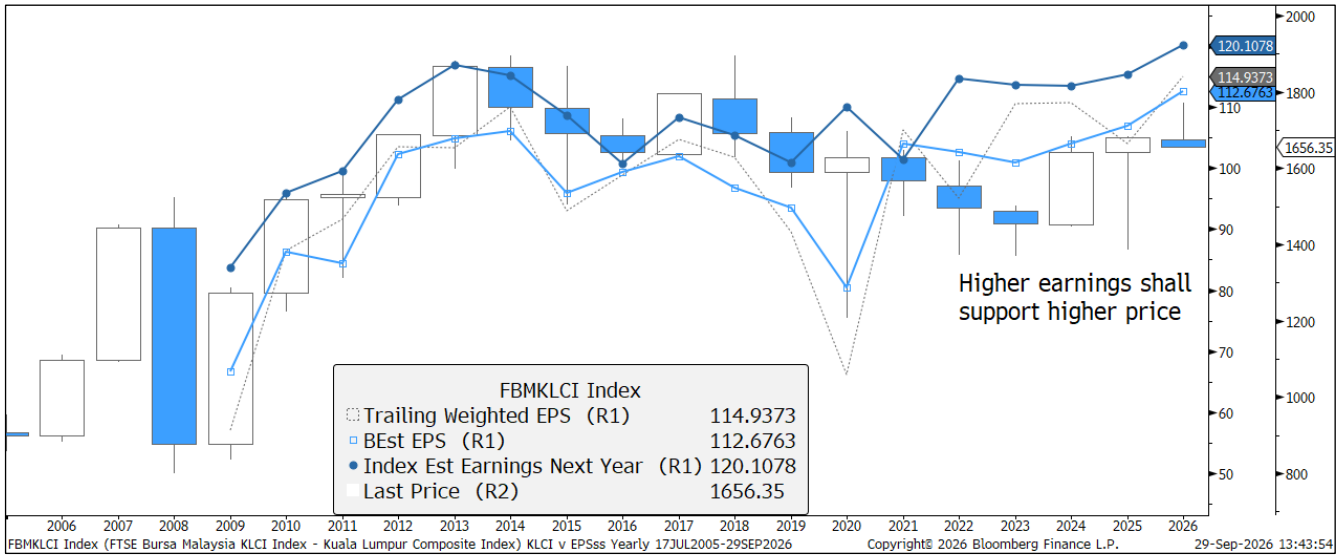
supported by relatively undemanding equity valuations. However, we also reckon the positive vibe would be moderated by prevailing headwinds particularly the likelihood of additional Fed rate hike as well as lingering uncertainties over the still unsettled conflict in the Middle East.

TAILWINDS

We estimate Malaysia's GDP to grow +5.1% in 2026 with a preliminary projection of +4.6% growth next year. In 2027, we expect Malaysia economy to see continued expansion in domestic demand while external trade remains supportive of growth.

Resilient economic growth

FBM KLCI: Price & Earnings



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

Similarly, the local corporate earnings in 2026 shall be supported by domestic drivers amid external uncertainties. The consensus currently expects FBM KLCI earnings to grow by +8.4% this year to 112.7 points.

Positive earnings growth

Moreover, the PER valuation of local equity market is undemanding. The FBM KLCI is currently trading at 1,656 points or PER26 of 14.8x, a historically inexpensive valuation vis-à-vis its 10-year average PER of 16.0x.

Market supported by undemanding valuations

HEADWINDS

In view of the still unsettling situation in the Middle East and elevated energy prices, the interest rate futures market currently implies (as per CME FedWatch aggregated probabilities) additional rate hikes of +25bp each in October 2026 as well as in January and March next year.

More fed rate hikes

The 10-year UST yield is currently trading at multidecade high of 5.24%. Month-to-date, the benchmark yield jumped +49bp (with inflation premium increased +4bp while real yield soared +45bp). The recent surge is attributable to factors such as (1) elevated energy prices, (2) inflation worries, (3) recent lacklustre UST auctions, and (4) a worsening deficit situation exacerbated by the prospect of a prolonged

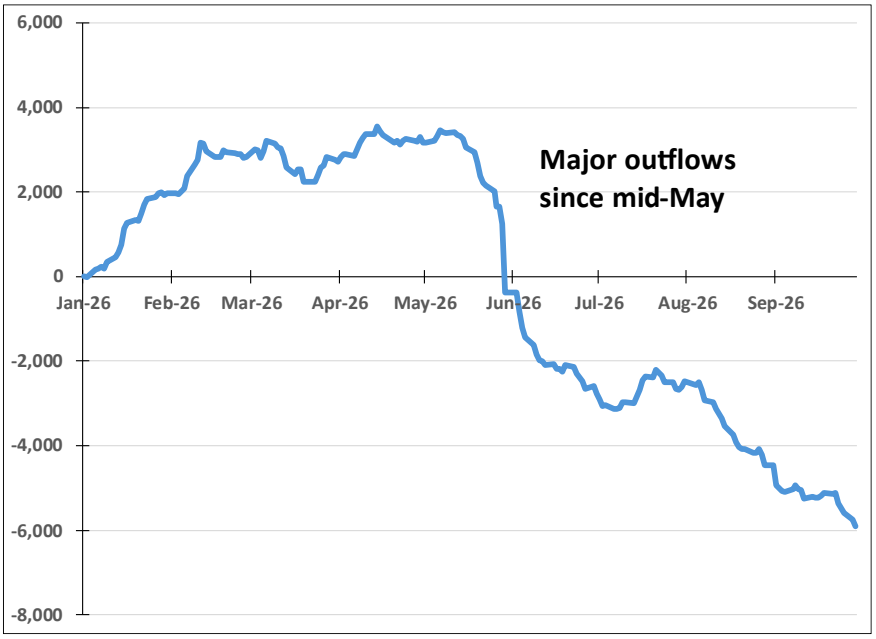
Rising bond yields

war. Factors (1) and (2) affect the inflation premium, while factors (3) and (4) affect the real yield.

Weaker Ringgit

Consequent to the expectations of Fed rate hike, the greenback strengthened against major currencies with the US Dollar index (DXY) rose from August low of 98.6 points to 101.3 points currently. Similarly, Ringgit weakened against US Dollar as USD/MYR rate climbed from August low of 4.02 to as high as 4.09 recently.

Bursa Malaysia: Foreign Fund Flows



Source: Bursa Malaysia, MBSBR

Outflow of foreign funds

In 3Q26 (until 29 September), foreign funds net sold local listed equities totalling -RM3.1b. Moreover, total foreign fund flow year-to-date dropped from the peak of +RM3.6b in mid-April to nearly -RM6.0b currently. It is notable that major outflows started in mid-May which corresponded with the hawkish shift in the Fed rate outlook.

TARGETS

Maintain 2026 targets

Despite the recent equity market downswing largely attributable to external headwinds, we expect the situation to reverse in the final quarter. We remain positive on domestic macroeconomics and corporate earnings prospects heading into next year as well as an anticipated easing of the geopolitical situation in the Middle East. Hence, we maintain our FBM KLCI, FBM Emas Shariah, and FBM 70 targets for 2026 at **1,770 points**, **12,900 points**, and **18,600 points**, respectively.

IV. PRELIMINARY 2027 OUTLOOK

Geopolitical conflicts: key driver for markets, transmitting through higher energy prices and affecting sentiment

The geopolitical shock has evolved from an immediate battlefield event into a broader macroeconomic transmission cycle. The initial disruption to the Strait of Hormuz lifted oil and LNG prices, but the more persistent consequences have emerged through freight, war-risk insurance, petrochemicals, fertiliser, food production and industrial costs. In the US, CPI reached 4.2%yoy in May-26 and remained elevated albeit moderating to +3.4%yoy in Jul-26 and Aug-26, while the Federal Reserve further raised its projection of 2026 core PCE inflation from 3.3% to 3.4%, shifting market expectations from rate cuts toward the possibility of another hike.

Outlook for 2027 remains clouded as ever, scenario analysis the most practical approach

Peering into 2027, the outlook remains clouded by considerable uncertainty, with the US midterms, the US-Iran conflict, Israel, Hormuz, Bab el-Mandeb, inflation and monetary policy all operating as interconnected moving parts. A change in any one of these variables could materially alter the direction of energy prices, interest rates, global growth and financial markets, making a single-point forecast inadequate. Scenario analysis is therefore the most practical approach, as it allows us to assess a range of plausible outcomes and identify the indicators that would signal a shift between them.

US midterm election will be the next key factor

The next major decision point is the **3 November 2026 US midterm election**. Congressional control will not determine the actions of Iran, Israel or the Houthis directly, but it will influence war funding, sanctions, oversight, the legal basis for military operations and the political cost of sustaining the blockade. We use a Democratic sweep of both chambers as the political anchor because it is the most likely single outcome, while recognising that a Democratic House with a Republican Senate remains the principal alternative.

General assumptions for scenario analysis

Besides our assumption on the US midterms, below are other general assumptions for the possible scenarios we construct for 2027:

1. Democrats win both chambers with sufficiently clear results to organise the new Congress on **3 January 2027**.
2. Democratic majorities remain narrow, making internal party divisions and bipartisan votes relevant to war powers, sanctions and appropriations.
3. Congress gains greater influence over military funding, sanctions and oversight, but the president retains substantial authority over diplomacy, naval deployments and limited military operations.
4. The US-Iran conflict remains unresolved entering 2027, including disputes over the blockade, sanctions, frozen assets, Iran's nuclear capabilities and its confrontation with Israel.
5. Iran continues to regard Hormuz as its strongest bargaining instrument and will not restore normal passage without tangible US concessions.
6. Physical passage does not constitute commercial reopening unless voyages are safe, insurable, financeable and sanctions compliant.
7. Maritime recovery is gradual because insurers, banks and shipowners require evidence that any political agreement is durable.
8. Israel retains independent military agency and may act if it believes diplomacy leaves Iran's strategic capabilities intact.

9. The Houthis remain influenced by Iran but retain their own territorial, political and military objectives.
10. Hormuz primarily constrains physical oil and LNG supply, while Bab el-Mandeb primarily affects freight, insurance and transit times.
11. Simultaneous disruption to both chokepoints produces nonlinear damage by restricting both energy availability and alternative distribution routes.
12. No major actor initially prefers an unrestricted regional war, but retaliation and miscalculation can still produce uncontrolled escalation.

Four possible scenarios for 2027

The scenarios were constructed by first using the assumptions above. Each scenario was then differentiated by its assumptions on US concessions, Iran's use of Hormuz as leverage, Israel's strategic response, Houthi activity at Bab el-Mandeb, the availability of war-risk insurance and the pace at which commercial shipping could recover, etc. With this below is the four possible scenarios that we foresee for our preliminary 2027 outlook:

No.	Scenario	Key assumptions
S1	**Phased Negotiated Accommodation (Base case)** - Gradual normalisation (to more normalised growth)	• Congress and the White House reach a workable negotiating position. • Congress credibly threatens to restrict offensive funding. • The White House accepts reciprocal and reversible concessions. • Iran accepts a phased settlement rather than demanding resolution of every regional dispute. • An intermediary monitors compliance and maritime deconfliction. • Israel refrains from a major strike that would destroy the agreement. • Houthi pressure moderates but does not disappear. • War-risk insurers return after several weeks of safe passage.
S2	**Coercive Containment** - Persistent supply constraint (below trend growth)	• Congress discourages a wider war but continues funding defensive operations. • The White House maintains sanctions, the blockade and selective vessel escorts. • The US does not provide sufficient relief for Iran to restore normal passage. • Iran permits only selected vessels based on ownership, nationality or cargo. • US escorts facilitate limited shipments but cannot restore insurer confidence. • Israel-Iran attacks continue below the threshold of unrestricted war. • Houthi pressure remains concentrated on selected vessel affiliations. • Neither side deliberately initiates a full-scale regional conflict.
S3	**Executive-Congressional Confrontation** - Energy shock + policy/financial uncertainty (near stall growth)	• The White House disputes the political mandate of the Democratic sweep. • Congress attempts to change policy through funding and war-powers restrictions. • The administration continues parts of its strategy under executive authority. • Courts become involved in disputes over military authority and appropriations.

		• Government funding or debt-ceiling negotiations become entangled with the conflict. • Iran doubts whether any US agreement can be implemented durably. • Israel becomes more willing to act independently. • The Houthis test the consistency of US enforcement. • Political protests and isolated violence increase, but security institutions remain cohesive.
S4	**Externally Forced Escalation** - Severe supply shock + demand destruction (mild recession/stagflation)	• A major attack kills US personnel or destroys strategic energy infrastructure. • Congress provides temporary bipartisan support for military retaliation. • The US expands naval convoys, minesweeping and offensive operations. • Iran retaliates against US bases, Israel or Gulf infrastructure. • Israel becomes an active military participant. • Houthi targeting broadens across commercial vessel categories. • Commercial insurers withdraw or sharply restrict coverage. • Military escorts restore only a small fraction of normal traffic.

