

01 July 2025

3QCY25 Outlook

Some Catching Up To Do

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FBM KLCI (pts)

Current	Target
1,533	1,655 ↔

- i) **Anticipating catch-up plays as recovery has largely taken place.** Benefitting from a rebound since a 90-day reciprocal tariff pause, Malaysia ushers in 3QCY25 at almost equal level from before the reciprocal tariffs. Cognisant of this recovery, and with the risk negotiations being dragged beyond 9 July, investors' playbook still focus on liquid and quality names. The main difference, however, would be more interest looking at laggards plays within key sectors, as liquidity that has been shored up is being deployed. Some names include YTLPOWER, IJM, SIME PROP, and CIMB.
- ii) **Small caps risk-reward starting to emerge.** Since the tariff pause, Malaysia's large cap stocks have generally rebounded faster than the broader market. Valuations of the small cap segment, where we previously only concentrated on visible sectors such as renewable energy/water, is becoming more palatable. A favourable tariff differentiation outcome will help the tech sector. Certain tech names (PIE, SKPRES) can crystalize their pipeline of potential relocating customers.
- iii) **Manageable environment with expected MYR tailwind.** 3QCY25 may usher in some domestic cost hurdles, but overall inflation is a manageable 2.0%. Accordingly, we expanded our dividend picks to include smaller names. MYR tailwind in our view augurs well for dividend stocks/banks.
- iv) Our top market picks see CIMB join the likes of AMBANK, TENAGA, F&N, GAMUDA and YTLPOWER, but MAYBANK is dropped. We retained year-end target of 1,655 (15.5x PER). For a list of top picks, please see exhibits 11-13. Construction, renewable energy, banks and gloves are our key sectors for 3QCY25 outlook.

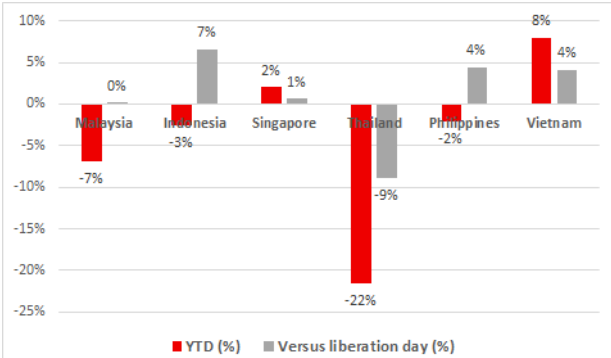
We see scope for some catch-up play

Previous playbook more concerned about high volatility. Our 2Q25 outlook report was published before the reciprocal tariffs, and at the time the strategy was simply to be light on high volatility sectors such as gloves and oil and gas, which had turned out to be a fairly accurate call, with those stocks slumping by 4% (KLENERGY index) and around 15% (average of the three large glove stocks we cover) respectively during quarter ended 30 June, against a general market that edged higher.

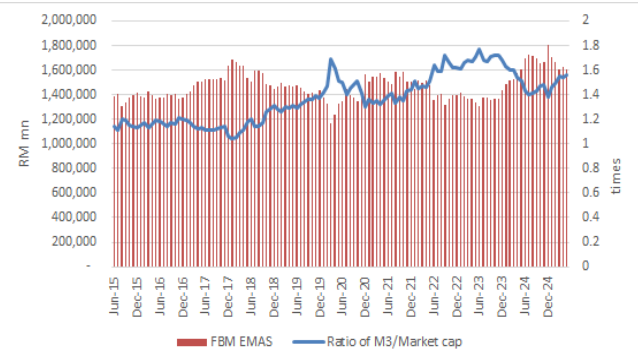
Would be still looking at liquid stocks in 3QCY25. We were looking to accumulate liquid stocks where we regarded the market to be relatively inexpensive - still our playbook for 3QCY25. This strategy is reinforced we also believe that the liquidity in the system is still very good. M3 money as a function of BURSA Malaysia market capitalization remains broadly elevated (exhibit 2), implying funds haven't been put to work. The magnitude of decline in the Malaysia stock market has been slightly more steep than peers, at a decline of 7% YTD, versus several of our peers (see figure below), better than only the Thailand stock market.

Recovery has taken its course despite lack of details in negotiation contains risk... As it stands, markets across the region, Malaysia included, have clawed back earlier losses, where we generally witnessed that regional markets have now even surpassed US Liberation Day (2 April) levels, despite not yet having clarity on negotiation outcomes. This was also on the back of slightly higher PER valuations across the countries, implying market is pricing in a reasonable outcome (which we believe would be c.10% tariff levels).

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Exhibit 1: Performance of KLCI Versus Peer Countries

Source: Bloomberg, Kenanga Research.

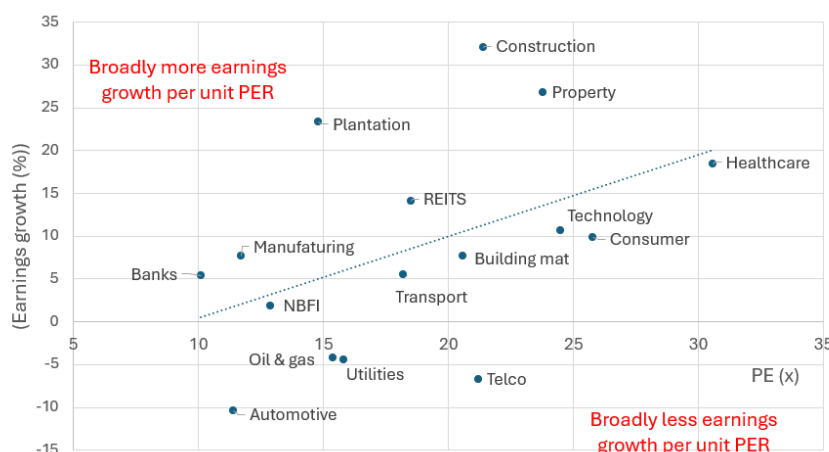
Exhibit 2: Liquidity (M3 money vs Malaysia market cap)

Source: BNM, Companies, Kenanga Research

...though anchored by relative strength; our forecast is broadly reflective already of a status quo outcome. Recall that if the tariffs were to stay status quo, Malaysia is a relative beneficiary. Malaysia's 24% tariff stacks favourably than that of its peer countries including Vietnam (46%), Thailand (36%) and Indonesia (32%). We foresee that if the outcome of the negotiations show Malaysia to be a net beneficiary, our economic forecast for GDP (+4.3%) would largely remain intact. Likewise, our market earnings growth estimate of 3.5% is also consistent with a GDP growth of at least 4%, in our view.

Reciprocal tariffs discussions may even be prolonged, but Malaysia stays hopeful. The risk of a more prolonged Reciprocal Tariff won't be a welcome development in our view given that the uncertainty premium will act as an overhang, though this is not a scenario that we can rule out. This follows US treasury Scott Bessent recently revealing that talks could take longer and wrap up by Labor Day (1 Sept). However, specifically for Malaysia, government officials have proceeded into a second round of discussion ahead of the 9 July deadline. Malaysia also stands ready to negotiate in narrowing the trade imbalance, addressing non-tariff barrier, strengthening technology protection and security, in addition exploring the potential for a trade agreement. So far, Malaysia has described talks as "progressing well", and thus could emerge more hopeful to seal a deal as both side accelerate talks towards a deal. Elsewhere, US and China have formalized deal involving rare earth shipment, with the US also looking to cancel a series of restrictive measures.

We will be selective in looking for laggards, pending verdict on tariff negotiations. We believe that with the risk that can't be fully discounted for a longer negotiation (beyond 9 July), investors will stick to quality sectors. Given the general market recovery so far to levels back to pre-liberation day, and believing that the market valuation discount will dissipate once a favourable verdict is given on reciprocal tariff, for now we will be more comfortable with being selective with large and liquid laggards.

Exhibit 3: PER vs. Earnings Growth (2025) Chart Based on Kenanga's Forecast

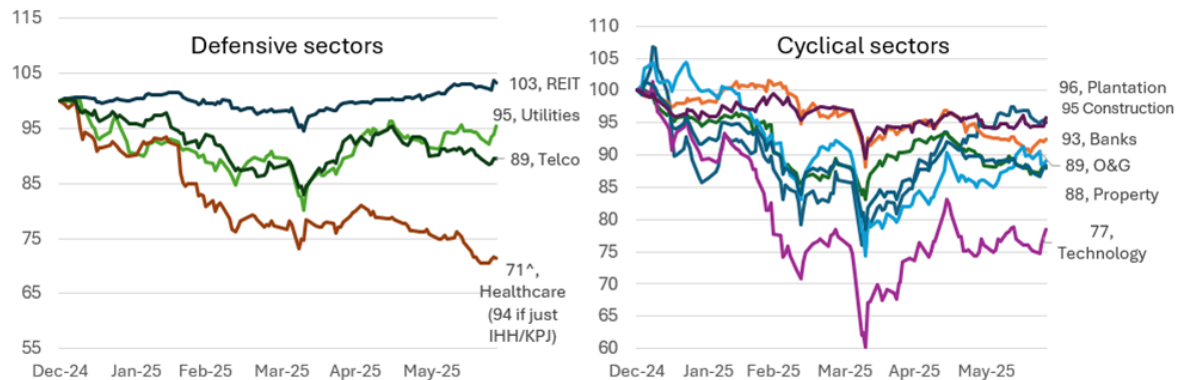
Source: Kenanga Research

If we were to crudely compare across sectors using a price-earnings-growth ratio approach, construction, banks, planters, and manufacturing and REITS appear to offer better risk-reward (exhibit 3). However, we are hesitant to recommend plantation names at this juncture given our belief that earnings have likely peaked for the time being, while REITs presently appear rich in valuations terms, being one of the sole sectors that finds itself in positive territory YTD (exhibit 4). Our key moves include upgrading our banks pecking order to feature **CIMB** (OP; TP: RM7.90) ahead of **MAYBANK** (OP; TP: RM12.00). Separately, within the healthcare sector, we continue to prefer **IHH** (OP; TP: RM8.11) over **KPJ** (UP; TP: RM2.50) which we have earlier downgraded. We have also earlier included **IJM** (OP; TP: RM3.40) into our market picks, while downgraded **SUNCON** (MP; TP: RM5.94) earlier

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on price action. Other laggards that could catch up in our view include **SIMEPROP** (OP; TP: RM1.79). In the area of utilities, **YTLPOWR** (OP; TP: RM4.73) has been a laggard YTD to **TENAGA** (OP; TP: RM17.20). Separately, within the telco space, we continue to like **TM** over **TIMECOM**.

Exhibit 4: Movement of KLCI Sectors (end-Dec 2024 rebased to 100)



Source: Kenanga Research. ^Healthcare includes glovemakers

Good visibility sectors would likely continue to command some premium. Construction and utilities have so far outperformed the market at large. In the area of construction, the visibility over contracts are still good. While a lot of attention has been concentrated in data centre roll-out, some of the other construction opportunities are starting to be rolled out, including the Penang LRT. Adding to the visibility of the sector is the fact that there is already RM75.5b of awards YTD May, on track to meeting an annual job replenishment of RM180b. During a typical upcycle, large caps tend to outperform, though our construction smaller cap pick would be **WCT** (OP: TP: RM1.25). There will also be capex opportunities in the utilities space – new capacity bids and brownfield opportunities are in play with the Energy Commission having invited Requests for Proposals.

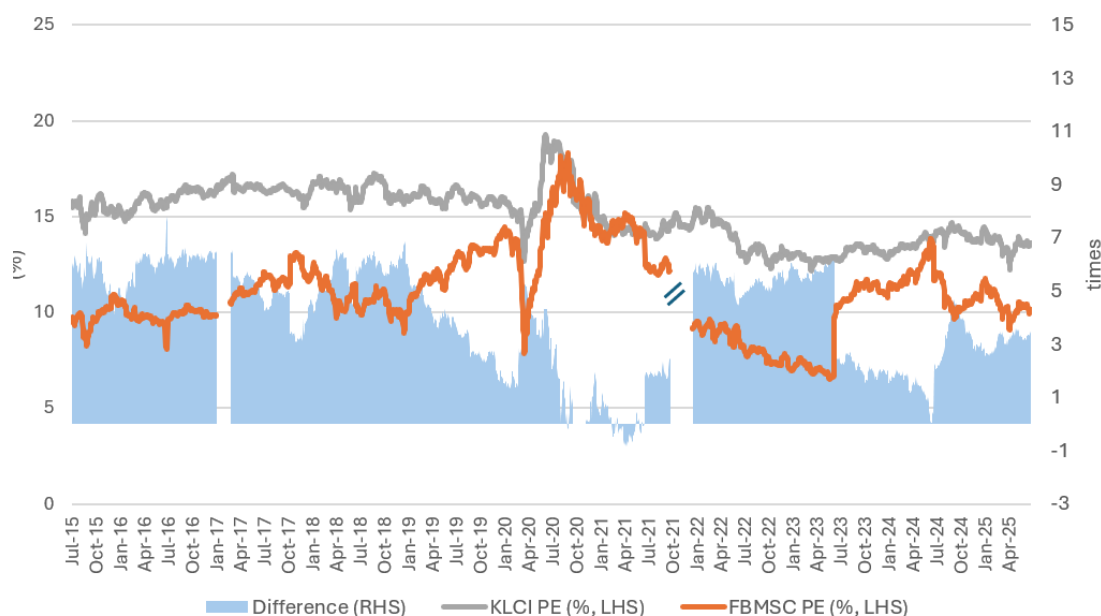
Among the defensive sectors, we prefer Healthcare to Telco, given added angle to benefit from tourism. Juxtaposing with the better visibility of contractors in our view is telcos, where we retain **NEUTRAL** as we await greater clarity on the execution of 5GDN policy. Within the generally perceived defensive sector, we believe the implementation of the diagnosis-related group (DRG) system could put pressure on margins for private hospitals. However, the near-term impact could be minimal as the initial roll-out is expected to target lower-value or minor illnesses.

Small cap risk-reward starting to turn palatable

Rebound in smaller caps has been less evident. While the FBM KLCI have recovered to levels similar to pre-liberation day (2 April), this is true only for the broader market (+9% rebound), while the FBM Small Cap index (FBMSC) which is a combination of smaller names, have only eked out a rebound of merely 3%. As a result, the valuation for FBMSC is closer to its 10-year average. This, together with the fact that the valuation gap between large cap and small cap stocks are widening over the past several months in 2025 (indicated by the blue shaded area in exhibit 5) implies more relative value emerging in the small cap space.

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Exhibit 5: Dividend Screener Results



Source: Kenanga Research. Note: double dash denotes a period where small cap index PER spiked substantially and thus removed for ease of perusal

Exporters are not entirely out of the woods yet, though should be candidate to re-rate if outcome is favourable. Exporters will face a degree of cost pressure albeit from logistics cost which will be evident due to the pause of the RT (from April onwards). There will also be additional layer of challenge, the potential strengthening of the MYR (where we are slightly more aggressive than the street with expectation of 4.10 to the Dollar by end-2025). Vis-à-vis cost pressures, which include the minimum wage hike, we believe there could be an around 5% impact to bottom line or more within the plastics and packaging sector. Unable to be certain of the outcome, our preference is for players with a niche focus, such as **SLP** (OP; TP: RM1.00) in plastics and packaging although some other peers have fallen more YTD.

Tech sector could be fast out of the blocks as discussions have been ongoing. Our conviction for the tech sector is not yet high despite it being one of the worst performing sectors to-date, also mounting a solid rebound of late. Based on our belief, we continue to take a trading approach to the technology sector for now, with our conviction pick in KGB. In the event that there is a favourable outcome in tariffs in terms of having a beneficial tariff against other peer countries, we note that **SKPRES** (OP; TP: RM1.24) and **PIE** (MP; TP: RM4.60) are names in which we have already seen much discussion with potential customers, pending finalization of tariff, with indication that a 5% buffer would be a good rule of thumb for relocation to materialize. Coincidentally, **SKPRES**, together with **NATGATE** (OP; TP: RM2.21) and **D&O** (MP; TP: RM1.18) are also candidates that we find have tactical trading potential for now given valuation that are at or below 1SD of their respective PER bands.

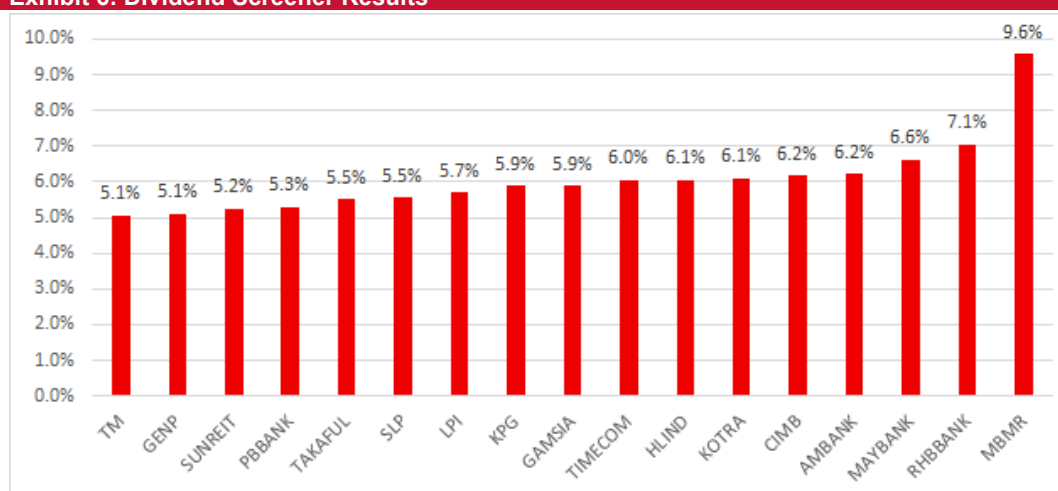
Sun and splash. The solar sector once again will be in the limelight, as announcement soon of concession winners for the LSS5+, following LSS awards for EPCC will see a busy period. This dovetails with recently the Energy Commission's electricity tariff announcement, introducing an ultra high voltage user category, which could likely be targeted at users such as data centres, all combined to give a boost to solar EPCC work. Taken together, all the above points to the fact of a fast enlarging solar EPCC pie, tilting the balance of preference into **SLVEST** (OP; TP: RM2.69), over **SET** (OP; TP: RM0.60) and **PEKAT** (OP; TP: RM1.75). However, one area that is a negative development for demand is rooftop solar where longer time horizon is required for return on investment. Not forgetting water plays, other than several infrastructure projects, a new water tariff sub-category for data centres could be put in place, with rates estimated at RM5.50/m³ according to SPAN. **ENGTEX** is the proxy here.

MYR seen to improve could appeal on dividend plays for foreigners, including banks

Contrarian in our OPR view, and we believe weakness in bank is priced for one OPR cut. Based on Bloomberg forecast (by 4QCY25), the majority view is for a rate cut to 275 bps. Kenanga is the contrarian here, as we maintain a view of an unchanged OPR forecast at 3%. Kenanga foresees that the MYR would strengthen to the levels of 4.10 to the USD by year end. We thus believe that the impact of a 25 bps rate cut is currently in the price where the impact is between 3%-4% of earnings (versus the banking sector decline YTD of 8% YTD). As such, we believe that banks present a good bargain especially since we hold the view that banks have generally been prudent in guiding for loans growth.

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Exhibit 6: Dividend Screener Results



Source: Kenanga Research.

Our dividends portfolio expanded to smaller cap names. Following on from our 2QCY25 strategy, at that time we were looking to stick to reasonable earnings growth for our dividends play, with a more tariff insulated angle, and was more large cap-focused, offering yields of more than 5%. No longer imposing this for our criteria, we refined our dividends pick list to currently also feature the likes of **KOTRA**, and **SLP** which we consider more niche player in plastics and packaging. Exhibit 9 above features stocks that return at least 5% yield for FY25, with the standout headlined by **LPI** (OP; TP: RM16.00), which is capable of paying special dividends (c13%) in addition to business as usual dividends of 6%-7%.

Special dividends potential, suitable also for Shariah portfolio. Within our universe, names that would fit the bill include the likes of **TAKAFUL**, and **GENP**. Also fit for Shariah play, **TIMECOM** and **MAXIS** could have the capacity to resume distributing special dividends in FY25, supported by subdued capex requirements and sharper focus on balance sheet optimization in the former. The latter didn't make our cut above given that its dividend yield is currently below 5%.

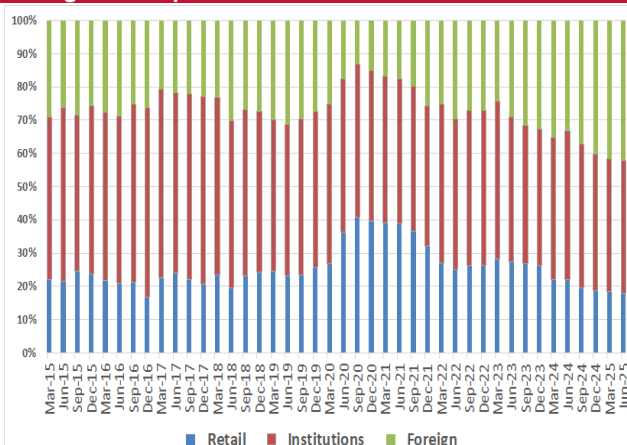
REIT yields remain decent, and a proxy to region-leading tourism numbers, but we will seek to accumulate on dips. REITs is the bellwether sector for dividend stocks, and stands out as a positive return sector YTD (+3%). Malaysia has welcomed a healthy number of tourists – in 1QCY25 alone, Malaysia can boast of being a top tourist destination, where it has attracted 10.1m tourist, surpassing that of Thailand ([link](#)). Thus, retail mall play through REITs remains a theme. We recently also highlighted via IPO Note on **PARADIGM Reit** (NOT RATED, fair value: RM1.10) for its position currently as a pure play retail reit, offering a 7% yield (FY26). Overall, while yields are still decent, recent share price run-up for REITs has lowered total shareholder returns' potential, and most of our recommendations are MP. Specific to the REIT sector, we remain mindful of the advent of the service tax of 8% which could somewhat impinge on the speed of re-rating given its challenges of having to pass through. Conversely, a OPR cut would likely be beneficial to the sector from the perspective of borrowing cost savings.

Stronger MYR could help absorb cost of doing business for consumer stocks. For the consumer stocks, a low inflation environment should generally be positive. Based on regression model (see Consumer section), where we forecast the revenue of the aggregate consumer market against macro-economic factors, our earlier assumption was that an aggregate 5% revenue growth expectation by the street was too high; this has since been lowered to 3% YoY. Looking ahead, consumer names could be affected by rising cost of doing business, including expanded service tax (from rental charged on them). From our channel checks, companies such as **MRDIY** (OP; TP: RM1.80) and **AEON** (MP; TP: RM1.45) indicated no intention to raise prices, despite c.1% impact to PAT. We believe to some extent, this is also because a stronger MYR should be able to help offset some of the cost of doing business.

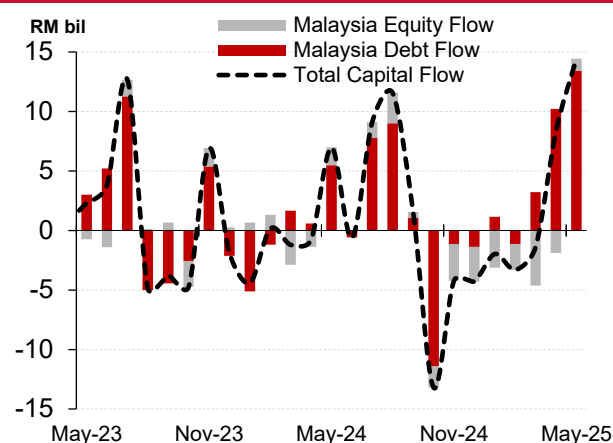
In Summary

Greenshoots of improvement in foreign equity flows, though retailers returning still requires a patient wait. Foreign net purchase of Malaysian debt has been strong, although the same can't be said for foreign equities. Net inflows for May in equities offering a welcome reversal after several months of outflows. According to BURSA data, the participation from retail is still weak, with the mix of participation for retailers hovering around 19% - last seen in end-2016 levels. We anticipate retail sentiment will improve together with sentiment once policy externally is made clear, potentially stronger MYR, and to some extent also to benefit from central bank's release of deposits required to be placed by banks in May under the statutory reserve ratio from 2% to 1%, or equivalent to a RM19b liquidity injected into the economy.

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Exhibit 7: Breakdown of Retail, Institutional and Foreign Participation Trades

Source: Bloomberg, Kenanga Research.

Exhibit 8: Malaysia Equity, Debt and Total Capital Flow

Source: BNM, Kenanga Research

KLCI valuation unchanged. We retain our 3.5% earnings growth target for FY25. Previously, we have performed a bottom-up approach in our strategy note dated 23 April 2025, and we are comfortable that in a more-stressed economic scenario in 2025, earnings growth will still come in at c2.2%. We retain our 15.5x PER valuation which pegs our FBM KLCI valuation to 1,655. Geopolitics form a potential risk. We have earlier said that the Iran-Israel conflict escalation could cause us to revisit market valuations if there was a spillover into a broader regional conflict, and this has been so far averted..

Supposing geopolitical risk in Middle East festers, oil and gas names could rise on supply concern and thus act as a "hedge" to an investor's portfolio. Nevertheless, a spike in oil prices after the Iran-Israel conflict proved to be short-lived. We have also lowered **DAYANG** (UP; TP: RM1.56) and **VELESTO** (UP; TP: RM0.16) as we see opportunity for investors to sell into some recent strength. Within the oil and gas segment, our recommendations lean towards stocks that are less sensitive to oil price (with Brent average targets of USD64/bbl and USD67/bbl for 2025 and 2026 maintained). We prefer **DIALOG**. Separately, a negative outcome from the geopolitical risk is sea route congestion. To this end, we have highlighted **MISC** (OP; TP: RM8.17) as a play (tanker rates staying elevated), while we have upgraded **WPRTS** (OP; TP: RM6.00) following its securing favourable container storage and handling rate tariff hikes.

More conviction in gloves as orders will ramp up. While we haven't changed any sector weights in this note, we make minor changes in the pecking order of preference. We believe that whilst in our 2QCY25 note where we advocated staying light in gloves play exposure, we are entering into the time frame where US customers are likely have to start replenishing stocks (post earlier frontloading). This would augur well for Malaysian glove makers. Gloves, Renewable Energy, Construction and Banks anchor our conviction sectors.

Key sector picks. We have included **CIMB** in place of Maybank, joining as two bank names featured in our top 10 market picks, joining other names such as **F&N**, **YTLPOWER**, **TIMECOM** and **GAMUDA**..

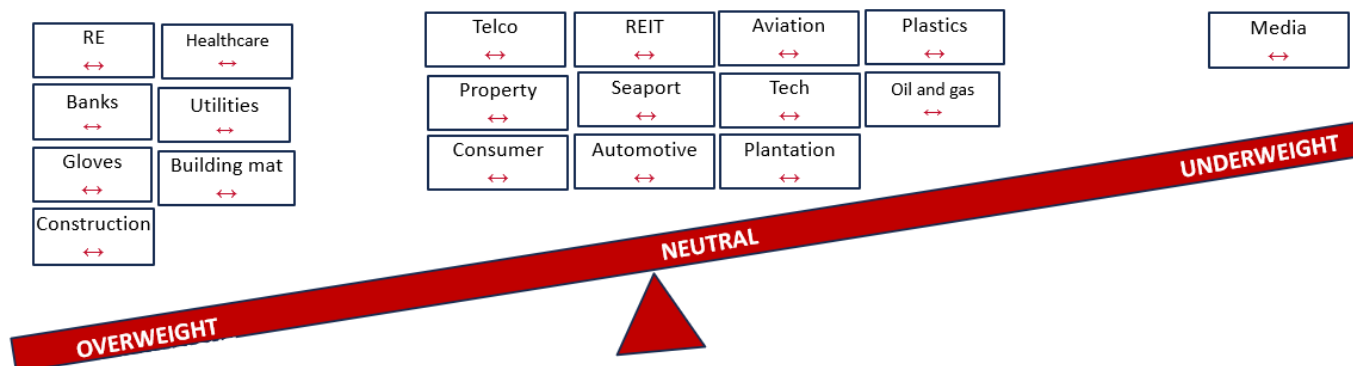
Where we differ. We have a contrarian BUY in **MBMR** as we hold on to our above 800,000 total industry volume (TIV) in 2025. Likewise, we are also a contrarian with a UP on **SIME** (TP: RM:1.65) as we believe its Chinese auto business is still weak and our earnings are also below consensus (see Automotive Thematic report dated 24 June 2025). Separately, we have a UP on **KPJ** (TP: RM2.50) as we believe that it has run ahead of fundamentals. We also have UP ratings on **UNISEM** (UP; TP: RM1.05), **SUNWAY** (UP; TP: RM4.01), and **AFFIN** (UP; TP: RM2.30), primarily also on valuations.

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Exhibit 9: Sector Top picks			
Overweight	Neutral		Underweight
Renewable Energy SLVEST (from SET)	Telco TM	Tech KGB	Media -
Gloves KOSSAN	Automotive MBMR	Seaport WESTPORTS	
Healthcare IHH	Oil and gas DIALOG	Plastics SLP	
Banks AMBANK	Property SIMEPROP		
Construction GAMUDA	Consumer F&N		
Utilities TENAGA	REIT SUNREIT		
Building materials ENGTEX	Plantation JOICORP		

Source: Bloomberg, Kenanga Research

Exhibit 10: Relative Preference of Sectors



Source: Bloomberg, Kenanga Research

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Exhibit 11: Top Conventional Picks and Key Investment Statistics

Stock	Stock Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RMmil)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	DIV (%)	NDPS (sen)
							FY25F	FY26F	FY25F	FY26F	FY25F	FY26F			
CIMB	OP	6.80	7.90	16.2%	73,113.7	12/2025	76.2	79.7	5.5%	4.5%	8.9	8.5	1.0	6.2%	42.0
TENAGA	OP	14.26	17.20	20.6%	83,123.6	12/2025	87.3	89.9	3.1%	3.0%	16.3	15.9	1.3	3.0%	43.2
IHH	OP	6.72	8.11	20.7%	59,344.0	12/2025	21.6	24.3	12.6%	12.2%	31.1	27.7	1.9	1.5%	10.0
TIMECOM	OP	5.30	5.91	11.5%	9,798.7	12/2025	26.3	28.9	11.1%	10.0%	20.2	18.4	2.6	6.0%	32.0
YTLPOWR	OP	3.90	4.73	21.3%	32,907.9	06/2025	33.2	31.9	-19.0%	-3.8%	11.8	12.2	1.4	1.8%	7.0
AMBANK	OP	5.07	6.90	36.1%	16,739.2	03/2026	64.8	66.6	7.1%	2.7%	7.8	7.6	0.8	6.2%	31.5
TM	OP	6.51	8.15	25.2%	24,983.7	12/2025	47.4	47.6	-11.8%	0.4%	13.7	13.7	2.3	5.1%	33.0
DIALOG	OP	1.56	1.94	24.4%	8,802.6	06/2025	8.6	8.7	-19.9%	1.5%	18.1	17.9	1.4	2.6%	OP
GAMUDA	OP	4.65	4.90	5.4%	26,827.9	07/2025	17.6	24.4	8.9%	38.7%	26.4	19.0	2.3	2.2%	10.0
KGB	OP	3.68	4.33	17.7%	2,756.5	12/2025	20.4	19.5	25.2%	13.6%	18.1	18.9	4.1	3.0%	11.0

Source: Kenanga Research

Exhibit 12: Top Shariah Picks and Key Investment Statistics

Stock	Stock Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RMmil)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	DIV (%)	NDPS (sen)
							FY25F	FY26F	FY25F	FY26F	FY25F	FY26F			
F&N	OP	28.32	31.95	12.8%	10,387.2	09/2025	157.7	169.6	2.5%	7.5%	18.0	16.7	2.7	2.6%	75.0
TENAGA	OP	14.26	17.20	20.6%	83,123.6	12/2025	87.3	89.9	3.1%	3.0%	16.3	15.9	1.3	3.0%	43.2
IHH	OP	6.72	8.11	20.7%	59,344.0	12/2025	21.6	24.3	12.6%	12.2%	31.1	27.7	1.9	1.5%	10.0
TIMECOM	OP	5.30	5.91	11.5%	9,798.7	12/2025	26.3	28.9	11.1%	10.0%	20.2	18.4	2.6	6.0%	32.0
IJM	OP	2.55	3.40	33.3%	8,938.2	03/2026	15.6	16.2	20.9%	4.0%	16.3	15.7	0.9	3.1%	8.0
SIMEPROP	OP	1.42	1.79	26.1%	9,657.2	12/2025	8.0	8.1	36.7%	1.4%	17.7	17.5	0.9	2.0%	2.8
TM	OP	6.51	8.15	25.2%	24,983.7	12/2025	47.4	47.6	-11.8%	0.4%	13.7	13.7	2.3	5.1%	33.0
DIALOG	OP	1.56	1.94	24.4%	8,802.6	06/2025	8.6	8.7	-19.9%	1.5%	18.1	17.9	1.4	2.6%	OP
GAMUDA	OP	4.65	4.90	5.4%	26,827.9	07/2025	17.6	24.4	8.9%	38.7%	26.4	19.0	2.3	2.2%	10.0
KGB	OP	3.68	4.33	17.7%	2,756.5	12/2025	20.4	19.5	25.2%	13.6%	18.1	18.9	4.1	3.0%	11.0

Source: Kenanga Research

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Exhibit 13: Top Small-Cap Picks and Key Investment Statistics

Stock	Stock Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RMmil)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	DIV (%)	NDPS (sen)
							FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25	FY25F	FY24F
PIE	MP	4.25	4.60	8.2%	1,632.2	12/2025	17.8	21.3	28.4%	19.8%	23.9	20.0	2.3	0.0%	0.0
KEYFIELD	MP	1.71	2.31	35.1%	1,379.1	12/2025	23.6	25.7	14.0%	9.2%	7.3	6.6	1.7	5.3%	9.0
PEKAT	OP	1.41	1.75	24.1%	909.4	12/2025	7.2	8.5	109.0%	17.5%	19.6	16.7	3.5	0.0%	0.0
SLP	OP	0.865	1.00	15.6%	274.2	12/2025	5.0	5.3	12.1%	7.0%	17.5	16.3	1.5	5.5%	4.8
DUOPHARMA	OP	1.37	1.72	25.5%	1,317.9	12/2025	9.9	11.5	51.8%	15.9%	13.9	12.0	1.7	2.4%	3.3
SET	OP	0.245	0.600	144.9%	245.2	09/2025	1.9	2.4	3.3%	26.3%	12.9	10.2	3.1	0.0%	0.0

FY24F and FY25F refers to FY25F and FY26F

Source: Kenanga Research

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Automotive

National Brands Stand Firm

NEUTRAL



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We maintain **NEUTRAL** on the sector. We estimate that national marques will expand their market dominance to 64% of CY25 TIV (vs. 58% in CY22), due to increasing demand for affordable vehicles, displacing the non-nationals marques' market share. Although we make no changes to our TIV forecast, we believe the heavyweights under our coverage are experiencing valuation de-rating due to intense competition in the non-nationals space. If such pressures persist, such as with more foreign brands localization programme, the challenging outlook for non-national brands could persist into CY26. Note that, we have contrarian **UNDERPERFORM** call for both **SIME & DRBHCOR**. Our CY25 TIV forecast of 805k units (-1% YoY) is a tad above the forecast of 780k (-4.4%) by Malaysia Automotive Association (MAA), backed by strong sustained demand in the affordable segment, attractive new launches, buyers down trading trend to mid-market models and forward buying interest on the deferment of new excise duty regulations to end-2025. We expect Perodua to benefit the most. **MBMR** (OP; TP: RM6.90) and **HLIND** (OP; TP: RM16.70) are our sector picks, being good proxies to the affordable vehicles market and fuel subsidy rationalization programme besides offering attractive dividend yield of about 8% and 5%, respectively.

