Sustaining Horsepower

Risk-reward Improves for Quality Laggards

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The FBM KLCI exhibits positive correlation with the strength of the Ringgit (exhibit 1), where USD-returns YTD of c.6% are on par with Thailand and the Philippines. Kenanga economists see the USD/MYR trend as being neutral currently, post the appointment of Kevin Warsh as Fed Chair by US President Trump which lends support for the USD. Our key conviction sector has been banks and while we expect price gains to be less pacy in banks as Ringgit stabilizes, this sector has not yet been fully priced for its improved fundamentals. We nevertheless prefer a balanced mix of high-beta (AMBANK) and lower-beta stocks (MAYBANK, PBBANK). Forex would likely impinge on exporters' results near term, but Ringgit steadying would likely help sentiment ahead in sectors most impacted by forex fluctuations, such as technology.

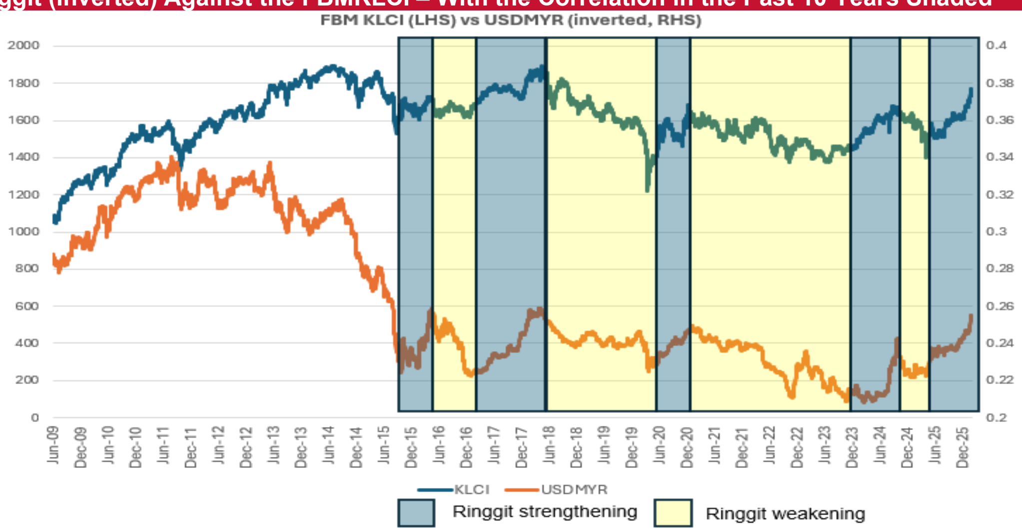
Amid a largely bank-driven rally to start 2026, interest in FBM KLCI has firmed up since mid last year, but as foreign shareholding gains remained narrow in breadth, this presents opportunities to pick up quality names. Within our 1QCY26 conviction sectors of banks, utilities, construction and renewable energy, the latter two are laggards. Construction offers good risk-reward, in our view. On GAMUDA, overhang on exchangeable bond issued on its shares should start to dissipate with the emergence of information on conversion terms that are not detrimental (explained within). Elsewhere, sustained Ringgit strength at current levels would be beneficial to the solar sector, as the current exchange rate levels would show concerns on panel cost rise as excessive, such as for SLVEST. Other YTD laggards include utilities – YTLPOWR, and to a lesser extent TENAGA.

Malaysia has historically been a good place to shelter in relative to ASEAN in the face of geopolitics risks, and could now also benefit in sentiment from investors looking to position away from Indonesia in the short term. In a bullish scenario (+0.5 SD from long-term average PER), we see the FBM KLCI touching 1,840 in 2026 which is not far fetched, although we leave our year-end target of 1,750 unchanged ahead of the coming results season.

Our economists turn neutral on USDMYR for now which we reflect in our view on stocks

Neutral at these Ringgit levels. In our Ringgit Weekly oulook, Kenanga has turned neutral on the USDMYR, following Trump's appointment of Kevin Warsh as the new Federal Reserve chairman, reversing some of the USD de-basement narrative as the DXY recovered some ground. Please see Economic Viewpoint dated 6 February 2026. While our thesis has not been built on Ringgit, anecdotally the performance of the FBMKLCI has shown positive correlation to the strength of the Ringgit. While we don't expect Ringgit to significantly weaken from here (year-end target rate of 3.95), most of the increase in the past of the FBM KLCI has persisted so long as the Ringgit strengthened, and the index tended to take a small breather after strength in Ringgit loses some steam (exhibit 1).