IVa. ECONOMICS

Growth normalising after sustained strength in recent years

Based on our preliminary forecast, Malaysia's GDP growth is projected to moderate to +4.6% in 2027 (2026f: +5.1%). The moderation largely reflects the normalisation of growth from a relatively high base, rather than a material weakening in underlying economic conditions. Domestic demand is expected to remain supportive, underpinned by healthy labour market conditions, positive wage growth and continued investment activity, while external trade should continue to benefit from resilient E&E demand. Nevertheless, growth could be constrained by lingering geopolitical uncertainties, elevated energy and freight costs, as well as softer global demand.

Limited impact in 2026, with a more pronounced slowdown in 2027 under severe stress

To reiterate our baseline forecast, we expect Malaysia's economy to expand by +5.1% in 2026, supported by firm domestic demand and continued strength in external trade. While growth may be affected by heightened external uncertainties, the overall expansion should remain well anchored this year, underpinned by the strong +5.7%yoy growth in 1HCY26, which we expect to remain reassuring in 3QCY26. Even under more adverse scenarios, we estimate that full-year growth would remain above +4.0%, given the strong growth already recorded in the first half. However, the impact could become more significant in 2027, initially reflecting renewed inflationary pressures and energy price shocks following a re-escalation of geopolitical tensions and higher oil prices.

Larger growth impact from elevated inflation and weaker final demand

Malaysia's economy could experience a more severe downturn under Scenario 4, where a deeper global demand contraction would weigh more significantly on production, exports and overall trade activity. While resilient domestic demand would initially cushion the external slowdown, weaker labour market conditions and softer income growth would eventually weigh on household spending. Consumers would also face stronger inflationary pressures from higher energy,

freight and imported costs, although the impact should be partly mitigated by targeted subsidies, policy support and other stimulus measures.

Table 3: Projection for Selected Economic Indicators for Each Scenario

Scenario	Brent Crude (USD pb)		GDP Growth (%)		Inflation (%)		OPR (%)	
	2026	2027	2026	2027	2026	2027	2026	2027
S1: More Normalised Growth	85-90	75-85	5.1	4.6	2.0	2.2	2.75	2.75
S2: Below Trend Growth	90-100	95-110	5.0	3.2	2.1	2.7	2.75	2.75
S3: Near Stall Growth	95-105	110-130	4.8	1.5	2.1	3.0	2.75	2.50
S4: Mild Recession/Stagnation	105-115	130-150	4.6	-0.5	2.2	3.3	2.75	2.25

S1: Phased Negotiation Accommodation

- Growth is expected to moderate to +4.6% in 2027 from +5.1% in 2026, reflecting a normalisation in growth after a relatively resilient 2026. The impact from the geopolitical shock is expected to remain contained as Hormuz flows improve, external trade stays supportive and domestic demand continues to cushion higher energy and freight costs.

S2: Coercive Containment

- Growth could slow more sharply to +3.2% in 2027 from +5.0% in 2026, as prolonged energy and freight disruptions exert a larger drag on consumption, investment and business activity. The impact in 2026 is expected to remain relatively limited, supported by resilient E&E demand and higher-value commodity exports.

S3: Executive-Congressional Confrontation

- Growth is projected to weaken significantly to +1.5% in 2027 from +4.8% in 2026, as the energy shock is compounded by heightened financial-market uncertainty, tighter financial conditions and weaker business confidence. While external trade remains a partial buffer in 2026, export orders and investment are expected to weaken more materially in 2027.

S4: Externally Forced Escalation

- Growth is projected at +4.6% in 2026 before contracting by -0.5% in 2027. The initial supply shock is assumed to evolve into broader global demand destruction, resulting in a sharper slowdown in E&E exports, manufacturing, investment and household spending. Even so, Malaysia's strong trade position and targeted domestic support measures should help contain the immediate impact in 2026.

Risk of mild recession or stagnation under S4

In terms of policy reaction, we expect the OPR to remain unchanged under S1 and S2. While the prevailing monetary policy stance remains supportive of growth, we expect BNM to stay on hold even as growth moderates to +3.2% under S2, given concerns that premature easing could add to inflationary pressures. Under the more severe S3 and S4 scenarios, however, weaker economic momentum would warrant some monetary easing as part of a counter-cyclical response to support domestic demand and cushion a sharper slowdown. We therefore assume 1 and 2 rate cuts under S3 and S4, respectively. Nevertheless, the scope for aggressive easing would remain constrained by elevated inflation, as excessive policy accommodation could further intensify price pressures.

Policy easing to support growth, but constrained by elevated inflation

Ringgit to weaken as growth slows

Across the four scenarios, the USDMYR is projected to range from as strong as RM3.96 in our base case to a low of RM4.38 in the most severe downside risk (under S4). resilient domestic growth, supportive external balances and improving risk sentiment could allow the ringgit to appreciate towards RM3.95, despite continued Fed tightening into 1QCY27. Under S2, persistent energy pressures and elevated US interest rates widen the interest-rate differential, weakening the ringgit to RM4.15. Downside risks intensify under S3, where slower domestic growth and a BNM rate cut to 2.50%, alongside a relatively firm Fed, could accelerate capital outflows and push ringgit to weaken towards RM4.32. Under S4, a global downturn, weaker trade performance and aggressive monetary easing could see the ringgit depreciating further to RM4.38 with relatively more aggressive rate cuts by major and domestic central banks.

Lower yields tracking rate cuts with easing inflation as demand collapses

For the 10-year MGS, we expect the yield to trade within a range of 3.55% to 3.85% in 2027, shaped by BNM's monetary policy adjustments and movements in global bond yields. Under S1, stable domestic growth and an OPR anchored at 2.75% should allow the 10-year MGS yield to consolidate around 3.76%, supported by strong institutional demand. Under S2, while BNM keeps the OPR unchanged at 2.75% to navigate cost-push inflation, elevated US Treasury yields could lift the 10-year MGS yield to 3.85%. Conversely, under S3, weaker domestic growth prompts BNM to begin counter-cyclical easing by cutting the OPR to 2.50%, pulling the 10-year MGS yield down to 3.75%, although sticky global yields may limit further downside. Finally, under S4, with GDP projected to contract by -0.5%, we expect BNM to reduce the OPR to 2.25% to support growth. Together with stronger flight-to-safety demand for US Treasuries, this should pull the 10-year MGS yield further down to 3.55%.

IVb. MARKET

Continued macro and earnings growth next year…

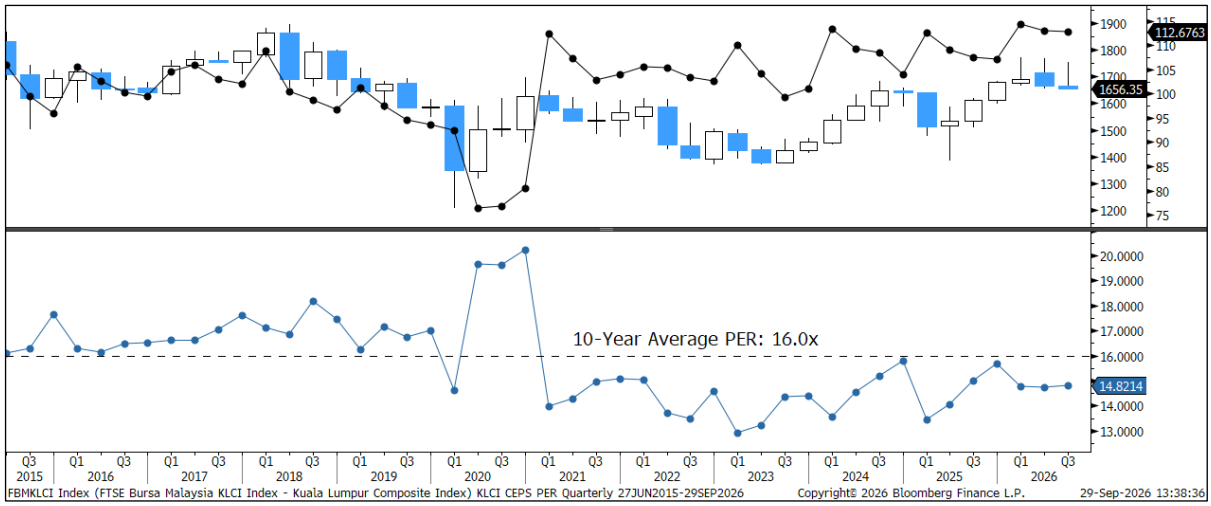
Going into next year, we expect Malaysia economy to remain healthy with our preliminary GDP growth forecast at +4.6% in 2027. Along with the baseline expectation of rather resilient macro performance, market consensus is forecasting the FBM KLCI to register a healthy +6.6%yoy earnings growth in 2027. Furthermore, the FBM Emas Shariah and FBM 70 are projected to register quite robust +9.4%yoy and +10.7%yoy earnings growth next year, respectively.

…and expect better valuations due to easing geopolitical situation.

Underpinned by our baseline expectations of resilient macro performance along with healthy earnings growth next year, we expect equity valuations to improve going forward. That is so as we believe the local equity market would benefit from an anticipated easing of the geopolitical situation in the Middle East, with Brent crude oil prices expected to decline toward USD75-85pb levels.

FBM KLCI

Calendar Year	Earnings (Points)	YoY (%change)
CY2027 (F)	120.1	+6.6



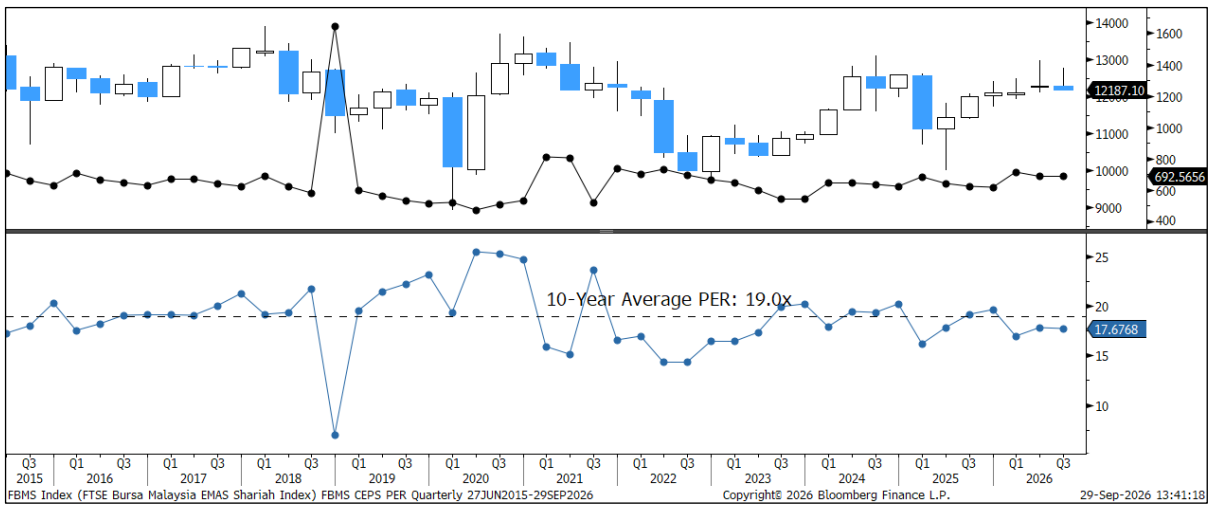
Source: MBSBR, Bloomberg (G5)

At current juncture, the FBM KLCI is trading at PER26 of 14.8x. Based on the prevailing 2027 earnings forecast of 120.1 points, we introduce our preliminary FBM KLCI 2027 baseline target at 1,850 points or PER27 of 15.4x.