National marques in the lead. Based on our TIV forecast of an unchanged 805k units for CY25, we estimate that national marques will expand their market dominance to 64% of CY25 TIV compared to 58% of TIV in CY22, due to increasing demand for the affordable vehicles, displacing the non-nationals marques' market share on which their target focus is mostly in the RM100k and above vehicles segment (refer to exhibit 3). This was evident in our stock coverage over the 1QCY25 results season, and we believe the heavyweights under our coverage is experiencing valuation de-rating due to intense competition in the non-nationals space as well as worsening external factors i.e. **SIME** (UP; TP: RM1.65) and **DRBHCOR** (UP; TP: RM0.68) which we had earlier downgraded both to **UNDERPERFORM** in our 1QCY25 report card, which we now have contrarian call for both, due to worsening auto sales and margins with further weigh on worsening external factors such as Industrials for **SIME** and wider losses at Postal & Properties for **DRBHCOR**. If the intense competition further ramps up with mass localisation of foreign brands (currently only Chery brand have a concrete CKD localisation programme, while TQ-Wuling Bingo is looking to do semi knocked-down (SKD) and the market becomes even more fragmented, the challenging outlook for non-national brands could persist into CY26.

A two-speed automotive market locally will persist stretching to end-2025 and flowing into CY26. It will be business as usual for the affordable segment as its target customers, i.e. the B40 and lower tier M40 groups, will be spared the impact of the impending RON95 subsidy rationalization and could also potentially benefit from the introduction of the progressive wage model. Government is still finalizing the mechanism to use for the RON95 subsidy rationalisation and expects that 90% of the Malaysian will not be affected. Initially, government looks to float the RON95 price to market rate for foreigners only, and then to the T15 or T10 or T5 tier group (have not been finalised yet) after finalizing the income bracket range classification to improve income targeting scheme.

Our CY25 TIV forecast of 805k units (-1% YoY) will be driven by the forward buying interest on the deferment of new excise duty regulations to end-2025 of which we expect Perodua to benefit the most at 44% TIV market share with the highest localisation rate (that could have resulted in prices of locally assembled vehicles increasing by 10%–30%) as well as attractive new launches (i.e. Perodua hybrid, Perodua EV and all-new Perodua Myvi), higher household income (i.e. government servants' salary hike in December 2024, and higher minimum wages starting February 2025) and a stable labour market (our economic research team forecast unemployment rate of 3.1% in CY25 vs. 3.3% in CY24).

However, the same cannot be said for the premium segment as its target customers, i.e. the upper-tier M40 and T15 groups may hold back from buying new cars, down-trade to smaller cars or switch to hybrids and EVs to cut their fuel bills upon the introduction of fuel subsidy rationalization. Concurrently, household bills will also be affected by the higher fuel bills, as well as expected 14% increase in base tariff for the higher-end usage which could also drive consumers to switch to solar-panels, in-turn boosting the demand for EV to funnel the excess grid electricity (essentially free energy). Additionally, EV routine maintenance costs are considerably lower than ICE's due to fewer moving parts and wear & tear parts.

In general, the industry's earnings visibility is still good, backed by a booking backlog of 155K units as at end-May 2025, which is higher than 130k units, three months ago. More than half of the backlog is made up of new models, alluding to the appeal of new models to car buyers. This trend is likely to persist to-end CY25 and flowing into CY26 given a strong line-up of new launches.

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National Brands widened offering. Apart from affordability, Perodua and Proton models have outsold non-national brands as they have also caught up in terms of specifications and features such as digital speedometer, fuel-efficient engine, highly-responsive gearbox, advanced driver assistance system, the number of airbags (4 to 6) and anti-theft auto-locking system.

Perodua is introducing three new models priced <RM100K in 2025 and 2026, namely: (i) the Perodua D66b built on the latest Daihatsu new global architecture platform, (ii) the first Perodua EV model, and (iii) all-new PeroduaMyvi in 2026.

These should give the B-segment offerings of its competitors a run for their money, including the Proton e.MAS EV (CBU, RM109K–123K) and Toyota Yaris Cross (due for launching in 2025).

On the other hand, Proton is riding on parent Zhejiang Geely Group's technology and eco-system for the transition to EV. Proton will transition to EV in three phases, i.e. (i) Phase 1 in 2023–2027 (EV Pioneering), (ii) Phase 2 in 2025–2030 (EV growth), and (iii) Phase 3 in 2027–2030 (EV right-hand development hub).

In the space of non-national brands, we saw the entry of Chinese and US automakers i.e. BYD, Tesla, Chery, Jaecoo, GAC, GWM and ORA, focusing mostly on the premium segment with a strong line-up of new EV models (see Exhibit 3), which could be in direct competition with **BAUTO (MP; TP: RM1.00)**. BAUTO's entry with the Xpeng and Deepal brand is expected to be its next volume driver to counter the rising competition as it plans to launch the Deepal BEV in 2025 and the PHEV, HEV and REEV in 2026.

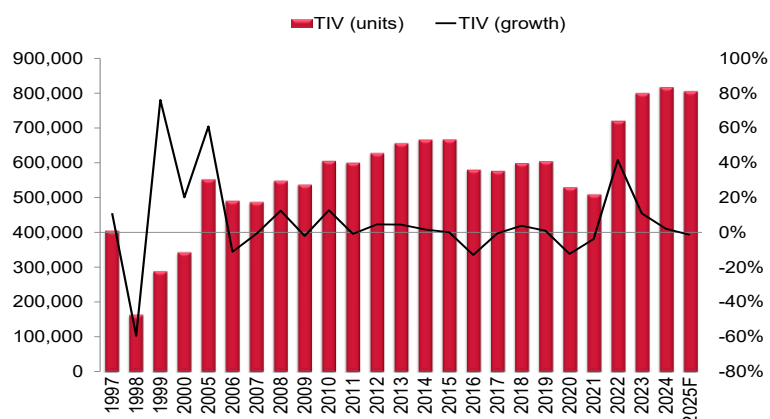
More battery electric vehicles (BEVs) in the market. Vehicle sales will also be supported by new BEVs that enjoy SST exemption and other EV facilities incentives up until CY25 for CBUs and CY27 for CKDs. The new registration for BEVs leapt from 274 units in CY21 to over 3,400 units in CY22, 13,301 units in CY23, and 21,789 units in CY24 (based on the Ministry of Transport's press release), or 3% of TIV. We expect more favourable incentives from the government which has set a national target for EVs and hybrid vehicles of 20% of TIV by CY30 and 38% by CY40. Meanwhile, the government will speed up the approval for charging stations. The number of proposed charging stations is currently at 4,299 (3,611 built to date) and this should more than double to 10,000 by end-CY25.

Our sector top picks are:-

MBMR for: (i) its strong earnings visibility backed by an order backlog of Perodua vehicles of 90k units (CY25 target sales of 345k units), (ii) being a good proxy to the mass-market Perodua brand given that it is the largest dealer of Perodua vehicles in Malaysia, as well as its 23% stake in Perusahaan Otomobil Kedua Sdn Bhd, the producer of Perodua vehicles, and (iii) its attractive dividend yield of about 8%. We also expect MBMR to benefit from the slew of new launches planned for Perodua (new models fetch higher margins), expansion of its dealership offerings through the Jaecoo brand and the down-trading trend by buyers boosting demand for its affordable Perodua brand and the value-for-money Jaecoo brand.

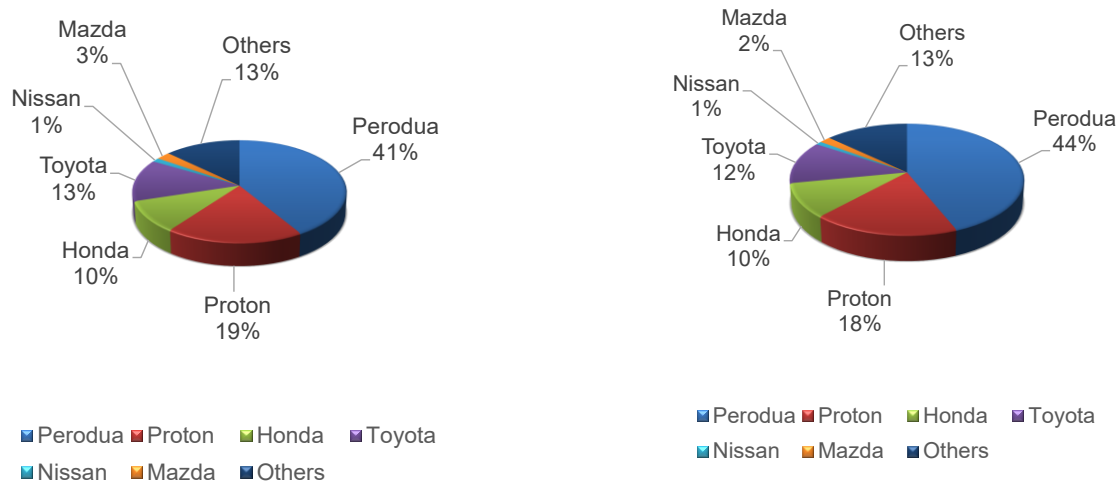
HLIND: (i) as it is a strong proxy to the booming gig economy given the critical role of motorised two-wheelers in executing online delivery transactions, (ii) for its association with the strong Yamaha motorcycle brand in Malaysia and the brand's market leader position in the local motorcycle segment, and (iii) for its solid war chest with a net cash of RM1.9b that could be deployed for earnings-accretive acquisitions. Its dividend yield is also attractive at 5%. We anticipate robust demand for the motorcycles market (to achieve a record year of 700K units (+11%) in 2025, with Yamaha holding the lion's share of 50%) as its target customers, i.e. the B40 & M40 groups, will be spared the impact of the impending RON95 subsidy rationalization in the 2HCY25.

Exhibit 1: TIV Volume 1997–2025F

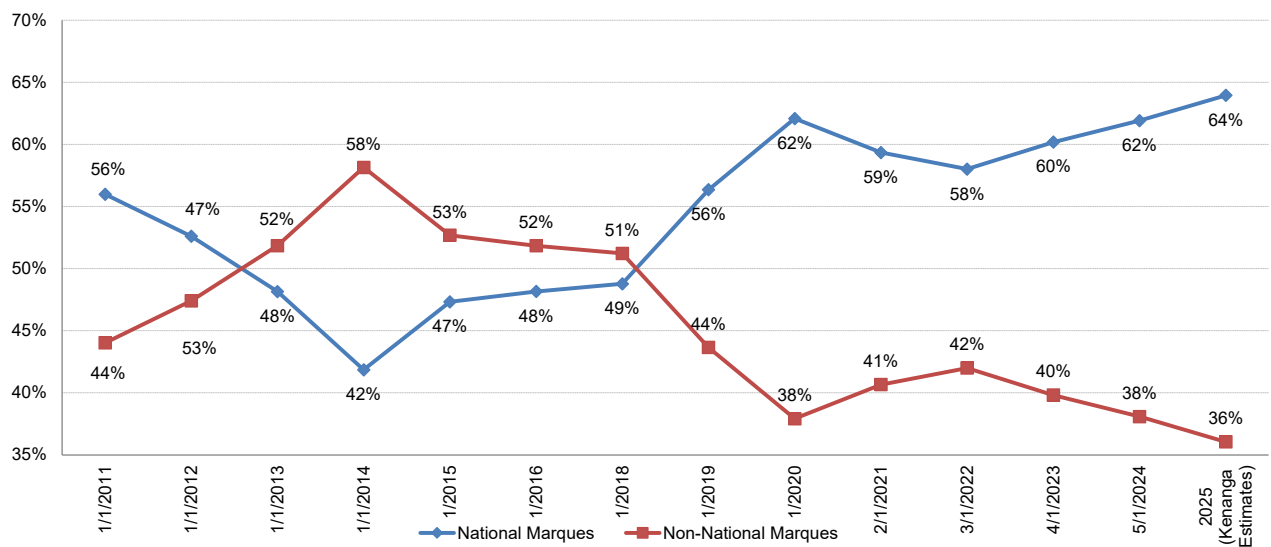


Source: MAA, Kenanga Research

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Exhibit 2: Market Share by Brands CY23A vs. CY25F

Source: MAA, Kenanga Research

Exhibit 3: Nationals vs. Non-Nationals Market Share

Source: Kenanga Research, MAA

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Exhibit 4: Various New EV Models



Perodua QV-E



HONDA e:N 1



Xpeng X9



Tesla Cybertruck (SUV)



All-new SMART #3 (2024)



BYD BAO 5



BYD Dolphin



Jaecoo J6 / Icaur 03



TQ-Wuling Bingo



GAC Aion Hyper HT



Proton eMas 7



Proton eMas 5

Source: Paultan.org, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM) as at 26.06.25	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	MP	0.795	0.850	6.9%	923.0	Y	04/2026	9.4	13.2	-29.9%	40.6%	8.4	6.0	1.4	15.5%	7.5	9.5%
DRB-HICOM BHD	UP	0.725	0.680	-6.2%	1,401.4	Y	12/2025	3.9	5.4	27.4%	37.6%	18.4	13.4	0.1	0.7%	2.0	2.8%
HIL INDUSTRIES BHD	MP	0.720	0.800	11.1%	239.0	Y	12/2025	9.6	9.6	-24.4%	0.0%	7.5	7.5	0.5	6.5%	3.0	4.2%
HONG LEONG INDUSTRIES BHD	OP	13.22	16.70	26.3%	4,334.8	Y	06/2025	139.6	143.5	33.1%	2.8%	9.5	9.2	1.7	19.1%	80.0	6.1%
MBM RESOURCES BHD	OP	4.70	6.90	46.8%	1,837.2	Y	12/2025	86.8	88.0	1.9%	1.4%	5.4	5.3	0.7	12.9%	45.0	9.6%
SIME DARBY BHD	UP	1.65	1.65	0.0%	11,221.7	Y	06/2025	13.9	15.1	-26.0%	8.9%	11.9	10.9	0.6	4.8%	10.0	6.1%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.475	0.300	-36.8%	319.2	Y	12/2025	(27.6)	(24.4)	-179.8%	-188.6%	N.A.	N.A.	0.1	-7.7%	1.0	2.1%
SECTOR AGGREGATE					20,276.3					-10.4%	11.1%	11.4	10.3	0.5	4.6%		5.7%

Source: Kenanga Research

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Banking

Eyeing an Entry Point

By Clement Chua | clement.chua@kenanga.com.my

OVERWEIGHT



We maintain our OVERWEIGHT call on the banking sector. We view that the sector is oversold amid lingering uncertainties over tariffs. Based from past performances, we believe banks are adopting conservative guidance on loan growth (where concerns may lie on more regionally exposed banks), while asset quality remains a minimal concern. Although headwinds on NIMs persist, we opine they are less pronounced than before as funding costs ease. We maintain our expectation for OPR to remain steady at 3% throughout CY25.

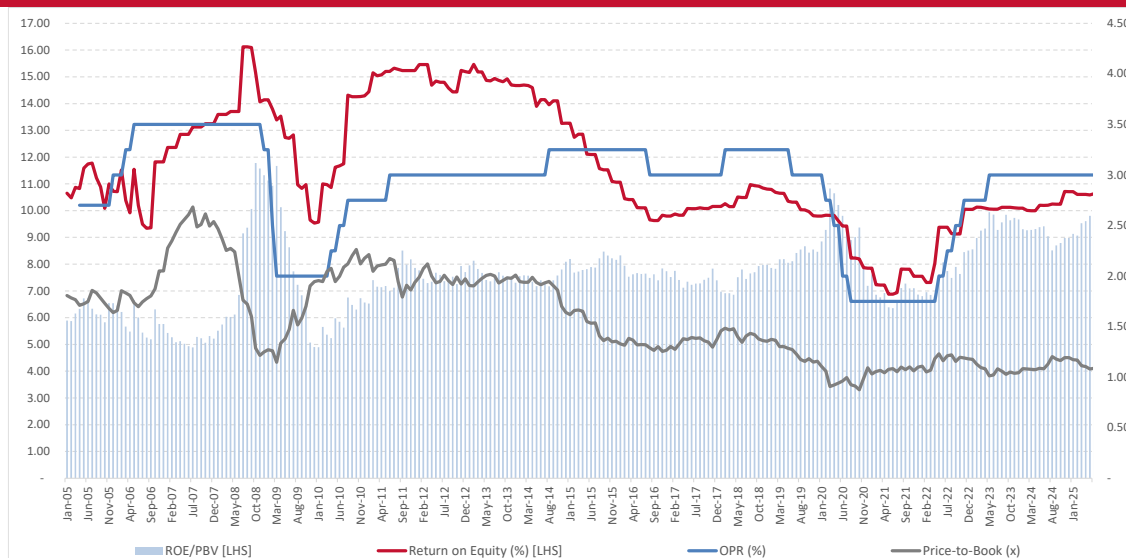
For 3QCY25, our top pick for the sector continues to be: (i) AMBANK (OP; TP: RM6.90) for its optimisation efforts, and emphasis on earnings sustainability to lift ROE, with higher dividend yield prospects being a bonus (c.6%). Our pecking order for second and third picks are swapped, now going first with CIMB (TP: RM7.90) as recent share price weakness are offering a more palatable entry with c.6% dividend returns to mitigate concerns over its more challenging regional operations. This is followed by MAYBANK (OP; TP: RM11.95), which continues to take market share among the big caps and is poised to lead in terms of earnings growth and dividend yield in the longer term.

Between NBFIs, we still like general insurer LPI (OP; TP: RM16.00) which is slated for special dividend yields of up to 13% on top of its core 6%-7% yields. LPI will benefit from synergistic gains from its acquisition by PBBANK with industry-leading net margins offering leeway to compete more aggressively in the market.

Eyeing a turnaround in valuations. Benchmarking against the KLFIN index, we saw sector PBV declined to a one-year low of 1.08x in May 2025. Previous high points were in: (i) Aug 2024 at 1.20x when foreign interest surged amid regional central bank rate cuts, and (ii) Dec 2024 at 1.18x being the month before President Trump took office which then spurred an outflow from emerging markets. The currently depressed valuations pushed sector ROE/PBV multiple to 9.8x. This marks only the second time this level has been breached outside of crisis periods (i.e. 2008 Global Financial Crisis, 2020 Covid-19 pandemic), the first being during the collapse of several US banks in 1QCY23.

We opine that the sector is now likely at trough valuations, driven by concerns over sluggish loans growth and stubborn industry NIMs. On the flipside, we are in a period of unprecedented asset quality with industry GIL hovering persistently below 1.5%, guarded by the average bank loan loss coverage (including regulatory reserves) of c.140%, hopeful to lighten the need for hefty pre-emptive provisions as seen during the pandemic. As such, gauging based on a 10-year horizon, we believe it does not warrant the KLFIN's ROE/PBV to sustain at toppish levels at +2SD (close to 10x, refer to exhibit 2) and for its PBV to sustain at -1SD (or 1.05x, refer to exhibit 3).

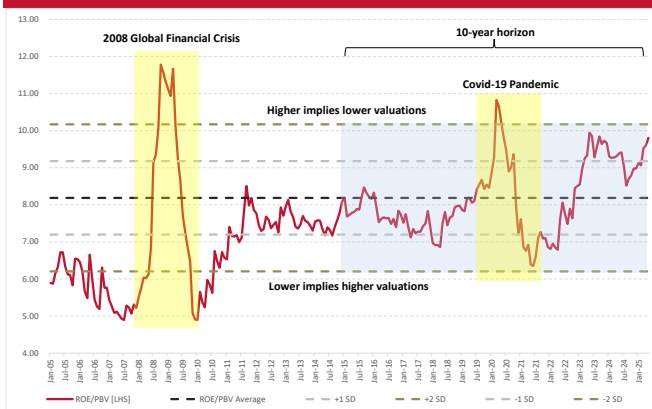
Exhibit 1: KLFIN's ROE, PBV 20-year Timeline



Source: Bloomberg, Kenanga

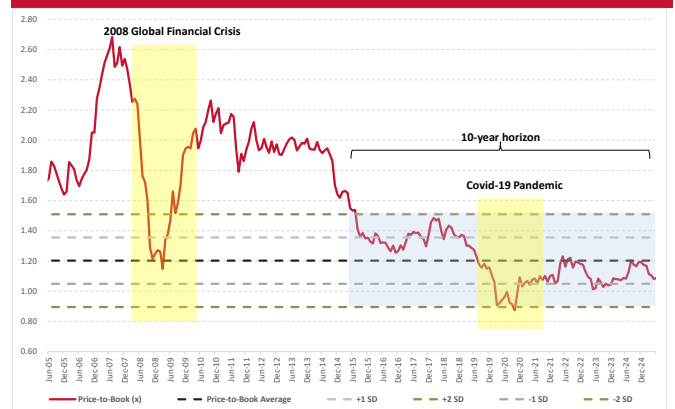
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Exhibit 2: KLFIN ROE/PBV 10-Year Standard Deviation



Source: Bloomberg, Kenanga

Exhibit 3: KLFIN PBV 10-Year Standard Deviation

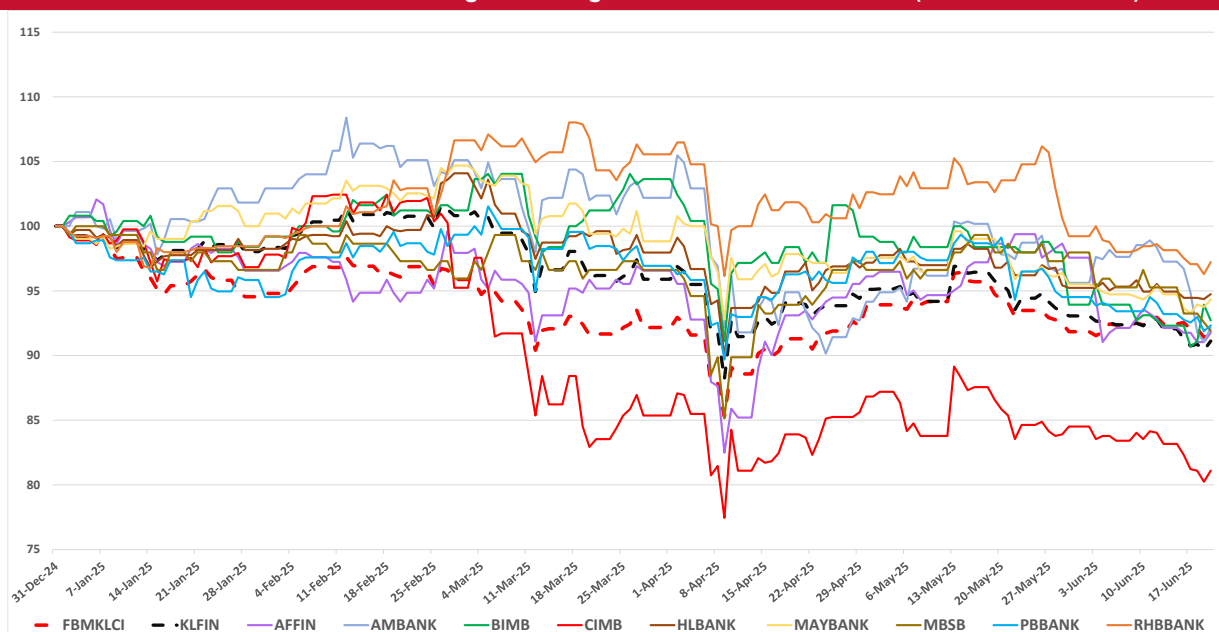


Source: Bloomberg, Kenanga

Sentiment down market-wide. Our in-house CY25 GDP forecast of 4.3% (1CY25: 4.4%, CY24: 5.1%) reflects more economic headwinds anticipated in 2HCY25 amid trade tariff uncertainties. In that regard, the more insulated banks would be names with a higher retail household composition such as **PBBANK** (70% of total loans mix), **HLBANK** (64%), and **BIMB** (76%). Meanwhile, banks with higher non-household mix include **AMBANK** (50%), **CIMB** (50%) and **RHBBANK** (45%).

However, there was little indication to show that the higher retail book names performed better, evident by the YTD price performance of the banking stocks. **RHBBANK** performed best by coming in -3% up till our cut of date of 20 June 2025, while excluding CIMB, the sector as whole saw share price decline between 5%-8%. We opine **CIMB's** 19% share price decline remains underpinned by foreign investors' concern of its exposure in Indonesia (25% of group PBT) which faces the possibility of further rate cuts, soft domestic demand and notable depreciation against the MYR (-6% YTD).

Exhibit 4: YTD CY25 Performance of Banking Stocks Against FBM KLCI and KLFIN (as of 20 June 2025)



Source: Bloomberg

Bracing for growth headwinds. With regards loans growth concerns, we gathered that **CIMB**, **MAYBANK** and **MBSB** have fallen behind their FY24 targets. That said, **CIMB** and **MAYBANK** could have met their targets if not for non-domestic operations falling short terms of forex translation (mainly Indonesia) and lower absolute growth (in both Thailand and Singapore). For **CIMB**, this had extended into 1QCY25's numbers as its Indonesia unit CIMB Niaga would have reported a 0.9% QoQ loans expansion, but was ultimately reported at -2.6% QoQ post-forex translation at the group level. It is likely due to this continued exposure that both banks have kept their targets conservatively within the industry's average. We therefore believe both **CIMB** and **MAYBANK** could continue to carry non-domestic risk into its CY25 earnings reports. Meanwhile, **MBSB's** shortfall in loans has been mostly attributed to the exit of a large construction-related account from its books, and therefore is expected to reflect more normalised loans growth in the near-term.

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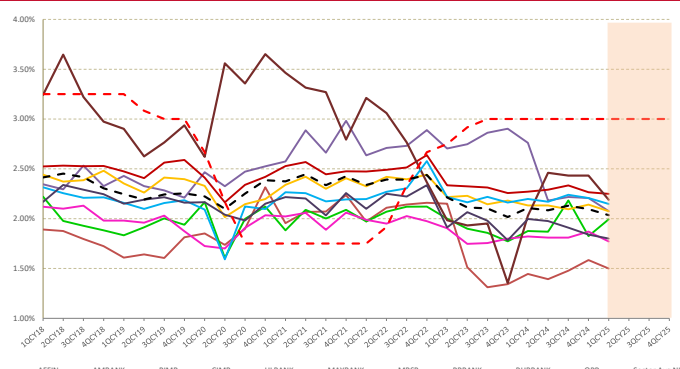
Exhibit 5: Banks Loans Growth Targets and Performance

Loans Growth	AFFIN	AMBANK	BIMB	CIMB	HLBANK	MAYBANK	MBSB	PBBANK	RHBBANK
FYE	Dec-25	Mar-26	Dec-25	Dec-25	Jun-25	Dec-25	Dec-25	Dec-25	Dec-25
Growth Target	12%	Single Digit	7%-8%	5%-7%	6%-7%	5%-6%	5%-6%	5%-6%	5%-6%
Prior year (vs Target)	8.1% (8.0%)	3.5% (3%-6%)	3.8% (3%-4%, from 7%-8%)	2.6%, 4.8% on constant current basis (5%-7%)	7.3% (6%-7%)	5.3%, 8.6% domestically (7%-8%)	4.2% (9%)	6.3% (5%-6%)	6.9% (>4.5%)
1QCY25-YTD	1.2%	1.3%	2.3%	-0.5%	0.9%	0.6%	-0.8%	1.4%	0.6%

Source: Companies, Kenanga Research

NIMs remain in a tight range. From 1QCY25 results reporting, most banks continued to see their NIMs tightened but with lower asset yields as opposed to higher fundingcost as seen throughout CY24. This is expected to carry on into CY25 with most banks aiming to keep margins stable with relief expected to be found from more penetration into SMEs for their better margins alongside higher-value mortgages for safety and access to a more affluent clientele. While we maintain our view for **OPR to remain stable at 3%**, we established a sensitivity of 1-3 bps lower NIMs for every 25 bps cut, which translates to an average c.2% decrease in earnings.

Exhibit6: Annualised NIMs



Note: Orange bar indicates our in-house OPR expectations in the coming periods

Source: Kenanga Research

Maintain OVERWEIGHT on the banking sector. Amid global uncertainties, we take comfort in the resilience of Malaysian banks, supported by sustained loan growth of 5%–6% driven by a robust retail portfolio. While fundamental concerns remain, we believe sector valuations may have become overly depressed, as the current environment is far healthier than during recent crises with asset quality (i.e. defaults) appearing to be a minor concern. Meanwhile, we are not overly concerned by strategies to target SMEs as the segment's system loans growth continues to outpace the industry, gaining 7.5% YoY in Apr 2025 against system business loans growth of 4.0%.

For 3QCY25, our Top Pick is **AMBANK** on the back of a more solid ROE backbone as the group focuses on stronger earnings drivers as opposed to gaining market share in less profitable segments. Following its recent transition into FIRB, the group's newly acquired CET-1 levels of c.15% have led to more generous dividend pay-outs and make AMBANK one of the leaders in dividend yield prospects (c.6%).

Between the large cap banks, **CIMB** would be our preferred pick. Amid its sell-down and concerns arising from Indonesia, we opine the risk-reward for the stock is the most favourable while offering c.6% dividend yield alongside an anticipated 11% ROE. Meanwhile, in the event of market-wide sentiment recovery, we believe **CIMB** may likely experience the highest capital gains as foreign investors return to the stock. Meanwhile, we also like **MAYBANK** as despite its leading market share, it still holds better-than-industry asset quality (Mar 2025: 1.27% vs industry's 1.42%). We take a longer-term view on MAYBANK as in the event industry headwinds shift to tailwinds, its scale could allow it to benefit the most in terms of loans book acquisitions and NIM expansion from its better economies of scale.

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen) 1-Yr. Fwd.	Net Div Yld. 1-Yr. Fwd.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
Stocks Under Coverage																	
AFFIN BANK BHD	UP	2.53	2.30	-9.1%	6,411	N	12/2025	23.8	25.6	18.2%	7.8%	10.6	9.9	0.5	5.1%	10.0	4.0%
AMMB HOLDINGS BHD	OP	5.05	6.90	36.6%	16,678	N	03/2026	64.8	66.6	7.1%	2.7%	7.8	7.6	0.8	10.1%	31.5	6.2%
BANK ISLAM MALAYSIA BHD	MP	2.29	2.40	4.8%	5,190	Y	12/2025	25.0	28.5	-0.7%	13.8%	9.1	8.0	0.7	7.3%	15.0	6.6%
CIMB GROUP HOLDINGS BHD	OP	6.65	7.90	18.8%	71,501	N	12/2025	75.9	79.5	5.0%	4.7%	8.8	8.4	1.0	11.4%	42.0	6.3%
HONG LEONG BANK BHD	OP	19.48	24.50	25.8%	42,227	N	06/2025	221.2	223.9	8.1%	1.2%	8.8	8.7	1.0	10.7%	71.0	3.6%
MALAYAN BANKING BHD	OP	9.66	12.00	24.2%	116,700	N	12/2025	87.3	91.2	4.4%	4.4%	11.1	10.6	1.2	10.9%	65.0	6.7%
MBSB BHD	MP	0.680	0.720	5.9%	5,591	Y	12/2025	7.5	7.7	31.8%	3.6%	9.1	8.8	0.5	5.3%	3.5	5.1%
PUBLIC BANK BHD	OP	4.21	5.25	24.7%	81,719	N	12/2025	38.0	39.1	3.2%	2.9%	11.1	10.8	1.4	12.6%	23.0	5.5%
RHB BANK BHD	OP	6.30	7.80	23.8%	27,465	N	12/2025	72.9	76.8	1.2%	5.3%	8.6	8.2	0.8	9.6%	44.5	7.1%
SECTOR AGGREGATE					373,482					5.0%	4.0%	9.9	9.6	1.0	10.5%		5.7%

Name	Terminal growth (%)	Sustainable ROE (%)	Cost of Equity (%)	Applied PBV (x)	Target Price (RM)	Call	Remarks
AFFIN BANK BHD	3.0	6.25	9.9	0.47	2.30	UP	
AMMB HOLDINGS BHD	3.0	10.0	9.9	1.02	6.90	OP	
BANK ISLAM MALAYSIA BHD	3.5	8.0	10.2	0.67	2.40	MP	
CIMB GROUP HOLDINGS BHD	3.5	11.5	11.2	1.05	7.90	OP	+5% ESG Premium
HONG LEONG BANK BHD	-	-	-	-	24.50	OP	Sum-of-Parts
MALAYAN BANKING BHD	3.5	12.0	9.5	1.41	12.00	OP	
MBSB BHD	3.0	6.0	9.2	0.48	0.720	MP	
PUBLIC BANK BHD	4.0	13.0	9.9	1.54	5.25	OP	+5% ESG Premium
RHB BANK BHD	2.5	10.0	10.2	0.98	7.80	OP	

Source: Kenanga Research

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Building Material

All Eyes on Water

OVERWEIGHT



By Teh Kian Yeong | tehy@kenanga.com.my; Nigel Ng | nigel@kenanga.com.my

Water is the next big story. The proposed data centre water tariff, likely to take effect soon, could unlock stronger cash flows for water operators and trigger a new wave of infrastructure spending. Pipe manufacturers are well-positioned to ride this upcycle. Meanwhile, stable ASPs and easing input costs are set to support margin normalisation for industry players, with metal prices expected to remain firm with an upward bias. Steel and aluminium demand is expected to pick up in late 2025, driven by a stabilising property market, government stimulus, and improving sentiment in China. We remain **OVERWEIGHT** on the sector with **PMETAL** (OP; TP: RM6.10) and **ENGTEX** (OP; TP: RM0.62) as our top picks.

US tariffs fail to lift metal prices. Steel prices saw a brief uptick following the US tariff announcement, but the impact is limited as China, the world's largest steel consumer continues to dictate global pricing. Chinese exports to the US are small and largely consist of high-value processed goods that already command premium prices. The pattern mirrors 2018, when prices spiked briefly post-tariff but slumped soon after as exemptions were granted.

China's demand to chart aluminium prices. Aluminium prices fluctuated between USD2,300/MT and USD2,500/MT over the past three months, despite expectations of sustained strength driven by unexpectedly strong consumption in China earlier in 2024. That said, the US 25% additional tariff on aluminium imports globally introduces short-term market uncertainty. The tariff will raise costs for US buyers and could prompt main exporters to the US, such as Canada and Mexico, to redirect shipments to other markets like the EU. However, the impact on China is likely minimal, as 80%-90% of its aluminium production is consumed domestically. In the medium-term, the market is expected to adjust through trade diversions or production cut to maintain demand-supply balance. As such, we maintain our view that China's demand rebound remains the key driver of aluminium prices going forward. We retain our average aluminium price assumptions at USD2,450/MT for 2025 and USD2,550/MT for 2026.