Exhibit 1: Ringgit (Inverted) Against the FBMKLCI – With the Correlation in the Past 10 Years Shaded

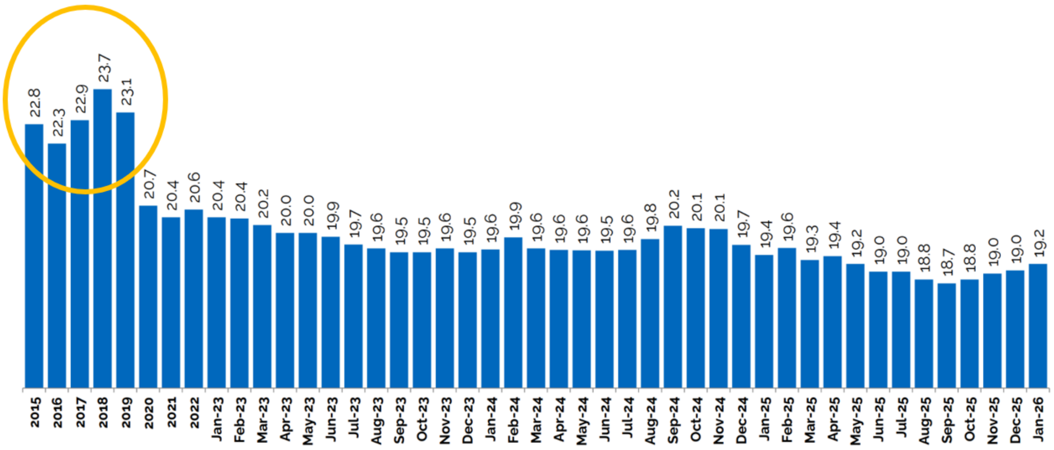


Source: Kenanga Research, Bloomberg

Balanced blend of bank recommendations with regard to beta. Beta refers to how a stock or sector tracks the general index and thus higher beta bank stocks (often with beta of higher than 1) are likely to rally harder when the entire market (FBM KLCI) is strong, and vice versa. While the likes of higher beta banks like CIMB rallied to a 10% YTD gain at a point in 2016, we stick with a moderate beta portfolio construction. Given aforementioned reason of Ringgit being neutral, we prefer a balanced blend in terms of bank exposure make-up – pairing **AMBANK** (1 year beta: 1.23), with **MAYBANK** (1 year beta: 0.85) and PBBANK (1 year beta: 0.85). We have left out **CIMB** (1 year beta: 1.43) where we have a non-consensus MARKET PERFORM call, with a TP of RM8.45. The respective TPs are RM7.45 for **AMBANK**, RM12.35 for **MAYBANK**, and RM5.75 for **PBBANK**.