Preliminary FBM KLCI 2027 baseline target at 1,850 points or PER27 of 15.4x

FBM Emas Shariah

Calendar Year	Earnings (Points)	YoY (%change)
CY2027 (F)	757.6	+9.4



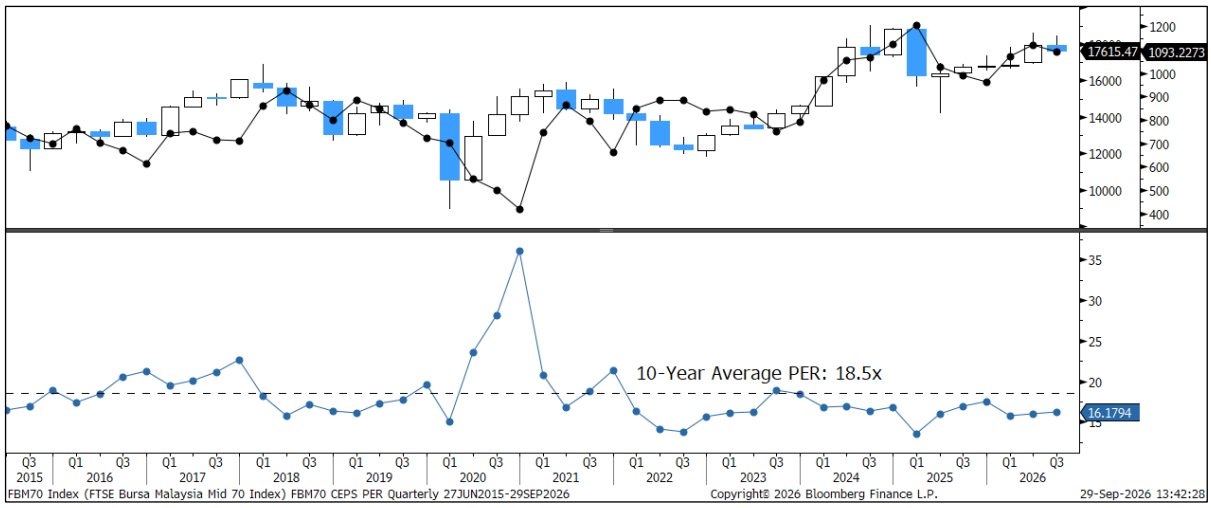
Source: MBSBR, Bloomberg (G6)

At current juncture, the FBM Emas Shariah is trading at PER26 of 17.7x. Based on the prevailing 2027 earnings forecast of 757.6 points, we introduce our preliminary FBM Emas Shariah 2027 baseline target at 13,600 points or PER27 of 18.0x.

Preliminary FBM Emas Shariah 2027 baseline target at 13,600 points or PER27 of 18.0x

FBM 70

Calendar Year	Earnings (Points)	YoY (%change)
CY2027 (F)	1,209.7	+10.7



Source: MBSBR, Bloomberg (G7)

At current juncture, the FBM 70 is trading at PER26 of 16.2x. Based on the prevailing 2027 earnings forecast of 1,209.7 points, we introduce our preliminary FBM 70 2027 baseline target at 20,000 points or PER27 of 16.5x.

Preliminary FBM 70 2027 baseline target at 20,000 points or PER27 of 16.5x

SCENARIO ANALYSIS

We reckon there are downside risks to the baseline 2027 macro and earnings expectations. In view of the downside risks, apart from our baseline (S1), we generate three downside scenarios (S2, S3 and S4) incorporating the following projections.

Scenario analysis

The projected variances to Malaysia GDP growth in 2027:

GDP impact

- **S1:** Malaysia GDP growth is +4.6%.
- **S2:** Malaysia GDP growth is +3.2%.
- **S3:** Malaysia GDP growth is +1.5%.
- **S4:** Malaysia GDP growth is -0.5%.

Based on the above macro growth figures, the projected changes to FBM KLCI 2027 earnings are as follow:

Earnings impact

- **S1:** Earnings points and earnings growth are 120.1 points and +6.6%yoy respectively.
- **S2:** Earnings points and earnings growth are 117.8 points and +4.5%yoy respectively.
- **S3:** Earnings points and earnings growth are 114.7 points and +1.8%yoy respectively.
- **S4:** Earnings points and earnings growth are 110.8 points and -1.7%yoy respectively.

Accordingly, the impact on FBM KLCI valuation as well as index targets for 2027 are listed below:

PER valuation and price

- **S1:** PER valuation and index target are 15.4x and 1,850 points respectively.
- **S2:** PER valuation and index target are 14.7x and 1,730 points respectively.
- **S3:** PER valuation and index target are 14.0x and 1,610 points respectively.
- **S4:** PER valuation and index target are 13.3x and 1,470 points respectively.

FBM KLCI: SCENARIO ANALYSIS



Source: Trading View, MBSBR

V. STOCK SELECTIONS

Maintain an optimistic but cautious stock-selection strategy

For 4QCY26, resilient domestic activity, Budget 2027, accelerating development expenditure and the expansion of the FBM KLCI to 50 constituents should support domestic equities. However, elevated global yields, geopolitical uncertainty and the delayed inflationary effects of higher energy, freight and fertiliser costs may limit broad-based valuation expansion. Into 2027, we favour sectors combining near-term catalysts with recurring demand, pricing power and resilience against prolonged external disruption.

Prefer utilities, telecommunications, consumer staples and healthcare for earnings defensiveness

Utilities should benefit from regulated returns, grid investment and rising data-centre electricity demand, while telecommunications offer recurring cash flows, improving operational efficiencies and dividend support. Consumer exposure should remain focused on essential and value-oriented segments that benefit from resilient spending and household assistance. Healthcare remains supported by rising private-sector utilisation, medical tourism, capacity expansion and potential public-private collaboration.

Construction and technology provide the principal growth exposure

Construction should benefit from Budget 2027 and the 13th Malaysia Plan, particularly through transport, water, flood mitigation, healthcare, industrial and Johor-Singapore Special Economic Zone infrastructure. Data-centre investment should also support construction, electricity, water and mechanical and electrical services. Technology exposure should remain selective, favouring beneficiaries of recovering semiconductor, datacom and photonics demand. We also foresee renewable-energy contractors stand to benefit from CRESS, LSS6 and battery-storage projects, although contract conversion, financing and margin execution remain key differentiators.

Plantations provide a hedge against firm CPO prices, biodiesel demand, Ringgit weakness and the delayed food-security effects of higher fertiliser and energy costs. Energy infrastructure should remain relevant under both normalising trade and prolonged supply disruption, while shipping offers protection against continued restrictions at Hormuz and Bab el-Mandeb. Its relative performance, however, may moderate if maritime conditions normalise faster than expected.

Retain plantation and energy-related exposure as protection against external uncertainty

4QCY26, we favour utilities, construction, essential consumer and healthcare, where Budget measures, contract awards, earnings delivery and potential index inclusion provide identifiable catalysts. For 2027, these exposures should be complemented by telecommunications, plantations, energy infrastructure and shipping. Preference should remain with companies offering visible earnings, recurring demand, balance-sheet strength, dividend support and direct exposure to Malaysia's domestic investment cycle.

Overall, stock selection should emphasise balance rather than an outright cyclical recovery

Overall Top Ten Picks

	Rec.	Price (RM) @ 30/9/26	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
CelcomDigi	BUY	2.57	3.54	37.7%	5.5%	43.3%	4	Y
99 Speed Mart	BUY	3.15	4.37	38.7%	1.3%	40.1%	2	N
KPJ Healthcare	BUY	2.69	3.70	37.5%	1.9%	39.4%	4	Y
Dialog Group	BUY	1.94	2.57	32.5%	2.2%	34.7%	4	Y
Sarawak Plantation	BUY	4.24	5.36	26.4%	5.9%	32.3%	3	N
Nestlé	BUY	90.00	116.10	29.0%	3.1%	32.1%	4	Y
Tenaga Nasional	BUY	12.96	16.31	25.8%	4.3%	30.1%	4	Y
SD Guthrie	BUY	6.20	7.65	23.4%	3.1%	26.5%	4	Y
MISC	BUY	7.64	9.22	20.7%	4.3%	25.0%	4	Y
Gamuda	BUY	5.18	5.60	8.1%	1.9%	10.0%	4	Y

Shariah Top Ten Picks

	Rec.	Price (RM) @ 30/9/26	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
CelcomDigi	BUY	2.57	3.54	37.7%	5.5%	43.3%	4	Y
KPJ Healthcare	BUY	2.69	3.70	37.5%	1.9%	39.4%	4	Y
Dialog Group	BUY	1.94	2.57	32.5%	2.2%	34.7%	4	Y
Sarawak Plantation	BUY	4.24	5.36	26.4%	5.9%	32.3%	3	N
Nestlé	BUY	90.00	116.10	29.0%	3.1%	32.1%	4	Y
Tenaga Nasional	BUY	12.96	16.31	25.8%	4.3%	30.1%	4	Y
SD Guthrie	BUY	6.20	7.65	23.4%	3.1%	26.5%	4	Y
MISC	BUY	7.64	9.22	20.7%	4.3%	25.0%	4	Y
Inari	BUY	2.50	2.95	18.0%	3.0%	21.0%	4	Y
Gamuda	BUY	5.18	5.60	8.1%	1.9%	10.0%	4	Y

Small/Mid-Caps Top Ten Picks

	Rec.	Price (RM) @ 30/9/26	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
Malayan Cement	BUY	5.45	9.53	74.9%	2.8%	77.6%	4	Y
Leong Hup	BUY	0.71	1.03	45.1%	3.9%	49.0%	2	N
KPJ Healthcare	BUY	2.69	3.70	37.5%	1.9%	39.4%	4	Y
Dialog Group	BUY	1.94	2.57	32.5%	2.2%	34.7%	4	Y
Sarawak Plantation	BUY	4.24	5.36	26.4%	5.9%	32.3%	3	N
Deleum	BUY	1.00	1.22	22.0%	9.0%	31.0%	4	Y
Genting Plantations	BUY	5.53	6.94	25.5%	4.9%	30.4%	3	N
Sunway Con.	BUY	7.74	9.18	18.6%	6.0%	24.7%	4	Y
IJM Corporation	BUY	2.91	3.32	14.1%	9.6%	23.7%	4	Y
Inari	BUY	2.50	2.95	18.0%	3.0%	21.0%	4	Y

Source: Bloomberg, MBSBR

B. SECTORAL OUTLOOK

POSITIVE CALL SECTORS

I. BANKING ..... Maintain POSITIVE

Still Good, But Riskier by the day

Analyst: Samuel Woo

Main tailwinds include dividend upside, growth prospects via fee income and business loans, and slower OPEX control. We look forward to three distinct events: A possible OPR hike in CY27, Budget 2027 Tabling (which determines if business loan momentum can sustain), and US midterm elections, where a Democrat victory in House and Senate could finally imply the end of the Middle East conflict.

Tailwinds persist, but some won't last indefinitely.

This specifically refers to business loans and wealth management income, which will thin out over time. Business loans should persist in the next twelve months, but they are being lifted by pre-election spending and data centre excitement, both of which are not sustainable. Wealth management is benefiting from a diversion of funds from the middle east — and this should slow over time, especially if regional peers hike interest rates more sharply than the OPR.

At the same time, we acknowledge that growth-related tailwinds are not sustainable.

Effects of long-lasting cost inflation, such as reduced retail loan demand and weaker debt servicing capability, will persist long after tailwinds wane. If war persists past 1QCY27, we may be downgrading our POSITIVE call on banks.

On the other hand, the prolonged conflict is dealing damage to the average Malaysian citizen.

Concerning recent headwinds, most notably rising bond yields and fears of global interest rate hikes, we prefer defensive picks such as **PBK (BUY, TP: RM5.53)** and **HLBK (BUY, RM29.80)**.

We pivot back to defensive top picks: If the conflict persists, there will always be skittishness in the sector.

II. CONSTRUCTION ..... Maintain POSITIVE

Re-rating Catalysts Taking Shape Amid Better Replenishment Visibility

Analyst: Soong Ming San

Remained on positive trajectory

According to DOSM, Malaysia's construction sector expanded +8.8%yoy in 2QCY26 (1QCY26: +8.5%yoy), with value of work done reaching RM47.8b and bringing 1HCY26 to RM94.3b (+8.7%yoy). While growth moderated from +14.7%yoy in 1HCY25, this largely reflects the higher base after construction work done grew +12.5%yoy to RM178.6b in CY25. Growth in 2QCY26 remained strongest in special trade activities (+17.6%yoy) and non-residential buildings (+13.3%yoy), consistent with ongoing DC and industrial construction, while civil engineering grew at a more modest +2.7%yoy. Private-sector construction continued to do most of the heavy lifting, contributing RM31.4b or 65.8% of total work done and growing +11.4%yoy, compared with +4.1%yoy growth for public-sector works. We therefore see CY27 as less about another acceleration in headline construction growth and more about whether the strong private-sector cycle can be supplemented by a broader recovery in civil infrastructure.