Steel prices likely at the bottom. China's steel demand is poised for modest growth in 2025 after years of stagnation, supported by a stabilising property market, government stimulus, and improving consumer sentiment. A potential RMB4.4t in local government bond issuance could supercharge infrastructure spending, while property stabilisation is now a national priority. Weak profitability has already triggered production cuts in China, pushing struggling steel producers toward consolidation. If capacity limits are enforced, higher utilisation rates could lift steel prices. With current prices hovering near historical lows, the setup is in place for a potential rebound. The silver lining is that more stable steel prices translate to steadier input costs for steel product players like **ENGTEX** and **ULICORP** (OP; TP: RM1.83), reducing earnings volatility.

Water gets pricier for data centres. A new water tariff sub-category for data centres may take effect soon with rates estimated at RM5.50/m³ according to SPAN. The sentiment towards water-related stocks has significantly improved since last year backed by ongoing tariff adjustments and gradual progress in water infrastructure development. Malaysia's data centre boom is putting pressure on water supply, with reserve margins stuck at 15%—well below the 25% target. The tariff hike is expected to inject fresh capital into water operators, accelerating capex and placing **ENGTEX** in a strong position to benefit from a likely ramp-up in pipe replacement orders starting next year. Encouragingly, there have been several positive developments, including: (i) PBA (Not Rated) planning to complete three water pipeline projects worth RM189m over the next two years, (ii) PAAB building two new water treatment plants in Seberang Perai worth RM1b, and (iii) Sarawak's allocation of RM1.08b for water pipe upgrades.

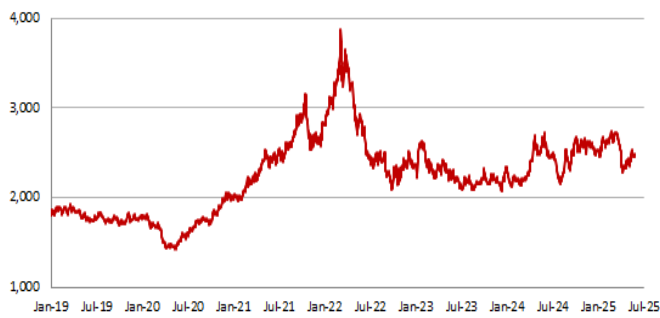
Several mega infrastructure projects are set to be rolled out in CY25, including: (i) Sungai Perak Raw Water Transfer Scheme to Penang (SPRWTS), (ii) Langat 2 water treatment plant, and (iii) Sungai Rasau phase 2. Based on our estimates, the total value of the water pipe components for these projects is approximately RM1.1b.

Our sector top picks are:

1. **PMETAL** given: (i) structural cost advantage over international peers given its access to low-cost hydro-power secured under four long-term PPA contracts ending between 2034 and 2040, (ii) strong secured alumina supply with stakes in two alumina miners, i.e., Japan Alumina Associate (40%) and Nanshan Aluminium (21.75%) which supply 40% of its requirements, and (iii) green investment appeal as a clean energy source producer.
2. **ENGTEX** given: (i) the huge potential in the water pipe replacement market locally, (ii) its dominant market position in both large-diameter mild steel (MS) pipes and ductile iron (DI) pipes, and (iii) its strong earnings visibility underpinned by significant order backlogs and a strong pipeline of new projects.

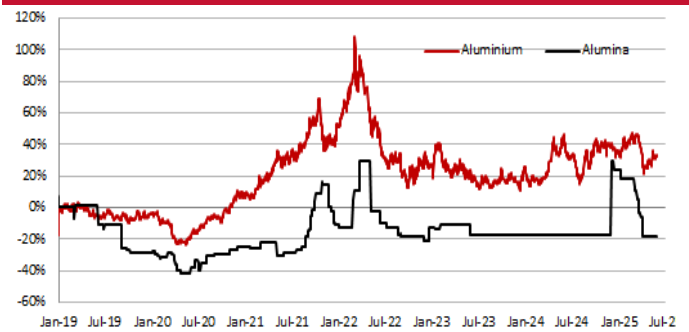
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Aluminium Prices



Source: Bloomberg, Kenanga Research

Aluminium vs. Alumina Prices – % Movement Since 2018



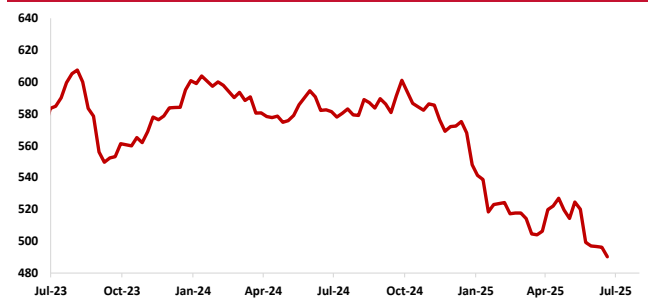
Source: Bloomberg, Kenanga Research

China Rebar Steel Prices



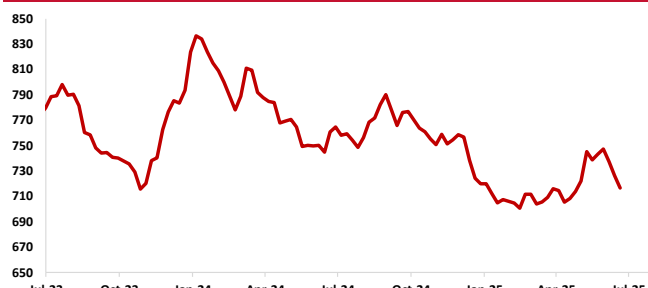
Source: Bloomberg, Kenanga Research

Malaysia Rebar Steel Prices



Source: Bloomberg, Kenanga Research

Malaysia Cold Rolled Coil Prices



Source: Bloomberg, Kenanga Research

Malaysia Hot Rolled Coil Prices



Source: Bloomberg, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price @ 20/6/25 (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
ENGTEX GROUP BHD	OP	0.510	0.620	21.6%	405.0	Y	12/2025	(1.1)	3.9	-216.7%	242.9%	N.A.	13.0	0.3	-0.7%	0.8	1.5%
PRESS METAL ALUMINUM HOLDINGS BHD	OP	4.88	6.10	25.0%	40,209.3	Y	12/2025	24.3	27.9	8.2%	14.7%	20.0	17.5	4.1	22.0%	9.7	1.4%
UNITED U-LI CORPORATION BHD	OP	1.42	1.83	28.9%	309.3	Y	12/2025	18.7	22.9	13.3%	22.3%	7.6	6.2	0.7	10.3%	8.0	5.6%
Sector Aggregate					40,923.6					7.7%	16.3%	20.1	17.3	3.7	18.5%		2.8%

Source: Kenanga Research

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Construction

Data Centre Shine; Upcycle Back on Track

By Teh Kian Yeong | tehy@kenanga.com.my

OVERWEIGHT



After a sluggish start to the year driven by concerns over US AI diffusion policies, sentiment in the construction sector rebounded strongly in 2QCY25, buoyed by renewed confidence as global tech giants ramped up data centre investments. We expect this upcycle to extend into 2HCY25, underpinned by a robust pipeline of data centre roll-outs and the impending public infrastructure projects. As of end-May, a total of RM75.5b worth of main contractor construction contracts have been awarded YTD; on track to meet our full-year 2025 contract awards assumption of RM180b. Construction players have set ambitious job replenishment targets for 2025, which, if achieved, could offer further upside to our target prices. We maintain our OVERWEIGHT call on the sector, with GAMUDA (OP; TP: RM5.43) and IJM (OP; TP: RM3.40) as our preferred picks, given large-cap names typically outperforming during sector upcycles.

A strong sentiment recovery in 2QCY25. After a lacklustre start to the year, sentiment in the construction sector rebounded strongly in 2QCY25. Earlier in 1QCY25, concerns over the US AI diffusion rules had casted a shadow on Malaysia's data centre development outlook, triggering a heavy sell-off in construction stocks. Large-cap builders such as **GAMUDA**, **IJM** and **SUNCON** (MP; TP: RM5.94) saw their share prices falling by as much as 28%, 40% and 36%, respectively, from their recent peaks. However, sentiment turned bullish in 2QCY25, with QTD gains of 12%, 21% and 36%, respectively. The rebound was fuelled in part by renewed confidence as global tech giants continued to expand their data centre investments, and as job tendering in the data centre space remained robust. Despite this, **IJM** continued to lag with a YTD decline of 16%, while **GAMUDA** has recovered to its end-2024 share price level. **SUNCON** emerged as the top performer with a 29% rally YTD.

Data centre story to continue. In 1HCY25, at least two US tech giants, Microsoft and the US-based associated company Pearl Computing, acquired land in Malaysia for data centre expansion. Notably, **GAMUDA** sold a 389-acre land parcel in Springhill, Port Dickson to Pearl Computing in May for RM455.2m, alongside a RM1b in enabling infrastructure works. This positions **GAMUDA** well to tap into future data centre projects on the site, which has a capacity to support 800MW–1,000MW in data centre development, potentially worth RM14b–RM20b in contracts. Meanwhile, **IJM** and **SUNCON** also concurred that data centre job tendering activity remains strong with no signs of slowing down. According to **TENAGA** (OP; TP: RM17.20), five data centre projects totalling 700MW signed Energy Supply Agreements (ESAs) in 1QCY25. This brings the cumulative total to 43 projects with 6,400MW capacity. We believe the data centre boom will continue over at least the next two years, and we maintain our annual 700MW award assumption, translating to approximately RM21b in construction contract values for 2025.

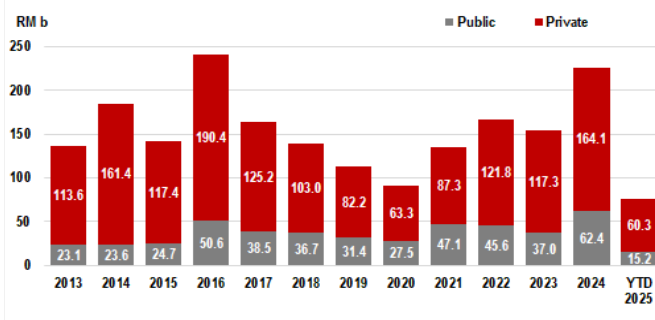
Several public projects in the pipeline. We remain optimistic that the construction sector will continue its upcycle into 2HCY25, supported by both public infrastructure and private sector developments. Although the MRT3 timeline remains uncertain, several key projects are progressing, including Penang LRT Mutiara Line Packages 2 & 3, Penang Airport expansion, Phase 2 of the Pan Borneo Highway, Sabah-Sarawak Link Road, the Subang Airport redevelopment plan, and the Johor LRT/ART. The high-profile KL-Singapore High-Speed Rail remains a medium-term catalyst. Beyond data centres, industrial developments such as semiconductor foundries will support further private sector growth. We maintain our assumption of average annual contract awards at RM180b for 2024–2026. As of end-May 2025, RM75.5b in main contractor construction contracts have already been awarded, compared to RM226.5b in total awards for 2024, according to the Construction Industry Development Board.

Maintain OVERWEIGHT for the sector. Despite the relatively slow pace of public project roll-outs, we remain bullish on the construction sector given persistent demand for data centres, underpinned by continued capex from major tech firms. All stocks under our coverage are rated OUTPERFORM, except **SUNCON** (MP; TP: RM5.94), as we believe positives are largely priced in after its strong rally. Our Top Picks are **GAMUDA** and **IJM**, as large caps tend to outperform during sector upcycles. We like **GAMUDA** for: (i) its leadership in the Penang LRT Mutiara Line, (ii) its success in securing overseas projects, (iii) strong earnings visibility backed by a record RM37b order book, and (iv) its expansion into the renewable energy space. We favour **IJM** for: (i) its potential participation in the Penang LRT due to past project involvement, (ii) strong earnings visibility with a RM6.6b domestic order book and RM1.5b in new property sales, (iii) Kuantan Port's strategic role in East Coast trade flows, and (iv) the potential divestment of its toll road assets, which may improve its balance sheet and act as a re-rating catalyst.

Among mid-caps, **KERJAYA** (OP; TP: RM2.30) offers attractive dividend yields of over 5%. Meanwhile, small-cap **KIMLUN** (OP; TP: RM1.39) is expected to benefit from upcoming public infrastructure roll-outs, while the listing of **PARADIGM** (NOT RATED) marks a potential re-rating for **WCT** (OP; TP: RM1.25). Meanwhile, we expect a neutral impact on builders from the recent RP4 base tariff announcement, as it involves tariff rebasing while users have already been paying market prices. The newly introduced EPF contribution for foreign workers is also expected to have an immaterial earnings impact on contractors, estimated at less than 1%.

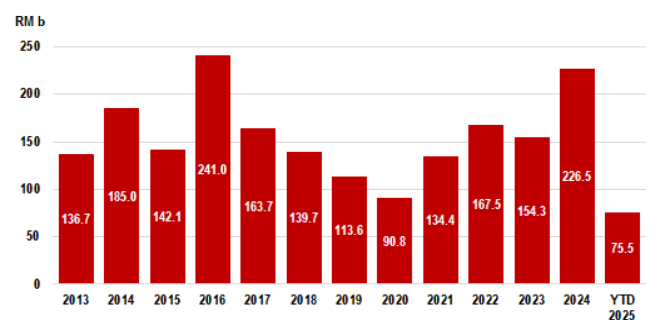
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Malaysian Projects Awarded by Sector



Source: CIDB

Malaysian Projects Awarded



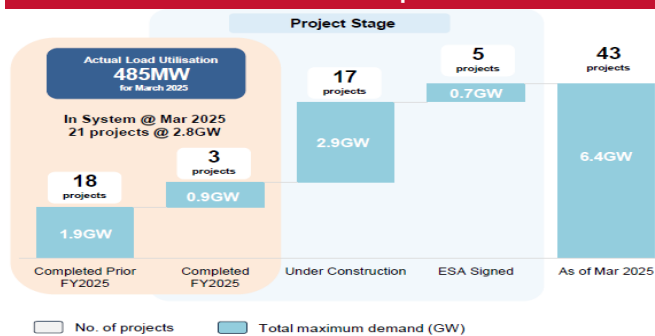
Source: CIDB

Key Infrastructure Projects

Projects	Value (RM b)	Status	
		Ongoing	Pending
MRT3	45.0		✓
Mutiara Line, Penang LRT	10.0	✓	
Penang Airport Expansion	1.5		✓
Subang Airport Redevelopment Plan	3.7		✓
KL-SG HSR	N/A		✓
Johor Bahru ART/LRT	N/A		✓
Johor Bahru-Singapore RTS	4.3	✓	
Central Spine Road	10.7	✓	
Pan Borneo Sarawak Phase1	16.0	✓	
Pan Borneo Sarawak Phase 2	4.6		✓
Pan Borneo Sabah Phase 1	15.3	✓	
Pan Borneo Sabah Phase 1B	15.7		✓
Sabah Sarawak Link Road Phase 1	5.2	✓	
Sabah Sarawak Link Road Phase 2	7.2		✓
Large-scale flood mitigation projects	13.0		✓
Rasau Water Treatment Plant	4.5	✓	
Kuching Autonomous Rail Transit	6.0	✓	

Source: Kenanga Research, Media reports

Data Centres' Power Demand Requirement



Source: Tenaga

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Land Sale Transactions					
Date	Buyer	Seller	Location	Size (acres)	Value (RM m)
07 Jul 2023	STT GDC	CRESNDO	Pulai, Johor	22.4	117.1
15 Nov 2023	Epoch Digital	CRESNDO	Pulai, Johor	20.4	111.0
17 Nov 2023	Microsoft	CRESNDO	Pulai, Johor	60.3	315.2
04 Apr 2024	Microsoft	CRESNDO	Pulai, Johor	25.3	132.5
08 May 2024	Bridge DC	PGLOBE	Plentong, Johor	47.9	238.3
13 May 2024	Digital Hyperspace	AME	I-Techvalley, Pulai, Johor	34.5	209.8
30 May 2024	Bridge DC	MAHSING	Mah Sing DC Hub	17.6	152.9
07 Jun 2024	Microsoft	ECOWLD	Pulai, Johor	123.1	402.3
02 Jul 2024	Equalbase	Sunway Group	Sunway City Iskandar Puteri, Johor	64.0	380.0
12 Jul 2024	Digital Halo	CRESNDO	Pulai, Johor	20.5	115.9
29 Jul 2024	Equinix	Cyberview	Cyberjaya	4.0	23.0
02 Aug 2024	Bridge DC	PGLOBE	Plentong, Johor	19.8	99.0
26 Aug 2024	NTT Global DC	TROP	Pulai, Johor	68.5	383.1
09 Oct 2024	ZData Technologies	TROP	GelangPatah	38.5	234.0
28 Oct 2024	Bridge DC	MAHSING	Mah Sing DC Hub	35.7	310.8
27 Jan 2025	Microsoft	CRESNDO	Pulai, Johor	24.1	119.8
17 Feb 2025	Microsoft	ECOWLD	Eco Business Park I, Iskandar	38.5	694.0
25 Feb 2025	Pear Computing	ECOWLD	Eco Business Park V, Selangor	58.2	266.1
05 May 2025	Pear Computing	GAMUDA	Springhill Industrial Park, PD	389.0	455.2

Source: Bursa & various news reports

Data Centre Contract Awards					
Date	Developer	Contractor	Location	Value (RM m)	Completion
05 Oct 2023	K2	SUNCON	Sedenak Tech Park, Johor	190.0	4Q24
21 Mar 2024	US-based MNC	SUNCON	Cyberjaya	747.8	2Q27
26 Apr 2024	TM Technology	GADANG	Klang Valley DC Block 2, Cyberjaya	280.0	Apr 2026
30 Apr 2024	US-based MNC	PASUKGB	Selangor	57.0	Jun 2025
24 May 2024	Google	GAMUDA	Elmina Business Park, Selangor	1,743.6	Sep 2026
29 May 2024	NEXT DC	MITRA	Petaling Jaya, Selangor	86.6	Dec 2025
10 Jun 2024	Yondr	SUNCON	Sedenak Tech Park, Johor	1,500.0	Feb 2026
26 Jun 2024	TM Technology	IJM	Iskandar Puteri DC, Johor	331.7	3Q25
19 Aug 2024	EXISM Jalil Link	BNASTRA	EXSIM Hyperscale DC @ Bukit Jalil	574.0	Jan 2026
19 Aug 2024	International DC developer	IJM	GelangPatah, Johor	254.0	1Q26
06 Sep 2024	Yondr	SUNCON	Sedenak Tech Park, Johor	82.0	Feb 2026
30 Oct 2024	Yondr	SUNCON	Sedenak Tech Park, Johor	265.0	Feb 2026
01 Nov 2024	BCEI	GAMUDA	Cyberjaya	451.4	1Q26
Feb 2025	Unknown	IJM	Johor	259.4	N/A
25 May 2025	K2	SUNCON	Sedenak Tech Park, Johor	392.7	Mar 2026
29 May 2025	US-based MNC	SUNCON	Selangor	1,155	Feb 2027

Source: Bursa

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAMUDA	OP	4.72	5.43	15.0%	27,231.7	Y	07/2025	17.6	24.4	8.9%	38.7%	26.8	19.3	2.3	8.7%	10.0	2.1%
IJM	OP	2.55	3.40	33.3%	8,938.2	Y	03/2026	15.6	16.2	20.9%	4.0%	16.3	15.7	0.9	5.7%	8.0	3.1%
KERJAYA	OP	2.06	2.30	11.7%	2,592.6	Y	12/2025	16.7	18.1	29.8%	8.0%	12.3	11.4	2.1	17.8%	12.0	5.8%
KIMLUN	OP	1.07	1.39	29.9%	378.1	Y	12/2025	23.2	27.3	376.5%	17.6%	4.6	3.9	0.4	9.9%	2.0	1.9%
SUNCON	MP	5.95	5.94	-0.2%	7,742.4	Y	12/2025	22.8	25.7	81.6%	12.8%	26.1	23.2	7.4	30.7%	12.5	2.1%
WCT	OP	0.605	1.25	106.6%	943.1	Y	12/2025	5.0	5.6	67.4%	12.7%	12.1	10.8	0.3	2.1%	0.5	0.8%
Sector Aggregate					47,826.1					32.0%	21.9%	21.6	17.7	1.7	7.9%		2.6%

Source: Kenanga Research

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Consumer

NEUTRAL

Holding on to Essentials, Watching for Risks

By Thin Yun Jing | thinji@kenanga.com.my

We maintain **NEUTRAL** on the sector. The consumer sector continues to navigate challenges stemming from muted real wage growth and rising operating costs. While frontloaded festive demand lifted 1Q sales, the outlook for 2H remains guarded as post-seasonal demand normalises and upcoming policy changes including RON95 fuel subsidy rationalisation and electricity tariff hikes come into play. Notably, our regression model on the Bursa Malaysia Consumer Product Index (KLCSU Index), as outlined in our previous sector strategy report, has aligned well with recent sector trends, supporting our earlier view of a more modest sales growth. That said, downside risks are partly cushioned by ongoing fiscal support, a stronger MYR and resilience in F&B and staples. Our sector top picks remain F&N (OP; TP: RM31.95) for its defensive F&B profile, and MRDIY (OP; TP: RM1.80) for its value-for-money appeal and scale-driven cost advantage.

Retail momentum eases, but resilience seen in F&B. According to Retail Group Malaysia (RGM), retail sales rose 5.6% YoY in 1QCY25, slightly below the market estimate of 5.9% but an improvement from 3.5% in 4QCY24. The growth was largely driven by frontloaded festive spending, particularly in the fashion and fashion accessories subsector which surged 12% due to Chinese New Year, earlier Hari Raya, and school holidays. Looking ahead, however, RGM has revised down its CY25 retail sales growth forecast to 3.1% (from 4.3% in March 2025), following a downward adjustment to 2QCY25 projection to -1.0% (from +4.8%) due to normalising seasonal demand and rising retail prices. Department stores and supermarket-and-hypermarket segments are expected to see short-term pullbacks, while the food-and-beverage segment remains resilient, supported by steady foot traffic at cafés and restaurants. RGM has kept its 3Q and 4Q retail sales growth forecasts unchanged at +2.8% and +3.5% YoY, respectively.

Downward revisions reinforce our view of moderating growth. As highlighted in our previous sector strategy report titled *Waiting for the Tides to Turn*, our regression model on the KLCSU Index continues to track ongoing sector dynamics. Post-1QCY25 results saw about half of the 52 KLCSU constituents with forecasted figures revising sales expectations lower, led by large-cap names such as Sime Darby and Genting, while 35% raised their forecasts and the rest remained unchanged. Consensus revenue growth for KLCSU has since been trimmed to 3% YoY (from 5%), while our revised model, factoring in updated real GDP assumption of +4.3% (vs. +4.8% previously) now points to 1% sales growth for CY25. This reinforces our earlier view that growth is more likely to trend closer to a conservative 2% than the initial consensus of 5%.

Consumers prioritise essentials as real wages lag. It is also noted that recent BNM data has shown a 1.9% decline in real wages between 1QCY20 and 1QCY25, which aligns with our view that rising living costs are prompting lower and middle-income households to prioritise essentials while being cautious with discretionary spending. This is particularly evident among low-income groups, many of whom already allocate over 45% of their income to food. That said, continued fiscal support including Sumbangan Tunai Rahmah (STR) and Sumbangan Asas Rahmah (Sara) should help cushion household budgets and support essential purchases.

Mounting cost pressures amid policy shifts in 2H... On the cost side, several policy shifts slated for 2HCY25 are expected to shape the operating environment. The planned RON95 fuel subsidy rationalisation, with details on timing and implementation still unclear, is expected to be rolled out in stages in 2H. This could result in higher logistics and transport costs, with potential price pass-through especially for lower-margin players. Importantly, the government's commitment to maintaining RON95 prices, even in the event of a spike in global oil prices, should help cap immediate fuel-related inflation. Meanwhile, the upcoming electricity tariff adjustment effective July with the average base tariff adjusted to 45.40 sen/kWh (from 39.95 sen/kWh) may contribute to higher utility costs particularly for commercial users consuming over 200 kWh/month. While most households i.e. those consuming under 1,000 kWh/month are expected to remain shielded from tariff hikes, there may be indirect pass-through to consumers via wholesalers and retailers. Still, we believe the direct inflationary impact should remain modest, given that electricity only accounts for 2%–3% of headline CPI.

... yet pass-through remains selective, cushioned by stronger MYR. Other policy-driven cost drivers are also gradually feeding into operating costs, including the minimum wage hike (effective February), new 2% EPF contribution for foreign workers (effective October) and the expanded SST (starting July), which now applies to commercial leasing and rental services. While this is likely to lift rental costs across the retail space, companies we spoke to such as **MRDIY** and **AEON** have indicated that they do not intend to raise retail prices in response. **MRDIY** estimates a manageable impact of 1%–1.5% of PAT from rental-related costs, with sufficient margin headroom to absorb the increase, while **AEON** noted that 10 of its 28 malls will be affected by the new SST. On a brighter note, the stronger MYR offers some relief on import costs, particularly for players in apparel, retail and food ingredients.

We maintain our **NEUTRAL** stance on the sector. While cost challenges and policy changes remain key areas to watch, we believe these headwinds will be partially offset by continued fiscal support, a stronger MYR and selective resilience in

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categories such as F&B. In our view, a sustained sector re-rating would still require: (i) a more evident pick-up in real consumer spending, (ii) better earnings visibility, especially among large-cap staples, and (iii) macro clarity on subsidy rollbacks and regional trade sentiment.

Our top picks for the sector are:

- **F&N** for: (i) its earnings defensiveness given the stable demand for essential food items despite high inflation and an uncertain global economic outlook, (ii) the rising popularity of ready-to-drink products where F&N has a strong presence, (iii) proxy to the recovery of domestic consumption and the return of tourists in Thailand, and (iv) its long-term growth prospects driven by its investment in a sizeable dairy farm in Gemas, Negeri Sembilan.
- **MRDIY** for: (i) its dominant position in Malaysia's home improvement market, (ii) its size that translates to strong bargaining position vs. its suppliers, and economies of scale, (iii) its ample headroom for growth in terms of store count, and (iv) its continued efforts to improve operational efficiency such as the introduction of an automated inventory system.

Raw Material / Commodities Price Trend

	6/20/2025	1M	QTD	1QCY25	YTD	vs. 2024 average price	vs. 2023 average price	vs. 2022 average price	Future Price Trend*
Sugar (USD/lb)	16.0	-7.6	-15.3	-2.1	-17.0	-23.0	-33.6	-15.1	↑
Coffee (USD/lb)	308.7	-14.5	-18.7	18.8	-3.5	31.5	79.9	44.1	↑
Cocoa (USD/MT)	9,081.0	-7.0	14.9	-32.3	-22.2	12.3	175.3	268.6	↓
Milk (USD/MT)	4,084.0	-6.6	0.8	4.2	5.0	18.8	32.6	5.0	
Wheat (USD/MT)	369.5	0.4	1.4	-2.6	-1.3	-6.1	-16.6	-39.9	↓
Corn (USD/Bushel)	334.4	-11.9	-11.4	-0.3	-11.7	-5.7	-27.2	-40.8	↑
Soybean (USD/Bushel)	1,027.5	-3.1	1.3	1.7	2.9	-6.8	-27.1	-33.1	↑
CPO (RM/MT)	3,964.0	3.4	-16.8	-2.0	-18.5	-5.6	4.0	-21.9	↑
Cotton (USD/lb)	66.4	0.5	-0.6	-2.3	-2.9	-13.4	-20.0	-40.8	↑
Aluminium (USD/MT)	2,558.4	4.1	1.7	-0.8	0.9	5.0	12.9	-5.4	↓
Baltic Dry Index	1,665.0	24.3	4.2	60.3	67.0	-5.1	20.8	-13.9	
WTI Crude Oil (USD/Barrel)	65.5	6.4	-8.4	-0.3	-8.8	-13.6	-15.6	-30.6	
Volatility Index	16.8	-18.5	-24.8	28.4	-3.4	7.8	-0.5	-34.6	
Dollar Index	1,195.5	-1.3	-6.2	-2.7	-8.7	-4.5	-3.5	-4.5	
USDMYR	4.23	-0.2	4.9	-0.8	-5.5	-7.6	-7.5	-4.0	
Shanghai Shipping Index	1,342.46	21.5	20.8	-26.6	-11.4	-13.4	43.2	-51.4	

Source: Bloomberg, Kenanga Research, *World Bank Commodity Price Forecasts (29 April 2025)

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Peer Table Comparison

Name	Rating	Last Price @ 20/6/25 (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen) 1-Yr. Fwd.	Net Div. Yld. 1-Yr. Fwd.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
CONSUMER																	
AEON CO. (M) BHD	MP	1.37	1.45	5.8%	1,923.5	Y	12/2025	10.7	11.5	-0.7%	8.0%	12.9	11.9	1.0	7.6%	5.0	3.6%
FARM FRESH BHD	OP	1.84	2.10	14.1%	3,452.5	Y	03/2026	7.5	8.5	29.2%	13.0%	24.6	21.8	4.2	18.2%	3.0	1.6%
FRASER & NEAVE HOLDINGS BHD	OP	28.88	31.95	10.6%	10,592.6	Y	09/2025	157.7	169.6	2.5%	7.5%	18.3	17.0	2.7	15.5%	75.0	2.6%
MR D.I.Y. GROUP (M) BHD	OP	1.63	1.80	10.4%	15,437.7	Y	12/2025	7.0	7.8	14.5%	12.4%	23.4	20.8	7.4	33.6%	4.0	2.5%
NESTLE (MALAYSIA) BHD	MP	72.52	79.10	9.1%	17,005.9	Y	12/2025	197.8	231.6	16.0%	17.1%	36.7	31.3	24.7	68.2%	190.0	2.6%
PADINI HOLDINGS BHD	OP	2.02	2.45	21.3%	1,993.5	Y	06/2025	17.7	18.1	19.2%	2.3%	11.4	11.2	1.7	14.7%	9.8	4.9%
POWER ROOT BHD	UP	1.32	1.20	-9.1%	559.8	Y	03/2026	7.7	8.2	6.9%	5.6%	17.1	16.2	2.0	11.5%	7.0	5.3%
QL RESOURCES BHD	MP	4.63	4.52	-2.4%	16,900.9	Y	03/2026	13.3	14.5	6.7%	8.7%	34.8	32.0	4.7	15.4%	5.0	1.1%
KAREX BHD	OP	0.730	0.900	23.3%	769.0	Y	06/2025	1.3	3.6	-40.2%	169.3%	54.9	20.4	1.6	2.9%	1.0	1.4%
SECTOR AGGREGATE					68,635.4					9.9%	11.4%	25.4	22.8	4.6	17.9%		2.8%

Source: Bloomberg, Kenanga Research

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Glove

OVERWEIGHT

Deep Value Emerging, Orders are gradually returning



By Raymond Choo Ping Khoon | pkchoo@kenanga.com.my

We maintain OVERWEIGHT on the sector. Malaysian glove stocks are trading at deep value levels, pricing it close to the worst of the down-cycle. The glove sector under our coverage is currently trading at 2.0 SD below its historical 1-year forward average. While earnings may remain weak in the near term, structural demand and supply rationalisation offer long-term upside. While evolving tariffs actions and trade dynamics may limit near-term visibility, the present low inventory levels could spark a sudden surge or uptick in orders. Anecdotal evidence suggest that despite the impact of tariff-related disruptions, there is only so long customers can hold off purchases. We prefer selective exposure to quality names like HARTA (OP↔; TP: RM3.20↔) and KOSSAN (OP↔; TP: RM2.70↔).

Trading at deep value, pricing at close to worst of the down-cycle, orders flowing back albeit at a slower pace.

Malaysian glove stocks are trading at deep value levels, pricing them close to the worst of the down-cycle (see Exhibit 1). The glove sector under our coverage is currently trading at 2.0 SD below its historical 1-year forward average. While earnings may remain weak in the near term, structural demand and supply rationalisation offer long-term upside.

While evolving tariffs actions and trade dynamics may limit near-term visibility, the present low inventory levels could spark a sudden surge or uptick in orders. Indications from channel checks are pointing towards a recovery for local glove players albeit at a slower pace in 2H CY25 following a slower 1H CY25 due to the front-loading effects of US customers purchasing from Chinese makers. We believe the YTD slump in players' share prices by between 20%-48% were due to concerns of front-loading effects by US distributors and diverted Chinese capacity ahead of the tariff kicking in Jan CY25 and concerns of a certain Chinese glove maker's plant slated to begin commercial production in end-CY25. We believe the present concern of Chinese glove makers to further lower ASP is overplayed since the present ASPs at USD15-17 per 1,000 pieces (and this is the indicative ASP for a certain Chinese glove maker's plant in Indonesia which market expect to commence production in end-CY25) is higher than the previous down-cycle ASP of USD13 per 1,000 pieces. Anecdotal evidence suggest that despite the impact of tariff-related disruptions, there is only so long customers can hold off making purchases. If past history is of any guide, based on previous down-cycles, Malaysian glove makers' stock prices will start to re-rate once the ASP concerns subside, and demand starts flowing back to Malaysian glover makers.

We believe **KOSSAN** is expected to be less affected as it focuses on specialty gloves which fetch better margins. Moreover, with its disciplined cost structure and continuous efforts to streamline operations, the group's profitability is expected to be less impacted by any potential orders slowdown.

Looking into 1Q CY26 for **HARTA**, the group guided sales volumes to rise between 1% and 8% QoQ or ranging between 6b to 6.6b pieces. It expects customers now to rely on existing inventory as opposed to re-stocking in the current environment of fluid news concerning tariffs. As an indication, May shipments spike up to 2.3b pieces but moderated back to 2.0b pieces in Jun. but a marginally lower ASP is expected. Looking into 1H FY26, it expects strong orders recovery due to inventory replenishment.

Similarly, **TOPGLOV** recently announced 3Q FY25 results, showing positive sales volume growth. It expects 4Q FY25 volume sales to grow at 15%-20% QoQ on the back of order replenishment and U.S. orders picking up following the frontloading effects of US customers purchasing from Chinese glove makers in 4Q CY24. In fact, June CY25 utilisation rate is presently 65% compared to 61% in 3Q FY25 (58% in 2Q FY25). The group is optimistic on demand trends, downplaying the impact of recent tariff-related disruptions, as there is only so long customers can hold off purchases. In fact, the group has started seeing orders flowing back in May and June and expect momentum to continue in July.

EU decision could be positive for Malaysian glovemakers. The European Commission announced recently (June 20) to exclude Chinese companies from The European Union (EU) public procurement contracts for medical devices exceeding €5m and not more than 50% of components used in winning bids for public contracts can be of Chinese origin. According to an EU official guided by figures of Medtech Europe, the EU medical technology market was worth some €150b in 2023, with public procurement accounting for 70% share. The restrictions include diagnostic equipment and medical gloves. The exceptions will be in a place where no alternative suppliers exist. Typically, Europe accounts for an estimated 30%-40% of Malaysia's glove export market. For illustration purposes, assuming: (i) China exports 70% of their gloves to Europe (following the imposition of tariffs in the US) which is estimated at 50b pieces, and (ii) public procurement is 70%, an estimated 35b pieces market may benefit glove makers including Malaysia. However, an EU-China summit in end July CY25 could sway away this EU restrictions.