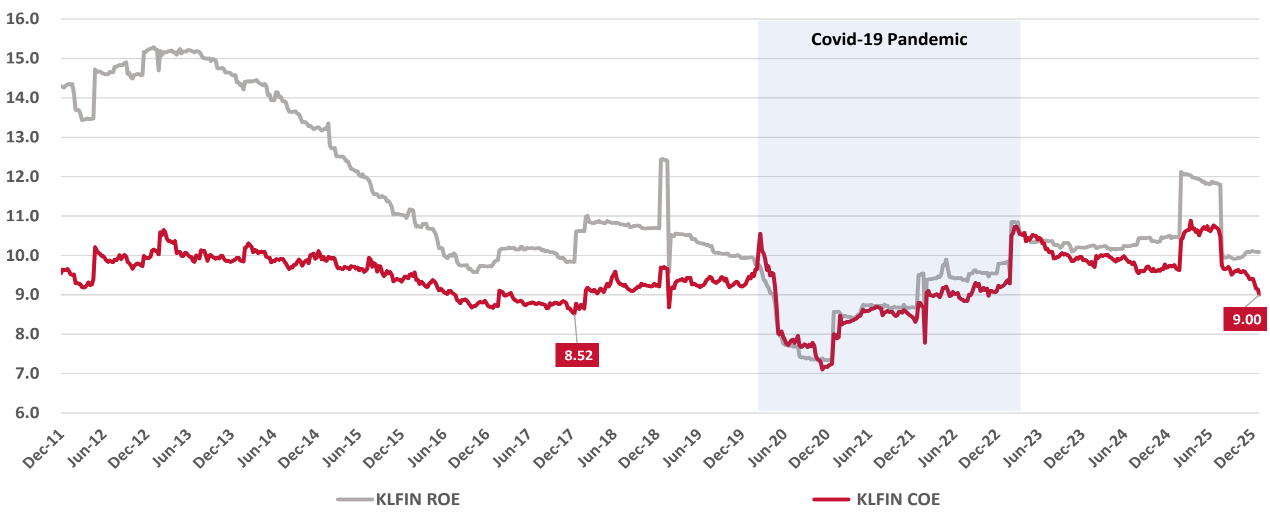
Overall, banks have yet to reflect improved market fundamentals that should translate to lower risk for valuation. Banking analyst Clement Chua argued (see bank sector update dated 3 Feb 2026) that compared to the previous 2017 episode during which there was heightened foreign interest into the Malaysian stock market (exhibit 2), the banking sector today is trading at stronger fundamentals. Risk of investing into Malaysian banks can be expressed in cost of equity (COE), whereby a lower COE typically equates to higher stock valuation. Excluding pandemic-related years, we gathered that KLFIN COE (back of the envelope calculation from observed price to book and return on equity inputs) of 9.0% is still greater than lowest points at 8.5%-8.7% in 4QCY17, where interest in Malaysian equities were heightened by political plays ahead of 2018 general election (exhibit 3). Moreover, fundamentally, banks have also embarked on more rigorous capital management with payout ratios trending higher towards an average of c.55%, from the historical 45%–50% range. We have recently recalibrated our cost of equity lower (with lower MGS rate as proxy to risk-free-rate) and our bank recommendations have carried a higher TP overall, albeit resulting in one downgrade of Market Perform for **HLBK** (TP: RM25.95) after its strong share price performance.

Exhibit 2: Securities Market Foreign Ownership Based on Market Capitalisation



Source: Kenanga Research, Bursa Malaysia

Exhibit 3: KLFIN ROE and Implied COE



Source: Kenanga Research, Bloomberg

As Ringgit strength takes a breather, technology sector should see improved sentiment. Technology was removed from our 1QCY26 conviction sector given potential for risk in the supply chain and also us being mindful of AI valuations being too lofty. To-date the 4% decline in KLTEC sector has vindicated our stance. Moving forward, especially post the 4QCY25 results releases, we expect sentiment to improve as drag from forex are seen to be more pronounced in this area. The table below shows Kenanga's rough estimate on a 5% strengthening in the Ringgit (where we have omitted those with less than 3% earnings impact). Key names in the technology sector may suffer from 5-13% earnings impact. At this level, the only sector more acute is plastics and packaging that should see 10-15% impact. On the other hand, glovemakers would suffer an estimated 5-9% knock. All said, the actual impact is likely to be more muted given the availability of hedging via currency forward contracts / natural hedging techniques. Sectors where there could be some positives for forex lie in plantation and telco sectors.