Most visible mega infra pipeline

CIDB recorded 11,363 projects worth RM154.6b in 8MCY26, while we estimate RM12b-14b of public infrastructure awards could be rolled out in the next 3-6 months. The visible pipeline includes Penang LRT CMC2, Langat 2 Phase 2, Sungai Rasau Phase 2 and Kerian Water EPCC, with a combined gross project value of around RM13b-17b. Near-term visibility is strongest for Penang LRT CMC2, which is targeted for award in Nov-26, while CMC1 works are already progressing across 14 of 19 construction sections and the RM3.03b Systems Turnkey Contract was awarded in Aug-26. Langat 2 Phase 2 has also moved into procurement, with pre-qualification issued for its first two packages, while Sungai Rasau Phase 2 and Kerian Water remain part of the next water infrastructure pipeline. We do not expect the full RM13b-17b to be awarded by year-end, but contracts secured in late CY26 should start contributing more meaningfully to order books and construction revenue in CY27.

Budget 2027

Budget 2027 should broaden the public infrastructure pipeline rather than rely solely on new mega projects. Current expectations point to CY27 development expenditure of around RM85b-90b versus RM81b under Budget 2026. More importantly, RM57.6b or 71% of Budget 2026 development expenditure was allocated to basic infrastructure, and we expect Budget 2027 to retain a similar emphasis. This should sustain opportunities across roads, water, schools, hospitals, electricity and other essential infrastructure, while also broadening the beneficiary base beyond the large-scale rail and highway contractors.

East Malaysia as a key focus

Pan Borneo Highway Phase 2 carries an estimated construction cost of RM15b, while Sabah-Sarawak Link Road Phase 2 is estimated at RM7.4b, giving a combined RM22.4b pipeline before smaller road, water and utility packages. Meanwhile, MRT3 carries an estimated RM31b of civil construction value, taking the combined medium-term opportunity from these three projects to more than RM53b. We would not build the full amount into CY27 awards given different procurement timelines, particularly for MRT3, but the scale provides useful visibility beyond the

current DC-heavy cycle and could help replace activity as the ECRL and Johor Bahru-Singapore RTS move closer to completion.

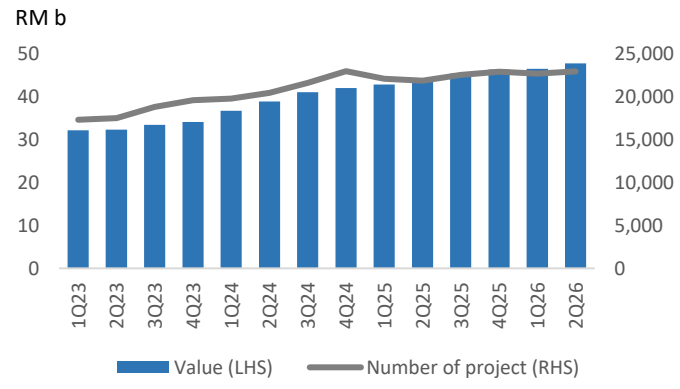
RM7b of visible DC pipeline over the next 3-6 months

YTD CY26 DC construction awards have reached a record RM15.58b, already +68.3% above the RM9.26b awarded throughout CY25 and more than double CY24's RM6.90b. Gamuda accounted for 47.5% of YTD awards, followed by SunCon at 36.1% and IJM at 4.2%, while average contract size rose +16.5% to RM1.04b from RM892m in CY25. As at Jun-26, TNB had three DC projects with 0.49GW of maximum demand at the ESA-signed stage, while another 2.21GW was already under construction. Applying our 70% IT load conversion assumption to the 0.49GW pipeline implies around 343MW of potential IT capacity, which at an estimated construction cost of RM20m/MW translates into approximately RM6.9b of visible potential construction value that could be progressively awarded over the next 3-6 months.

Maintain POSITIVE

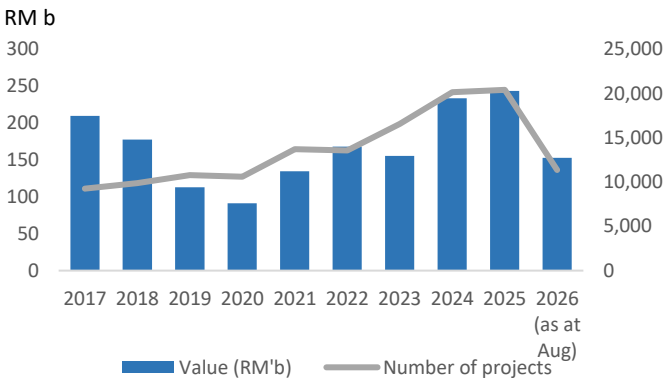
Maintain POSITIVE. We maintain our POSITIVE stance on the construction sector, underpinned by record DC awards, improving public infrastructure flows and stronger earnings visibility heading into CY27. YTD DC awards have reached RM15.58b, already 68.3% above CY25, with another RM6.9b of visible potential construction value at the ESA-signed stage, while RM12b-14b of public infrastructure awards could be rolled out in the next 3-6 months. Our top picks are **Gamuda (BUY, TP: RM5.60), IJM (BUY, TP: RM3.32) and SunCon (BUY, TP: RM9.18)**. We like Gamuda for its record RM61.2b order book, with 90% of FY27F construction revenue of RM24b already anchored by the existing order book, while management targets RM30b-35b of FY27 wins; IJM for its RM18b tender pipeline and RM3.0b value realisation plan, which could translate into 28sen annual DPS, alongside WCE completion and the targeted 3QCY27 listing of IJM Construction; and SunCon for its strong DC exposure, with RM6.85b YTD wins already above its initial target, an RM11.4b order book and RM15.3b tender book, of which 80%-90% comprises DC opportunities, together with an attractive 5%-6% dividend yield.

Chart 27: Value of Construction Work Done (RM b)



Source: DOSM, MBSBR

Chart 28: No. of Construction Projects and Value (RM b)



Source: CIDB, MBSBR

III. CONSUMER ..... Maintain POSITIVE

Resilient demand, but margin preservation takes centre stage

Analyst: MBSB Research team

Domestic consumption remains resilient into 4QCY26

We expect Malaysia's consumer sector to remain supported by a still-constructive domestic macro backdrop. Retail trade expanded +6.4%yoy in Jul-26, bringing 7M26 growth to +6.8%yoy, while unemployment remained low at 3.0% and headline/core inflation moderated to +1.8%yoy. These indicators suggest household demand remains intact despite more cautious spending behaviour. Into 4QCY26, year-end festivities, school holidays and continued fiscal support should provide an additional seasonal lift. We therefore see the principal risk to sector earnings as margin pressure rather than a broad deterioration in consumption.

Budget 2027 should reinforce household spending

Budget 2027 should reinforce household spending, though wage support is two-sided. We expect Budget 2027 to retain a rakyat-centric tilt through targeted cash assistance, SARA-related support, food credits and other cost-of-living measures, which should be most supportive for groceries, staples and value-oriented retail. A potential increase in the minimum wage from RM1,700 toward RM1,900/month would provide another lift to household income, particularly among lower-income consumers. The offset is higher payroll costs for labour-intensive retailers, F&B operators and manufacturers. Accordingly, we expect the benefits to accrue more clearly to businesses with strong volume growth, operating scale and sufficient margin flexibility.

Input costs have turned materially less favourable heading into 4Q26

The benign commodity backdrop seen through much of CY25 has reversed across several important inputs. In Sep-26, wheat rose +37.1%yoy, soybean meal +26.7%yoy, corn +24.0%yoy, raw sugar +14.2%yoy, CPO +13.8%yoy and PET resin +53.2%yoy. Sequential pressure has also strengthened, particularly for PET resin (+12.5%mom), soybean meal (+12.1%mom) and corn (+8.5%mom). Freight adds another layer of pressure, with the SCFI up +183.7%yoy and +7.9%mom in Sep-26. Coffee and cocoa provide some offsets, with Arabica, Robusta and cocoa still lower year-on-year, but the overall input basket has clearly become less benign. We expect this to differentiate earnings increasingly by procurement scale, pricing power and ability to absorb or pass through cost increases. The pressure will be uneven across the coverage universe. Higher corn and soybean meal prices are the key near-term watchpoints for **Leong Hup International (BUY, TP RM1.03),** although affordable protein demand remains defensive and the group's integrated feed-to-poultry model provides some buffer relative to smaller producers. Elevated wheat and CPO remain more challenging for flour- and palm-intensive food manufacturers, while higher PET resin continues to pressure bottled-water packaging costs. Conversely, lower coffee and cocoa prices offer relief to selected beverage and packaged-food companies. For **Nestlé Malaysia (BUY, TP RM116.10),** we expect brand strength, procurement scale and selective pricing to provide greater ability to navigate a mixed commodity environment, while softer coffee and cocoa partially offset pressure elsewhere.

Preliminary 2027 outlook. Gradual cost normalisation into CY27, not a return to cheap inputs

Under our Phased Negotiated Accommodation scenario, Hormuz energy flows recover gradually toward 60%-90% of normal as limited sanctions relief and maritime deconfliction allow commercial traffic to resume. With our in-house projections, Brent is projected to average USD75-85/bbl in CY27, from USD85-

90/bbl in CY26, while Malaysia's GDP growth moderates from +5.1% in CY26 to +4.6% in CY27. Inflation remains manageable at +2.1% in CY27, with the OPR maintained at 2.75%. This is constructive for consumers: growth normalises from a strong base rather than entering a downturn, while easing energy stress should gradually reduce freight and input-cost pressure. However, because the broader US-Iran conflict, sanctions and regional security issues remain unresolved, we would not assume a full normalisation in freight, insurance or imported-input costs.

Value-seeking behaviour remains the clearest consumer theme

Consumers continue to prioritise essentials and affordability, which should sustain traffic at high-frequency, value-oriented formats even if discretionary confidence remains uneven. **99 Speed Mart (BUY, TP RM4.37)** remains our clearest exposure to this trend through its essential-led assortment, frequent household purchases and strong transaction growth. Importantly, the value trade should remain relevant even if macro conditions improve, as households continue to optimise spending amid higher food, utilities and other living costs.

Top picks in the sector

Maintain POSITIVE, favour essentials, scale and pricing power. We retain our POSITIVE sector stance for 4Q26 and prelim CY27. Domestic consumption remains resilient; Budget 2027 should provide further household support and our base-case geopolitical scenario points to gradual easing in energy and freight pressures through CY27. However, the sharp rise in food, feed, packaging and freight costs means the earnings debate is increasingly about margin preservation rather than demand resilience. We therefore favour companies combining defensive demand with scale, procurement advantages and pricing flexibility. Our top picks are **99 Speed Mart (BUY, TP RM4.37)** for value and essential retail exposure, **Leong Hup International (BUY, TP RM1.03)** for affordable-protein demand, and **Nestlé Malaysia (BUY, TP RM116.10)** for defensive food consumption and superior pricing power.

IV. HEALTHCARE ..... Maintain POSITIVE

Localised healthcare operations and medical manufacturing continue to be supported despite global headwinds

Analyst: MBSB Research team

Overall sector influenced by geopolitical conflicts impacting the supply chain of drugs, consumables and machineries

The sector is largely sensitive to: (i) high energy prices, (ii) maritime container bottlenecks, (iii) air freight capacity losses, and (iv) elevating medical inflation. Regardless of how the economic scenarios would pan out, several operational headwinds remain consistent up until the end year, which includes raw material supply disruptions. Synthetic polymers, resins (polypropylene, HDPE), glass, and solvents, which are essential for single-use medical devices, syringes, IV bags, and blister packaging, rely heavily on petroleum processes and raw materials from the Arabian Gulf. Additionally, the rerouting of sea freights increases the risk of delays to distribute Active Pharmaceutical Ingredients (APIs) all over the world, adding approximately 10-14 days in transit times. Even without sea freights, regional airspace closures and cargo hub disruptions would restrict temperature-sensitive biologics, vaccines, and insulin shipments, further forcing expensive air-freight workarounds.

Malaysia is positioned as both exporter and importer; keeping the balance in medical trade

Despite the anticipated headwinds in the last leg of CY26 for the global healthcare sector, Malaysia however dominates a unique position in global health as a major global exporter of medical gloves (accounting for approximately 45% of global supply) while remaining a net importer of active pharmaceutical ingredients (APIs), finished drugs, and advanced medical machinery. Nitrile gloves rely heavily on Butadiene and NBR, of which prices are directly tied to Middle East feedstocks and global energy prices. However, the Straits of Hormuz shipping disruptions create immediate raw material shortages and sharper price spikes. Meanwhile, Malaysian pharmaceutical manufacturers source over 70%–80% of generic APIs from India and China. While regional Intra-Asia trade lanes remain physically open, container shortages and diverted global shipping fleets elevate freight rates into Malaysia. Given these circumstances, we expect that private hospital operators will face rising operational costs, though this could be mitigated by cost passing.