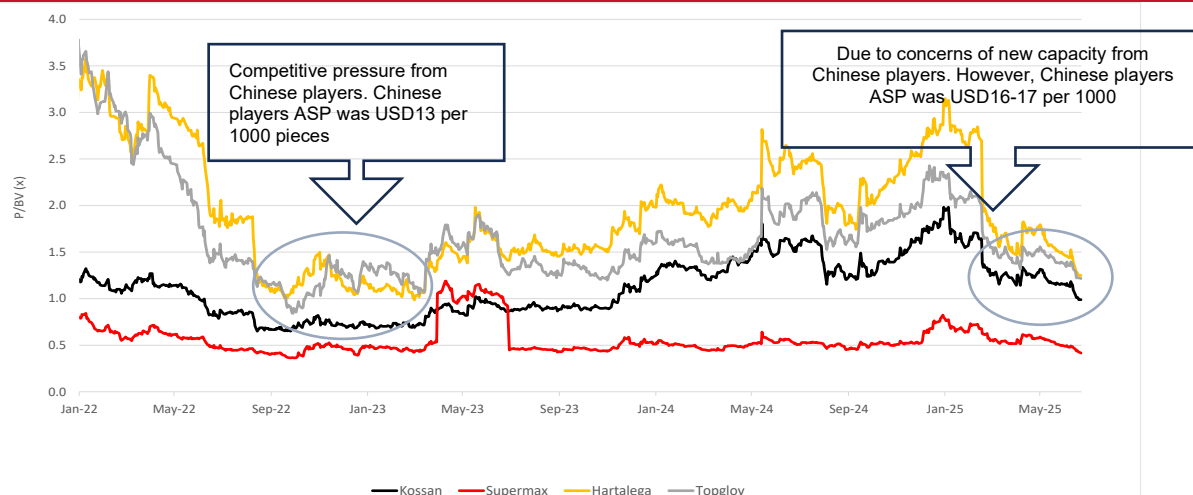
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EU decision and US tariff on Chinese glovemakers could benefit Malaysian glovemakers. The potential increase in demand would be an added boost for the local glove players on top of expected expansion in the US rubber-glove market. For illustration purposes, assuming both EU and US orders flow back to Malaysian glovemakers gradually in 2HCY25, we could see an aggregate 70b pieces i.e EU (35b pieces) and US (35b pieces).

Recall, U.S. and China agreed to suspend most tariffs (announced in April CY25) on each other's goods and call for a 90-days truce. Specifically, the U.S. agreed to drop its 145% tariff rate on Chinese goods by 115 percentage points to 30%, while China agreed to lower its rate on U.S. goods by the same amount to 10%. We interpret that this 30% tariffs is in addition to the 50% presently imposed on China's rubber medical and surgical gloves' exports into the US. This effectively implies tariffs on Chinese glovemakers at 80% in CY25 and 130% in CY26. For illustration purposes, a 50% + 30% tariff hike is expected to raise Chinese glove producers' ASP to USD27-USD28.8/1,000 pieces (from an assumed base case ASP at USD15-16/1,000 pieces). This makes Malaysian glove makers ASPs of between USD19 to USD20/1000 pieces at a steep 22% discount versus the Chinese alternative.

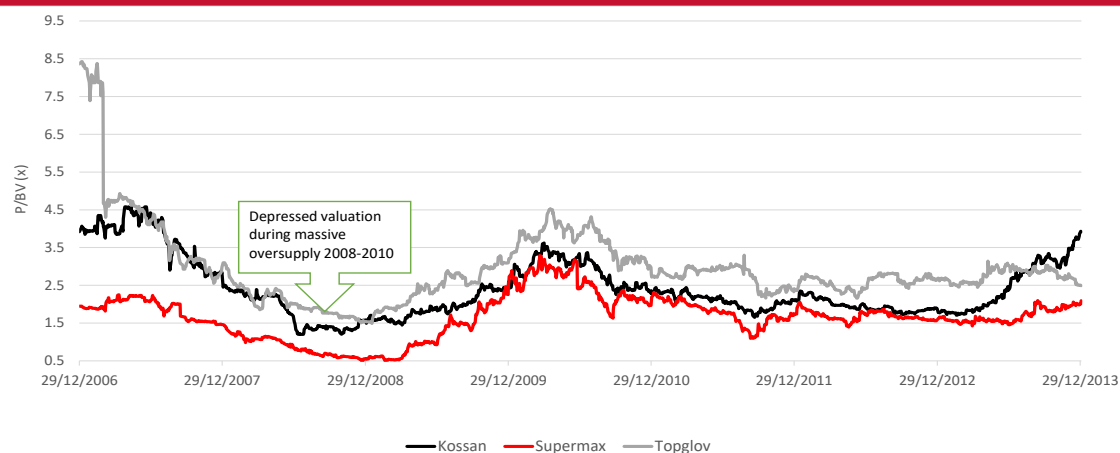
Valuations. The glove sector under our coverage is currently trading at 2.0 SD below its historical 1-year forward average. While earnings may remain weak in the near term, structural demand and supply rationalisation offer long-term upside. We believe the current low P/Book valuations are unwarranted low because glove players are profitable compared to the previous down-cycle low where players were in loss-making position. HART and KOSSAN are currently trading at 1.3x and 1.0x, respectively versus sector's recovery cycle phase of between 2x and 3x, i.e. the levels seen emerging from an up-cycle in 2012 and at a discount that we believe is valid due to the emergence of Chinese glove makers.

Exhibit 1- Deep Values Emerging - P/BV Valuation— Trading at Close to Downcycle Between 0.8x and 1.3x



Source: Kenanga Research, Bloomberg

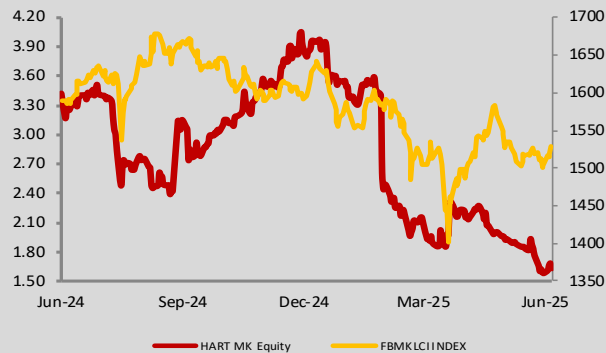
Exhibit 2 - P/BV Valuation—Recovery Cycle Trades at Between 2x and 4x



Source: Kenanga Research, Bloomberg

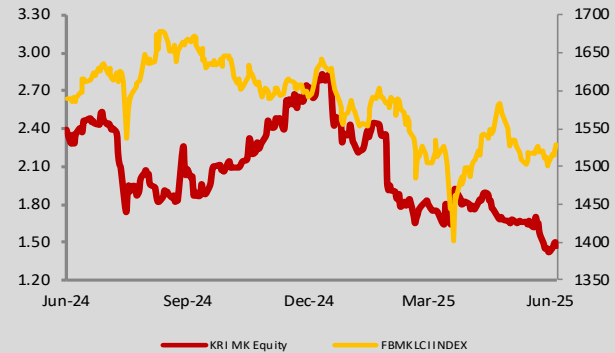
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Key risks to our recommendation include: (i) certain Chinese glove giants ramping up predatory pricing practices (i.e. selling below cost over an extended period of time to eliminate competitors), (ii) weaker-than-expected growth in demand for gloves due to slower-than-anticipated hygiene standards implementation and health awareness globally, and (iii) unfavourable changes in tariffs to Malaysian glove makers.

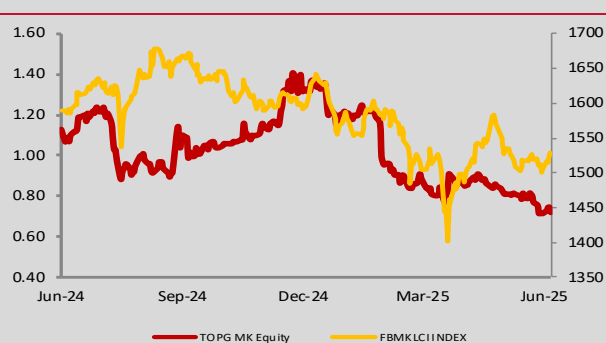
HARTA - Share Price Performance

	1-mth	3-mth	12-mth
Absolute (%)	-11.7%	-42.4%	-38.2%
Relative (%)	-10.6%	-43.1%	-33.6%

Source: Kenanga Research, Bloomberg

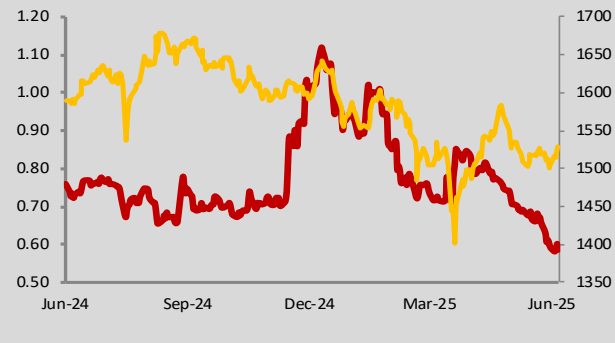
KOSSAN - Share Price Performance

	1-mth	3-mth	12-mth
Absolute (%)	-7.2%	-28.9%	-27.1%
Relative (%)	-6.1%	-29.7%	-22.5%

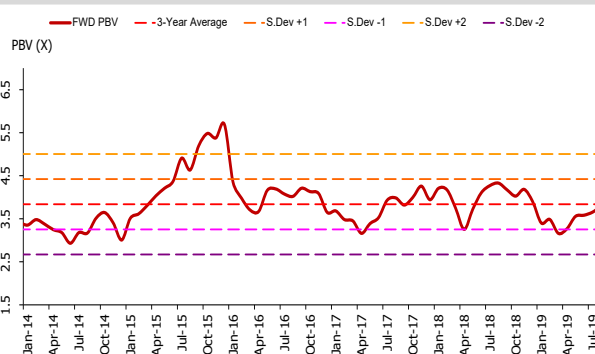
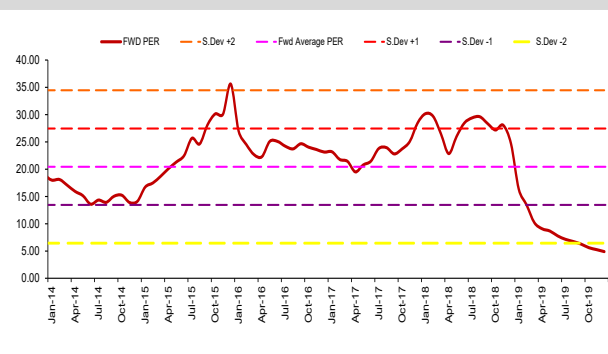
TOPGLOV - Share Price Performance

	1-mth	3-mth	12-mth
Absolute (%)	-3.5%	-28.4%	-22.4%
Relative (%)	-2.3%	-29.2%	-17.8%

Source: Kenanga Research, Bloomberg

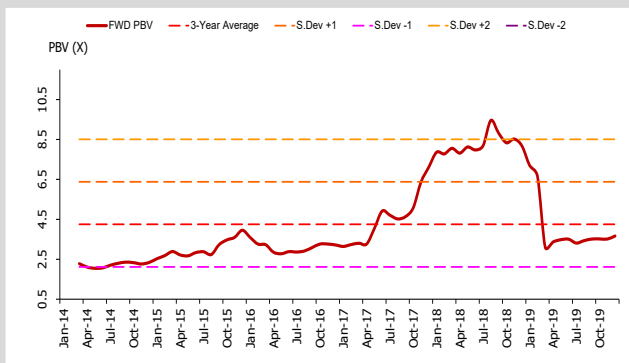
SUPERMX - Share Price Performance

	1-mth	3-mth	12-mth
Absolute (%)	-10.8%	-21.4%	0.3%
Relative (%)	-9.7%	-22.2%	4.9%

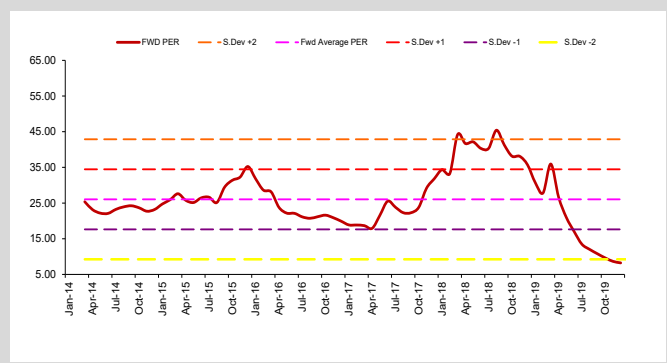
KOSSAN-Pre-CovidHistorical 1-year Forward P/BV**KOSSAN- Pre-Covid Historical 1-year Forward PER**

Source: Bloomberg, Kenanga Research

HARTA–Pre-Covid Historical 1-year Forward P/BV

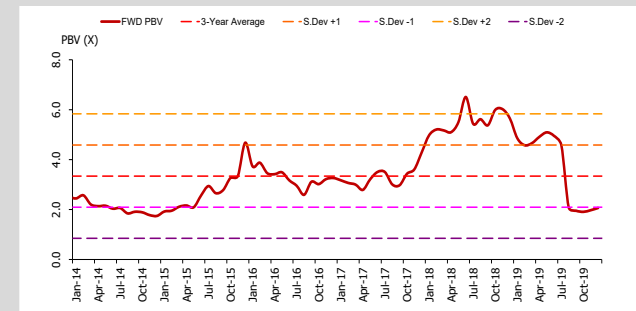


HARTA – Pre-Covid Historical 1-year Forward PER



Source: Bloomberg, Kenanga Research

TOPGLOV –Pre-Covid Historical 1-year Forward P/BV



Source: Bloomberg, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
HARTALEGA HOLDINGS BHD	OP	1.63	3.20	96.3%	5,587	Y	03/2025	4.6	5.6	109%	23%	35.6	29.0	1.3	3.6%	3.0	1.8%
KOSSAN RUBBER INDUSTRIES	OP	1.47	2.70	83.7%	3,760	Y	12/2025	6.4	6.4	36%	1%	23.0	22.8	1.0	4.4%	4.0	2.7%
SUPERMAX CORP BHD	MP	0.585	0.700	19.7%	1,910	N	06/2025	(3.0)	1.0	-157%	-66%	N.A.	56.2	0.4	-2.2%	0.0	0.0%
TOP GLOVE CORP BHD	OP	0.720	0.930	29.2%	5,917	Y	08/2025	0.9	1.6	-53%	80%	79.1	44.0	1.3	1.6%	0.5	0.6%

Source: Company, Bloomberg, Kenanga Research

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Healthcare

All is Well

By Raymond Choo Ping Khoon | pkchoo@kenanga.com.my

OVERWEIGHT



We reiterate our OVERWEIGHT call for the healthcare sector, underpinned by rising affluence and an aging population. Global healthcare expenditure is projected to grow at a CAGR of 3.5% to reach USD10t by 2026. We expect both domestic and international patient throughput to continue to grow while revenue intensity improves, driven by a high-yield case-mix with more acute cases and ramp-up of new beds. We believe the implementation of the diagnosis-related group (DRG) system could put pressure on margins for private hospitals but the near-term impact could be minimal as the initial roll-out is expected to target lower-value or minor illnesses. Pending further development on the DRG, we continue to remain positive, taking a view of longer-term growth prospects of the healthcare sector, which will continue to be underpinned by an ageing population, rising affluence and rising cases of chronic diseases globally. Our top pick for the sector is IHH (OP; TP: RM8.11) and we add DPHARMA (OP; TP: RM1.72) to our sector pick. We have a non-consensus UP on KPJ (UP; TP: RM2.50).

1. Private Hospitals

The Ministry of Health (MOH) has reaffirmed that private healthcare providers will still be required to implement the diagnosis-related group (DRG) system, although the initial roll-out will be limited to selected public hospitals. The official implementation timeline for the DRG system will be determined by a newly established joint ministerial committee, co-chaired by the finance and health ministers, alongside Bank Negara Malaysia (BNM) and private sector stakeholders. Also noted that DRG forms part of the MOH's shift towards value-based healthcare, where providers are reimbursed based on outcomes and cost-effectiveness rather than volume of services.

We are positive on the recently announced news flow on efforts undertaking towards a major revamped in the healthcare sector is a step in the right direction. However, the implementation of the DRG system could put pressure on margins for private hospitals but the near-term impact could be minimal as the initial roll-out is expected to target lower-value or minor illnesses. In terms of earnings impact, we expect **KPJ** to be more impacted given that >95% of its topline is derived from its Malaysia operation. IHH will be less impacted because its Malaysia operation accounted for 17% and 17% of topline in FY24 and 1QFY25, respectively. Overall, we are still positive on the private healthcare sector as investors could gravitate towards the defensive nature of healthcare stocks amid a more risk-off environment and taking a view of longer-term growth prospects of the healthcare sector, which will continue to be underpinned by an ageing population, rising affluence and cases of chronic diseases globally. In fact, hospitals under our coverage i.e. **IHH** and **KPJ** have been embarking on value based-healthcare which is similar to the DRG system. As an indication, average length of stay in the hospital for **IHH** and **KPJ** are three days. Generally, value based-healthcare is a healthcare delivery model where providers are paid based on patient health outcomes and not the volume of services provided. An example of value-based healthcare is IHH's first hospital in Melaka that has introduced robot-assisted surgery and successfully completed high-tech procedures in diverse specialties including urology, gynaecology, hepatobiliary, colorectal surgery and general surgery. Based on early data, these advanced surgeries have led to a shorter length of stay and reduction in rate of blood transfusion.

The Ministry of Finance (MOF) via its press release gave details on sales tax revision including an imposition of 6% sales tax on private healthcare operators which applies only to non-citizens; all Malaysians remain exempt, including for traditional and allied health services. We believe private healthcare operators would be less affected by the recently announced 6% sales tax imposition. At present, both **IHH** (Malaysia operation) and **KPJ** have manageable medical tourism revenue of around 5%-7%, as a proxy to service tax on foreign citizens.

Overall, the impending listing of Sunway Healthcare Group (SHG), expected to be listed by the end of CY25 or early CY26, could pave the way for a valuation re-rating in the private healthcare. SHG continues to scale rapidly, with the opening of SMC Damansara in December 2024 and SMC Ipoh in April 2025. It is also increasing its hospital portfolio to five from three. Looking ahead, by CY30, SHG is expected to increase its bed capacity by 82% to 3,000. Based on channel checks, SHG is expected to fetch a valuation of 18-20x EV/EBITDA compared to IHH (13x) and KPJ (12x).

Separately, we believe there is an urgent need to address national healthcare financing to ensure equitable access to healthcare for all Malaysians, irrespective of their income. Presently, Malaysia has a dual healthcare funding system i.e. private and public. The private healthcare system is paid for by consumers via "out of pocket" and private healthcare insurance (personal, corporate or employers). On the other hand, the public healthcare budget is borne by the government (i.e. tax payers) via mainly the Ministry of Health and to some extent the Ministry of Higher Education (university hospitals) and Ministry of Defence. Briefly, it is a multi-payor, multi-provider system with payors including federal and state agencies, local authorities, SOCSO and the EPF. In our view, a revamped healthcare insurance system could lead to better overall healthcare services

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for Malaysians, lower out-of-pocket spending, reduced waiting times and access to more modern medicines and technology. For illustration purposes, the system could entail a hybrid version i.e. similar to the Australian system of a single-payer, multiple-provider arrangement, where public and private hospitals would provide equal facilities and functions to a patient (vs. current: multi-payer multi-provider system). Basically, it would mean that everyone has to contribute. Theoretically, all working citizens are obligated to set aside a portion of their income into a fund which they can draw upon to pay their own medical bills when the need arises.

Looking into 2025, **IHH** plans to add >4,000 beds (+30%) over the next five years across Malaysia, India, Türkiye and Europe. We expect IHH's earnings momentum to accelerate, underpinned by revenue intensity and rising demand in FY25. This would be supported by higher yield services both in Singapore and Malaysia, return of medical tourists in Türkiye, and improvement in cost efficiency in India. We believe IHH has greater exposure to medical tourism by virtue of its vast overseas markets. Its earnings are less susceptible to DRG-related regulatory concerns due to its exposure to earnings in various overseas markets it operates in. Note that Malaysia accounts for 20% and 30% of the group's topline and bottomline, respectively based on FY24 numbers.

We like **IHH** for its pricing power as the inelastic demand for private healthcare services allows providers such as **IHH** to pass on the higher cost amidst rising inflation, and its presence in multiple markets, i.e. Malaysia, Singapore, Türkiye and Greater China. The share price performance of IHH has lagged its peers such as KPJ and SUNWAY. We consider the under-performance unwarranted. IHH trades at 13x EV/EBITDA discount compared to 20x that Columbia Asia paid for Ramsay Sime Darby Health Care. The valuation gap should narrow given IHH's sheer size in terms of profitability and dominant market position in the private healthcare space and easing operational challenges regionally.

We also like **KPJ (UP; TP: RM2.50)** for its pricing power as a private healthcare provider and its strong market position locally with the largest network of 29 private hospitals (vs. 18 of the next largest player IHH). However, the fundamentals have been priced-in after the recent run-up in its share price (YTD: +11%), as investors gravitate towards secular growth businesses amid a more risk-off environment. It is optimistic of a total 4,400 beds (+13% YoY) by end-CY25. Beyond CY25, it will add 800 beds bringing total beds to 5,200 over the next five years, largely via brownfield expansion which we have already factored into our forecasts. In terms of bottom-line profitability, we expect earnings to gain momentum moving into FY25 on better operational efficiencies from its cost optimisation effort and overhead absorption rate as a result of a gradual ramp-up in opening new beds (+13%).

KPJ guided for narrower losses in its hospitals under gestation, although the quantum of improvement appears smaller. It is optimistic for earnings to gain momentum moving into 2HFY25 supported by better operational efficiencies stemming from ongoing cost optimisation efforts. In terms of PER valuation, KPJ is trading at 36x and 31x on FY25F and FY26F earnings compared with Bumrungrad Hospital and Bangkok Dusit at FY26F PER of 17x and 20x, respectively. Notably Bumrungrad Hospital and Bangkok Dusit's have consensus FY25F EBITDA margins of 38% and 24%, respectively, which is higher than KPJ's. However, the fundamentals have been priced-in after the recent run-up in its share price (YTD: +11%), as investors gravitate towards secular growth businesses amid a more risk-off environment. It is optimistic of a total 4,400 beds (+13% YoY) by end-CY25.

Beyond CY25, it will add 800 beds bringing total beds to 5,200 over the next five years, largely via brownfield expansion which we have already factored into our forecasts. In terms of bottom-line profitability, we expect earnings to gain momentum moving into FY25 on better operational efficiencies from its cost optimisation effort and overhead absorption rate as a result of a gradual ramp-up in opening new beds (+13%). However, the opening of KPJ Kuala Selangor (60-bed) slated to commence operations by mid-April CY25 is expected to incur start-up costs. Typically, new hospitals go through a gestation period of 3-5 years. With incremental revenue from higher patient throughput, Damansara Specialist Hospital 2 (DSH2), KPJ Perlis, KPJ Batu Pahat and KPJ Bandar Dato Onn have already turned EBITDA-positive in FY24 except for Miri which we expect to achieve the same in CY25. With a guided capex of RM300m-RM400m in FY25, the group is looking at M&A opportunities for future growth including looking at acquiring yield accretive hospitals or assets which are complimentary to its core business for future growth. Separately, in an effort to differentiate itself from other hospitals, KPJ has identified five areas of sub-specialities establishing them within its existing hospitals, in the discipline of heart and lung, neurology and stroke, oncology, orthopaedics as well as robotics for advanced surgery which is expected to raise revenue intensity due to its acute case of complex cases.

Key risks to our private hospitals call include: (i) regulatory risk, (ii) risks associated with overseas operations, and (iii) earnings risk related to potential imposition of DRG payment system to regulate private healthcare costs in Malaysia.

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2. Health Supplements and OTC Drugs

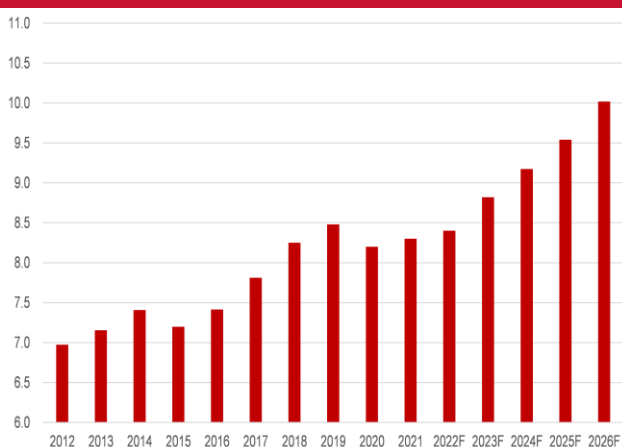
DPHARMA (OP; TP: RM1.72) is poised to benefit from a full-year of contribution in 2025 from the Approved Product Purchase List (APPL) contracts vis-à-vis nine-month contribution in 2024, further boosting revenue and tilting the sales mix higher toward public sector sales. DPHARMA supplies pharmaceutical products and over-the counter (OTC) supplements to the public sector via government tenders or via the Ministry of Health's APPL, direct tenders and local purchase orders. Specifically, revenue contribution (from the Ethical businesses) will be enhanced with renewal of the Government's APPL with new contracts awarded aggregating to a total of RM684m (received from the Ministry of Health (MOH)) to supply pharmaceutical and non-pharmaceutical products to public hospitals/clinics under the APPL. It has guided 2QFY25 public sector sales to account for 55%-60% of top line and expect higher private sector's contribution compared to 47%-50%, historically. Based on our back-of-envelope calculation, unbilled APPL contracts from the government are estimated at RM450m.

Independent market researcher The Statista Consumer Market Outlook projects the OTC pharmaceuticals market in Malaysia to grow at a CAGR of 6% to an estimated USD715m (RM3.2b) by 2027 as consumers take a more proactive stance towards their health and well-being (including taking health supplements regularly), especially in the aftermath of the Covid-19 pandemic.

The trend augurs well for **KOTRA(OP; TP: RM4.90)** which manufactures and sells OTC supplements, and nutritional and pharmaceutical products under key flagship household brands such as *Appeton*, *Axcel* and *Vaxcel*. We also like **KOTRA** for: (i) its integrated business model encompassing the entire spectrum of the pharmaceutical value chain from R&D, product conceptualisation to manufacturing and sales, and (ii) the superior margins of its original brand manufacturing (OBM) business model (vs. low-margin contract manufacturing).

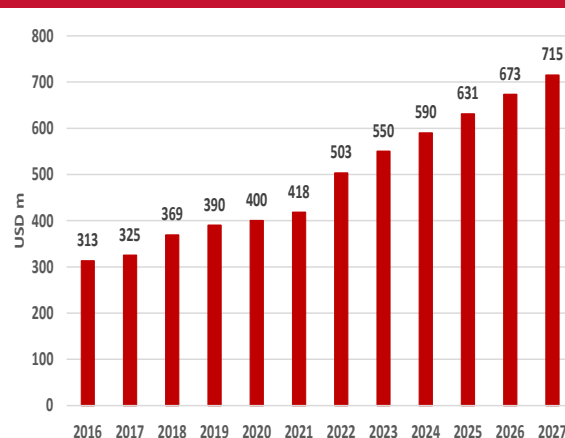
Meanwhile, we continue to like **NOVA(OP; TP: RM0.41)** for its: (i) integrated business model which encompasses the entire spectrum of pharmaceutical value chain from product conceptualization, R&D to manufacturing and sales, (ii) superior margins due to its original business manufacturing (OBM) business model, and (iii) earnings growth driven by capacity expansion, a widening distribution network and penetration into local public hospitals..

Global Healthcare Expenditure (USDt)



Source: Kenanga Research, WHO, various

OTC Pharmaceuticals Market in Malaysia



Source: Kenanga Research, various

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
DUOPHARMA BIOTECH BERHAD	OP	1.34	1.72	28.4%	1,289	Y	12/2025	9.9	11.5	51.8%	15.9%	13.6	11.7	1.7	12.8%	3.3	2.5%
IHH HEALTHCARE BHD	OP	6.91	8.11	17.4%	60,963	Y	12/2025	21.6	24.3	12.6%	12.2%	32.0	28.5	1.9	6.2%	10.0	1.4%
KOTRA INDUSTRIES BHD	OP	4.19	4.90	16.9%	610	Y	06/2025	30.4	32.7	0.9%	7.6%	13.8	12.8	1.9	15.1%	25.5	6.1%
KPJ HEALTHCARE BHD	UP	2.62	2.50	-15.8%	11,858	Y	12/2025	7.6	8.8	8.5%	15.7%	38.9	33.6	4.9	13.0%	4.2	1.4%
NOVA WELLNESS GROUP BHD	OP	0.300	0.410	36.7%	96	Y	06/2025	2.7	2.8	8.9%	3.5%	11.1	10.7	0.8	7.7%	1.3	4.3%

Source: Company, Bloomberg, Kenanga Research

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Media

No Near-term Catalysts in Sight

By Kylie Chan Sze Zan | kyliechan@kenanga.com.my

UNDERWEIGHT



Malaysia’s legacy media sector continues to face structural headwind with persistent adex share contraction amid a shrinking overall advertising market. This is mainly driven by intense competition from modern digital platforms which offer superior targeting via AI-driven programmatic advertising. While consumer confidence has shown modest improvement, subdued business sentiment suggests advertisers will remain cautious in the near term. In response, local media companies are pivoting toward original content creation, leveraging their deep cultural insight to produce Malaysian-centric programming that resonates with domestic audiences. This strategic transition aims to expand their content IP portfolios by unlocking monetization avenues such as licensing, streaming, merchandising, and brand partnerships. By diversifying revenue streams, these firms seek to reduce their reliance on traditional ad income. However, scaling IP libraries into a consistent, high-impact source of revenue remains work in progress for Malaysia’s traditional media players. Despite cost-cutting efforts, profitability remains strained, necessitating bold structural reforms such as regional expansion, M&As, or strategic exits to ensure long-term sustainability. We maintain our forecast of a 2.8% YoY contraction in Malaysia’s total industry adex (excluding Pay TV) for CY25 and our UNDERWEIGHT stance. We do not have any stock picks for the sector.

Modern media’s technology leverage appeals to advertisers. Legacy media in Malaysia are contending with the rapid ascent of modern platforms such as social media networks, key opinion leaders (KOLs), messaging applications (e.g. WhatsApp Business, Telegram), streaming services (e.g. Spotify, YouTube), search engine advertising (e.g. Google Ads), and retail media (e.g. Shopee Ads and Lazada Ads). These channels offer advertisers advanced tools for audience targeting and engagement via the application of AI-driven programmatic advertising. This technology leverages on machine learning algorithms to enable real-time bidding, precise audience segmentation, and dynamic ad placements. Additionally, by analyzing vast datasets, these platforms can customize ads to individual user behaviors and preferences; thereby enhancing the efficiency and effectiveness of ad campaigns. In contrast, for traditional media, measuring return on investment (ROI) is more challenging due to less granular audience data and slower feedback mechanisms.

Subdued sentiment continues to weigh on adex. Muted business and consumer sentiment remains a key drag on the adex outlook, delaying any meaningful recovery. We reiterate our expectation of a 2.8% YoY contraction in CY25 adex, a milder pullback compared to the sharper 7.1% YoY decline in CY24. Within this soft landscape, we anticipate weakness across digital media (-25% YoY), newspapers (-5% YoY), magazines (-8% YoY), and cinema (-3% YoY) to outweigh modest gains in FTA TV (+3% YoY) and radio (+2% YoY).

Our outlook is aligned with broader macro sentiment indicators including weaker business sentiment as reported by the Department of Statistics Malaysia (DOSM). This is underpinned by the easing of net balance of business expectations to 10.9% (from 11.9%) for the April–Sept 2025 period. On the bright side, consumer sentiment has shown some improvements evident from the Ipsos Consumer Confidence Index rising 4 pts YoY in January 2025. However, in our view, advertisers are likely to remain conservative in their adex spend until a more broad-based recovery in business confidence materialises.

Gradual pivot to local content development. On a more positive note, we observe a growing shift among legacy media companies in Malaysia toward the development and commercialization of original local content. This strategic pivot reflects a broader effort to diversify revenue streams and reduce reliance on traditional advertising income. Increasingly, these companies are channelling resources into the production of Malaysian dramas, feature films, news programming, documentaries, and entertainment formats such as talent competitions, reality shows, and game shows. Content development is being driven through a mix of in-house capabilities as well as co-productions and partnerships with local creative studios.

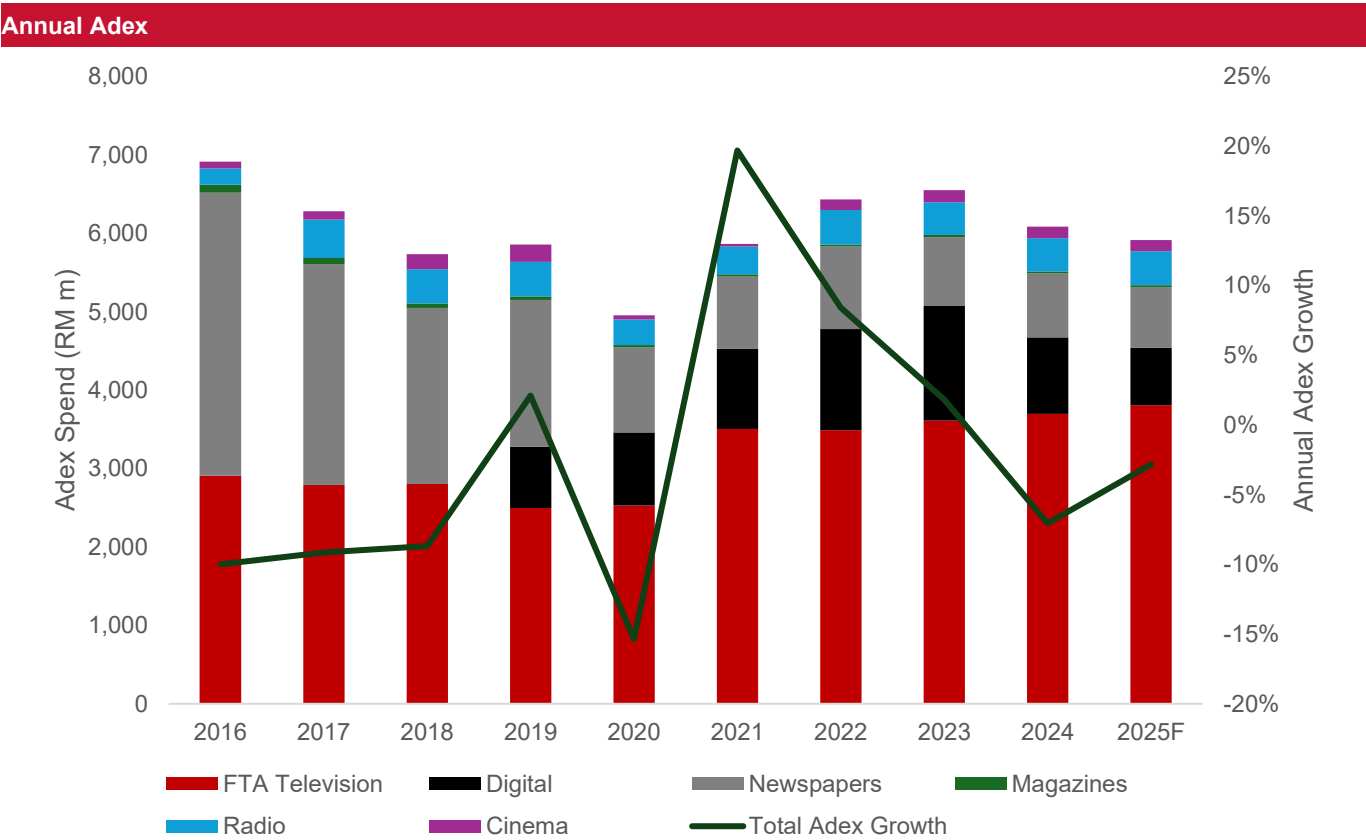
Homegrown advantage results in deeper connections with native audiences. Native Malaysian media companies possess a distinct competitive edge in the local content landscape, an area that remains relatively under-penetrated by international over-the-top (OTT) platforms. Local media players are uniquely equipped with an intimate understanding of Malaysian cultural nuances, social dynamics, and language preferences. This deep-rooted familiarity enables them to craft stories, characters, and formats that resonate more authentically with domestic audiences. Whether through culturally

relevant themes, vernacular dialogue, or the portrayal of everyday Malaysian experiences, these companies are able to build stronger emotional connections and viewer loyalty which global players may struggle to replicate at scale.