Exhibit 4: Forex Impact Assuming a 5% Strengthening in Ringgit

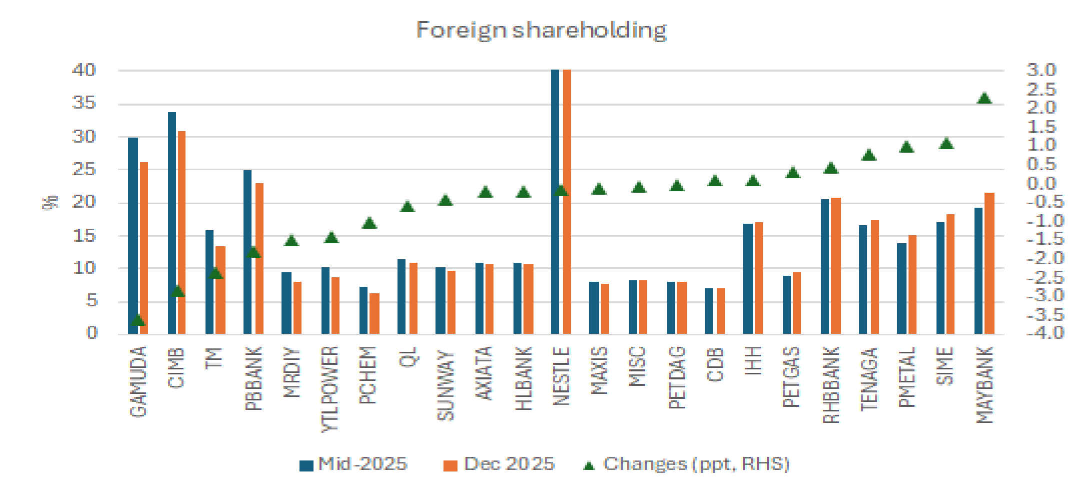
Name	(hit)/gain to FY26 profits	Mitigation measures
Tech		
UWC	-13.1%	Using currency forward contracts mechanism
OPPSTAR	-11.3%	No hedging
NATGATE	-10.6%	Using currency forward contracts mechanism
INARI	-7.4%	foreign-currency hedging policy, together with settling procurement and purchasing in USD
PIE	-6.0%	Natural hedging
MPI	-5.8%	Using currency forward contracts mechanism
UNISEM	-3.9%	Adopting a foreign-currency hedging policy
Glove		
HARTA, TOPGLOV, KOSSAN	-5.0%	Impact to glove players' earning is neutral over the long-term as they typically hedge
Banks		
BIMB	-4.1%	Forex swaps
MBSB	-5.8%	Forex swaps
Oil and gas		
PCHEM	-12.0%	No large scale hedging done but will be partially negated by gain on JV loans (PPC).
YINSON	-3.0%	natural hedge as USD income is hedged by USD loans
VELESTO	-5.2%	-
Others		
PMETAL	-5.0%	1) forward exchange contracts for forex differential between contracted forex rates and the market forward rate; 2) cross currency swap
PWROOT	-5.0%	-
AXIATA	5.2%	(1) Actively refinancing USD-debt at OpCos to local currencies, and (2) Ongoing liability mangement exercise to repurchase HoldCo's USD denomianted bonds
Plantations		
GENP	11%	About 25% debt in USD
IOICORP	10%	About 70% debt in USD

Source: Kenanga Research, Company

Opportunities in quality stocks especially as foreign shareholding recovery has yet to become broad based

Foreign shareholding improvement has been relatively concentrated in a few stocks. Fund flows-wise, we have seen that foreign shareholdings have improved since hitting a trough in September 2025 (refer exhibit 2 earlier), but this has not been broad based. We also observed that since the middle of 2025, the time from which the broader FBM KLCI ascended, only a handful of stocks showed improvement in foreign shareholding, based on records available up to December 2025. More notable ones include **SIME** (MP; TP: RM1.90), dividend-favourite banks of **MAYBANK** and **RHBBANK** (MP; TP: RM8.35), **TENAGA** (OP; TP: RM16.80) and **PMETAL** (MP: TP: RM6.20), while the rest were either close to neutral or declined.

Exhibit 5: Foreign Shareholding Changes for KLCI Constituents (Not Exhaustive)



Source: Kenanga Research, Bloomberg. For mid-2025, these refer to June 2025 records aside from RHBBANK, QL and PETDAG which shows May 2025. Dec 2025 shareholding applies except for CDB and YTLPOWR (Nov 2025), and MAXIS (Sept 2025).

Picking up quality laggards. Within the sectors that we have conviction (banks, utitlities, construction and renewable energy), we foresee some of the laggards YTD sectors being construction, primarily being weighed down by **GAMUDA** which is one of the worst performing in FBM KLCI, YTD. We believe concerns for the solar sector is overblown at this juncture, despite acknowledging some risks relating to panel prices. In our 1QCY26 outlook, we highlighted **QL** (MP; TP: RM4.26), **MRDIY** (OP; TP: RM1.70) and **KLK** (OP; TP: RM24.00) as deserving to be re-rated. Only the latter **KLK** has yet to be re-rated so far, which we anticipate to materialize. Meanwhile, our picks for **PCHEM** (OP; TP: RM4.70) and **YTLPOWR** (OP: TP: RM4.40) have started 2026 in negative returns territory, a situation that could swifly reverse once investors obtain better clarity on earnings delivery. Within utilities, we also foresee **TENAGA** to perform better ahead.

Gamuda – concern from exchangeable bonds is allayed as bond terms shouldn't pose much overhang

Strike price for bonds to convert is 57% higher than last close. In our view, contributing to recent weakness of its share price dipping below RM5 included news in mid-January of the USD300m (cRM1.2b) exchangeable bonds issued by Permodalan Nasional Berhad (via Lunas Capital II Ltd) on **GAMUDA** (link). To be clear, these bonds – exchangeable for shares of **GAMUDA** at RM4.95 – are not issued by **GAMUDA** but by its shareholder PNB. Such bonds in our view has triggered some concern that holders will have to exchange their bond for shares to sell in the market to lock in a profit (given that this is a zero coupon bond). Such a potential disposal of Gamuda shares creates an overhang, particularly as the nominal value of these bonds are c.4% of Gamuda's market cap.