For 4QCY26, we separate our outlook into the following subsectors:

SERVICE PROVIDERS

Medical tourism continues to contribute to private hospitals, despite travel risks

For the remainder of CY26, we noted that patient volumes across private health systems will remain structurally resilient due to the inevitable aging demographics and elective procedure backlogs. However, operating margins could face compression from rising electricity and gas tariffs, higher single-use consumable costs, and wage inflation for clinical staff. As for medical tourism, we expect that, with the end of the year wherein holidays are aplenty, medical tourists would likely travel to Malaysian health hubs. Indonesian medical tourists are expected to remain stable, continuously providing high-margin cash flows to the private healthcare sector. Conversely, with the ongoing conflict between the US and Iran, inbound medical travel from the Arabian Gulf will continue to decline due to flight route disruptions and regional security concerns. While the private sector is mainly shielded from direct headwinds due to its policies in cost-pushing and medical tourism, the public sector still faces the risk of rising import costs which could stretch its procurement budget, leading to longer wait times and deferrals of facility upgrades. Consequently, this could spill over to the private sector, risking overwhelming the system.

PHARMACEUTICALS

Challenges in raw material prices and availability may compress margins

With the high exposure to imports – notably for APIs and key starting materials (KSMs) – from China and India, the direct risk for pharmaceuticals remains on the freight cost and pricing of these raw materials. Additionally, aluminium foil and PVC packaging materials for the drugs face similar cost increases. While long-term government supply contracts i.e. the Approved Products Purchase List (APPL) guarantee sales volume, rigid contractual pricing caps prevent manufacturers from passing along higher API freight and procurement costs. This compresses the manufacturer's gross margins. While discussions to adjustments with the Ministry of Health (MOH) on this procurement cost are ongoing, we expect the contracts to be updated and finalised by 4QCY26 to 1QCY27, in accordance with the uncertainty of the raw material price volatility and availability. We also anticipate that manufacturers are likely to attempt to offset concession margin compression by raising prices in the private clinic and retail pharmacy channels, through direct private trading.

MEDICAL TECHNOLOGY

Freight rates likely to impact imports, but exports from local manufacturers may see upticks

With freight cost spiking over the volatile oil market, we opine that private and public hospitals may delay capital expenditure on advanced diagnostic and therapeutic equipment, such as MRI machines, CT scanners, and linear accelerators towards the end of CY26. High global interest rates from the freight cost are expected to also raise borrowing costs, while supply chain bottlenecks may extend lead times for high-end Western OEMs (from standard 3-month cycles to 6–9 months cycles). Nevertheless, we believe that procurement may resume by mid-CY27, once the market has fully normalised from geopolitical tensions. Conversely, local OEM manufacturers producing consumables, catheters, surgical instruments and diagnostic components would benefit immensely from export trades, primarily from the global China+1 supply chain diversification. These strong orderbooks within the Asia-Pacific region are poised to mitigate the margin pressures from high freight surcharges to Western markets.

GLOVES

Raw materials price hike mitigated by ASP increases

The gloves sector is inimitably set at the intersection of the US trade policy, petrochemical feedstock dynamics, and maritime chokepoint risks. One of the major structural catalysts highlights the subsector's 4QCY26 outlook – the US Section 301 tariffs on Chinese medical gloves, which had been raised to 120% within CY26. This drives effective Chinese export prices past USD25 per 1000 pcs, giving Malaysian producers (average priced at USD18–21 per 1000 pcs) a major competitive advantage. To note, nitrile gloves account for over 80% of Malaysian production, in which the product depends heavily on Nitrile Butadiene Rubber (NBR) as its raw material. NBR prices track Asian butadiene monomer, which is directly tied to Brent crude oil prices and Middle Eastern naphtha feedstocks. As such, the volatile raw material prices as well as its availability will remain a major risk for the subsector. Nevertheless, large, highly automated producers have the capability to absorb margin lags through scale and cash reserves, using minor ASP increases to protect overall gross margins for the remainder of the year.

Preliminary 2027 outlook: supply chain resilience to be tested

Heading into CY27, we opine that Malaysia's healthcare sub-sectors will be heavily dictated by geopolitical stability, input cost inflation, and maritime logistics. In a baseline scenario, when a de-escalation of regional conflict is expected, we noted the following changes to happen: (i) stabilized raw material and freight lines, (ii) normalized ASPs for gloves with margins recovering to 12%–15%, (iii) hospitals to resume steady capex expansion, supported by rebounding medical tourism, (iv) pharmaceuticals benefit from normalized API delivery times from India and China, and (v) MedTech order flows recover with regular capital equipment deliveries. In the best-case perspective, the most to benefit would be the glovemakers, over an accelerated margin expansion driven by stable NBR supply and diverted US orders. Meanwhile, hospital operators are anticipated to expand operational capacity without inflationary margin drag. Conversely, in the worst-case scenario, severe regional supply chain breakage would create a systemic crisis, namely: (i) the shut-in of NBR feedstock triggered by plant shutdowns and global glove shortages, (ii) hospitals entering operational emergencies with elective procedures paused due to severe consumable deficits, (iii) MOH would be forced to implement national drug rationing amid broken API channels, and (iv) local MedTech component imports and device exports halted due to high freight rates at minimal availability.

Maintain POSITIVE. Top picks in the sector: KPJ Healthcare and Hartalega

All in all, we maintain a **POSITIVE** stance on the healthcare sector. Our top picks are **KPJ Healthcare (BUY, TP:RM3.70)** and **Hartalega (BUY, TP:RM1.73).**

We like KPJ Healthcare from its focus in domestic expansion of their hospitals, driving strong revenue and earnings growth from local insurance and corporate patients. Despite only having an average of less than 10% of medical tourists requiring their services, its localised footprint and matured assets make for a stable earnings expectation, especially when global travel and flight corridors are disrupted under the worst-case scenario. Meanwhile, Hartalega has the highest US market exposure (~60%) among the big four glovemakers, making it the direct beneficiary of US tariff diversions from Chinese suppliers. The group's strong cost discipline and high plant automation allow it to absorb energy and freight inflation better than smaller peers. On the baseline and best-case scenario, Hartalega is poised to capture demand and volume recovery, while under the worst-case scenario, the group has the capability to mitigate the headwinds through pricing power to pass costs to its US buyers.

V. INSURANCE ..... Maintain POSITIVE

Growth over Margins

Analyst: Samuel Woo

Topline should grow rapidly, pushed by a strong macroeconomic outlook. TIV figures have recovered, and currently both Life and General premium take-up is great. However, expect margin compression at the same time, coming from a combination of increased claims and reinsurance costs, as well as possible investment income volatility. Our forecasts suggest a 7-9%yoy growth in topline revenue, but the bottom line to remain flattish.

Stronger topline growth, weaker bottom line

The two most vulnerable segments are the motor segment (due to reliance on overseas-manufactured parts) and the medical segment (due to logistical disruptions affecting drug raw materials and medical equipment shipments).

Claims inflation remains the most pressing downside – watch for investment income volatility too

Apart from LPI's ongoing special dividend programme, ALLZ, STMB, and MNRB have signalled positive changes of their own. If it wasn't for regulatory delays, ALLZ's 1QFY26 dividend could have been issued as part of the FY25 cycle. This implies FY25's payout could have been a higher 45%, which is closer to pre-FY24 levels and a lot higher than FY25's reported 32% payout. STMB wants to introduce interim dividends and increase its dividend payout above 40%. MNRB's RM1.64b disposal of Takaful Ikhlas is confirmed to involve capital return intentions.

Dividend upsides aplenty.

VI. OIL & GAS ..... Maintain POSITIVE

Elevated crude oil and LNG prices to positively uplift Upstream and Midstream divisions

Analyst: MBSB Research team

The current geopolitical tensions are expected to directly disrupt the normal transit of approximately 20.3mbpd of crude oil and refined products through the Strait of Hormuz and Bab el-Mandeb, which represents roughly 20% of global liquid petroleum consumption and 20% of global Liquefied Natural Gas (LNG) trade. To note, the Strait of Hormuz handles most of the transits of crude, while regional

Brent crude oil price increased but supply disruption from the Middle East remains

bypass can only reroute approximately 4.7-5.0mbpd. Under an expectation of a severe closure, upwards of 5-7mbpd of Middle Eastern crude and condensate would face physical shut-ins, as onshore and offshore storage fills the unmoveable crude to maximum capacity. The blockades also cause supplies of naphtha, LPG and middle distillates (diesel and jet fuel) to Asia and Europe to be severed. As a result, Asian and European refiners face sky-high crude feedstock costs and record-high crack spreads. Additionally, Qatar's inability to freely export LNG creates a regional pricing divide. Asian (JKM) and European (TTF) natural gas benchmark prices surge, while US Henry Hub prices remain insulated and structurally depressed due to domestic supply glut.

Chart 29: Brent Crude Oil Price (USDpb) VS LNG JKM (USDpMMBtu) (Forecast)

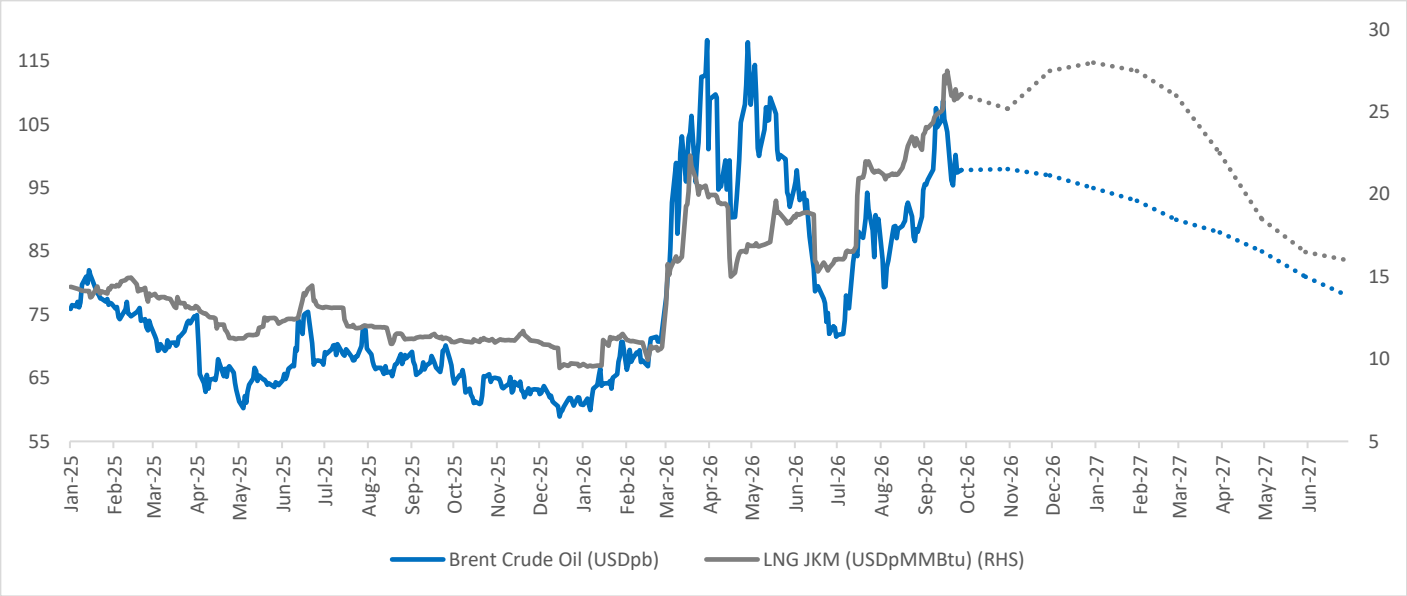


Chart 30: Short-Term Charter Rates (USDpd)