Revenue diversification from monetizing content IP. The push into local content production expands intellectual property (IP) portfolios, enabling domestic media firms to unlock new monetization opportunities. Proprietary content enables revenue expansion via multi-platform syndication and licensing including cinema releases, streaming distribution, merchandising, brand partnerships, and integrated advertising campaigns. A notable example is *Keluang Man*, a homegrown superhero IP that is in advanced discussions for a licensing deal with a global OTT streaming platform, potentially offering significant international exposure and recurring income. Additionally, a brand collaboration with Wonda Coffee to launch limited-edition themed cans has also achieved meaningful traction, with nearly 3m units sold to date. These developments highlight the untapped potential of local IP as both a cultural asset and a growing commercial growth driver. However, scaling IP libraries into a consistent, high-impact source of revenue remains work in progress for Malaysia's traditional media players.

Transformation needed amid mounting headwinds. We retain our **UNDERWEIGHT** outlook on the sector - reflecting the structural headwinds that continue to undermine its profitability. Legacy media players are grappling with ongoing revenue erosion - stemming from heightened adex share erosion to modern digital platforms, that are capturing both audience attention and advertising spend. These challenges are exacerbated by the burden of high fixed operating costs tied to traditional infrastructure, including broadcasting towers, printing facilities, physical distribution network and an aged workforce with dated skillsets.

Although media players have made efforts to trim expenses (e.g. staff rationalisation, application of AI in operations, asset impairments), profitability remains under strain. As such, we believe the sector is in need of bold, transformative change which could take the form of regional market expansion, entry into adjacent or high-growth segments, consolidation via mergers and acquisitions, or even a full strategic divestment. Meanwhile, in the near term, we anticipate that traditional media players will continue to pursue asset disposals or monetization to shore up balance sheets and boost liquidity buffers.



Source: Nielsen, Kenanga Research

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Peer Comparison – Media																	
Name	Rating	Last Price as of 20 Jun (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div. Yld.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
MEDIA																	
ASTRO MALAYSIA HOLDINGS BHD	UP	0.160	0.130	-18.8%	835.0	N	01/2026	0.5	0.8	-57.0%	49.3%	29.4	19.7	0.7	3.1%	0.0	0.0%
MEDIA CHINESE INTERNATIONAL	UP	0.100	0.094	-6.0%	162.9	Y	03/2026	(1.4)	(1.3)	11.6%	10.7%	N.A.	N.A.	0.3	-4.6%	0.0	0.0%
MEDIA PRIMA BHD	MP	0.375	0.340	-9.3%	399.3	N	06/2025	0.6	0.9	-81.1%	42.6%	33.3	27.4	0.6	0.9%	1.5	4.0%
STAR MEDIA GROUP BHD	MP	0.385	0.380	-1.3%	279.0	Y	12/2025	1.0	2.1	-35.1%	101.4%	37.7	18.7	0.4	1.0%	0.0	0.0%
SECTOR AGGREGATE					1,676.3					-78.7%	147.5%	91.6	37.0	0.5	0.6%		2.5%
Source: Bloomberg, Kenanga Research																	

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Oil & Gas

Do Not Buy the Dip Yet

NEUTRAL



By Lim Sin Kiat, CFA [/lmsk@kenanga.com.my](mailto:lmsk@kenanga.com.my)

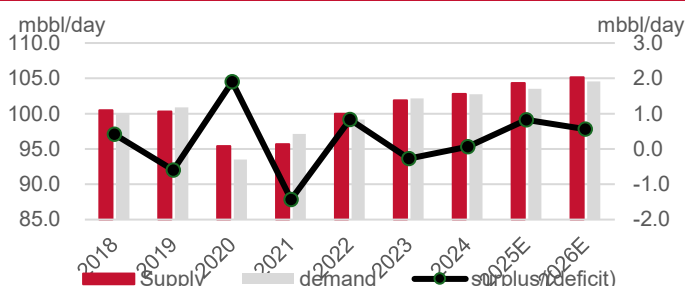
We maintain our NEUTRAL stance on the sector as we stay cautious on both upstream services and petrochemical segments amid a weak Brent crude price outlook. Our Brent crude forecasts are maintained at USD64/bbl for 2025 and USD67/bbl for 2026, although downside risks remain for 2026 should supply surplus persist. Despite the KL Energy Index trading at a low implied FY25F PER, we believe consensus earnings may still be too optimistic and subject to further downward revisions. Domestic upstream activity also appears subdued, with PETROS and Petronas still negotiating the revenue-sharing framework under Sarawak's gas aggregation model. As such, we expect upstream service providers to face an earnings downcycle in FY25F–FY26F, albeit less severe than in FY20–22. The petrochemical market remains in a downcycle (since early 2024), with no clear signs of recovery in product prices, though we continue to monitor for potential catalysts. Top pick remains as DIALOG (OP; TP: RM1.97) due to its diversified portfolio while risk-reward remains favorable with low expectations implied by the market. MISC (OP; TP: RM8.17) appears to be a good hedge against potential shipping lines disruptions while valuations have already corrected to an attractive level with 4.7% implied dividend yield. We also wish to highlight ENPRO (NOT RATED) of which we issued an IPO note on as it's the only pure play on the potential downstream maintenance boom in the coming years. On price action, and unchanged TPs, we have lowered recommendations for DAYANG, PETDAG and VELESTO (see below).

1. Upstream

Brent crude price targets are currently maintained. Despite the recent headwinds from the Israel-Iran conflict, we decided to maintain our Brent average targets of USD64/bbl and USD67/bbl for 2025 and 2026, respectively. Based on the information available to us, we have previously said in our report dated 16 June 2025 that the elevated premiums could last for a quarter, and we also now believe that it is safe to assume for now that the conflict would not be sustained in a large scale for a protracted period after President Trump's call for a ceasefire. Conversely, while potential disruptions ahead cannot be entirely ruled out, we believe that OPEC still possesses higher than average spare capacities which allows room to fill up any potential supply gaps in oil production in the event of conflicts in the Middle East.

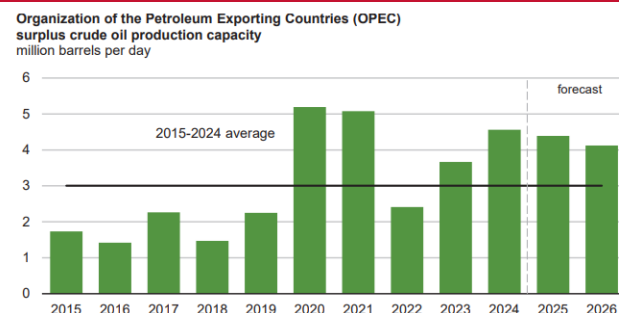
Base assumptions. We concur with the EIA's forecast of a year-on-year global oil demand increase of 0.8m barrels per day (bpd) in 2025, improving to 1.1m bpd in 2026. On the supply side, the EIA projects an increase of 1.6m bpd of which OPEC+ has already restored 1.4m bpd between April and July 2025. We estimate that approximately 0.8m bpd remains to be unwound, with OPEC+ currently deliberating whether to accelerate the full unwinding by October 2025, contrary to its earlier plan of completing it by March 2026. For now, we maintain the base case assumption that the full unwinding will occur in March 2026, as OPEC+ is likely to avoid placing undue pressure on the oil market through a steep supply increase, assuming no further geopolitical disruptions arise.

Exhibit 1: EIA Demand & Supply Forecast



Source: EIA

Exhibit 2: OPEC Spare Capacity



Source: Petronas

A structural upcycle in oil prices is unlikely in the medium term. Unlike the Arab Spring-induced oil price rally, we believe any sharp near-term spikes in Brent crude prices are likely to be short-lived, given OPEC's above-average spare capacity to

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offset potential supply disruptions. For context, in addition to the ongoing unwinding of 2m barrels per day (bpd) cut, OPEC+ retains two further tranches of production cuts: a 1.65m bpd voluntary cut by eight members (scheduled to end in late 2026), and a broader 2.2m bpd cut across all members, also extending through end-2026. While there is currently no indication that OPEC+ will unwind these cuts prematurely, the group's capacity to respond to global supply instability within 60 to 90 days provides a buffer against sustained price surges. As such, we do not anticipate a durable upcycle in Brent crude prices materialising in 2025 or 2026.

Exhibit 3: Brent Crude Upcycle Historical Overview

Source: Company

Upstream services activities to remain decent in 2025, but the 2026 outlook is highly uncertain. We maintain that upstream activities, despite lower YoY, are still at a decent level overall as contractors are still executing their remaining order book, which has been built up significantly in the past few years. Beyond that, we anticipate higher uncertainty in FY26F earnings outlook as upstream spending might be tepid by Petronas amid the still unresolved PETROS-Petronas saga and uncertain global crude price outlook. This is also evident as Petronas has announced publicly its intention to reduce its staff force by 10% (<https://theedgemalaysia.com/node/758121>), indicating the group's cautious outlook in the medium term. This, in confluence with Brent prices likely to range between USD60-70/bbl for the next two years, would result in lower appetite for upstream capex spending in FY26.

Exhibit 4: KLENG PER Pricing in Earnings Cut

Source: Company

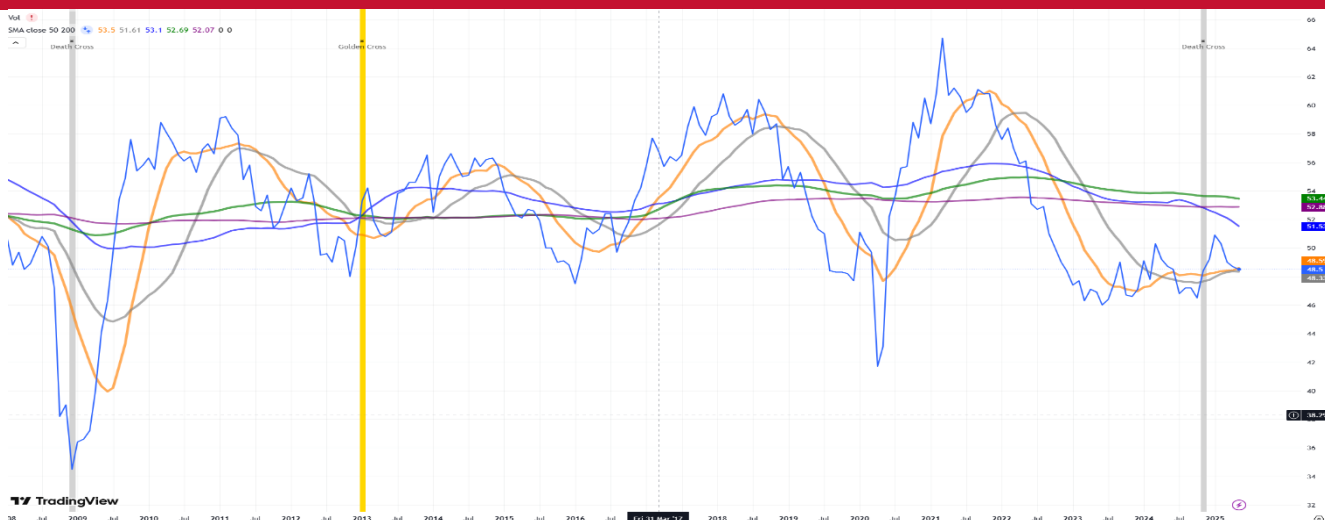
KLENG implied PER is low, undervalued or earnings expectations too bullish? Since 2022, the KL Energy Index (KLENG) has been trading at approximately 9x forward PER, reflecting a period of strong earnings expansion across the sector from 2022 to 2024. This sustained earnings growth explains the persistently low PER during that timeframe, making it a favourable

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period for sector-wide investment. Looking ahead to 2026, however, we see potential for PER expansion as cyclical earnings may peak in 2025 and subsequently enter a downtrend. Historically, the sector has exhibited higher PER multiples during earnings downcycles (e.g., 2020–2021), suggesting that share prices, particularly for upstream service providers, tend to peak when forward PER reaches its trough. This also indicates to us that the FY26F consensus earnings could be overly bullish given the current tepid global macro crude outlook.

2. Downstream

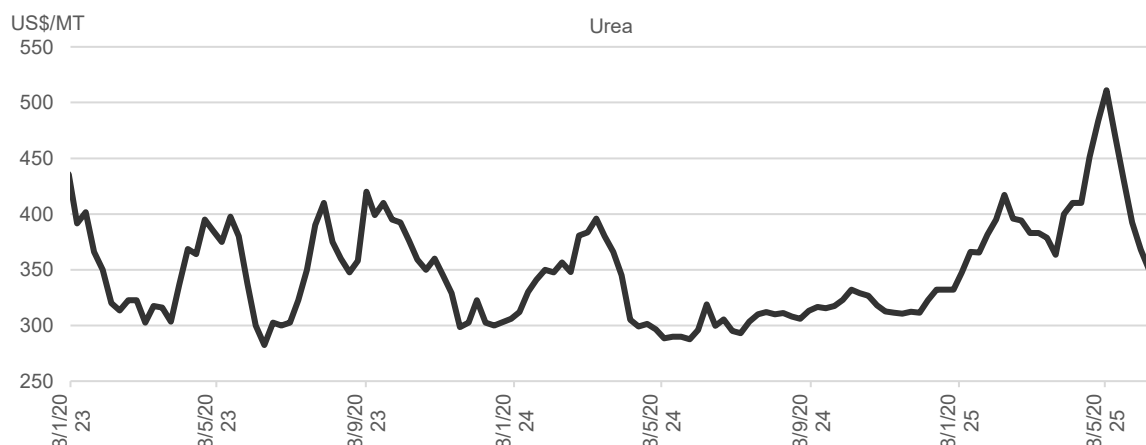
Exhibit 5: US ISM Still in Contraction Mode



Source: Company

Petrochemical prices; no signs of turnaround yet. The US ISM index is still in contraction mode after a brief recovery to above 50 back in Jan 2025, indicating persistent weakness in manufacturing. While we believe an upcycle is imminent, at this juncture, we are unsure of the timing and the sustainability of the index staying above 50. This ties into the still bleak macro picture for global petrochemical prices, which is still hovering at USD1,000/MT levels for months since 4QCY24. Hence, we believe that in the near-term petrochemical prices will likely remain tepid and flattish in the coming months until the global manufacturing outlook improves significantly. On the other hand, the recent correction of Brent crude prices to below USD70/bbl levels provides a weaker support to petrochemical prices.

Exhibit 6: Urea Prices Stay Elevated but Further Upside Unlikely



Source: Company

Urea prices remain firm. Urea prices remains firm recently albeit weaker than the levels in May 2025 (where prices surged to USD500/mt), now hovering at or above USD400/MT as natural gas prices have corrected recently (feedstock for urea largely). This is still higher than the historical average of USD250-USD300 per MT. We believe this is largely due to the urea

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export ban from China and this appears likely to persist in the near term. Overall, we believe that urea prices will generally average at USD400/MT levels throughout the rest of 2025 as we do not expect any further major supply disruptions in the coming months.

3. Conclusion

Upstream services earnings downtrend expected, petrochemical recovery signs not found yet. While valuations for upstream service providers have corrected sharply since mid-2024, we believe it is still premature for bottomfishing, as earnings are expected to trend lower in FY26. Our forecasts, alongside consensus estimates, remain at risk of downward revisions given the increasingly uncertain global upstream outlook. The subsector appears to be entering a brief downcycle following the strong upcycle in 2023–2024, with near-term visibility turning more challenging from 2026 onwards. Meanwhile, the petrochemical sector has remained in a downturn since 2H CY24, and we have yet to observe meaningful signs of a sustained price recovery. As such, we advise investors to stay on the sidelines for now while closely monitoring global developments.

Maintain NEUTRAL. Given the confluence of weak crude oil price outlook coupled with persisting PETROS and Petronas uncertainty, we believe that the rest of 2026 will be tepid for upstream service providers while the petrochemical market is still oscillating around the current market bottom. We believe that our top pick **DIALOG** remains the more favourable play under current market conditions due to its defensive earnings nature. After a couple of disappointing quarters, we believe that the group will gradually recover from its EPCC cost overruns and bring its earnings base back to resilience and eventually gradual recovery. **MISC** appears to be a good hedge against potential geopolitical uncertainties for potential shipping line disruptions while risk-reward ratio has improved due to recent share price corrections. With the 90-day pause of tariff coming to an end, the reciprocal tariff could have an indirect impact to oil demand but we believe the actual impact is uncertain for now.

4. Key changes to our stock calls and TPs

DAYANG (UP; TP: RM1.56) ↓ We believe its FY25F earnings are likely to remain intact, supported by overflow from previously secured orderbook. However, the outlook for FY26 appears increasingly challenging, with potential downside risk to both consensus and our estimates should work orders for topside maintenance continue to soften in tandem with prolonged crude price weakness. In our view, a valuation of 9x PER (-1SD to historical mean) is appropriate at this stage of the upstream services cycle. Meanwhile, PBV at 1x (5-year mean) offers limited upside, especially as earnings momentum is expected to decline rather than improve. We downgrade our call to **UNDERPERFORM** from **MARKET PERFORM**, with TP maintained at **RM1.56**.

PETDAG (MP; TP: RM21.20) ↓ Following the recent share price rally (14% post 1QFY25 results), we believe the risk-reward profile has become less compelling as we see limited upside catalysts beyond our current assumptions, particularly amid rising EV adoption and ongoing uncertainty surrounding petrol subsidies. The stock is trading at 19.1x FY26F PER, near -1SD of its 5-year historical mean, a level we deem fair given the uncertainties over its long-term growth trajectory. We **downgrade** our call to **MARKET PERFORM** from **OUTPERFORM**.

VELESTO (UP; TP: RM0.16) ↓ We also downgraded VELESTO after its recent 20% rally in share price as we believe that its earnings outlook has become more uncertain moving forward compared to the last two years due to the cooling down in demand for drilling. Globally, demand for jack-up rig has cooled off compared to the last two years particularly from the Middle East which is expected to unleash supply for the regional markets. Hence, we do not discount the possibility of lower daily charter rate (DCR) (USD110,000 or lower). While its balance sheet is more freed up to pay dividends post its recently announced share capital reduction, its earnings base poses downside risks if DCRs and utilisation come weaker than forecast by us or consensus. TP is held at RM0.16 pegged to 9x FY26F PER (-1SD), which also implies a 0.5x PBV multiple (-0.5 SD below mean). We believe that the implied PBV is justified given that the group is less leveraged in this cycle compared to the previous downcycle (FY20-22). Downgrade to **UNDERPERFORM**.

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Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen) 1-Yr. Fwd.	Net Div Yld 1-Yr. Fwd.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
Stocks Under Coverage																	
BUMI ARMADA BHD	MP	0.460	0.520	13.0%	2,726.8	Y	12/2025	6.1	6.5	-45.7%	6.4%	7.6	7.1	0.6	7.6%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	UP	1.81	1.56	-13.8%	2,095.6	Y	12/2025	16.5	17.3	-30.0%	5.1%	11.0	10.4	1.0	9.8%	4.0	2.2%
DIALOG GROUP BHD	OP	1.52	1.94	27.6%	8,576.9	Y	06/2025	8.6	8.7	-19.9%	1.5%	17.7	17.4	1.4	8.0%	4.0	2.6%
KEYFIELD INTERNATIONAL	OP	1.74	2.31	32.8%	1,403.3	Y	12/2025	23.6	25.7	-14.0%	9.2%	7.4	6.8	1.7	25.4%	9.0	5.2%
MISC BHD	OP	7.65	8.17	6.8%	34,147.7	Y	12/2025	54.1	46.7	11.1%	-13.8%	14.1	16.4	0.9	6.4%	36.0	4.7%
PETRONAS CHEMICALS GROUP	MP	3.10	3.40	9.7%	24,800.0	Y	12/2025	16.0	23.4	9.1%	46.1%	19.4	13.2	0.6	3.3%	8.0	2.6%
PETRONAS DAGANGAN BHD	MP	21.90	21.20	-3.2%	21,756.6	Y	12/2025	110.4	113.0	-0.8%	2.3%	19.8	19.4	3.5	18.0%	88.0	4.0%
VELESTO ENERGY BHD	UP	0.185	0.160	-13.5%	1,519.9	Y	12/2025	1.7	1.8	-32.4%	5.3%	10.8	10.3	0.6	5.3%	1.0	5.4%
WASCO BHD	MP	0.955	0.970	1.6%	739.5	Y	12/2025	1.6	1.8	-36.8%	8.3%	57.9	53.5	6.0	10.9%	2.0	2.1%
YINSON HOLDINGS BHD	OP	2.35	3.15	34.0%	6,547.6	N	01/2026	16.6	22.2	20.3%	33.4%	14.1	10.6	1.4	10.0%	5.0	2.1%
SECTOR AGGREGATE					105,265.6					-4.2%	8.1%	15.1	13.9	1.6	9.9%		2.6%

Source: Kenanga Research

Plantation

Defensive But Missing Upside Catalyst

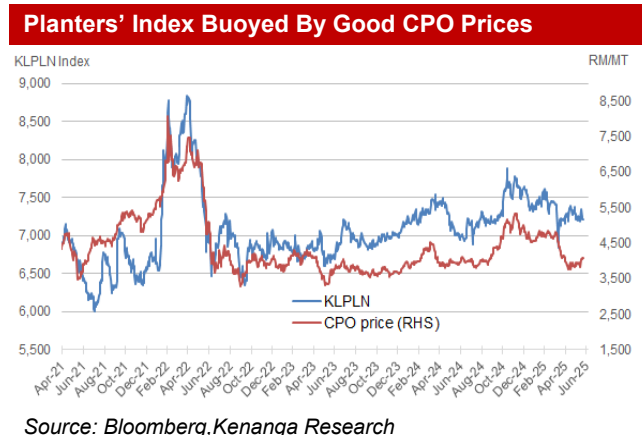
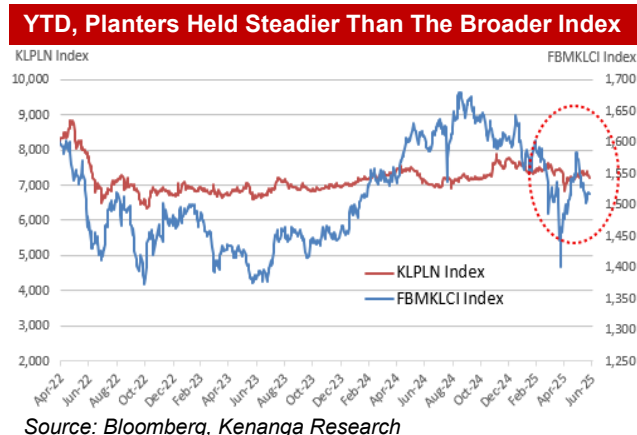
By Khoo Teng Chuan khootc@kenanga.com.my

NEUTRAL



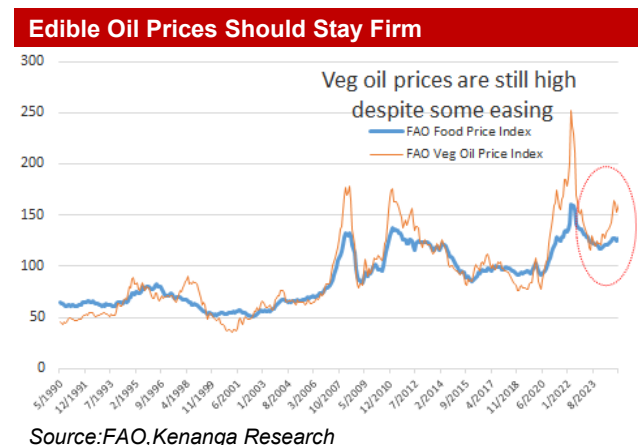
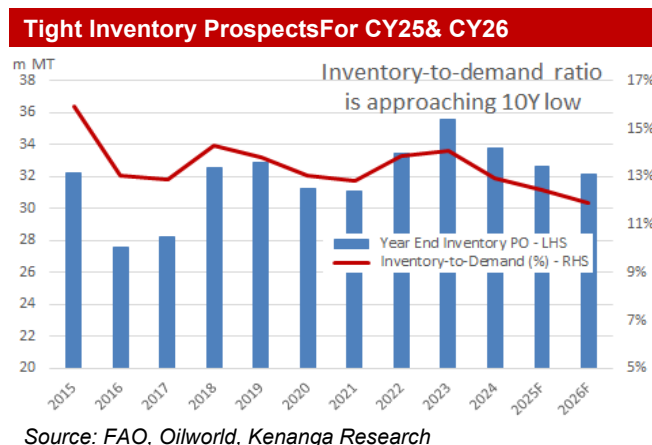
Palm oil prices are expected to stay firm for a good CY25 season underpinned by global edible oil supply deficit this year, potentially persisting into CY26. Cost pressures should stay manageable, thanks to firm selling prices. Ratings are far from demanding (1.0x PBV and 13x-14x prospective PER) and sector balance sheet is robust). However, there is no strong foreseeable upside catalyst at the moment, with the plantation sector having outperformed the broader market at large YTD; hence, we stay NEUTRAL. Our top picks are: (i) IOICORP (OP; TP: RM4.10) for its ROE leadership and headroom for M&A given its easing gearing, and (ii) HSPLANT (OP; TP: RM2.40) on attractive dividend yields (>5%) and RM0.5b net cash (c.70 sen per share).

KL Plantation index remains defensive, but lacks upside catalyst. Underpinning the sector's defensiveness are: (i) edible oil is >70% used as food, hence end-demand is resilient regardless of trade tensions, (ii) plantation earnings are often impacted more by edible oil supply-demand (e.g. bumper crop or bad weather) compared to the broader business cycles, and (iii) undemanding valuations for the sector at this juncture.



CPO prices likely to stay firm going into CY26. The top palm oil producer, Indonesia, suffered poor yields in CY24 causing palm oil prices to trade above soyabean oil for over half the year during CY24. As harvest is recovering this year, palm oil prices have since reversed to trade at discount against soyabean oil from Apr CY25 onwards. Consequently, CY25 CPO prices should ease from RM4,212 per MT (MPOB) in CY24 to RM4,100 in CY25 and RM4,000 in CY26 but stay firm due to overall supply tightness in the international edible oil market.

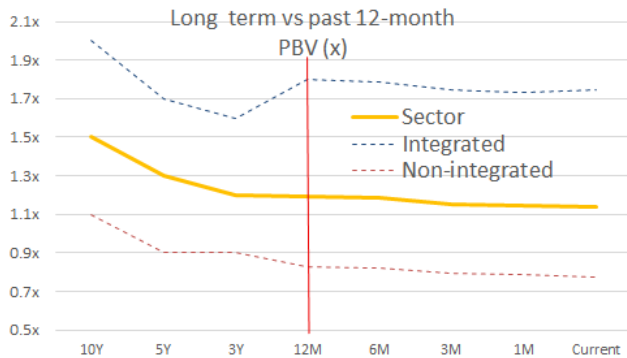
A CY25 supply deficit looks increasingly likely with tightness to spill over into CY26. *Oilworld's* latest edible oil supply growth forecast of 2% for CY26 concurs with Kenanga's earlier view that trend-line demand growth of 3%-4% a year looks set to outstrip supply not only in CY25 but into CY26 as well unless a bumper harvest eventually emerged. Hence, our expectation of firm to elevated edible oil prices over CY25-26.



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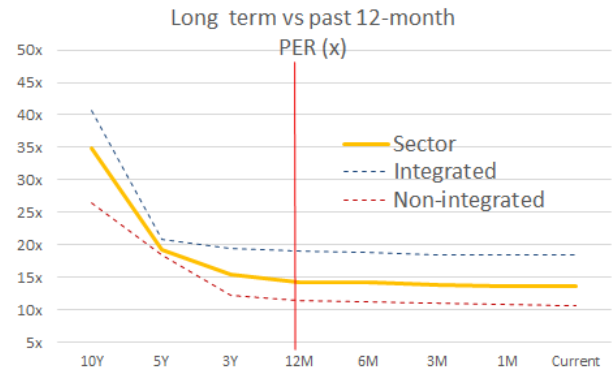
Valuations. Once the fastest growing oil crop, palm oil output growth started to moderate from around CY19 onwards. This is in part, due to ESG concerns over de-forestation but Indonesia was also starting to run out of good suitable land for oil palm planting while Malaysian oil palm area actually started shrinking since CY20s. With slower growth, sector PBV and PER multiple also contracted compared to 10 years as well as 5 years ago. Ratings over the past 12 months are softer than say three years ago but not substantially so as PBV and PER plateaued sideways. As such, plantation sector valuations look to have, more or less, bottomed out.

PBV Trend Suggests Some Flattening Out



Source: Bloomberg, Kenanga Research

PER Looks To Be Levelling Out As Well



Source: Bloomberg, Kenanga Research

Maintain NEUTRAL. Whilst valuations appear to have bottomed out and are not excessive, there is no strong upside catalyst either. Therefore, our NEUTRAL call thus hinges on:

- **Firm CPO prices.** Approximately 70% of edible oil made it into our food chain with c.23% as bio-fuel. As such, edible oil demand is quite visible, resilient and with trend-line demand growth of 3%-4% yearly. Meanwhile, supply is expected to grow by only 2%-3% over CY25-26; hence, edible oil prices including that of palm oil will probably stay sufficiently firm.
- **Strong balance sheet.** Many purer upstream players have turned net cash (e.g. HSPLANT, TAANN, TSH and UMCCA); hence, decent to good dividend pay-outs can be expected (unless they embarked on M&A activities). Overall, we expect non-integrated planters to become increasingly dividend-yield plays. For larger integrated players, we expect more M&A or diversification into non-plantation businesses - hence likely to stay net borrowers. Even so, as the balance sheet of integrated players such as IOI, KLK and SDG are backed by valuable landbank, their current gearings levels should not be a key concern to investors.
- **Margins should stay healthy.** Firm CPO and strong PK selling prices are expected to help absorb most of the cost upticks in CY25; hence, upstream margins are expected to stay healthy. Downstream margins which stayed disappointingly soft in 1QCY25 is likely to remain so for the next quarter or two. Altogether, CY25 margins should stay robust thanks to upstream operations.

Sector picks. IOI (OP; TP: RM4.10) as our other big-cap pick as the sector leader in ROE with falling gearing to give more headroom for M&A. Among purer upstream players, HSPLANT (OP; TP: RM2.40) still offers good, defensive upstream exposure with over RM0.5b (c.70 sen per share) net cash. Longer term, UMCCA (OP; TP: RM6.00) should see rising profit from newly maturing estates while TSH (OP; TP: RM1.30) is adding 25%-30% of new planting over the next 3-5 years. Meanwhile, GENP (OP; TP: RM5.70) should see stronger 2QFY25 maiden contribution from its newly opened Jakarta Premium Outlet.

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
Plantations																	
GENTING PLANTATIONS BHD	OP	4.84	5.70	17.8%	4,342.3	Y	12/2025	44.2	44.7	29.9%	1.2%	11.0	10.8	0.8	13.2%	25.0	5.2%
HAP SENG PLANTATIONS HLDGS	OP	1.77	2.40	35.6%	1,415.4	Y	12/2025	15.1	15.7	-18.9%	4.2%	11.8	11.3	0.7	5.7%	11.0	6.2%
IOI CORP BHD	OP	3.69	4.10	11.1%	22,891.6	Y	06/2025	20.6	22.0	19.0%	6.9%	17.9	16.8	1.8	10.5%	10.0	2.7%
KUALA LUMPUR KEPONG BHD	MP	20.00	21.00	5.0%	22,273.2	Y	09/2025	116.9	145.3	67.2%	24.3%	17.1	13.8	1.4	9.4%	50.0	2.5%
PPB GROUP BHD	MP	9.94	10.50	5.6%	14,140.6	Y	12/2025	130.1	133.7	24.3%	2.8%	7.6	7.4	0.5	6.5%	45.0	4.5%
SD GUTHRIE BHD	MP	4.49	4.50	0.2%	31,051.6	Y	12/2025	23.3	24.7	7.5%	6.0%	19.2	18.2	1.6	11.2%	17.0	3.8%
TA ANN HOLDINGS BHD	MP	3.71	3.90	5.1%	1,634.1	Y	12/2025	38.1	42.0	0.9%	10.2%	9.7	8.8	0.9	9.1%	35.0	9.4%
TSH RESOURCES BHD	OP	1.06	1.30	22.6%	1,392.5	Y	12/2025	10.8	11.1	13.5%	3.0%	9.8	9.5	0.6	6.7%	3.0	2.8%
UNITED MALACCA BHD	OP	5.14	6.00	16.7%	1,078.2	Y	04/2025	51.0	52.8	-8.1%	3.5%	10.1	9.7	0.7	6.9%	12.0	2.3%
SECTOR AGGREGATE					100,219.5					22.1%	8.3%	14.4	13.3	1.0	8.8%		4.4%

Source: Bloomberg, Kenanga Research

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01 July 2025

Plastic Packaging

Performance to Hinge on Tariff Developments

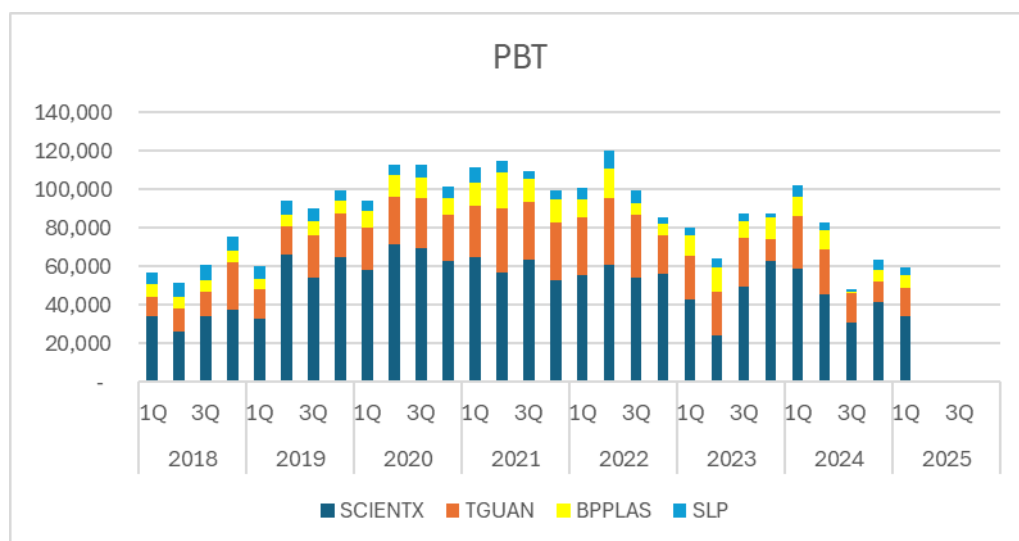
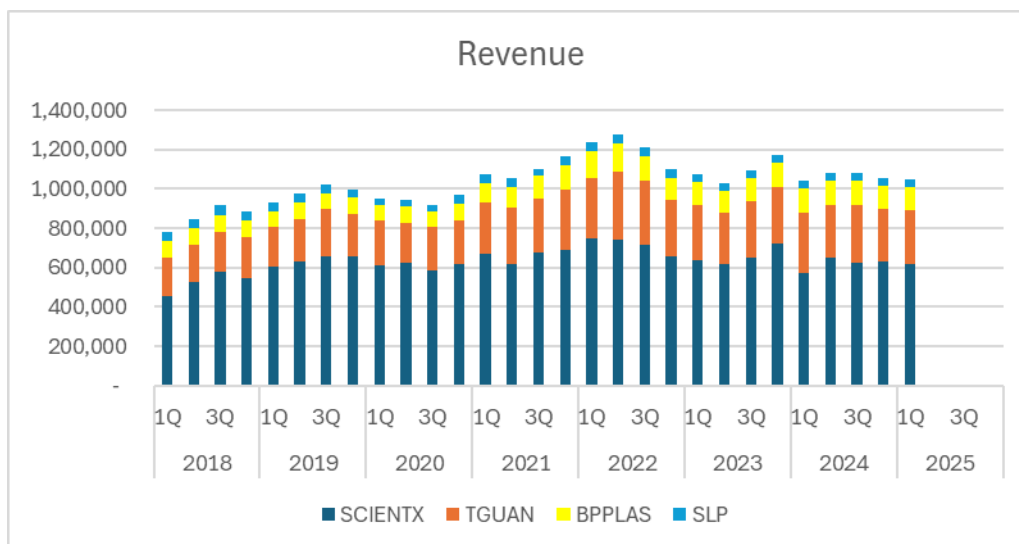
NEUTRAL



By Chris Tong | christong@kenanga.com.my

While sector valuations have come off, we do not foresee a re-rating catalyst for the sector in the near-term due to mounting challenges from global trade uncertainties affecting exports, persisting regional competition and cost pressures as well. In addition to the weaker sentiment in global trades, business owners may also hold back on inventory stocking activities due to the uncertainties in tariffs development amid a 90-day pause that may lapse in early July 2025. With the MYR expected to strengthen further to an average of RM4.08 in CY26, the sector's profit margins are likely to remain under near-term pressure due to unfavorable forex translation effects. All in, we maintain our NEUTRAL stance on the sector with SLP (OP; TP:RM1.00) being our sector Top Pick as it caters customised niche products that attract less competition, and has a more appealing project pipeline supported by a 5% consistent dividend yield.