However, with the offering circular made available via SGX (link), we are comforted to note that the deal contains a strike price at RM6.44 (during the initial exchange period ie from 12 March 2026 to 31 October 2030, bondholder may only be entitled for the exchange if VWAP for the share is greater than or equal to 130% of exchange price of RM4.95 i.e. RM6.44; for details, please refer to page 63 of offering circular). In our view, this information is key as this implies there is at least 57% upside from closing price (RM4.10) to RM6.44 before the bond holders are eligible to convert, which largely allays concern of overhang or "cap" on Gamuda's share price rise in our view.

Other mitigation. The levels above RM6.44 may warrant some monitoring (as bond holders may convert and create selling pressure). In practice, these exchangeable bonds could also be bought by hedge funds, whereby active risk management by them to neutralize swings in their exchangeable bond valuation may see them sell/trade a corresponding amount of **GAMUDA** shares. However, given the 57% upside to the strike price (we regard option as out of the money and thus changes in option value could be small), Kenanga's view is that this risk of dynamic hedging may not be pronounced for now. In addition, a clause (refer to page 62 of circular) details that PNB may also opt for cash settlement in lieu of shares, which in our view could reduce market impact on **GAMUDA** shares.

Ringgit helps importers; notably we see market bearishness in solar companies excessive. The strengthening Ringgit would have so far been positive to consumer sentiment, fundamentally good for planters, and comes as a relief for solar EPCC firms. In particular to the solar players, including EPCC, the strength of the Ringgit helps blunt the impact of increase in solar modules which are mostly imported from Chinese players and have been experiencing higher prices due to unwinding of export tax rebate as a means to disincentivize low panel pricing by manufacturers. Solar players are further protected in the case by panel price increases via pre-procurement contracts. In the case of **SLVEST** (OP; TP: RM3.45), it has pre-procured (locked in price and volume) relating to 2GW of solar panels, sufficient for two years of utilization. While share price has plunged 24% YTD on concerns suppliers may renege on the deal, we consider that the potential risks to earnings, assuming Ringgit exchange rate of c4.00, the net earnings impact on potential downside would be a smaller c.4%.

Valuation

Volatility is part of our expectation and we will buy on dips

Buy on dips. In our 1QCY26 outlook, we have anticipated some volatility, which could stem from Artificial Intelligence valuations. Thereafter we also posited that Malaysia looks well positioned as a good place for seek refuge in the event of geopolitics risks where the short-term returns have proven to be slightly better on average versus ASEAN. Near term, we also foresee that the sentiment for FBM KLCI could also benefit should investors look to position away from Indonesia, amid recent MSCI's investability warnings flagged towards the Indonesian market, followed by Moody's negative outlook on the country's rating. Assuming stronger-that-expected run-up, **BURSA** (MP; TP: RM8.80) would be one of the proxies to capture spillover of interest. Assuming that the interest in the Malaysian market persists, we foresee that the fair value could rise to RM9.40, at a +1 SD PER valuation of 27x.

FBM KLCI could touch 1,840 in a bull case. We see that in a bull case, a 1,840 target for the FBM KLCI is not out of reach, i.e. a 5% increase from our target of 1,750. This is also the FBM KLCI valuation that corresponds to our bottom-up approach for the 30 KLCI constituent stocks. We leave unchanged our 1,750 year-end target ahead of the results season. At 1,840, this would map to 16.8x PER for the FBM KLCI of FY26 earnings, i.e. 0.5 SD above long-term average (excluding pandemic period). Our earnings growth for 2026 currently adds up to 6.6% from previously 6.9% after earnings trim in **GAMUDA**. Key picks largely unchanged and include **AMBANK, GAMUDA, TENAGA, MAYBANK, UWC** (OP; TP: RM4.38), **and KGB** (OP; TP: RM6.15) while for smaller caps, this include **BAUTO, SLVEST**, **PARAMON** (OP; TP: RM1.49) as the key highlights. Please see exhibits 6-8 for more details.