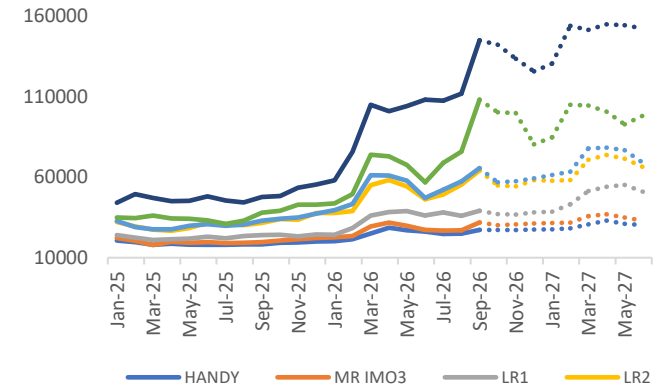
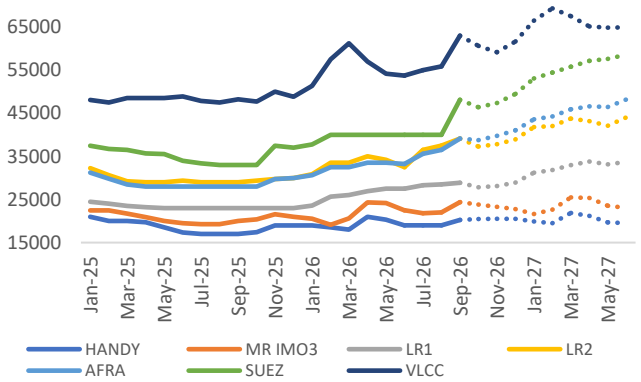


Chart 31: Short-Term Charter Rates (USD pd)



While Malaysia is a net exporter of crude (Tapis blend) and Liquefied Natural Gas (LNG), it relies heavily on imports for refined products, middle distillates, and specialized petrochemical feedstocks. For our 4QCY26 outlook, we expect Upstream operators would continue to benefit from: (i) elevated USD80–100pb Brent crude prices, (ii) robust offshore support vessel (OSV) and jack-up rig charter rates, and (iii) sustained PETRONAS capex execution. Meanwhile, Midstream tanker operators will continue to gain strong tailwinds from: (i) Cape of Good Hope

Malaysian Upstream and Midstream divisions continue to benefit from market volatility in 4QCY26

shipping reroutes, (ii) increased long-haul storage demand, and (iii) surging VLCC tanker freight rates. However, Downstream refiners and petrochemical producers could potentially face severe margin compression due to high feedstock costs, though we expect this to normalise in tandem with demand recovery and maturing sustainable petrochemical products by CY27.

We elaborated on our 4QCY26 outlook for the sector divisions as below:

UPSTREAM

OGSE may see increased uptake as E&P operations remains strong

Exploration & Production (E&P) players are expected to continue riding on the elevated crude oil prices. PETRONAS and Production Sharing Contract (PSC) operators benefit immediately, especially as premium on Malaysia's Tapis crude expands in line with the increasing demand from Asian refiners for low-sulphur, non-Middle Eastern barrels. Meanwhile, Floating Production Storage and Offloading (FPSO) charter hires operate under long-term take-or-pay contracts, which continue to insulate them from short-term commodity swings. However, operators deploying newbuild and conversion assets in international waters may face severe supply chain delays for long-lead equipment and higher debt financing costs. To balance out the operational cost of E&P amid the volatile oil market, PETRONAS is expected to maintain high capex commitments for brownfield maintenance (MCM). This would benefit OGSE companies with a higher orderbook for fabrication, pipe-coating and offshore engineering; offset by fixed-price contracts causing margin compression due to raw material price inflation, notably steel.

MIDSTREAM

Ton-mile charter rates and storage farm demands to surge on the back of disrupted routes

Storage terminal operators continue to benefit as global oil traders seek strategic tank farm capacity outside the Middle East. With the ongoing uncertainties in said region, we opine demand for storage farms would remain robust for the remainder of the year. Meanwhile, energy shipping is highly likely to see skewed charter rates based on ship size, demand and reroutes. VLCC and Suezmax charter rates had surged >100%yoy in the last month (Aug CY26), and we expect this sharp increase in ton-mile demand will remain in 4QCY26. However, for LNG Carriers, while highly profitable as LNG spot prices are on the rise in tandem with crude oil, the vessels are tied to Qatari export routes, with visible risk of short-term operational disruptions. For regulated gas utilities players, since the pipelines operate under the Incentive-Based Regulation (IBR) framework, the companies involved are insulated from gas price fluctuations. However, we noted that industrial gas distributors could face margin friction if high spot LNG costs must be passed on to non-tariff manufacturing customers.

DOWNSTREAM

Retail fuel remains steady, but petrochemicals may face risk of uncontrolled feedstock prices

Petrochemicals are expected to face mixed headwinds. The expected high oil prices in 4QCY26 could drive up regional polymer and olefin prices, but high naphtha and gas feedstock costs could compress spreads. Additionally, global supply chain disruptions cripple manufacturing demand, capping product ASP gains while feedstock costs stay elevated. Meanwhile, refiners benefit from wide crack spreads (mogas, diesel, jet fuel) on local ground. However, facilities heavily reliant on Middle Eastern heavy crude imports may face operational bottlenecks and volatile feedstock costs. For Malaysia's retail fuel, since pump fuel pricing is under the Automatic Pricing Mechanism (APM), we do not expect the volatile oil prices to be an obstacle, as the fixed margins is per Litre sold. However, should Brent crude oil

maintain elevated within USD90-150pb, the Malaysian Government's targeted subsidy mechanism would face severe fiscal strain.

Preliminary 2027 outlook: upstream and midstream remain resilient, downstream to be watched

Heading into CY27, we opine that the volatility of the oil market would remain persistent, and so will the operational resilience of the sector. On the baseline of crude oil averaging around USD80-90pb, the Upstream players would benefit the most, primarily supported by PETRONAS's capex execution. Upstream OGSE companies would also receive a positive spillover, notably on the operation of Offshore Service Vehicles (OSV) and execution of maintenance services. Despite the mixed impact on FPSOs and tankers in CY26, we believe the charter rates will begin to normalise. The best-case scenario commands crude oil to average around USD90-110pb, where field operators and pure-play Upstream companies to generate cash windfalls, while Midstream terminals could reach over 90% storage occupancy on long-route diversions. Conversely, in the worst-case scenario, wherein crude oil skyrockets up to USD150pb, a global industrial recession would be triggered, impacting midstream tankers and drydocking activities, as well as halting newbuilds and conversion projects. Meanwhile, we expect petrochemicals and retail fuel demand to only benefit at the baseline, and any increase in crude oil prices could risk a higher feedstock cost and a tighter fiscal budget, subsequently collapsing the Downstream division under economic destruction.

Maintain POSITIVE. Top picks in the sector: Dialog and MISC

All in all, we maintain a **POSITIVE** stance on the oil and gas sector. Our top picks are **Dialog Group (BUY, TP:RM2.57)** and **MISC (BUY, TP:RM9.22).**

We like Dialog for its invulnerability against elevated geopolitical friction, as international oil traders and national oil players would scramble for independent deepwater storage capacity and blending tanks outside of the conflict zones in Europe and the Middle East. Dialog's tank farm storage rates and occupancy levels have the potential to spike above 90%–95%, with additional capacity to add. Additionally, its brownfield production sharing contracts could capture high netback realizations should Brent crude trade in the USD90–110pb range. Meanwhile, for MISC, the key catalyst would be on the ton-mile demand surges, as route disruptions in the Middle East would force global petroleum trade routes to divert further. MISC has the potential to capture the ultra-high spot charter rates, notably for VLCC and product tankers. As a top-tier operator of FPSO units and LNGCs, MISC holds long-term, fixed-rate charter contracts that insulate its base cash flow from short-term spot volatility, while capturing rate upside on uncontracted spot tonnage. Both companies are expected to remain resilient in any economic scenarios, making them a strong and defensive choice for the sector.

VII. PLANTATION ..... Maintain POSITIVE

The Price Conundrum - Super El Nino vs Psychological Stockpile Pressure

Analyst: MBSB Research team

Stockpile pressure tempers CPO price upside

Moving into 4QCY26, a delayed peak in FFB output could keep CPO prices in check at around RM4,700-4,800/tonne. Near-term downside risk remains largely demand-driven. Should exports continue to show little response to palm oil's attractive price discount, stockpiles could build further and breach the psychological 3.0m tonne level, capping price upside. We forecast CPO prices to

average RM4,736/tonne (+4.2%qoq) during the quarter, below industry expectations of RM5,000/tonne, as the weight of elevated inventories tempers concerns over the impending "Super" El Nino.

Firm OER cushions uneven regional output

Based on MPOB data, Malaysia's production remained broadly flat on a year-to-date basis, despite recovering to 1.86m tonnes (+1.4%mom) in August. Performance remained uneven across regions, with softer output in Peninsular Malaysia (-6.1%yoy) and Sabah (-6.0%yoy), while Sarawak (+13.4%yoy) provided some support. Meanwhile, OER held firm at 20.01% (Aug-25: 19.80%), partly cushioning weaker crop intake. Relatively drier conditions may have supported oil recovery through lower fruit moisture content, although sustained dryness would pose a different challenge to subsequent crop development.

Delayed crop meets looming weather risks

We expect production to remain volatile in 4QCY26, as the delayed peak crop season coincides with the anticipated strengthening of El Nino in November-December. NOAA's September outlook places a 75% probability on a very strong event during Dec-26-Feb-27, keeping the risk of prolonged dry spells in view into early CY27. Recent showers have provided some relief to Malaysian estates, helping to ease moisture stress in oil palms. Nevertheless, rainfall consistency remains key, with the delayed impact of prolonged dryness on FFB yields likely to become more apparent in CY27.

Wide discounts fail to revive exports

On inventories, stockpiles continued their upward march in August to 2.82m tonnes (+7.5%mom, +28.3%yoy), as exports softened to 1.29m tonnes (-7.5%mom, -2.4%yoy). Buying interest remained lacklustre despite palm oil trading at sizeable discounts to SBO of USD521/tonne in August and USD571/tonne in July. August's discount was approximately 148% above its 3-year average of USD210/tonne, yet this has not translated into a meaningful export recovery. Until demand picks up, elevated stockpiles are likely to remain a psychological drag on CPO prices, even as weather risks build.

Preliminary 2027 outlook

We remain (tactical) Positive on the Plantation sector heading into CY27, with an unchanged CY26/CY27 CPO price assumption of RM4,400-RM4,350/tonne. Elevated CPO prices and steady OER should continue to support upstream earnings, although crop availability will remain important for mill utilisation and fixed-cost absorption. Cost pressures are likely to persist through 1HCY27, driven by higher fertiliser tender prices and diesel-linked logistics costs, alongside elevated freight and insurance charges amid tensions in the SOH. Planters with Indonesian exposure also face heightened forestry and land-use regulatory risks, as highlighted by developments involving GENP and TSH. On balance, we believe the supportive CPO price outlook continues to warrant exposure to the sector.

Maintain POSITIVE. Top picks: Ta Ann (BUY, TP: RM6.72) Sarawak Plantation (BUY, TP: RM5.36).

Beyond near-term inventory pressure, Brent's rebound to USD90–110/bbl improves biodiesel economics, strengthening PO's appeal as an energy feedstock and lending support to CPO prices. Nevertheless, export recovery remains key to easing Malaysia's elevated stockpiles. Our top picks remain **Ta Ann (BUY; TP: RM6.72) and SPB (BUYR; TP: RM5.36)**, offering purer upstream exposure and stronger earnings sensitivity to CPO prices. Both are predominantly Malaysia-centric, with their East Malaysia footprint providing relative resilience against El Nino-related disruptions while positioning them to benefit from further CPO price upside. Maintain (tactical) Positive.

VIII. REIT ..... Maintain POSITIVE

Compelling yield story remains intact

Analyst: Jessica Low Jze Tieng

Decline in KL REIT Index presents buying opportunity

KL REIT Index declined by -3.8% in August 2026 due to sharp rise in the 10-year Malaysian Government Securities (MGS) yield, following higher US Treasury yields, which reduced the relative attractiveness of REITs. Year-to-date, KL REIT Index declined by -7% which we think presents a buying opportunity for investors. REITs fundamentals remain resilient, supported by healthy earnings growth amid a strong retail market environment. In addition, REITs offer stable and recurring income, making them attractive to investors seeking consistent returns.

Positive outlook for retail REITs

Earnings of REITs were encouraging in 1HCY26 with most of the REITs posted earnings growth in 1HCY26. Notably, retail REITs posted good performances with IGB REIT registered highest earnings per unit (EPU) growth of +25.0% in 1HCY26, driven by positive rental reversions at Mid Valley Megamall and The Gardens Mall, as well as contribution from the newly acquired Mid Valley Southkey Mall. Pavilion REIT posted the second-highest EPU growth of +10.9%, supported by continued strength in its retail assets, while Sunway REIT recorded +9.9% EPU growth, underpinned mainly by its retail segment. Overall, retail-focused REITs continue to perform well amid a healthy domestic retail environment. Looking ahead, we expect the sector's earnings outlook to remain positive, supported by resilient operating performance and continued positive rental reversions.