Exhibit 1: SCIENTX, TGUAN, BPPLAS, and SLP's Revenue (Aggregate)



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The plastic manufacturing sector continues to face multiple headwinds including higher operating cost pressure, intensified competition but most of all, currency fluctuations and poorer CY25 visibility due to global trade uncertainties from Trump's tariffs. On the global front, demand for premium, thin-gauge or nano packaging film remained encouraging but demand growth for the plastic packaging sector as a whole is more mixed with average selling prices (ASP) weakening on both competitive pricing and domestic currency appreciation. This trend is also reflective in the charts above (refer to Exhibit 1) showing weaker PBT despite broadly stable revenues. Following our post-results analysis, and conversations with the industry players, we maintained our **Neutral** call, considering the following key factors:

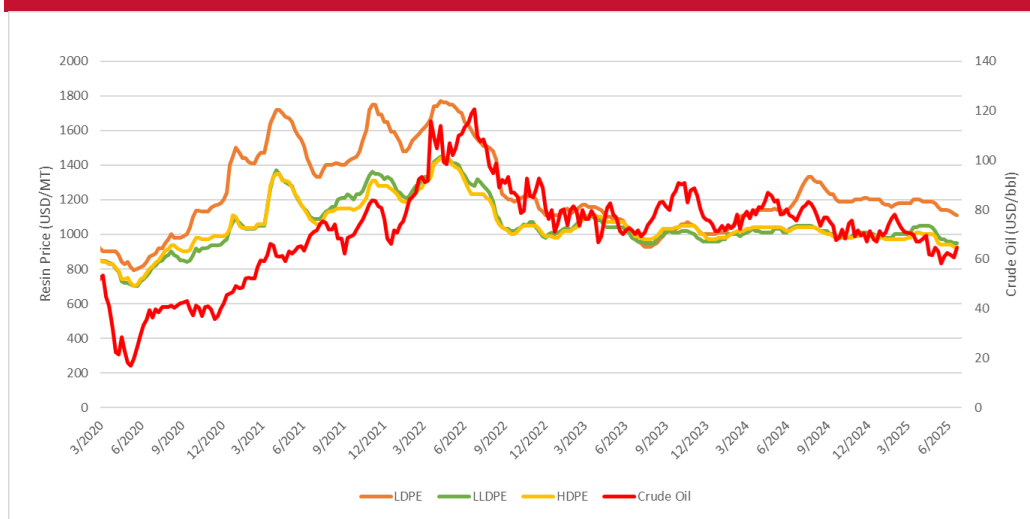
- 1) **Global Trade Uncertainties:** We see greater indirect impact than a direct one (as the proportion of exports mix to the US from players we cover are below 5%) from the ongoing U.S. tariffs and global trade uncertainties. A significant portion of plastic packaging films is used in B2B trades including inter-country trade to ease shipping and logistics; hence, a decline in global trade volumes is likely to have dampening effects by reducing overall consumption of plastic packaging materials produced by the companies under our coverage. In addition to that, business owners around the globe may also hold back on inventory stocking activities due to the loss in confidence in global trades.
- 2) **Competition:** Since CY24, plastic players are faced with a challenging market not only due to slower global demand growth but intensified competition from overcapacity. Part of this overcapacity arises as many local manufacturers often maintain their old facilities even after upgrading into e.g. new thin-gauge products. This allows for very competitive marginal pricing for "old" packaging products. Compounding this is some shifting in demand away from China by some American and European buyers which in turn compel Chinese players to offload stock at lower prices to other buyers such as those in SE Asia.
- 3) **MYR Appreciation.** In 1QCY25, the average USD/MYR exchange rate stood at RM4.45, compared to RM4.72 in 1QCY24, leading to some unfavorable forex translation for Malaysian plastic packaging producers. That said, the MYR is on a strengthening trend, with Kenanga forecasting the average MYR rate to strengthen further to an average of RM4.25 in CY25 and RM4.08 in CY26, versus RM4.57 in CY24 (refer to Exhibit 2). As such, the stronger MYR is expected to continue exerting pressure on average selling prices (ASP) and profit margins through forex translation effects. Based on general estimation, every 1% change in forex could impact 2%-3% of the sector's profitability.
- 4) **Rising Non-Resin Costs:** Plastic manufacturers are facing additional headwinds from increasing non-resin operating costs, including higher minimum wages commencing this year and the upcoming electricity tariff hikes, which collectively could reduce local producers' profitability by 5%-15%. Meanwhile, resin prices in 1HCY25 were marginally lower by 3% YoY (refer to Exhibit 3). The combination of persistently high crude oil and resin supply, along with OPEC's decision to further raise production, is expected to limit any significant near-term increase in resin costs.

Exhibit 2: USD/MYR



Source: Bloomberg, Kenanga Research

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Exhibit 3: Resin and Crude Oil Prices

Source: Bloomberg, Kenanga Research

Also, competition from both Chinese and local players is expected to persist and likely to further intensify moving forward. On that note, we are adopting a more conservative sector-wide valuation approach, as we do not foresee a near-term re-rating for the sector. Our current sector Top Pick is **SLP (OP; TP: RM1.00)**. We remain positive on SLP for its: (i) expertise in product customization and focus on the niche segment which offer higher resilience, (ii) convincing project pipelines from American and European clients, and (iii) increasing efforts in marketing initiatives.

We remain positive on **TGUAN (OP; TP: RM1.44)** given: (i) its aggressive push into overseas markets with environmentally friendly, high-performing products, and (ii) its expansion plans for premium products, including nano stretch films, food wraps and some industrial bags. Although growth from exports and premium products may be disrupted by tariff uncertainties and global economic slowdown over the coming 6-18 months, it remains a core competitive strength of TGUAN. At the current valuation, TGUAN is trading at a discount of close to 30% to its historical forward price to earnings ratio, which is greater than its peers like SCIENTX and BPPLAS which are trading at 20%-25% discount to their historical forward price to earnings ratio.

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Peer Table Comparison

Name	Rating	LastPrice as of 20 June (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div. Yld.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BP PLASTICS HOLDINGS BHD	MP	0.88	0.87	-1.1%	247.7	Y	12/2025	10.9	12.0	18.3%	9.4%	8.1	7.4	0.9	11.2%	4.5	5.1%
SCIENTEX BHD	MP	3.40	3.60	5.9%	5,291.3	Y	07/2025	31.5	33.4	-9.2%	6.0%	10.8	10.2	1.2	11.7%	11.0	3.2%
SLP RESOURCES BHD	OP	0.82	1.00	22.0%	259.9	Y	12/2025	5.0	5.3	12.1%	7.0%	16.6	15.5	1.4	8.3%	4.8	5.9%
THONG GUAN INDUSTRIES BHD	OP	1.20	1.44	20.0%	482.0	Y	12/2025	17.4	20.2	3.9%	16.2%	6.9	5.9	0.5	7.1%	6.0	5.0%
SECTOR AGGREGATE					6,280.9					-6.2%	7.4%	10.4	9.6	1.1	10.4%		4.8%

Source: Kenanga Research

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01 July 2025

Property

Industrial Demand Drive Value

By Clement Chua | clement.chua@kenanga.com.my

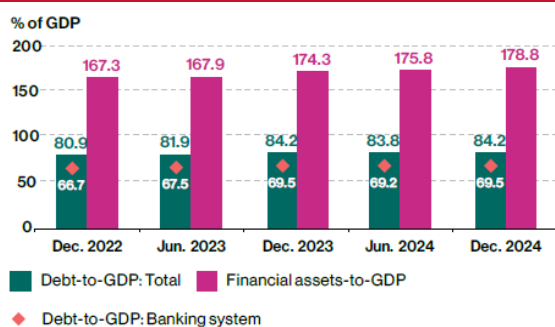
The Malaysian property sector appears to be upheld by healthy demand across mid and higher-priced segments. Developers are recalibrating launches toward high-rise and industrial products, balancing affordability with urban-centric strategies. While the recent decline in unsold inventory signals improved absorption, the growing share of serviced apartments calls for selective positioning as certain areas face heightened supply concentration, while others risk over-expansion into locations with limited infrastructure and low demand maturity. The industrial segment continues to underpin resilience, particularly in Johor where catalysts like the RTS Link and JS-SEZ drive long-term value. With developers' share prices still below historical peaks, selective exposure to industrial and data centre-linked themes offers potential upside. Meanwhile, strategic land monetisation and efforts to grow recurring income are helping to provide some earnings visibility amid ongoing macro uncertainties.

We maintain our NEUTRAL stance. We remain selective in our stock picks, prioritizing names that demonstrate a strong balance between sustainable product launches and medium-term earnings growth. Our top pick is SIMEPROP (OP; TP: RM1.79) which we like due to its recurring income stream and strong residential branding. We also upgrade SPSETIA (TP: RM1.25) from MP to OP on more favourable risk-reward following the recent weakness in its share price.

Stability much needed. 2HCY24's household debt-to-GDP ratio of 84.2% (1HCY24: 83.8%, 2HCY23: 84.2%) reflects favourably onto the sector as borrowing capacity remains more comfortable (against pre-pandemic peak of 87%). This is also aided by the OPR's steady-state of 3% since May 2023 which allows a more comparable interest rate landscape for buyers and developers. Our in-house expectation for OPR remains as stable throughout CY25, with a downside bias in the event of any adjustments amid heightened economic uncertainties spurred by foreign trade policies and geopolitical conflicts. Among other concerns which pose inflationary pressures are the expansion scope of SST and eventual implementation of the targeted RON95 subsidy rationalisation.

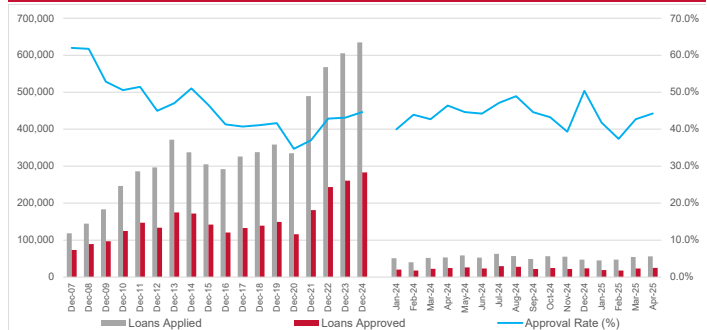
According to BNM's Apr 2025 data, industry loan approval rates came in at 44.3% (Mar 2025: 42.7%, Apr 2024: 46.4%), being the highest YTD and close to CY24's average of 44.6%. We note that total YTD application value was slightly higher at RM203b (+4% as compared to Apr 2024-YTD's RM196b), reflective of the decrease in overhang for higher valued residential units as well as service apartment units valued between RM500k-RM1m and >RM1m, indicative of strong appetite for such products in the market. The higher income requirements for these purchases appear to support credit quality, and as such could continue to support higher approval rates in the nearterm.

Household Debt-to-GDP



Source: BNM

Loan Approval Rate



Source: BNM, Kenanga Research

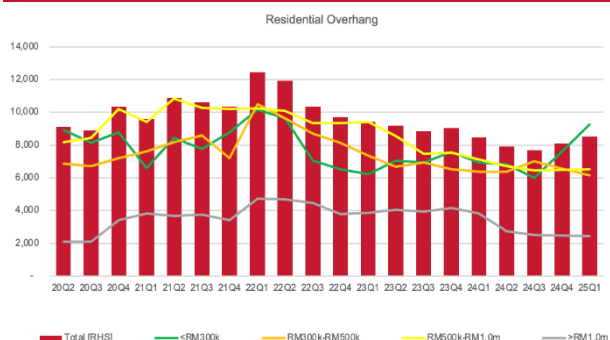
Broad-based demand supports market stabilisation. NAPIC's 1QCY25 data reflects a stable property market with demand spanning multiple segments. Residential overhang increased slightly to 23.5k units (4QCY24: 23.1k, 3QCY24: 21.3k), largely due to selective demand shifts rather than a weakening market. There was a notable uptick in demand for mid and higher-priced units (>RM500k), reflecting a renewed buyer confidence and developers' strategic supply adjustments.

Service apartments showed marginal improvement in 1QCY25, with overhang units declining to 18.2k (4QCY24: 19.5k, 3QCY24: 20.2k), indicating better take-up of completed stock. However, within the unsold-under-construction category, serviced apartments now account for over 77% of the total 81.0k units (down from 91.2k in 4QCY24), suggesting developers

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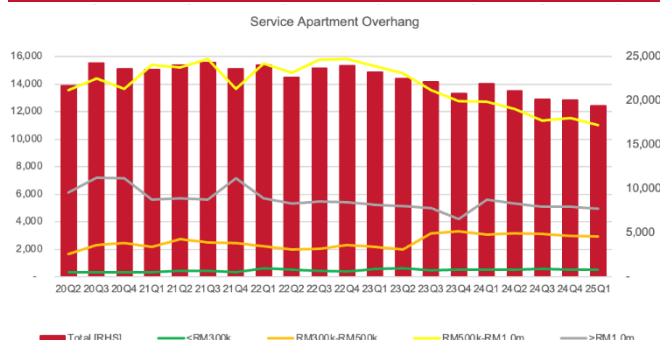
continue to launch high-rise products in anticipation of urban demand recovery. While the overhang reduction signals improved absorption, the rising proportion of serviced apartments in the pipeline implies that supply remains skewed toward this segment. Overall, the service apartment market is seeing signs of healing, but the outlook hinges on sustained demand to absorb the incoming supply.

Outstanding Residential Overhang



Source: NAPIC, Kenanga Research

Outstanding Service Apartment Overhang



Source: NAPIC, Kenanga Research

Unsold Units Under Construction

Region	1QCY25			4QCY24		
	Residential	Serviced Apartment	Total	Residential	Serviced Apartment	Total
Johor	9,507	7,559	17,066	6,245	4,651	10,896
Kuala Lumpur	4,112	4,782	8,894	5,137	8,166	13,303
Selangor	2,561	10,359	12,920	8,607	9,710	18,317
Perak	124	7,640	7,764	9,030	-	9,030
Penang	313	7,033	7,346	7,723	1,620	9,343
Sabah	-	3,734	3,734	4,727	-	4,727
Negeri Sembilan	842	3,086	3,928	2,507	464	2,971
Sarawak	67	4,599	4,666	4,163	1,691	5,854
Pahang	398	2,761	3,159	2,517	2,576	5,093
Melaka	-	4,324	4,324	3,970	1,401	5,371
Kelantan	225	3,429	3,654	3,379	-	3,379
Kedah	-	2,239	2,239	1,808	-	1,808
Terengganu	16	845	861	741	-	741
Putrajaya	81	18	99	18	-	18
Perlis	-	252	252	269	-	269
Labuan	-	93	93	93	-	93
Total	18,246	62,753	80,999	60,934	30,279	91,213

Source: NAPIC, Kenanga Research

The Malaysian property sector remains on a stabilisation path, supported by sustained interest in mid-to-high priced residential properties, resilient demand for industrial land, and improved absorption in selective urban segments. While total unsold units under construction moderated slightly to 81k units, the composition has skewed heavily toward serviced apartments, raising short-term absorption risks if take-up falters.

Johor. On the other hand, the Johor market continues to draw investor attention, underpinned by structural catalysts such as the Johor-Singapore Special Economic Zone (JS-SEZ) and the Rapid Transit System (RTS) Link. These projects are enhancing the long-term viability of industrial and logistics developments in the region. Developers with exposure to Johor's industrial and township developments are well positioned to ride the recovery cycle, although elevated supply, especially in high-rise and serviced units warrants selective positioning.

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Recurring income strategies, landbank monetisation, and pivoting toward industrial/logistics themes remain critical levers for developers navigating elevated cost environment. Although the near-term outlook is challenged by potential inflationary pressures (e.g. from fuel subsidy reforms) and high household debt levels, we expect demand from higher-income households to anchor overall residential stability, particularly for products priced between RM500k–RM1m.

We maintain our NEUTRAL stance on the sector, favouring developers with:

- i. strategic landbanks near infrastructure catalysts,
- ii. rising recurring income contribution, and
- iii. solid balance sheets to weather execution volatility from DC and industrial ventures.

Our top sector pick is **SIMEPROP**, which is expanding its recurring income streams (which include data centre and commercial assets), providing greater earnings stability and long-term growth potential.

Meanwhile, we also upgrade SPSETIA (TP: RM 1.25) from MP to OP. Amid the recent price weakness on the stock, we see value emerging driven by its better launches and take-up, and focus on industrial products, along with expansion into data centre. We are also contrarian versus the street on SUNWAY which has an UP call (TP: RM 4.01) mainly due to the valuation on its healthcare segment for which we ascribe a 20x on EV/EBITDA vs. the street of 25x.

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Peer Table Comparison

Name	Rating	Last Price	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
PROPERTY DEVELOPERS																	
ECO WORLDDEVELOPMENT GROUP	MP	1.91	2.00	4.7%	5,665.2	Y	10/2025	11.1	11.7	25.9%	5.3%	17.3	16.4	1.2	6.3%	6.0	3.1%
IOI PROPERTIES GROUP BHD	UP	1.92	1.69	-12.0%	10,571.8	N	06/2025	9.8	10.5	5.1%	8.0%	19.7	18.2	0.4	2.2%	4.5	2.3%
MAH SING GROUP BHD	OP	1.26	2.46	95.2%	3,225.8	Y	12/2025	10.2	11.0	14.6%	8.5%	12.4	11.4	0.8	6.5%	4.0	3.2%
MKH BHD	OP	1.08	1.64	51.9%	623.3	Y	09/2025	14.6	15.4	15.7%	5.7%	7.4	7.0	0.3	4.0%	4.0	3.7%
S P SETIA BHD	UP	1.18	1.25	5.9%	5,903.5	Y	12/2025	8.8	5.8	97.5%	-34.2%	13.4	20.4	0.3	3.5%	5.0	4.2%
SIME DARBY PROPERTY BHD	OP	1.31	1.79	36.6%	8,909.1	Y	12/2025	8.0	8.1	36.7%	1.4%	16.4	16.1	0.8	5.2%	2.8	2.1%
SUNWAY BHD	UP	4.45	3.35	-24.7%	27,491.9	Y	12/2025	14.7	15.4	27.2%	5.0%	30.3	28.8	1.7	6.7%	6.0	1.3%
UOA DEVELOPMENT BHD	MP	1.75	1.82	4.0%	4,591.6	Y	12/2025	10.5	11.0	4.9%	4.9%	16.7	16.0	0.8	4.5%	10.0	5.7%
SECTOR AGGREGATE					66,982.3					26.4%	-0.3%	22.7	22.8	0.7	4.6%		3.2%

Source: Kenanga Research

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01 July 2025

REIT

SST Impact Marginal

By Chris Tong | christong@kenanga.com.my

NEUTRAL



We maintain our NEUTRAL stance on REIT. We anticipated in the prior quarter that the sector's stability could appeal to investors amid recent market volatility fuelled by ongoing U.S. tariff headlines and global trade uncertainties, where we observed the KLREIT index rising by c.5% since April 2025. On the 8% SST, we see only marginal immediate impact to the REIT sector as we believe the cost pass-through to consumers in the retail segment is achievable with a slight upward revision in product prices, while certain segments such as office and industrial will be more insulated on better financial capacity and longer lease terms. That said, this may hinder the mall operators' near-term ability to raise rents should tenant apprehension rise from the SST.

We take this opportunity to downgrade SUNREIT (TP: RM2.11) from Outperform to Market Perform following its share price appreciation. We also trim our TP for CLMT from RM0.75 to RM0.70 following the dilutive effect of c.7% from its proposed placement which also warrants a downgrade from Outperform to Market Perform. Meanwhile, our "Not Rated" call on PARADIGM (TP: RM1.10) may interest investors for its appealing prospects in Johor growing market and a 7% above-average net dividend yield in FY26.

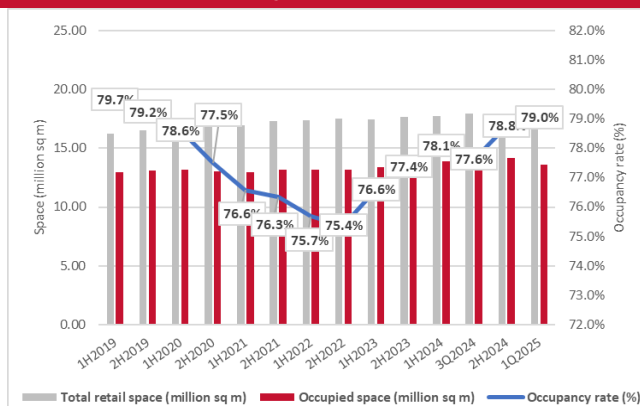
8% Sales and Service Tax (SST) on rentals and its impact on REITs. In early June 2025, the Malaysian government announced the imposition of an 8% SST on rental and leasing services for all commercial spaces, effective 1st July 2025. Under this directive, REITs and property landlords will act as collecting agents by billing tenants the SST and remitting the amount to the tax authorities. Given that the tax is applied universally across commercial properties and not specifically targeted at REIT-owned assets, we expect tenants to pass on the additional cost to end-consumers.

Typically, rental expenses constitute c.15% of total revenue for retail tenants. With the implementation of the 8% SST, the rental component of a tenant's cost structure would increase from 15% to 16.2%. This implies that, hypothetically, tenants would only need to raise selling prices slightly to offset the additional rental tax, suggesting the overall impact on end-consumers will likely be marginal. In the event if tenants are unable to pass through the additional cost to consumers, it will inevitably make it more difficult for REIT operators to raise rental rates after tenants are burdened with the 8% increase in rental costs.

That said, we are mindful that the impending SST hike will not affect all REIT segments equally. Compared to the retail segment, we believe the office and industrial segments are more insulated. This is primarily due to two factors, namely (i) the lower rental-to-revenue ratios among MNC office tenants which typically have stronger financial capacity to absorb incremental costs, and (ii) the longer lease durations for industrial tenants, averaging between 5 to 10 years, where rental escalations are already locked in.

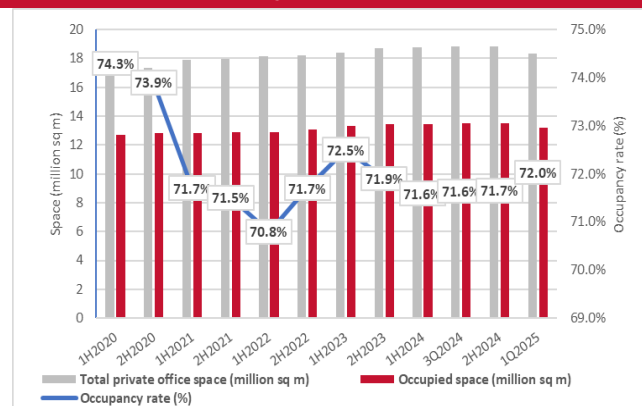
Segmental Reviews

Retail Space Occupancy Rate Trend



Source: NAPIC, Kenanga Research

Office Space Occupancy Rate Trend



Source: NAPIC, Kenanga Research



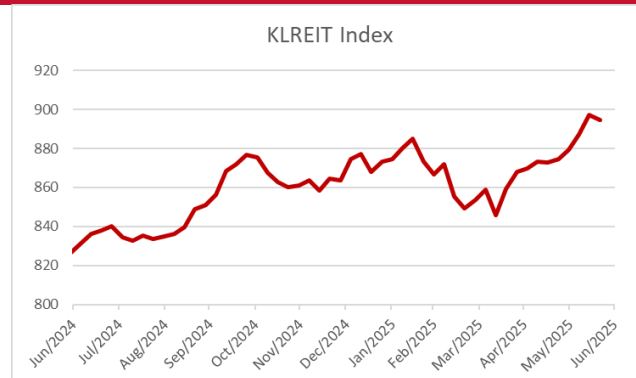
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10-Year MGS Yield Movement



Source: Bloomberg

KLREIT Index from June 2024



Source: Bloomberg

Retail- Stable mall occupancy. 1QCY25 retail occupancy rates in shopping complexes held steady, inching up to 79.0% from 78.8% in the prior quarter, from a total retail space of 17.2m sqm.

Office- Steady office occupancy. 1QCY25 occupancy rate was broadly stable with a marginal increase of 0.3% to 72.0% with a total private office space of 18.3m sqm.

Hospitality - Weak 1QCY25. 1QCY25 hotels under our coverage recorded weaker performances YoY mainly due to the full Ramadan season in the quarter where locals tend to host less MICE activities, and have less staycations, coupled with potentially down-trading from high-end hotels to cheaper alternatives in certain tourist groups. Given the increased allocation on tourism in the national budget and our in-house projection of 27.7m tourist arrivals in Malaysia (+15% increase from 2024), we anticipate the hoteling business to regain its momentum in the year ahead, especially for names like SUNREIT and KLCC.

We maintain our NEUTRAL call on the REITs sector as the upside for certain big-cap names have been adequately priced by the market. Still, we see selective opportunity following recent market volatility driven by ongoing U.S. tariffs and global trade uncertainties, where the REITs have remained largely unscathed due to their resilient business model, while offering decent dividend pay-outs of 5%-7% across the sector.

We are trimming our TP for **CLMT** from RM0.75 to RM0.70 and remove CLMT as one of our Top Picks after the group's recent announcement of a private placement to raise RM250m from which sees an immediate net dilution effect of c.7%. Meanwhile, we take this opportunity to downgrade **SUNREIT** to **MARKET PERFORM** from **OUTPERFORM** following their recent share price appreciation.

PARADIGM (non-rated) – after its recent IPO, we remain positive on PARADIGM on a 7% estimated net dividend yield for FY26F (above sector's average of 5%-6%) supported by its Bukit Tinggi Shopping Centre's highly resilient tenant profile and its Paradigm JB mall which is well positioned to ride on the growth of the booming economy in the southern part of Johor, underpinned by the upcoming RTS and the ongoing JS-SEZ developments. (more detailed information in our IPO note on PARADIGM, published on 10 June 2025)

Target Yield at a Glance

REIT	Stock Call	Target Price (RM)	Target Yield (%)
AXREIT	MP	1.86	5.25
CLMT	MP	0.70	6.75
IGBREIT	MP	2.40	5.50
KLCC	MP	8.52	5.50
SUNREIT	MP	2.11	5.25

[^] Derived from yield spread above our 10-year MGS yield assumption of 3.75%.

Source: Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price as of 20 June (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Gross Div. (sen)	Gross Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
REITS																	
AXIS REIT	MP	1.95	1.86	-4.6%	3,940.5	Y	12/2025	10.4	10.6	28.1%	2.0%	18.8	18.4	1.2	6.3%	9.6	4.9%
CAPITALAND MALAYSIA TRUST	MP	0.64	0.70	9.4%	1,869.7	N	12/2025	5.1	5.5	13.1%	6.9%	12.5	11.7	0.6	5.1%	4.7	7.3%
IGB REIT	MP	2.39	2.40	0.4%	8,655.6	N	12/2025	11.7	13.7	14.6%	39.8%	20.5	17.5	2.3	10.0%	11.0	4.6%
KLCCP STAPLED GROUP	MP	8.90	8.52	-4.3%	16,067.5	Y	12/2025	47.6	48.8	9.8%	2.5%	18.7	18.3	1.2	6.3%	45.7	5.1%
SUNWAY REIT	MP	2.14	2.11	-1.4%	7,329.1	N	12/2025	12.0	12.5	16.8%	3.8%	17.8	17.2	1.4	7.2%	10.8	5.0%
SECTOR AGGREGATE					37,862.4					14.1%	10.7%	18.5	16.7	1.3	7.0%		5.4%

Source: Bloomberg, Kenanga Research

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01 July 2025

Renewable Energy

Can't Stop the Sun

By Nigel Ng | nigel@kenanga.com.my

OVERWEIGHT



LSS5+ is entering the award phase and the stage is set for a comeback by unsuccessful LSS5 bidders like CYPARK, MALAKOF, and SDG - this time with higher Bumiputera participation likely boosting their odds. Meanwhile, Corporate Renewable Energy Supply Scheme (CRESS) is back in play as the recent tariff hike hits data centres, triggering a surprise jump in EPCC job flow. The total EPCC contract value has now surged to RM17.4b (+40%). The biggest winners could be EPCC players, as solar panel prices are expected to bottom in 2025, posing costs risks for asset owners, especially those under LSS. SLVEST (OP; TP: RM2.71) stands out as a front-runner, aiming to capture 30% of the market share. We stay OVERWEIGHT on the sector, with SLVEST and PEKAT (OP; TP: RM1.75) as our top picks to ride the booming solar EPCC cycle.

LSS5+ winners to drop in weeks and previous unsuccessful bidders could be stealing the spotlight? We believe many developers who were unsuccessful in LSS5 will pivot to LSS5+ as an alternative path for project development. Asset owners from previous LSS rounds, with proven track records, are well-positioned to benefit.

We see strong chances for CYPARK, MALAKOF, SDG, SUNVIEW, JAKS, and SLVEST to secure awards given their previous unsuccessful bids in LSS5 and their likely continued interest in the programme. However, with a likely higher Bumiputera participation this time (vs. only 25% in LSS5), this should improve the chances for the former three, i.e. MALAKOF, CYPARK and SDG. Up for grabs are sizable allocations of up to 500MW (high versus LSS5 of up to 30MW), which could strain balance sheets, though this could be surmounted via Bumiputera-led joint ventures in our view. Assuming awards mirror the 100MW blocks seen in LSS5, we estimate around 15 awards remain up for grabs. With the current solar panel prices, we expect winning tariffs to land between RM0.14/kWh and RM0.18/kWh, supporting a project IRR of roughly 8%.

Focus on EPCC pie rather than asset owner. We project average module prices to dip slightly to USD0.09/W in CY25 (from USD0.10/W in CY24) as Tier-1 manufacturers flood the market. Still, with weaker solar manufacturers exiting, a price rebound is possible, though not likely in 2025. Given the low IRR of ~8% in LSS jobs and rising cost risks, we remain bullish on EPCC contractors over asset owners.

CRESS back in play as tariff hike hits data centres. The newly introduced ultra-high voltage tariff has raised electricity costs for data centres to RM0.60/kWh, repositioning CRESS programme as a cost-effective alternative. Solar developers now require a minimum tariff of RM0.64/kWh to achieve an 8% IRR. Given the likelihood of further hikes from TNB to support grid infrastructure upgrades, CRESS provides a compelling long-term hedge for large energy users such as data centres. With its 21-year fixed PPA, CRESS offers protection against future tariff hikes while supporting ESG and RE100 commitments.

While System Access Charges (SAC) will be reviewed in each regulatory period, we believe the cost risk is skewed towards non-firm output providers as the government's policy direction remains clear on prioritising grid stability. In this context, we expect solar players to actively explore partnerships with firm output providers to lower SAC exposure. For instance, hybrid solutions combining solar and biomass could be particularly attractive. Based on our estimates, such setups can price competitively at around RM0.55/kWh while sustaining an 8% IRR, driven by the lower SAC of RM0.25/kWh. In short, we expect to see more solar-biomass hybrids grabbing market share and offering better value to energy-hungry users.

Exhibit 1: Estimated UHV Electricity Tariff for 8% IRR

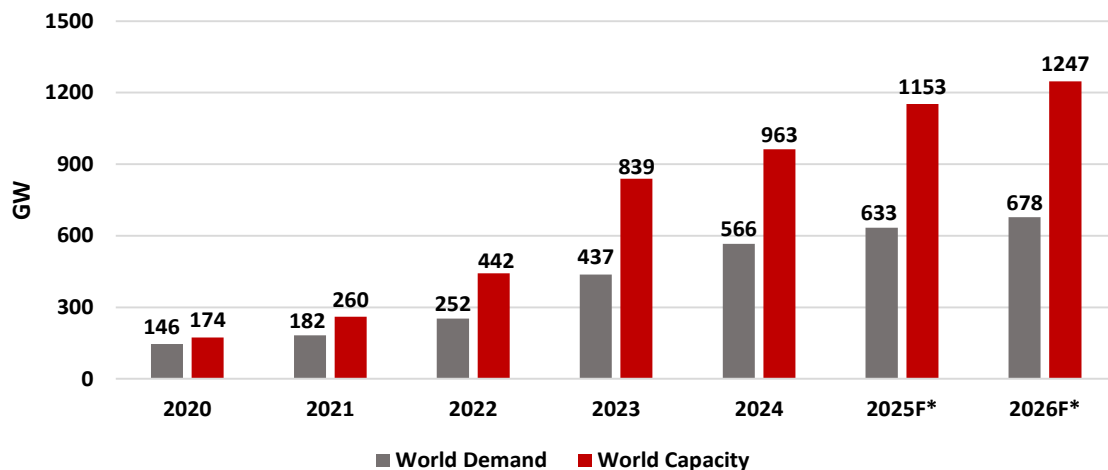
Energy Source	Output	System Access Charge (RM / kWh)	Estimated Tariff (RM / kWh)
Conventional Electricity	N.A.	N.A.	0.60
Green Electricity Tariff (GET) Programme	N.A.	N.A.	0.80
*Solar	Non-firm Output	0.45	0.64
*Solar with BESS	Firm Output	0.25	0.64
*Biomass	Firm Output	0.25	0.58
*Solar + Biomass	Firm Output	0.25	0.55

*Kenanga Research's estimates

Source: EC, Kenanga Research

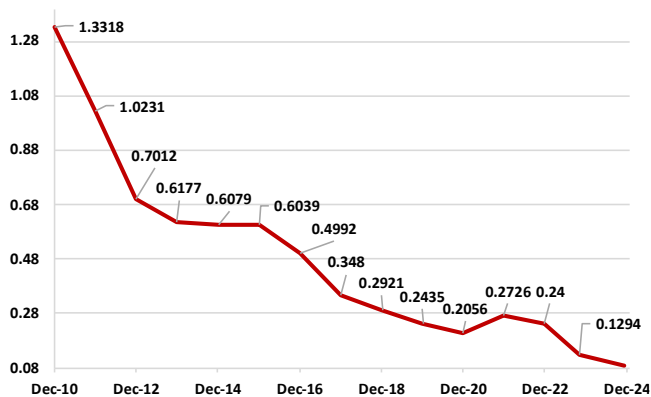
Surprise upside in solar EPCC pipeline. Order books are hitting all-time highs as solar EPCC players race to deliver Corporate Green Power Programme (CGPP) projects before the end-2025 deadline. At the same time, RM10b worth of 4GW LSS5 and LSS5+ contracts are about to hit the market, with completions targeted by end-2027. Now with CRESS back in play, another RM5b in EPCC works could land soon, driven by 2GW of firm output demand. The total EPCC contract value has surged to RM17.4b from RM12.4b, ensuring sustained sector activity till end-2028. Thus far, we have already seen ~RM2.9b contract awards announced by listed firms. In this space, we see market leader SLVEST standing out as a key beneficiary, expected to grab at least 30% of the EPCC market share.