Yield appeal strengthens

Gross aggregate yield of KL REIT Index increased to 6.2% in September 2026 from 5.2% in early of August 2026 due to declining of KL REIT Index to the lowest level in a year. Despite the 10-year MGS yield has been increasing and spiked to above 4% in September 2026, the declining of share price of REITs have make the spread between gross aggregate yield of KL REIT Index and 10-year MGS yield widened. Note that the spread widened to 230bps in September 2026 from 150bps in July 2026 which is significantly higher than 8-year average yield spread of 163bps. We believe the wider yield spread will make REITs more attractive to investors looking for income. As a result, REITs are expected to remain appealing to investors seeking stable and attractive returns.

Preliminary 2027 outlook

We remain positive on the REIT sector's outlook for 2027. Retail REITs are expected to continue delivering earnings growth, supported by positive rental reversions and healthy consumer spending, which should sustain tenant sales and shopper traffic. Meanwhile, downside risks for the office segment appear limited, with rental reversions expected to remain broadly flat. The industrial segment should continue to provide stable earnings, underpinned by healthy demand for industrial space in Malaysia. On the other hand, the hotel segment is expected to see a modest recovery in 2027, following the impact of geopolitical tensions on the sector in 2026.

Maintain POSITIVE. Top picks: Pavilion REIT (BUY, TP: RM2.00) Sunway REIT (BUY, TP: RM2.39).

We maintain a **POSITIVE** view on the REITs sector, supported by its strong fundamentals and stable earnings outlook. We expect REIT earnings to remain resilient, backed by healthy retail market conditions, especially for retail-focused REITs. REITs should also continue to attract investors due to their defensive nature,

stable income, and recurring earnings. These qualities are likely to support investor interest and help limit downside risk to REIT share prices. We also expect the widening yield spreads to enhance the attractiveness of REITs, supporting continued investor demand for their stable income and attractive returns. Our top picks for the sector are **Pavilion REIT (BUY, TP: RM2.00)** and **Sunway REIT (BUY, TP: RM2.39)**.

IX. TELECOMMUNICATION ..... Maintain POSITIVE

Immaterial earnings impact from DNB

Analyst: Martin Foo Chuan Loong

MNOs on a better footings. Top pick: Celcomdigi Bhd (BUY, TP: RM3.54)

We are maintaining our POSITIVE stance on the telecommunication sector with preference on the Mobile Number Operators (MNOs) i.e. **Celcomdigi Bhd (TP: RM3.54) and Maxis Bhd (TP: RM4.31)**. Meanwhile, we have NEUTRAL call on Axiata (TP: RM1.90) and TM (TP: RM 8.31). Going into 4QCY26, all eyes will be on the potential impact on the inclusion of DNB's financials into the MNOs. On a positive note, we concur with the guidance shared by the MNOs that the potential 4QCY26 impact would be immaterial relative to FY26 financial performance. The ongoing effort to defend the revenue base as well as active effort to control cost, should be sufficient to overcome the potential earnings risk. We do not discount the probability that there could be earnings accretive m&a, especially from Maxis, that could further grow the earnings base. Meanwhile, the telcos also carry commendable dividend yield ranging from 4.3% to 6.6% which could further enhance the appeal.

Main support from postpaid revenue

For the MNOs, the consumers mobile revenue will remain the backbone of the revenue which made up more than 70% of the total revenue. Withing the consumer mobile segment, postpaid will be the primary contributor which carry higher revenue mix as compared to prepaid. With the ongoing pre-to-post migration effort, postpaid revenue is expected to steadily grow, though there will be slight drag on postpaid revenue. On the flipside, we remain cautious on the outlook of prepaid. Apart from pre-to-post conversion, we view that competition to remains intense on the prepaid market. There may need to be heightened effort to defend the respective prepaid market share.

Growing the enterprise solutions business

Making reference to the latest quarterly result, we have seen commendable revenue performance stemming from enterprise solutions across TM, Maxis and CDB. Nonetheless, there is mixed performance from enterprise mobile. While TM and Maxis manage to grow the enterprise mobile business, CDB posted a slight contraction. Nonetheless, we are not overly concerned as the main focus for the telcos should be on growing the enterprise solutions business segment as opposed to the enterprise mobile. We view that enterprise mobile should serve as the revenue base for the enterprise business while growth will primarily be driven by the solutions business. Thus, future growth will be dictated by the array of connectivity and solutions made available.

Looking into strict cost management to grow the bottomline

Apart from growing the revenue, effort boosting the earnings should be further completed by having the right cost structure. Thus, cost excellence initiatives are integral across all telcos. In this regard, Maxis has been consistent in sustaining the

operational efficiencies as seen in the steady rise in net profit margin. On a positive note, Celcomdigi are also guiding higher cost savings target of RM470m (from RM450m) for FY26 across COGS and Opex with the bulk of the savings to be seen in 2HFY26. This should translate into better quarterly earnings performance. Meanwhile, TM should have posted more favourable cost-to-revenue ratio if it has not been plague by strategic initiatives and one-items. Nonetheless, we anticipate the cost-to-revenue ratio to normalise in 4QCY26.

Completion of DNB's share transfer agreement?

The share transfer agreement is expected to be ontrack for completion towards the end of 3QCY26. This would mean that the MNOs would start equity accounting for DNB's financial into their respective financial statements. Based on the latest guidance from the MNOs, we gathered that the impact of the equity accounting in 4QCY26 would have immaterial impact on the full year FY26 earnings performance. Moreover, for CDB, the impact from the ongoing cost structure transformation should be more than sufficient to make up from the financial loss of DNB. Meanwhile for Maxis, we deduce that, apart from the strict cost discipline, the group is also looking into potential M&A on the enterprise front to boost the earnings.

Preliminary 2027 outlook

We anticipate the prevailing market trend to continue to be seen into the succeeding year. The consumer mobile business as well as the home fibre business will remain the main revenue generator. We should also see better trend from the enterprise business as the telcos continuously upgrade their offerings. With more DC coming online, telcos should enjoy better connectivity-based income. Notably, the main concern will still revolve around DNB as 2027 will represent the first full year impact. This should be overcome by relentless pursuit to have a more favourable cost structure and/or earnings accretive acquisitions.

XI. UTILITIES and RENEWABLE ENERGY ..... Maintain POSITIVE

CRESS and NewGen26 to electrify the sector

Analyst: Royce Tan Seng Hooi

Electricity demand remains robust

Electricity demand rose +2.3%yoy in 1HCY26 to 133.90TWh, driven largely by the commercial sector as economic activities accelerate. Despite the rapid growth, data centres (DCs) still account for only 6% of total electricity sales, which will see headroom for further contribution as committed capacity progressively ramps up. We believe the sustained build-out of DC capacity should continue to underpin electricity demand growth while supporting a higher level of grid and contingent capex over the medium term. We expect demand to improve remain robust in for the remainder of CY26, with a +5.4% growth to 141.87TWh. In CY26, we expect electricity demand to grow by a further +4.9% to 148.86TWh.

Demand from data centres to grow progressively

We expect DCs to progressively grow into becoming the main driver of electricity demand. Actual load from operational facilities reached 1.26GW in Jun-26, (2.1x yoy) while electricity consumption also grew 2.1x yoy to 4.0TWh in 1HFY26. TNB's secured pipeline now stands at 61 projects representing 8.35GW of maximum demand, of which 42 projects totalling 5.65GW have already been connected. Going by news reports, the government has approved another 5GW of data centre capacity.

A one-off cost absorption by TNB

While the Automatic Fuel Adjustment (AFA) is meant to protect Tenaga Nasional (TNB) from fuel price fluctuations, a temporary diversion to the mechanism and CSR initiative will see TNB absorbing about RM120m–150m over the four-month period from Sep-26 to Dec-26 following the Government's decision to temporarily raise the electricity bill protection threshold for domestic consumers from 600kWh to 800kWh per month. The measure is intended to ease cost-of-living pressures amid higher household electricity consumption, driven partly by hotter and hazier weather conditions. The estimated impact comprises the AFA differential and retail charges associated with the expanded protection. We view this measure as one-off and a manageable impact by TNB. Moving forward, the focus will be on a on a more permanent AFA framework from Jan-27 to address the current design gap.

A slice of the cake for everyone

We expect the Corporate Renewable Energy Supply Scheme (CRESS) Acceleration Package to drive a surge of CRESS project announcements over the next two quarters. This is mainly due to the 31st Dec 2028 deadline set by the Ministry of Energy Transition and Water Transformation (PETRA) in order for developers to enjoy the preferential system access charge (SAC) at 14 sen/kWh. The next few months will see developers scrambling to get these projects to financial close as quickly as possible. The projects that already have the land, the off-taker and a viable grid connection will have a significant head start. We should start seeing more CRESS projects and EPCC contracts being announced, at least until 1H27. The bottleneck will shift towards project execution and EPCC players are expected to have their hands full until 2029. While CRESS is expected to be huge, it is not the only one in the construction pipeline. Contractors are expected to rush LSS5 for COD in 2027, LSS5+ for 2027 and 2028, CRESS by 2028 and LSS6 by 2029. We view that there are enough jobs to go around for everyone.

Maintain POSITIVE. Top pick: Tenaga Nasional (BUY, TP: RM16.31)

We maintain our POSITIVE stance on the Utilities sector and Renewable Energy subsector, underpinned by a sustained electricity demand growth and a strong multi-year renewable energy pipeline. Demand fundamentals remain robust, supported by the commercial sector and an accelerating ramp-up in DC load which provides long-term visibility for generation, transmission and distribution investments. While no new gas-fired capacity is expected in CY27, we expect the winners of the NewGen26 tender to be announced towards the end of CY26 or early CY27, which will generate further excitement for the sector. The next major wave of new generation is concentrated from 2028 to 2031, indicatively at 8.3GW. We have BUY calls on **Tenaga Nasional (TP: RM16.31)**, **YTL Power International (TP: RM5.98)**, **Pekat (TP: RM2.46)** and **Samaiden (TP: RM2.45)**. The recent rally has taken Pekat and Samaiden above our prevailing target prices. We nevertheless retain our positive fundamental view on these names, given the strengthening outlook and identifiable catalysts ahead. Our target prices are currently under review as we reassess our earnings assumptions and valuation parameters.

NEUTRAL CALL SECTORS

XII. AUTOMOTIVE ..... Maintain NEUTRAL

Localisation takes the wheel

Analyst: Amalia Zarir

EV adoption accelerates amid localisation push

Malaysia's EV adoption continued to gain traction, with EV registrations reaching a record 8.8k units in Aug-26 (+155.0%yoy), accounting for 11.4% of monthly vehicle registrations. Cumulatively, EV registrations more than doubled to 47.5k units in 8MCY26, already surpassing full-year CY25 levels. Policy has also shifted towards localisation following the expiry of CBU EV tax incentives and tighter CBU import requirements from Jul-26, which should progressively favour locally assembled EVs. We view this positively for OEMs with established or expanding CKD capabilities, while CBU-dependent brands could face greater pricing pressure.

Macro stability to support vehicle demand

The domestic backdrop remains supportive, with our house forecasting GDP growth of +5.1% in CY26 and the OPR remaining at 2.75%. Meanwhile, the government restored the monthly BUDI MADANI fuel quota from 200 litres to 300 litres from Sep-26, with subsidised RON95 and diesel maintained at RM1.99/litre and RM2.10/litre respectively. This should help cushion consumers from elevated energy prices.

Preliminary 2027 outlook

We expect vehicle demand to remain resilient but normalise further in CY27, supported by domestic consumption and our house GDP growth forecast of +4.6%. EV penetration should continue rising as the market transitions towards locally assembled models, benefiting players with established CKD ecosystems while intensifying competition for incumbent marques. Under S1, lower energy prices should also help contain inflationary pressures and support household purchasing power.

Maintain NEUTRAL. Top pick: MBM Resources (BUY, TP: RM6.14)

TIV reached 530.5k units in 8MCY26 (+1.7%yoy), equivalent to c.67% of our full-year forecast and broadly in line with expectations. We continue to expect CY26 TIV of c.790k units (-3.7%yoy), versus MAA's revised forecast of 800k units (-2.5%yoy), as we expect sales momentum to moderate following four consecutive years of record vehicle sales. **MBM Resources Berhad (BUY, TP: RM6.14)** remains our top pick, supported by Perodua's resilient mass-market demand, favourable JPY exposure, undemanding valuation and attractive dividend yield of +9.0%.