01 July 2025

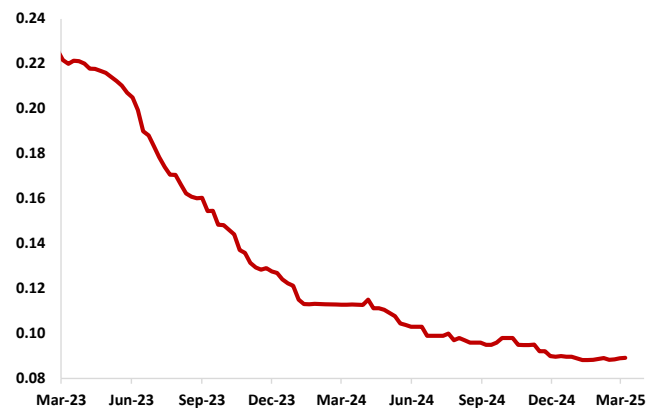
Exhibit 2: Global Supply/Demand for Solar Panels (GW)

*Kenanga Research's estimates

Source: Bloomberg, Kenanga Research

Exhibit 3: Solar Module Price (USD/W) (2010–2024)

Source: Bloomberg, Kenanga Research

Exhibit 4: Solar Module Price (USD/W) (2022–2024)

Source: Bloomberg, Kenanga Research

Rooftop solar – longer ROI horizon, for now. The electricity tariff restructuring introduces a clearer breakdown of cost components into three categories as follow: (i) energy charge, (ii) capacity charge, and (iii) network charge. Previously, Net Energy Metering (NEM) users could offset the whole bill, but now only the energy charge is eligible, slashing savings to just up to 50%. That is a major hit to rooftop solar economics. What was once a 5-year ROI has now stretched to 10–12 years. The change has triggered some pushback and complaints, and there is a chance TNB may refine the NEM details in response.

That said, the new tariff also sets the stage for Community Renewable Energy Aggregation Mechanism (CREAM) which will allow homeowners to lease out rooftop space for solar generation with full details expected in 2HCY25. With just ~65k of TENAGA's 10.4m retail customers currently using rooftop solar, there's vast untapped potential across both residential and C&I segments.

Top picks. With CRESS back on the table and upside from the new tariff, we expect a pick-up in contract flows over the medium term. We rotate **SET** to **SLVEST** as our top pick which is better positioned to benefit from the solar EPCC momentum, while maintaining our position in **PEKAT**. Still, we like **SET** for its solid profitability and view it as a value proxy to the RE space. Our selection rationales are as follows:-

- **SLVEST** for its strong market position, execution track record, clientele and value proposition of its PV system financing programme, and its strong earnings visibility backed by sizeable outstanding order and tender books, and recurring incomes from a growing portfolio of solar assets.
- **PEKAT** stands out for its focus on high-margin residential and commercial rooftop solar projects but the game changer here is its newly acquired switchgear business. As the top four MV switchgear supplier to TNB, EPE is set to ride on TNB's massive RP4 capex with further upside from leveraging on PEKAT's network to capture a larger slice of private sector deals like DCs.

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Peer Table Comparison

Name	Rating	Last Price @ 20/6/25 (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
PEKAT GROUP BHD	OP	1.34	1.75	30.6%	864.3	Y	12/2025	7.2	8.5	109.0%	17.5%	18.6	15.9	3.3	24.0%	0.0	0.0%
SAMAIDEN GROUP BHD	OP	1.02	1.43	40.2%	457.2	Y	06/2025	4.9	5.9	12.7%	21.6%	20.9	17.2	4.1	21.0%	0.0	0.0%
SOLARVEST HOLDINGS BHD	OP	1.84	2.69	46.2%	1,391.5	Y	03/2026	9.2	10.9	35.8%	18.7%	20.0	16.9	3.6	20.2%	0.0	0.0%
SUNVIEW GROUP BHD*	NR	0.40	NR	N.A.	224.3	Y	03/2026	2.4	2.7	21.8%	14.2%	15.8	14.1	N.A.	N.A.	0.0	0.0%
SWIFT ENERGY TECHNOLOGY BHD	OP	0.215	0.600	179.1%	215.2	Y	09/2025	1.9	2.4	3.3%	26.3%	11.3	9.0	2.7	27.9%	0.0	0.0%
Sector Aggregate					3,152.4					36.5%	19.7%	17.3	14.6	3.4			0.0%

Source: Kenanga Research

*Note that Sunview numbers based on Bloomberg consensus

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01 July 2025

Seaport & Logistics

Prolong Crisis could lead to Congestion

NEUTRAL



By Wan Mustaqim Bin Wan Ab Aziz I wanmustaqim@kenanga.com.my

We maintain our NEUTRAL stance on the sector. The WTO in April 2025 cut its projection for CY25 global merchandise trade volume growth, expecting a decline of 0.2% (from +3.0%), while projecting modest recovery in CY26 of 2.5%, quoting surge in tariffs and trade policy uncertainty in addition to the potential escalation of Middle-East conflicts. We also acknowledge that global trade will have to navigate stricter regulations on carbon emissions. Nevertheless, the domestic logistics sector fared better as Malaysia total trade soared 6.2% as of YTD-May 2025 (trade surplus of RM46.9b as of May 2025), which is a beneficiary of the booming e-commerce. Furthermore, the sector is also benefitting from global tech up-cycle led by AI demand, a resilient US economy, potential trade diversion amid US-China trade tensions and short-term surge in domestic ports' container volume on frontloading activities within the period of US tariff pause negotiation. WPRTS (OP;TP:RM6.00) is our sector top pick, which we recently upgraded it to OUTPERFORM from MARKET PERFORM from its stronger position post-port charges hike, being key beneficiary of trade diversion, while turning port yards congestion into new revenue stream.

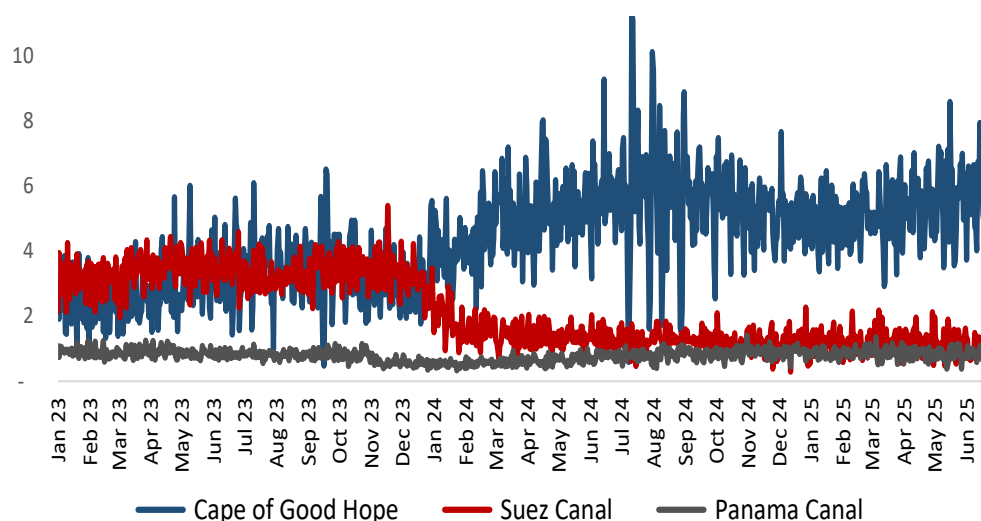
Emerging trend of connecting economies. Global trade has deteriorated sharply due to a surge in tariffs and trade policy uncertainty, in addition to the fragile nature of the Gaza ceasefire agreement as well as recent Israel-Iran 12-days war ceasefire agreement, the shipping diversion from the Red Sea continues to weigh down on global trade, especially in the Asia-Europe routes (WPRTS indicated that 80% of the shipping line still arrived outside of scheduled time). The diversion from the Suez Canal to the Cape of Good Hope has resulted in longer voyage for the Asia-Europe route (which contributes 30% of global container volume), reducing the frequency of calls that shipping lines could make at WPRTS's ports (and all other ports in the region). The WTO in April 2025 cut its projection for CY25 global merchandise trade volume growth to decline of 0.2% (from +3.0%), while projecting modest recovery in CY26 of 2.5%, quoting surge in tariffs and trade policy uncertainty in addition to the potential escalation of Middle-East conflicts, including the recent Israel-Iran 12-days war.

Closer to home, the WTO cited an emerging trend of connecting economies or countries that benefited from the trade diversion on US-China trade tensions. Malaysia, Singapore, India and Vietnam growth is surging due to their emerging role as "connecting" economies, trading across geopolitical blocs, thereby potentially mitigating the risk of trade fragmentation.

Closer to home, the WTO cited an emerging trend of connecting economies or countries that benefited from the trade diversion on US-China trade tensions (see Exhibit 2 on trade war impact in 2018–2022, when other economies recovered faster than China). Malaysia, Singapore, India and Vietnam growth is surging due to their emerging role as "connecting" economies, trading across geopolitical blocs, thereby potentially mitigating the risk of trade fragmentation. Based on the Malaysia's external trade February numbers, there was an export increase to the US (28.9% vs. Jan's 28.1%) with the US now Malaysia's second largest export destination (after Singapore, with China on the third place). We expect domestic logistic sector growth to remain steady going into 2026, which is a beneficiary of the booming e-commerce, supported by the global tech up-cycle led by AI demand, a resilient US economy, potential trade diversion amid US-China trade tensions and short-term surge in domestic ports' container volume on frontloading activities within the period of US tariff pause negotiation.

During the 12-month period for the trade war from Feb 2018 (see Exhibit 3), we saw local listed port operators' share prices trading sideways except for BIPORT (MP; TP: RM5.15) which took a dive due to its largest exposure to China as its biggest LNG export market. China, the biggest export destination for Malaysia in 2019–2022 (Singapore took first place starting 2022), saw a double whammy (US tariff hike and ports closure due to the pandemic lockdown). Presently, the US is now Malaysia's second largest export destination (after Singapore) which we believe is due to trade diversion, trade frontloading, and China's slowdown in economic growth (US started to overtake China in the second place since mid-2024). Overall, Malaysian ports' container growth volume is expected to remain in single-digit due to the China's projected slower growth in 2025 (the IMF projected China's economic growth to slow down to 4.5% from 5% in 2024), but partially offset by the potential trade diversion amid US-China trade tensions.

01 July 2025

Exhibit 1: Daily Transit Trade Volume*

*million tonnes, 7-day moving average

Source: International Monetary Fund, United Nations, Port Watch

We also acknowledge that stricter regulations on carbon emissions may pose new challenges to global trade, particularly, one from the United Nations' International Maritime Organization (IMO) and another from the European Union (EU). While the exact implications of the regulations of the IMO and EU's Carbon Border Adjustment Mechanism (CBAM) on the seaport and logistics sectors remain unclear (especially for CBAM which is still pending finalisation and to take effect by 2026), the volume of containers heading to the EU will certainly be affected (about 18% of container throughput under Asia-Europe trade). This is especially so for those originating from China, which is a major exporter of iron, steel and aluminium to the EU.

- Under the new IMO rules, effective January 2023, all ships must report their carbon intensity and will be rated accordingly. The ships must record a 2% annual improvement in their carbon intensity from 2023 through 2030 or face being removed from service.
- Meanwhile, the EU's CBAM policy could disrupt the exports of certain commodities (iron and steel, cement, aluminium, fertiliser, electricity, hydrogen) to the EU. During the transition period between Oct 2023 and Dec 2025, EU importers must report embedded emissions in goods imported on a quarterly basis, as well as any carbon price paid to a third country. When the CBAM takes full effect starting 2026, importers will need to buy carbon credits reflecting the emissions generated in producing them.

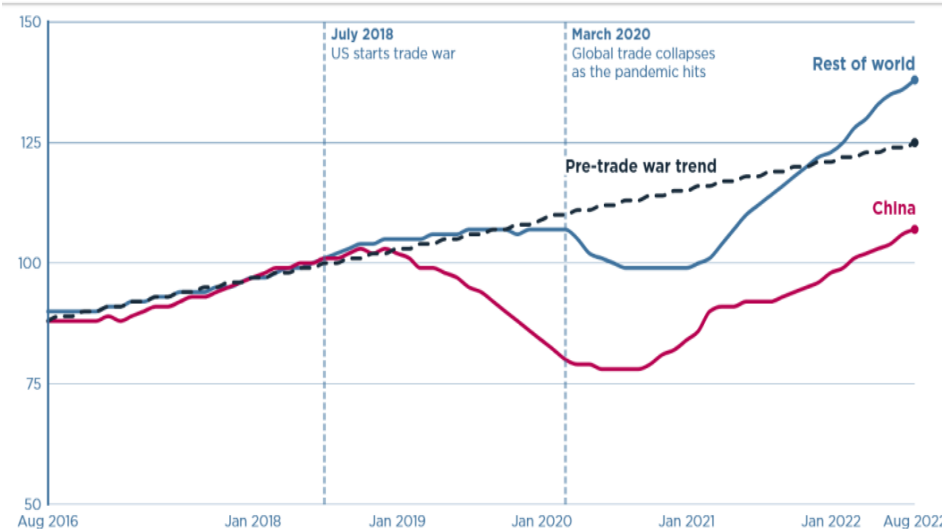
Logistics to ride on e-commerce boom. On the other hand, the domestic logistics sector fared better as Malaysia total trade soared 6.2% as of YTD-May 2025 (trade surplus of RM46.9b as of May 2025), especially in the domestically driven third-party logistics (3PL) sector (on-shoring business trend), which is less vulnerable to external headwinds, being buoyed by booming e-commerce. Industry experts project the local e-commerce gross merchandise volume to grow at a CAGR of 7% from 2023 to 2027, reaching RM1.9t by 2027 from RM1.4t in 2023. Local players such as **SWIFT (UP; TP: RM0.320)** however are also faced with intense competition from Chinese players which limit local players ability to fully leverage on Malaysia's strong total trade growth. This situation occurred due to the irrational pricing set by Chinese logistics players despite the rising logistics operating costs (manpower & stricter weight limit regulation) and Chinese logistics players typically coming in as a package from the new entrant of China foreign direct investment (new plants).

The booming e-commerce will spur demand for distribution hubs and warehouses to enable: (i) just-in-time (JIT) delivery, (ii) reshoring/nearshoring to bring manufacturers closer to end-customers, (iii) efficient automation system, including interconnectivity with the customer system, and (iv) warehouse decentralisation to reduce transportation costs and de-risk the supply chain. There is also strong demand for cold-storage warehouses on the back of the proliferation of online grocery start-ups.

We maintain **NEUTRAL** on the sector and our top pick is

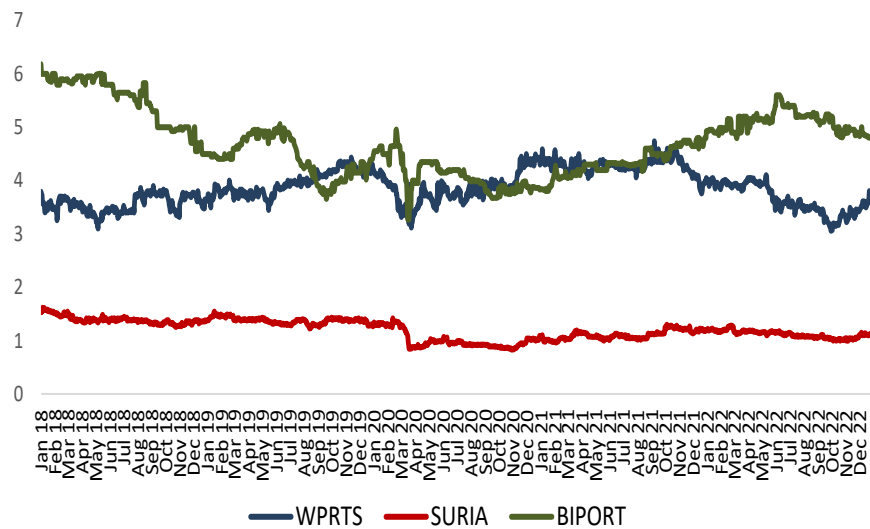
WPRTS for: (i) its resilient earnings underpinned by long-term contracts with key clients such as Ocean Alliance, (ii) its long-term growth prospect driven by the Westports 2 expansion project, and (iii) its price competitiveness, i.e. lower transshipment tariffs vs. peers such as Port of Tanjung Pelepas and Port of Singapore. We recently upgrade it to **OUTPERFORM** as post-meeting, we as we believe that WPRTS would be able to weather the challenging global trade outlook as key beneficiary of trade diversion, while effectively managing its yards congestion issues by the significant hike in containers storage charge that can withstand vessels bunching from middle-east crisis.

Exhibit 2: Trade War Impact in 2018–2022



Source: Constructed by the US Bureau of Census
www.pii.com

Exhibit 3: Listed Port Operators' Share Price Performance in 2018–2022



Source: Bloomberg, Kenanga

01 July 2025

Peer Table Comparison

Name	Rating	Last Price as at 26.6.2025 (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BINTULU PORT HOLDINGS BHD	MP	5.20	5.15	-1.0%	2,392.0	Y	12/2025	25.6	28.1	-21.9%	9.7%	20.3	18.5	1.2	6.0%	11.7	2.3%
POS MALAYSIA BHD	UP	0.220	0.150	-31.8%	172.2	Y	12/2025	(20.8)	(18.5)	-184.4%	-189.1%	N.A.	N.A.	0.8	-64.6%	0.0	0.0%
SWIFT HAULAGE BHD	UP	0.395	0.320	-19.0%	351.5	Y	12/2025	3.2	3.5	2.5%	8.9%	12.5	11.4	0.5	3.8%	1.6	4.1%
WESTPORTS HOLDINGS BHD	OP	5.31	6.00	13.0%	18,107.1	Y	12/2025	27.9	32.2	5.9%	15.5%	19.0	16.5	4.5	24.2%	20.9	3.9%
SECTOR AGGREGATE					20,286.6					-49.5%	-38.8%	17.3	15.5	1.7	-7.7%		2.6%

Source: Kenanga Research

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Technology

Policy Fog, Trading Clarity

By Cheow Ming Liang | cheowml@kenanga.com.my

NEUTRAL



Global semiconductor sales rebounded in April 2025, probably boosted by frontloading ahead of anticipated U.S. tariff actions, suggesting a possible extension of the current upcycle driven by structural demand from AI, HPC, and 5G. While Malaysia's lower U.S. tariff rate of 24% (vs. regional peers) could enhance its appeal as a manufacturing hub, any material benefit is likely to emerge only after the ongoing tariff negotiations, currently in a 90-day pause until 9 July 2025, are concluded. Near-term sector outlook remains cautious, with most potential clients of our covered companies are delaying relocation decisions pending policy clarity. Nevertheless, if Malaysia's tariff proves advantageous, we see good discussion pipeline already in names such as PIE and SKPRES. Amid escalating U.S.–China trade tensions and rare earth supply risks, we retain our NEUTRAL view on the sector, favouring a tactical trading approach. KGB (OP; TP: RM4.33) remains our top pick, supported by strong earnings visibility and a healthy order pipeline.

Global semiconductor sales – signs of frontloading emerging? Global semiconductor sales in April 2025 (refer to Exhibit 1 & 2) rebounded above the +20% YoY threshold, breaking a four-month streak of sub-20% growth. We believe this resurgence may be partially attributed to frontloading activities ahead of potential tariff implications stemming from the ongoing U.S. tariff review. The current upcycle, which began in November 2023, has peaked in September 2024 (+23.7% YoY) and sustained strong double-digit growth through end-2024. Historically, semiconductor upcycles averaged 22 months (with the longest stretching to 30 months), suggesting that the ongoing 18-month rally has completed approximately 82% of a typical cycle. Should historical trends hold, the current uptrend may extend into 4QCY25 or even mid-CY26. This cycle remains structurally supported by robust demand across AI adoption, high-performance computing (HPC), 5G proliferation, and next-generation AI smartphone upgrades—driving the need for advanced logic chips, GPUs, and AI accelerators.

Tariff arbitrage potential hinges on post-negotiation clarity. While Malaysia's relatively lower U.S. tariff rate of 24% as compared to Vietnam (46%), Thailand (36%), and Cambodia (49%) under the "Liberation Day" orders, could strengthen its attractiveness as a semiconductor manufacturing hub, tangible benefits are expected to materialise only after the conclusion of ongoing U.S. tariff negotiations, currently under a 90-day pause set to expire on 9 July 2025. In the interim, the prevailing policy uncertainty continues to weigh on sector sentiment, with clients adopting a cautious 'wait-and-see' stance before committing to production reallocation. Although some names under our coverage, such as **NATGATE (OP, TP: RM2.21)**, have experienced a near-term uplift from frontloading activities, others remain on hold pending greater clarity. **PIE (MP, TP: RM4.60)**, for example, believes that semiconductor players are unlikely to consider relocating production unless Malaysia's tariff advantage exceeds a 5% differential against regional peers. To date, none of the companies under our coverage has guided for production shifts, but should Malaysia secure a meaningful tariff edge, we see PIE and **SKPRES (OP, TP: RM1.24)** as potential beneficiaries.

U.S. export controls intensify pressure on China and global tech dependencies. The escalation of U.S. export restrictions, coupled with China's retaliatory measures, has introduced significant uncertainty into the global semiconductor supply chain. The U.S. government's multi-layered strategy, ranging from bans on AI model weights and advanced chips to the revocation of manufacturing waivers for key foundries in China, aims to restrict China's ability to advance its AI ambitions and semiconductor self-sufficiency. Additionally, tighter licensing requirements for third-country entities and the prohibition of Huawei's Ascend chips globally highlight Washington's intent to extend its tech containment strategy beyond domestic borders. These measures risk disrupting cross-border collaboration, limiting technology transfer, and potentially delaying the development of next-generation chip manufacturing across Asia, where global giants such as TSMC, Samsung, and SK Hynix maintain substantial exposure to China.

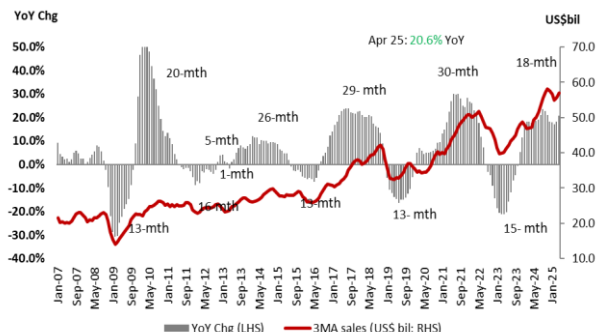
China's rare earth leverage and tariff retaliation reshape supply risk landscape. In response, China has weaponised its dominance in rare earth materials which are critical for semiconductors and high-performance electronics by suspending and selectively issuing export licences. This move, combined with reciprocal tariff hikes that peaked at 125% in April before a temporary truce in May, has heightened input costs and intensified global supply chain fragmentation. The export controls on key materials such as dysprosium, samarium, and yttrium, vital for chipmaking equipment, EVs, and data centre infrastructure, pose a structural risk to long-term supply stability. Consequently, semiconductor firms may be compelled to diversify sourcing strategies, restructure supplier networks, and reassess geopolitical risk premiums in capex planning and production allocation (refer to Exhibit 3 for details).

Maintaining trading bias amid sector uncertainty; KGB remains top pick. We continue to maintain a trading-oriented approach to the sector amid unresolved U.S. tariff headwinds and persistent macro policy uncertainty. While several names under our coverage retain OUTPERFORM ratings, these stocks remain confined within volatile trading ranges in the near term (refer to Exhibit 4-5 for trading levels). Accordingly, we advocate a tactical stance for aggressive investors, focusing on range-trading opportunities. Within our coverage, companies such as NATGATE, SKPRES, and D&O (MP; TP: RM1.18) may offer tactical upside potential, as they are currently trading near or below the 1 standard deviation of their respective 5-year PER bands - implying potential valuation reversion should sentiment improve.

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In contrast, conservative investors are advised to stay on the sidelines and monitor policy developments before building long-term exposure. Our **NEUTRAL** stance on the sector remains unchanged, reflecting subdued risk appetite amid the ongoing uncertainty. **KGB (OP; TP: RM4.33)** remains our sole top pick this quarter, backed by resilient earnings visibility underpinned by its robust order and tender books.

Exhibit 1: Global Semiconductor Sales (% YoY)



Source: Kenanga, WSTS

Exhibit 2: WSTS Forecasts – Fall 2024

Fall 2024	Amounts in US\$M			Year on Year Growth in %		
	2023	2024	2025	2023	2024	2025
Americas	134,377	186,635	215,309	-4.8	38.9	15.4
Europe	55,763	52,031	53,736	3.5	-6.7	3.3
Japan	46,751	47,410	51,866	-2.9	1.4	9.4
Asia Pacific	289,994	340,792	376,273	-12.4	17.5	10.4
Total World - \$M	526,885	626,869	697,184	-8.2	19.0	11.2
Discrete Semiconductors	35,530	31,546	33,377	4.5	-11.2	5.8
Optoelectronics	43,184	42,092	43,705	-1.6	-2.5	3.8
Sensors	19,730	18,732	20,034	-9.4	-5.1	7.0
Integrated Circuits	428,442	534,499	600,069	-9.7	24.8	12.3
Analog	81,225	79,433	83,157	-8.7	-2.2	4.7
Micro	76,340	79,291	83,723	-3.5	3.9	5.6
Logic	178,589	208,723	243,782	1.1	16.9	16.8
Memory	92,288	167,053	189,407	-28.9	81.0	13.4
Total Products - \$M	526,885	626,869	697,184	-8.2	19.0	11.2

Source: WSTS

Exhibit 3: Notable Global Semiconductor-related Restrictions & Measures Since January 2025

Date	Policy / Event	Remarks
Jan 13–15	AI Diffusion IFR (IFR with licensing/quota framework)	The Bureau of Industry and Security (BIS) issued the “Framework for Responsible Diffusion of Advanced AI Technology” on January 13, including new export controls on AI chips, cloud access, and model weights. Filed as an interim final rule (IFR) on January 15, it introduced a three-tiered licensing/quota system for AI hardware and exports, including advanced model weights, with compliance scheduled for May 15.
Mar-25	Expanded export rules & blacklist additions	In March, the U.S. (under Trump admin) imposed further restrictions and added dozens of Chinese entities to the Entity List, enhancing controls on semiconductor-related and strategic technologies. BIS expanded controls to include advanced ICs, model weights, semiconductor equipment, and memory (HBM), and subjecting fabrication facilities to licensing with a presumption of denial for China-owned fabs.
April	China suspended exports of several critical minerals	The exports restriction list include seven rare-earth metals and magnets, affecting key industries (such as semiconductors, autos, defense).
May 13–15	AI Diffusion Rule Rescinded + new guidance	On May 13, Commerce officials announced BIS would not enforce the January AI Diffusion IFR set for May 15, intending to repeal it and issue non-regulatory guidance. Instead, BIS released new guidance on export licensing for AI-related technologies. (i) Advanced Computing ICs & AI Model Training Policy. Emphasizes that any supply of advanced DIY AI compute chips—for example, GPUs and accelerators that could train large AI models—to entities in Country Group D:5 (notably China, Hong Kong, Macau, arms-embargoed nations) carries license obligations if there's “knowledge” of military or weapons of mass destruction uses. (ii) GP10 Guidance (Use of PRC-sourced ICs). Declares that use of Chinese-made advanced ICs (e.g. Huawei Ascend 910B/910C/910D) almost certainly violates U.S. export controls, even if used outside China (iii) Supply-chain Diversion Guidance. Lays out “red flags” and due diligence practices companies should follow to prevent export diversion to restricted parties.
Mid-May	Global ban on Huawei Ascend chips usage	In mid-May, BIS declared that Huawei's Ascend AI chips incorporate U.S. technology and that their global use is subject to U.S. export control violations
Jun-12	Huawei AI chip production cap disclosed	At a congressional hearing, Under-Secretary Kessler stated Huawei will produce no more than 200,000 advanced AI chips in 2025, and highlighted ongoing U.S. export restrictions since 2019 aimed at limiting Chinese access
Jun-20	Revocation of foreign chip plant waivers in China	On June 20, the U.S. informed Samsung, SK Hynix, and TSMC that their waivers allowing use of U.S. tech in Chinese fabs would be revoked, introducing stricter licensing aligning them with other exporters to China.

Source: Kenanga Research, Various Sources

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Exhibit 4: 5-year PER band

5-year PER Band	FYE	+2	+1	Average	-1	-2
D&O	Dec	45.7	37.9	30.0	22.2	14.4
INARI	Jun	33.2	29.3	25.4	21.5	17.6
KGB	Dec	27.5	23.2	18.9	14.5	10.2
LGMS	Dec	33.2	28.3	23.5	18.6	13.8
MPI	Jun	30.4	25.8	21.3	16.7	12.1
NATGATE	Dec	29.9	25.3	20.7	16.2	11.6
OPPSTAR	Mar	76.4	54.6	38.0	11.0	-10.8
PIE	Dec	23.4	19.8	16.2	12.6	9.0
SKPRES	Mar	16.6	14.5	12.3	10.1	7.9
UNISEM	Dec	33.5	28.6	23.4	18.4	13.3

Source: Bloomberg, Kenanga Research

Exhibit 5: Implied TPs

Implied TP	+2	+1	Average	-1	-2
D&O	2.33	1.93	1.53	1.13	0.73
INARI	2.82	2.49	2.16	1.83	1.49
KGB	5.91	4.98	4.05	3.12	2.19
LGMS	1.10	0.94	0.78	0.61	0.45
MPI	26.31	22.35	18.40	14.44	10.48
NATGATE	3.11	2.63	2.16	1.68	1.21
OPPSTAR	1.07	0.76	0.53	0.15	NA
PIE	6.55	5.54	4.54	3.53	2.52
SKPRES	1.48	1.29	1.09	0.90	0.70
UNISEM	2.38	2.03	1.66	1.31	0.95

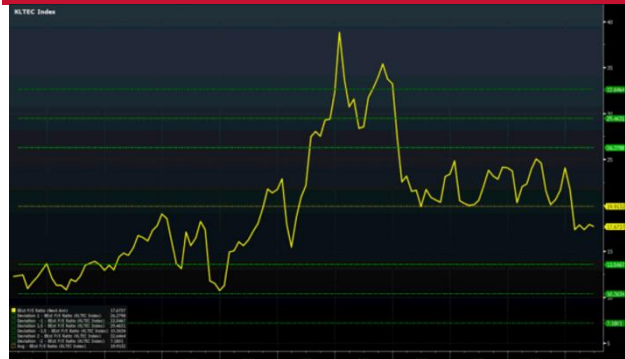
Source: Bloomberg, Kenanga Research
*Based on FY26 EPS

Exhibit 6: KLTEC 5-year PER band



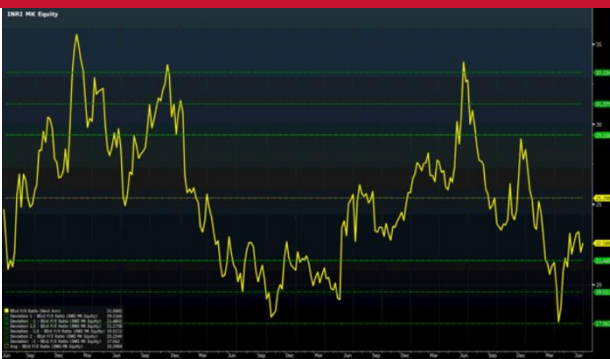
Source: Bloomberg, Kenanga Research

Exhibit 7: KLTEC 10-year PER band



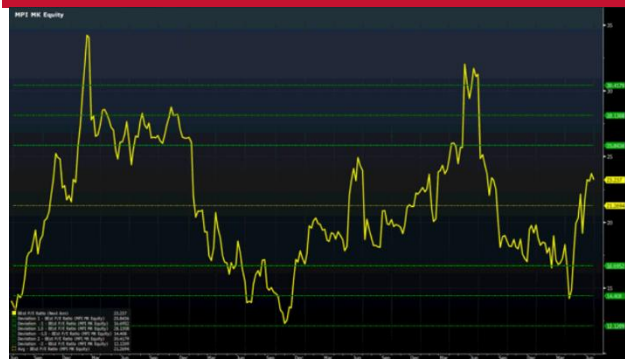
Source: Bloomberg, Kenanga Research

Exhibit 8: INARI 5-year PER band



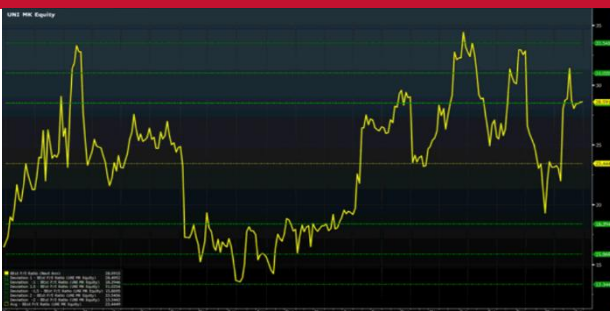
Source: Bloomberg, Kenanga Research

Exhibit 9: MPI 5-year PER band



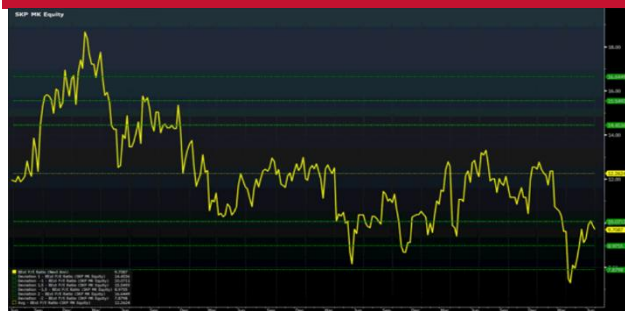
Source: Bloomberg, Kenanga Research

Exhibit 10: UNISEM 5-year PER band



Source: Bloomberg, Kenanga Research

Exhibit 11: SKP RESOURCES 5-year PER band



Source: Bloomberg, Kenanga Research

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Exhibit 12: PIE 5-year PER band

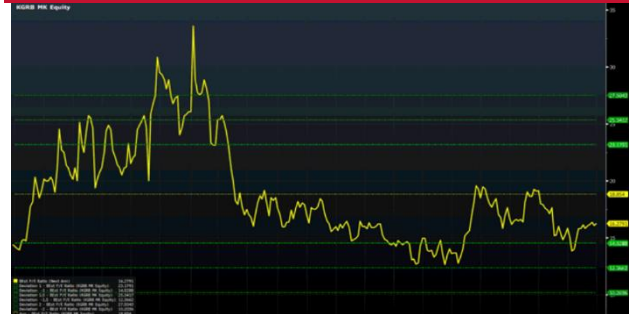
Source: Bloomberg, Kenanga Research

Exhibit 13: OPPSTAR 5-year PER band

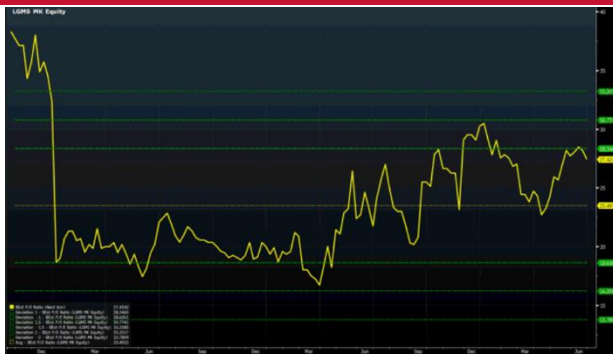
Source: Bloomberg, Kenanga Research

Exhibit 14: D&O 5-year PER band

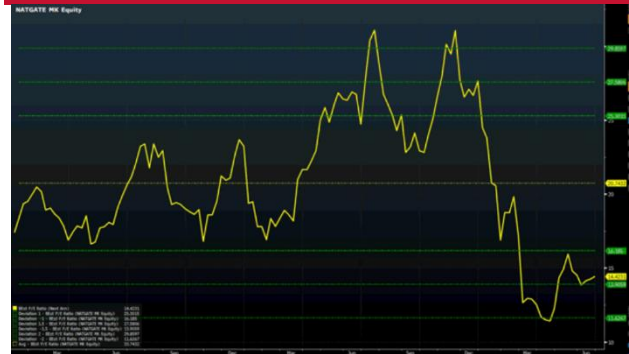
Source: Bloomberg, Kenanga Research

Exhibit 15: KGB 5-year PER band

Source: Bloomberg, Kenanga Research

Exhibit 16: LGMS 5-year PER band

Source: Bloomberg, Kenanga Research

Exhibit 17: NETGATE 5-year PER band

Source: Bloomberg, Kenanga Research

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Malaysian Technology Peers Comparison

Name	Rating	Last Price @ 20 Jun (RM)	Target Price (RM)	Upside	Mkt Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) – Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net. Div. Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
D&O GREEN TECHNOLOGIES BHD	MP	1.08	1.18	9.3%	1,338.6	Y	12/2025	4.0	5.3	24.8%	34.3%	27.1	20.2	1.4	5.3%	1.0	0.9%
INARI AMERTRON BHD	MP	1.87	2.00	7.0%	7,085.3	Y	06/2025	6.8	7.6	-17.2%	11.8%	27.6	24.7	2.6	6.1%	6.0	3.2%
KELINGTON GROUP BHD	OP	3.46	4.33	25.1%	2,576.2	Y	12/2025	20.4	19.5	25.2%	13.6%	17.0	17.8	3.8	26.7%	11.0	3.2%
LGMS BHD	MP	0.930	1.00	7.5%	424.1	Y	12/2025	2.9	3.3	7.3%	15.2%	32.1	27.9	4.2	13.5%	2.0	2.2%
M'SIAN PACIFIC INDUSTRIES BHD	MP	20.50	18.40	-10.2%	4,087.7	Y	06/2025	72.8	80.1	15.0%	10.0%	28.2	25.6	1.9	6.8%	35.0	1.7%
NATIONGATE HOLDINGS BHD	OP	1.48	2.21	49.3%	3,369.5	Y	12/2025	9.2	9.4	19.5%	2.3%	16.0	15.7	3.1	21.1%	2.0	1.4%
OPPSTAR BHD	MP	0.410	0.500	22.0%	262.7	Y	03/2026	1.4	1.7	-27.4%	21.1%	29.2	24.1	1.9	6.5%	1.0	2.4%
P.I.E. INDUSTRIAL BHD	MP	4.06	4.60	13.3%	1,559.2	Y	12/2025	17.8	21.3	28.4%	19.8%	22.9	19.1	2.2	10.2%	0.0	0.0%
SKP RESOURCES BHD	OP	1.02	1.24	21.6%	1,593.6	Y	03/2026	8.6	9.2	13.9%	6.3%	11.8	11.1	1.3	12.0%	0.0	0.0%
UNISEM (M) BHD	UP	2.03	1.05	-48.3%	3,274.6	Y	12/2025	4.5	5.3	19.8%	18.2%	45.0	38.1	1.5	3.3%	8.0	3.9%
Simple Average					25,571.4					10.7%	11.4%	23.0	20.7	2.4	11.1%		1.9%

Source: Kenanga Research

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Telecommunication

NEUTRAL

Fixed Telcos Ride Connectivity Wave



By Kylie Chan Sze Zan | kyliechan@kenanga.com.my

We maintain our NEUTRAL view on the telecommunications sector as we await greater clarity on the execution of Malaysia's dual 5G network (5GDN) policy. While it is encouraging that the mobile network operator (MNO) shareholders of Digital Nasional Berhad (DNB) are currently focused on "rebuilding" the company, we believe the restructuring process may take time to materialize. On the fixed-line front, we remain cautious of ongoing ARPU pressure amid intense competition for convergence customers. That said, we expect pricing aggression to ease over time, as prolonged price wars are ultimately unsustainable and value-destructive for all players. On a brighter note, U Mobile has officially commenced the roll-out of Malaysia's second 5G network (NW2) - unlocking infrastructure deployment opportunities for key players including TM (OP; TP: RM8.15), AXIATA (MP; TP: RM2.15), OCK (MP; TP: RM0.39), and TIMECOM (OP; TP: RM5.91). We also see early signs of rising demand for terrestrial fiber connectivity from hyperscalers and global content providers as they seek to interconnect their digital assets in Malaysia with global network backbones. Our sector top picks are TM and TIMECOM.

1. Mobile

U Mobile Exits DNB after securing NW2. In May 2025, U Mobile fully disposed its 100k shares in DNB to the remaining MNO shareholders. This is in line with shareholding restructuring arrangements outlined in the share sale agreement signed in late 2023. This follows after U Mobile secured the mandate from the Malaysian Communications and Multimedia Commission (MCMC) to implement NW2. While **MAXIS (MP; TP: RM3.80)**, **CDB (OP; TP: RM4.50)** and **YTL PWR (OP; TP: RM4.73)** each acquired 33,333 shares for RM33k, the Ministry of Finance (MoF) acquired the remaining 1 share for RM1. Upon completion, each MNO holds 19.44% stake in DNB (collectively amounting to 58.32%), while MoF retains the remaining 41.67% stake. Additionally, MoF extended the exercise window for its put option (allowing it to sell its stake to the MNOs) within one month after 12 Nov 2025. If MoF does not exercise this option within the timeframe, each MNO will then have a one-month window to exercise their call options to acquire additional shares. These rights will lapse if not exercised within the designated periods.

MNO shareholders and consultants driving DNB's restructuring. We understand that the MNO shareholders of DNB are currently focused on "rebuilding" the company. This follows after DNB initiated a corporate restructuring exercise in Feb 2025 which entails a comprehensive revamp of its business plan, funding strategy, and operational framework, alongside substantial and "radical" cost-optimisation measures. As part of this process, DNB is working closely with its shareholders and consultants to ensure the company's long-term sustainability and success.

NW2's deployment has finally kick started. U Mobile has commenced the roll-out of NW2 with technology partners Huawei leading deployments in Peninsular Malaysia, and ZTE handling East Malaysia. The group has also appointed CIMB Bank as their loan coordinator and mandated lead arranger to facilitate and arrange financing for up to RM4b for NW2's roll-out. Over the next 12 months, U Mobile plans to roll out between 4,000-4,500 5G sites - forming the first phase of a broader network deployment totalling 7,000 sites in total. The telco has set a target to reach 80% coverage of populated areas (CoPA) by 2H CY26, with a goal to increase this to 90% within the following year. The network roll-out includes plans to implement in-building coverage (IBC) systems in 400 buildings over the next 2-3 years to improve indoor connectivity.

NW2 deployment: A boon for infrastructure players. Several industry players stand to benefit from NW2's roll-out, including: (i) tower infrastructure providers such as **OCK**, **AXIATA** (via Edotco), and **REACHTEN (NOT RATED)**, which will support site leasing and IBC deployment, (ii) fiber backhaul providers like **TM** and **TIMECOM**, and (iii) telco engineering firms such as **OCK**, **REDTONE (NOT RATED)**, **HEXCAP (NOT RATED)**, and **THETA (NOT RATED)** which are expected to secure contracts for network-contracting works.

Major contracts and collaborations drive NW2 execution. Recall that **TM** was awarded a major 10-year contract worth RM2.4b to provide fiber connectivity for nearly 70% of U Mobile's 5G sites in May 2025. Separately, U Mobile signed an MoU with **TIMECOM** in July 2024 to co-develop customized fiber backhaul solutions for NW2. More recently, **AXIATA** and **OCK** were appointed as official preferred partners for delivering 5G IBC infrastructure for NW2.

OCK is currently engaged in active discussions to secure multiple work scopes linked to NW2's roll-out. These include potential agreements to: (i) upgrade existing IBC systems from 4G to 5G standards, (ii) develop new build-to-suit (BTS) tower sites, (iii) secure infrastructure co-sharing arrangements across 160 towers within its existing portfolio, and (iv) partner with 5G technology vendors to support end-to-end infrastructure deployment ranging from tower provisioning and IBC installations to related contracting services.

NW2 execution risks: Tech and tender concerns. On a more cautious note, we see several risks tied to the implementation of NW2. A key concern is the possibility that contractors may secure significantly smaller contract values compared to those awarded under Malaysia's first 5G network (NW1). This is largely due to the limited scope of greenfield deployments—where only c. 20%



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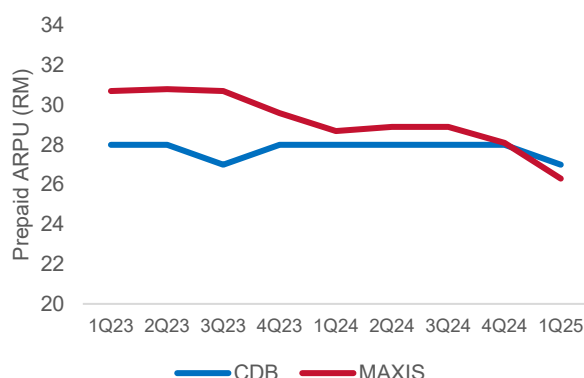
of NW2's planned 7,000 sites (roughly 1,400) are new builds, with the remainder involving upgrades on existing 4G infrastructure, which may command lower contract values. In addition, U Mobile plans to launch NW2 using a 5G Standalone (SA) architecture from the outset - incorporating advanced features such as 5G-Advanced capability and network slicing. While this reflects a forward-looking approach, we remain cautious about the near-term user experience, given that 5G SA is a less mature technology and handset compatibility remains limited. This could pose challenges in delivering a seamless 5G experience, particularly during the early stages of adoption.

Postpaid: Expect continued net adds momentum, and ARPU weakness in the rear mirror. We anticipate that MNOs will maintain strong subscriber net adds in 2QFY25 - underpinned by sustained demand for competitively priced entry-level plans and improved customer stickiness. The latter is reinforced by successful convergence efforts, including the onboarding of **CDB**'s existing mobile users onto bundled service offerings. However, we expect postpaid ARPUs to remain stable QoQ as the impact from the change in revenue recognition related to the Maxis Device Care program (which weighed on 1QFY25 ARPU) has already been accounted for.

Prepaid: Sustained net adds recovery for CDB, but APRUs hit the floor. For the prepaid segment, we expect sustained QoQ recovery for **CDB**'s net adds - supported by the tail end of its ongoing effort to clean up low-value, single-use SIM users. In contrast, for **MAXIS**, its net adds remains unpredictable as it continues to fend off competition from aggressive mobile virtual network operators (MVNO) newcomers such as **TM**. For the latter, we expect it will continue its push into the mobile market through attractive pricing strategies and bundled device promotions to grow its subscriber base.

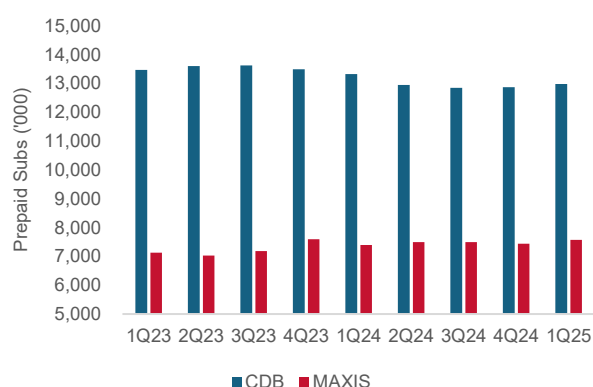
As for prepaid ARPUs, we believe they are likely to stabilise QoQ after the declines seen in 1QFY25 which appear to have reached a floor. This is especially evident in **MAXIS**' ARPU, which has hit a historical low, suggesting that the scope for further price discounting is approaching its limit and likely unsustainable. Additionally, we believe the trend of prepaid-to-postpaid migration has largely run its course as significant time has lapsed since Maxis introduced its entry-level Hotlink postpaid plans in 2018. Hence, we believe most price-sensitive subscribers have already shifted over, implying limited incremental impact from this conversion trend going forward.

Prepaid ARPU



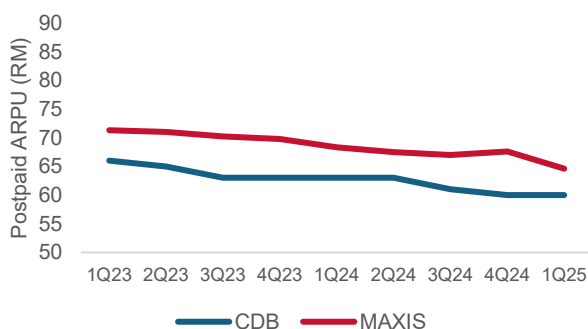
Source: Companies, Kenanga Research

Prepaid Subscribers



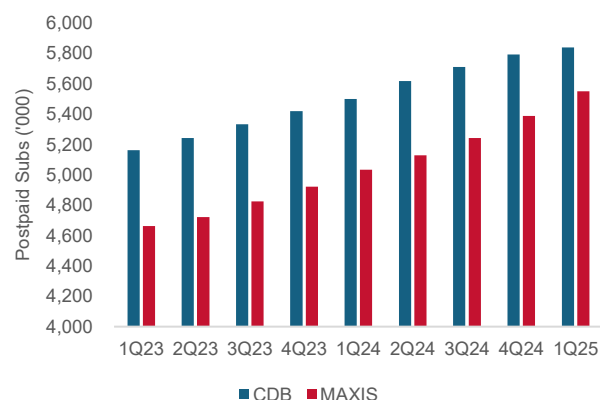
Source: Companies, Kenanga Research

Postpaid ARPU



Source: Companies, Kenanga Research

Postpaid Subscribers



Source: Companies, Kenanga Research

2. FIXED

Convergence race drives fibre competition. We expect competitive intensity in the home fibre segment to persist into 3QFY25, though it may ease in subsequent quarters. This reflects our view that major players (particularly incumbent **TM**) may likely moderate their aggressive pricing strategies as extended price wars could erode long-term profitability for all players. In the near term, however, integrated (fixed + mobile) operators are expected to stay aggressive in targeting convergence customers to drive higher 5G traffic volumes. This urgency is amplified by the looming transition from usage-based billing to fixed minimum 5G access fees, a shift that has already taken effect for **TM** in 1QFY25. As competition persists, we anticipate continued pressure on ARPU or ARPA, stemming from steep discounts and increased device subsidies to drive uptake of bundled home-mobile plans. On the other hand, operators that refrain from participating in the ongoing competition may face subscriber attrition and risk ceding market share.

Hyperscalers and content giants scale and set-up shop in ASEAN. Over the medium to long term, we see meaningful growth opportunities arising from the continued expansion of digital infrastructure in ASEAN by global hyperscalers (e.g., Alibaba Cloud, Amazon Web Services, Microsoft Azure, Google Cloud, Tencent Cloud) and content providers (e.g., Netflix, Meta, ByteDance). These players have already established a strong regional foothold through cloud regions, hyperscale data centers (DC), Points-of-Presence (PoPs), and edge caching infrastructure in key markets such as Singapore, Malaysia, and Thailand.

Looking ahead, we expect further expansion of these digital assets as providers scale to meet rising demand for cloud, content delivery, and AI workloads. Moreover, the ASEAN region may attract new entrants due to its combination of cost-competitiveness and scalable resources including affordable energy, available land, water access, and strong connectivity infrastructure. Additionally, ASEAN benefits from a rapidly growing digital population and government policies designed to accelerate development of the digital economy.

Providing global connectivity for content providers. To operate effectively, these digital assets require end-to-end, full-circuit connectivity that integrates them into the broader global ecosystem. While Tier-1 hyperscalers (ie. Amazon, Microsoft and Google) operate their own global internet protocol (IP) backbones, most content providers lack similar investments in private submarine cable systems. Therefore, they rely on local carriers for global internet access and backbone connectivity. This drives rising demand for international connectivity services offered by domestic network operators (i.e. **TM** and **TIMECOM**) which are members of global submarine cable consortia. Key services typically procured include Managed Wavelength, Indefeasible Right of Use (IRU) agreements, Hot Standby Bandwidth Allocation (HSBA) and global IP transit.

Domestic fiber operators fulfil hyperscalers' last-mile needs. Despite operating global IP backbones, Tier-1 hyperscalers rarely own terrestrial fiber networks in ASEAN due to strict local licensing regulations. Moreover, they often outsource the management of terrestrial networks to domestic providers as navigating regional regulatory, operational, and deployment challenges requires localized expertise. This creates opportunities for local fiber operators (i.e. **TM** and **TIMECOM**) to serve as last-mile and interconnection partners. These providers help link hyperscalers' and content providers' digital assets with internet exchange points (IXPs), submarine cable systems, and global network ecosystems. Main terrestrial connectivity solutions include: (i) half-circuit connectivity (e.g. Singapore to Malaysia cross-border links), (ii) co-location services at submarine cable landing stations (SCLS), and (iii) DC-to-DC connectivity. These solutions are supported by a suite of services, including: (i) fiber leasing (dark and lit), (ii) managed wavelength, (iii) IRU agreements, and (iv) HSBA.

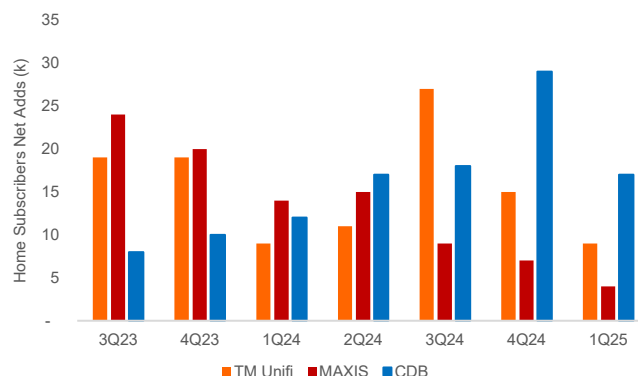
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Home Fiber ARPU



Source: Companies, Kenanga Research

Home Fiber Subscriber Net Adds



Source: Companies, Kenanga Research

3. SUMMARY

We retain our **NEUTRAL** view on the telecommunications sector - as we await greater clarity on the execution of 5GDN policy. The eventual alignment of MNOs to either NW2 or DNB's existing network will be a key determinant of the sector's earnings trajectory, capex commitments, and dividend-paying ability. In the interim, we prefer fixed-line operators, which are less exposed to near-term policy risks. On a brighter note, looking ahead, **TIMECOM** and **MAXIS** could continue distributing special dividends in FY25, supported by subdued capex requirements and sharper focus on balance sheet optimization (for **TIMECOM**).

We are positive on **TM** due to: (i) its strong positioning to benefit from structural data growth trends including: (i) digital transformation, proliferation of Internet of Things (IoT) and the rise of generative AI-driven cloud services, (ii) potential infrastructure project awards from the upcoming JENDELA Phase 2 program, (iii) earnings accretion from its upcoming hyperscale DC developed in partnership with Singtel, and (iv) increasing demand for terrestrial fiber connectivity from hyperscalers and global content providers as they seek to interconnect their digital assets in Malaysia with global network backbones.

We favour **TIMECOM** due to: (i) its well-placed position to fulfil the interconnection needs of hyperscalers and global content providers expanding across ASEAN by providing cross border as well as middle and last-mile fiber connectivity, (ii) its associate, AIMS actively scaling data center capacity into new regional markets, allowing it to tap into the accelerating co-location demand driven by tightening data residency regulations, and (iii) it standing to gain from increasing cloud and connectivity needs among local enterprises undergoing digital transformation.

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Peer Comparison

Name	Rating	Last Price as of 20 Jun (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	NetDiv. (sen)	Net Div. Yld. (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AXIATA GROUP BHD	MP	2.10	2.15	2.4%	19,289.5	Y	12/2025	5.2	5.5	-44.0%	5.6%	40.4	38.2	1.1	2.3%	11.0	5.2%
CELCOMDIGI BHD	OP	3.79	4.50	18.7%	44,462.4	Y	12/2025	16.1	17.9	5.4%	11.5%	23.5	21.1	2.7	11.6%	13.0	3.4%
MAXIS BHD	MP	3.68	3.80	3.3%	28,825.9	Y	12/2025	18.4	18.7	1.5%	1.5%	20.0	19.7	4.7	24.0%	16.0	4.3%
OCK GROUP BHD	MP	0.420	0.380	-9.5%	441.5	Y	06/2025	3.9	2.7	30.1%	-31.9%	10.7	15.7	0.7	6.4%	2.0	4.8%
TELEKOM MALAYSIA BHD	OP	6.55	8.15	24.4%	25,137.2	Y	12/2025	47.4	47.6	-11.8%	0.4%	13.8	13.8	2.3	17.3%	33.0	5.0%
TIME DOTCOM BHD	OP	5.21	5.91	13.4%	9,632.3	Y	12/2025	26.3	28.9	11.1%	10.0%	19.8	18.0	2.5	12.6%	32.0	6.1%
SECTOR AGGREGATE					127,788.8					-6.7%	5.0%	20.9	19.9	2.3	12.4%		4.8%

Source: Bloomberg, Kenanga Research

01 July 2025

Utilities

OVERWEIGHT

Tariffs, Gas, and Data Centres Aligned for Growth



By Teh Kian Yeong | tehy@kenanga.com.my

2HCY25 is shaping up to be a busy period for the utilities sector, with a new base electricity tariff of 45.40 sen/kWh set to take effect in July. Gas utilities are expected to fully resume operations from July, following a temporary disruption caused by the Putra Heights fire incident. Meanwhile, YTLPOWER anticipates a 21% tariff hike for Wessex Water beginning in April, and 60MW of new data centre capacity slated for roll-out over the next three months; developments that bode well for the sector. Looking ahead, robust data centre expansion is expected to drive electricity demand, which in turn will increase the need for power generation and gas consumption. To support this growth, a new third regasification terminal is planned. Overall, we maintain our OVERWEIGHT rating on the utilities sector. Amid ongoing market uncertainties, the sector remains a solid investment choice, backed by its defensive earnings profile, regulated assets, and recurring cash flows. Dividend yields remain attractive, reaching up to 6%. TENAGA is our TOP PICK.

A busy 2HCY25 for the utilities sector. The 2H of 2025 is expected to be eventful for the utilities sector. The new RP4 base tariff of 45.40sen/kWh will take effect from 1 July, while the difference from the unchanged electricity tariff in 1HCY25 will be funded through the KWIE fund. However, this has a neutral earnings impact for **TENAGA**, thanks to the Automatic Fuel Adjustment mechanism. Meanwhile, gas utilities **PETGAS** and **GASMSIA** are expected to fully resume operations from 1 July, following temporary disruptions caused by the Putra Heights fire accident. **YTLPOWER** is anticipating a 21% tariff hike for Wessex Water under its new regulatory period starting in April. Additionally, the group expects the launch of its 20MW Nvidia-powered AI data centre in July, with operations for the 40MW Phase 4 JDC4.1 co-location facility scheduled for delivery between August and September. As a result, we expect earnings normalisation for **PETGAS** and **GASMSIA** in 2HCY25. The new water tariff and the commencement of the data centre of 60MW in operation for **YTLPOWER** should also help cushion any earnings softness at PowerSeraya. While the new base tariff is earnings-neutral to **TENAGA**, a strong recovery in demand, following a seasonally weak 1QCY25, is expected to boost plant efficiency and profitability in 2HCY25.

Data centre boom to drive electricity demand. **TENAGA** has recorded robust electricity demand growth in Peninsular Malaysia, registering a 6.2% YoY increase in 2024. This was largely driven by the data centre-led commercial segment, which saw 9.2% YoY growth. Actual load utilisation for data centres reached 405MW by end-2024, up from c.100MW in March 2024, which further increased to 485MW in March 2025, across 21 projects totalling 2.8GW. An additional 17 projects (2.9GW) are under construction, and 5 projects (0.7GW) have signed Energy Supply Agreements (ESAs), bringing the total data centre pipeline to 43 projects with a combined maximum demand of 6.4GW. To meet this rising demand, Malaysia is expected to add 6GW–8GW of new generation capacity by 2030. In the recently announced revised base tariff under RP4, effective July 2025, the average tariff rate for the newly introduced ultra-high voltage category is approximately 60 sen/kWh, which we believe is targeted at data centres.

New capacity bids and brownfield opportunities. The Energy Commission has invited Requests for Proposals (RFPs) for: (i) new generation capacity, (ii) extension of gas-fired PPAs, and (iii) additional capacity from existing gas-fired power plants. We believe **TENAGA** and **MALAKOF** are strong contenders due to their existing brownfield assets, i.e. **TENAGA** of 310MW Gelugor, 375MW Connaught Bridge, 1,411MW Tuanku Ja'afar, and 275MW Pasir Gudang while **MALAKOF** has 350MW Prai, 1,222MW SEV, 440MW PD, and 640MW GB3. Separately, **YTLPOWER** is said to be partnering with landowners to jointly bid for new power plant project.

Electricity demand to boost gas consumption. Natural gas demand in Peninsular Malaysia is largely driven by the power sector. In FY24, **TENAGA** reported that gas accounted for 36.4% of its generation mix, slightly down from 36.6% in FY23. Gas-fired generation is expected to increase, supported by: (i) rising electricity demand from data centres, (ii) elimination of coal-fired power plants in the pipeline, and, (iii) new 6GW–8GW gas-fired capacity expected by 2030, potentially raising gas usage to at least 50% of the generation mix. In mid-June, Petronas confirmed plans for a third regasification terminal (RGT). Although details are scarce, **PETGAS** is the likely operator, given its ownership of the first two RGTs in Sungai Udang, Melaka and Pengerang, Johor. We believe Lumut is a strategic location for the third terminal due to: (i) several **MALAKOF** gas-fired plants nearby, and (ii) the 4,100MW TNB Janamanjung coal-fired plant, which first three 700MW units will retire by 2030 and the remaining 1,000MW unit by 2040. These are strong candidates for future gas-fired conversion, strengthening the case for a local RGT.

Maintain OVERWEIGHT on the sector, with **TENAGA** as our TOP PICK given its long-term exposure to data centre-driven demand growth. We continue to favour the utilities space for its earnings resilience, supported by regulated assets and recurring cash flows that anchor attractive dividend yields of up to 6%, especially from **GASMSIA**.

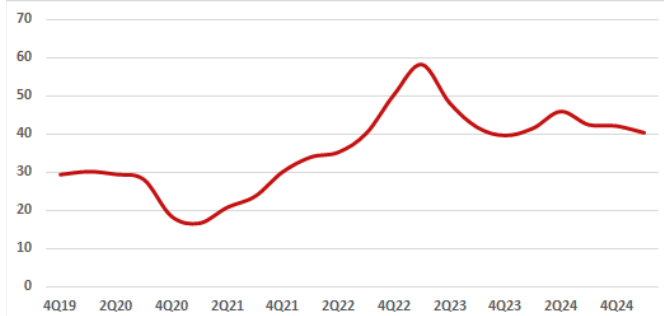
01 July 2025

Indonesia Coal Benchmark Price (USD)



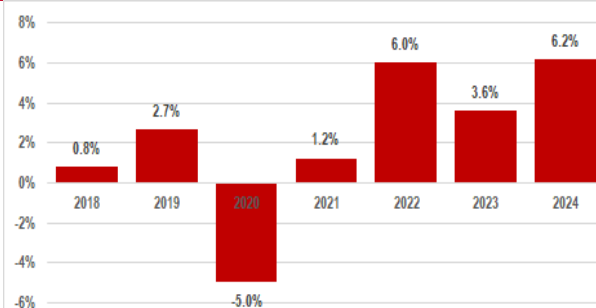
Source: Bloomberg

Natural Gas Price Movement



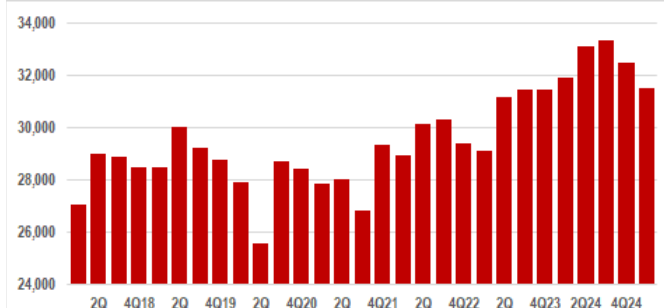
Source: GASMSIA

TENAGA: Annual Electricity Demand Growth



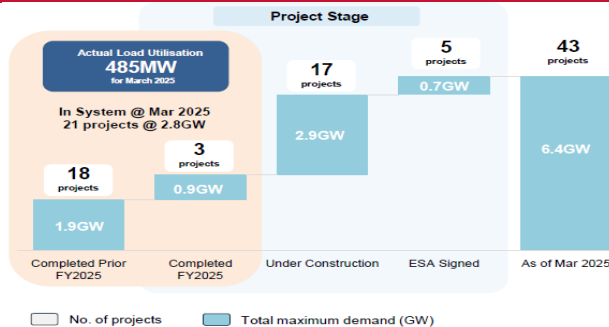
Source: Tenaga

TENAGA: Monthly Electricity Sales (GWh)



Source: Tenaga

Data Centre Updates



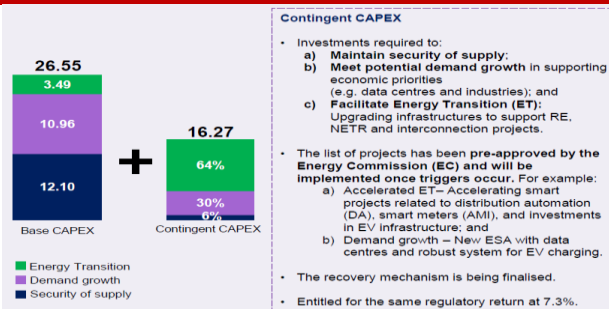
Source: Tenaga

Tariff Parameters

	Regulatory Period 3 (RP3)	Regulatory Period 4 (RP4)
Average Sales (TWh)	116.8	141.7
Coal price (USD/MT)	79	97
FOREX (RM/USD)	4.123	4.400
Gas price (RM/mmBTU)	T1: RM26 - RM30 (800mmscfd) T2: RM33	T1: RM24 - RM35 (800mmscfd) T2: RM46
OPEX (RM bil)	17.9	20.8
BASE CAPEX (RM bil)	20.6	26.6 (with RM16.3 bil Contingent CAPEX)
WACC	7.3%	7.3%

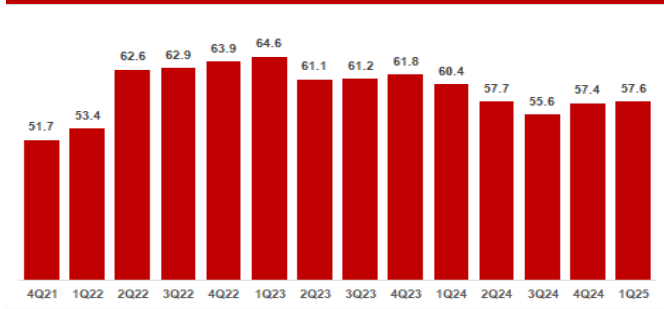
Source: Tenaga

RP4 Allowed Capex (RM b)



Source: Tenaga

TENAGA: Borrowings (RM b)



Source: Tenaga

01 July 2025

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAS MALAYSIA BHD	MP	4.28	3.93	-8.2%	5,495.5	Y	12/2025	31.1	32.1	-9.7%	3.5%	13.8	13.3	3.5	25.8%	24.9	5.8%
MALAKOFF CORP BHD	MP	0.790	0.770	-2.5%	3,860.7	Y	12/2025	4.5	4.3	-2.2%	-3.9%	17.7	18.4	0.9	4.9%	3.6	4.5%
PEKAT GROUP BHD	OP	1.34	1.75	30.6%	864.3	Y	12/2025	7.2	8.5	109.0%	17.5%	18.6	15.9	3.3	24.0%	0.0	0.0%
PETRONAS GAS BHD	MP	17.48	16.80	-3.9%	34,588.2	Y	12/2025	93.8	97.5	-0.1%	3.9%	18.6	17.9	2.4	13.1%	72.0	4.1%
SAMAIDEN GROUP BHD	OP	1.02	1.43	40.2%	457.2	Y	06/2025	4.9	5.9	12.7%	21.6%	20.9	17.2	4.1	21.0%	0.0	0.0%
SOLARVEST HOLDINGS BHD	OP	1.84	2.69	46.2%	1,391.5	Y	03/2026	9.2	10.9	35.8%	18.7%	20.0	16.9	3.6	20.2%	0.0	0.0%
SWIFT ENERGY TECHNOLOGY BHD	OP	0.215	0.600	179.1%	215.2	Y	09/2025	1.9	2.4	3.3%	26.3%	11.3	9.0	2.7	27.9%	0.0	0.0%
TENAGA NASIONAL BHD	OP	14.22	17.20	21.0%	82,890.4	Y	12/2025	87.3	89.9	3.1%	3.0%	16.3	15.8	1.3	8.1%	43.2	3.0%
YTL POWER INTERNATIONAL BHD	OP	3.64	4.73	29.9%	30,008.1	N	06/2025	33.2	31.9	-19.0%	-3.8%	11.0	11.4	1.3	12.9%	7.0	1.9%
Sector Aggregate					159,771.1					-4.5%	1.5%	15.4	15.2	2.6	17.6%		2.2%

Source: Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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