XIII. PROPERTY ..... Maintain NEUTRAL

Neutral outlook amid modest growth prospects

Analyst: Jesssica Low Jze Tieng

Stable demand but moderating growth

Total loan application for purchase of property remains stable at RM382.5b in 7MCY26 which represents a marginal +2.2%yoy growth. Overall, loan application is expected to record a marginal growth in CY26 after growth of +3.4%yoy in CY25. Property demand should remain on a relatively stable footing, supported by underlying housing needs. However, consumers continue to adopt a cautious

approach amid ongoing cost pressures and affordability concerns, which could weigh on purchasing decisions and limit growth momentum in the near term.

Less robust earnings outlook ahead

We observe mixed earnings performance among property developers in 1HCY26. While some developers recorded stronger profitability supported by gains from land disposals, others reported weaker results due to margin compression and operational challenges. Looking ahead, the recognition of land sale gains by certain developers may provide earnings support and help cushion potential weakness in contributions from their core property development businesses. Nevertheless, we expect the sector's earnings outlook to be less robust, as revenue growth may be affected by softer home-buying sentiment, while cost pressures are likely to persist amid elevated oil prices and a challenging operating environment.

Property overhang remains elevated

According to data released by the National Property Information Centre (NAPIC), the number of unsold completed residential units increased for the seventh consecutive quarter since 4Q2024, rising to 33,094 units in 2Q2026 from 32,801 units in 1Q2026. The figure was also significantly higher than the 26,911 units recorded in 2Q2025. Similarly, serviced apartment overhang rose sharply to 23,375 units in 2Q2026 from 19,263 units in 1Q2026, mainly driven by higher overhang levels in Kuala Lumpur and Selangor. We continue to view the rising property overhang as a key downside risk to the sector, as the growing inventory of unsold units may point to emerging oversupply concerns. This could dampen developers' appetite for new launches, particularly in markets with elevated supply, and potentially weigh on sales growth and earnings visibility going forward.

Preliminary 2027 outlook

We see that outlook for the sector in 2027 to be neutral. While demand is expected to remain relatively stable, growth is likely to be modest as consumers stay cautious on big-ticket purchases amid the elevated cost of living. Consequently, sales and earnings growth are expected to be less robust. Meanwhile, persistent cost pressures may continue to weigh on margins, while rising property overhang could constrain pricing power and dampen developers' appetite for new launches. Overall, we expect sector performance to remain supported by underlying demand, albeit with several challenges that could limit upside potential.

Maintain NEUTRAL. Top picks: Matrix Concepts (BUY, TP: RM1.55), IOI Properties Group (BUY, TP: RM4.64) and Mah Sing Group (BUY, TP: RM1.40)

We maintain our **NEUTRAL** stance on the property sector given the absence of strong catalysts to drive a significant improvement in sector performance. Softer consumer sentiment amid rising living costs and household expenses could temper property demand and moderate sales momentum in the near term. **Our top picks for the sector are Matrix Concepts (BUY, TP: RM1.55), IOI Properties Group (BUY, TP: RM4.64) and Mah Sing Group (BUY, TP: RM1.40).** We see value in Matrix Concepts as the MVV City development remains a key near-term catalyst, while ongoing contributions from its Sendayan and Klang Valley developments should provide a stable earnings base and support steady earnings growth. Besides, dividend yield is attractive at 6%. Meanwhile, earnings outlook for IOI Properties Group is expected to support by land monetization. The listing of IOIPG REIT should help reduce IOI Properties' net gearing from the relatively high level of 0.89x recorded in 4QFY26. We also like Mah Sing for as we see healthy earnings outlook for Mah Sing, underpinned by progressive revenue recognition from its robust sales of M Series projects.

XIV. TECHNOLOGY ..... Maintain NEUTRAL

Limited upside for the sector at this juncture

Analyst: Martin Foo Chuan Loong

Limited upside for the sector at this juncture. Top pick: Inari Ametron Bhd (Buy, TP: RM2.95)

We maintain our NEUTRAL recommendation on the technology sector. The growing global semiconductor sales (GSS) indicated that the sector fundamental remains solid, bolster by the huge surge in the AI and DC infrastructure spending. To recall, WSTS has anticipated 2026 GSS to grow strongly by +89%yoy to USD1.5tn. This positivity, however, has led to heightened demand of talent. Due to the sudden spike in demand, there is a severe talent crunch which Malaysia is also experiencing. As such, there is difficulty in fulfilling the customer demand, which in turn could limit the earnings growth potential. Additionally, we view that there is some degree of competition among the neighbouring countries who seek to deepen their respective presence in the semiconductor supply chain. There is also going concern on that the current pace of AI development would lead to safety issue as cases of AI agents going rogue has begun to surface. On another note, the smartphone market is expected to remain on the downturn though there is a silver lining for the premium smartphone manufacturers. We gather that Samsung and Apple who has managed to grew their market share at the expense of the Chinese peers. Last but not least, we view that there is disparity between the share price performance and earnings performance of semiconductor companies under our coverage. This has led to heightened PER valuation of around 40x which is above the five-year mean. Thus, any let up in 2H26 earnings performance could potentially led to some pullback in share price performance. All factors considered, we maintain Inari as our top pick for the sector.

GSS on track to hit target

July 2027's GSS hit new high of USD146.8b, an increase of +135.1%yoy and +6.4%mom. This lead to 17 months of sequential growth. The sales growth was mainly stemming from the Americas, Asia Pacific and China. Coupled with 1H26 sales of USD701.9m, GSS totalled up to USD848.7m for the first seven months of 2026 which made up 56.2% of WSTS full year sales projection of USD1,511.2m. Given the run-rate, we view that GSS is track to meet the sales target for 2026. Moving forward, we view that demand continues to be underpin by AI infrastructure and DC buildouts.

Pacing the AI frontier

In a more recent update, there has been concern voiced by notable figures in the AI realm. Anthropic Co-founder and CEO Dario Amodei are one of the earliest who mentioned that development of AI models should be carried out at a more modest pace. Apart from him, Sam Altman of OpenAI, Elon Musk of SpaceXAI, and Demis Hassabis of Google DeepMind also shared a mutual concern. Allowing more time to allow will provide companies and Governments to assess and address the potential security risks. Given the rapid pace of AI-led development, there has not been a proper and robust safety protocols as well as regulation in placed. This is in relation to various newswires reporting of AI agents going rogue. Should this take place, we are of the view that such development may limit the future earnings growth.

Smartphone market remains challenging.

Smartphone market remains challenging. Citing the latest 2Q26 figure, the global smartphone shipment contracted by -6.7%yoy to 277.5m units. As expected, the ongoing memory crunch has impacted sales of major Chinese brands such Xiaomi, Oppo and Vivo who posted double-digit contraction in sales. Conversely, Samsung

and Apple manage to grow its shipment and market share during the said period. Samsung's smartphone sales was shielded by better supply availability and delayed launched of the S26 series into 2Q26. In the budget segment, Samsung also faced less competition from its Chinese peers due to limited offering by the latter. Meanwhile, Apple's stronger shipment was supported by iPhone 17 as well as stable pricing. This should indicate positive impact on Apple supply chain. For 4Q26, the launch of iPhone 18 and DUO could led to better shipment figure for Apple. That being said, the positivity could be partially dragged by the higher price tag as well constrained supply, especially for iPhone Duo.

Talent shortage to cap future earnings growth

In recent times, the explosive growth seen in the AI and DC space has led to severe structural talent shortage. This issue is further compounded with the ongoing initiative to move up from back-end assembly and testing into IC design, advanced packaging and innovation-led manufacturing. According to newswire, the local industry needs around 50,000 skilled engineers to meet current demand while engineering graduates only come up to 5,000 annually. On this note, the National Semiconductor Strategy (NSS) targets training 60,000 highly skilled engineers by 2030. With the talent shortage, we view that local semiconductor companies may not be able to fulfil all the orders given by the customers. This, in our view, would limit the potential earnings upside.

Competition in the region

In view of the prevailing geopolitical risk, the diversification strategy has gone beyond "China plus one" into "no China no Taiwan" in order to protect critical supply lines. As a result, many multinational corporations (MNC) has turned to Southeast Asia countries to build and/or sourced secondary facilities in order to promote supply chain continuity. Locally, Malaysia has built a commendable semiconductor ecosystem with stronghold in the OSAT space. Nonetheless, to remain competitive, there has been ongoing effort to venture into high-value integrated circuit (IC) design and advanced packaging. The neighbouring countries are also deepening its presence in the semiconductor supply chain. At this point, we view that Vietnam could post the greatest competition given the similar undertaking.

Prevailing valuations has inputted market expectations

The share price of local OSAT companies has shown tremendous growth, increasing by about 40% to 53% on a year-to-date basis. However, we view that the quarterly earnings performance seen so far, does not performed as well. This led to heightened PER valuation of between 35x to 42x which is above the five-year mean. In this regard, the future earnings would need to advance at a faster pace. Any let up in 2H26 earnings growth would potentially lead to some pullback in share price performance. On a side note, among our coverage only D&O underperformed, with its share price contracted by about -28%ytd. This is in view of the challenging outlook in the automotive space.

Preliminary 2027 outlook

WSTS has forecasted the semiconductor sector to continue grow in 2027, albeit at a slower pace of +26.6%yoy (vs 2026: +89.9%yoy) in view of high base effect. We concur that the sector will continue to grow given the AI and DC-fuel supercycle. However, we think that the ongoing talent gap will remains a challenge. Moreover, any slowdown in technology advancement as compared to the neighbouring countries could translate into loss of business opportunities. On another note, should there are more cases of AI agent going rogue, regulator could potentially step in to control the pace of AI development. Meanwhile, we anticipate the

ongoing memory crunch would continue to impact the overall smartphone market outlook in 2027.

XV. TRANSPORTATION ..... Maintain NEUTRAL

Navigating a gradual normalisation

Analyst: Amalia Zarir

Aviation

Malaysian airport traffic remained robust heading into 4QCY26, with MAHB handling 8.4m passengers in Aug-26 (+5.2%mom), bringing 8MCY26 traffic to 67.4m passengers. International travel remains the key growth driver, supported by improving regional connectivity and Visit Malaysia 2026. Longer term, MAHB's RM11.0b 5-year capital expenditure programme should alleviate capacity constraints and support sustained traffic growth.

Passenger growth remains supportive.

Singapore jet fuel averaged c.USD170/bbl in Sep-26 month-to-date, up from c.USD127/bbl in Jun-26, keeping fuel costs a key near-term earnings sensitivity. Nevertheless, under our S1 base case, we expect Hormuz flows to gradually normalise, which should progressively ease fuel cost pressures. Coupled with resilient passenger demand and recovering capacity, this should support an improving operating environment for airlines, although fuel-price volatility remains a key risk.

Fuel costs remain elevated.

We expect the aviation sector to remain supported by sustained passenger growth, particularly international traffic, alongside Visit Malaysia 2026 spillover and continued improvements in regional connectivity. Under S1, lower energy prices should also provide some cost relief, with Brent expected to average USD75-85/bbl in CY27 versus USD85-90/bbl in CY26. Meanwhile, ongoing airport capacity expansion should provide longer-term support for traffic growth.

Preliminary 2027 outlook.

Port & Logistics

Westports Holdings Berhad (NEUTRAL, TP: RM6.57) remains relatively resilient given its predominantly intra-Asia exposure (62% of CY25 throughput) and limited direct Middle East exposure (<5%). Nevertheless, Singapore gasoil averaged c.USD178/bbl in Sep-26 month-to-date, while Drewry's WCI remained elevated at USD4,468/FEU as at September 24, 2026, +135% above late-Feb levels. Under S1, gradual normalisation of Hormuz flows should ease energy and shipping disruptions, although commercial shipping recovery could lag and Bab el-Mandeb disruptions could persist independently.

Elevated fuel and freight costs persist.

We expect a more normalised operating environment in CY27 under S1, with lower energy prices and improving shipping conditions supporting a gradual moderation in freight and fuel costs. Cargo demand should remain supported by external trade, consistent with our house view of Malaysia's GDP growth moderating to +4.6% in CY27 from +5.1% in CY26. For logistics players, easing freight rates could moderate forwarding yields, although lower freight costs and improving trade volumes should support activity, while Westports should continue to benefit from underlying container throughput growth.

Preliminary 2027 outlook.

Tasco Berhad (BUY, TP: RM0.49) remains our top pick, supported by its valuation at -1.0SD below its 5-year mean and relative insulation from freight-rate volatility through its parent's Strategic Forward Pricing mechanism. Improving contract logistics contributions should support earnings, although weakness in cold supply chain remains a near-term drag.

Maintain NEUTRAL. Top pick: Tasco (BUY, TP: RM0.49).

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MBSB 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