Exhibit 6: Top Conventional Picks and Key Investment Statistics

Stock	Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RMmil)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	ROE (%)	NDPS (sen)	D. Yield (%)
							FY25F	FY26F	FY25F	FY26F	FY25	FY26	FY25	FY25F	FY25F	FY25F
MAYBANK	OP	11.94	12.35	3.4%	144,248	12/2025	84.4	86.6	0.8%	2.7%	14.2	13.8	1.5	10.6%	62.0	5.2%
TAKAFUL	OP	3.37	4.40	30.6%	2,939.3	12/2025	46.5	47.9	2.9%	3.1%	7.3	7.0	1.3	19.1%	18.5	5.5%
AMBANK	OP	6.56	7.45	13.6%	21,696.0	03/2026	64.1	66.3	6.0%	3.4%	10.2	9.9	1.0	10.0%	31.5	4.8%
PCHEM	OP	3.26	4.70	44.2%	26,080.0	12/2025	(6.1)	10.3	-141.2%	70.4%	N.A.	31.6	0.7	-1.3%	5.0	1.5%
GAMUDA	OP	4.10	5.30	29.3%	23,894.8	07/2026	16.9	17.8	10.0%	5.3%	23.0	17.5	1.8	11.0%	10.0	2.4%
YTLPOWR	OP	3.06	4.40	43.8%	26,410.6	06/2026	30.3	31.6	-14.2%	4.3%	10.1	9.7	1.0	10.8%	8.0	2.6%
UWC	OP	4.11	4.38	6.6%	4,532.9	07/2026	10.0	13.9	172.6%	38.8%	41.0	29.6	7.6	22.6%	0.0	0.0%
PCHEM	OP	3.56	4.70	32.0%	28,480.0	12/2025	(6.1)	10.3	-141.2%	70.4%	N.A.	34.5	0.8	1.4%	5.0	2.7
TIMECOM	OP	5.89	6.12	3.9%	10,889.5	12/2025	25.8	28.2	9.2%	9.1%	22.8	20.9	2.8	11.1%	28.0	4.8%
KGB	OP	4.96	6.15	24.0%	3,886.6	12/2025	20.4	20.4	25.3%	21.4%	24.3	24.3	5.6	27.1%	13.0	2.6%

Exhibit 7: Top Shariah Picks and Key Investment Statistics

Stock	Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RMmil)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	ROE (%)	NDPS (sen)	D. Yield (%)
							FY25F	FY26F	FY25F	FY26F	FY25	FY26	FY25	FY25F	FY25F	FY25F
TENAGA	OP	13.98	16.80	20.2%	81,491.4	12/2025	78.8	85.9	-4.1%	9.0%	17.7	16.3	1.3	7.4%	39.0	2.8%
TAKAFUL	OP	3.37	4.40	30.6%	2,939.3	12/2025	46.5	47.9	2.9%	3.1%	7.3	7.0	1.3	19.1%	18.5	5.5%
IJM	OP	2.80	3.40	21.4%	9,814.5	03/2026	14.4	15.9	11.8%	10.1%	19.4	17.6	1.0	5.1%	8.0	2.9%
PCHEM	OP	3.26	4.70	44.2%	26,080.0	12/2025	(6.1)	10.3	-141.2%	70.4%	N.A.	31.6	0.7	-1.3%	5.0	1.5%
GAMUDA	OP	4.10	5.30	29.3%	23,894.8	07/2026	16.9	17.8	10.0%	5.3%	23.0	17.5	1.8	11.0%	10.0	2.4%
MRDIY	OP	1.77	1.80	1.7%	16,775.1	12/2025	7.0	7.5	14.5%	7.9%	25.4	23.6	8.0	33.6%	5.8	3.3%
UWC	OP	4.11	4.38	6.6%	4,532.9	07/2026	10.0	13.9	172.6%	38.8%	41.0	29.6	7.6	22.6%	0.0	0.0%
PCHEM	OP	3.56	4.70	32.0%	28,480.0	12/2025	(6.1)	10.3	-141.2%	70.4%	N.A.	34.5	0.8	1.4%	5.0	2.7
TIMECOM	OP	5.89	6.12	3.9%	10,889.5	12/2025	25.8	28.2	9.2%	9.1%	22.8	20.9	2.8	11.1%	28.0	4.8%
KGB	OP	4.96	6.15	24.0%	3,886.6	12/2025	20.4	20.4	25.3%	21.4%	24.3	24.3	5.6	27.1%	13.0	2.6%

Exhibit 8: Top Small-Cap Picks and Key Investment Statistics

Stock	Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RMmil)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	ROE (%)	NDPS (sen)	D. Yield (%)
							FY25F	FY26F	FY25F	FY26F	FY25	FY26	FY25	FY25F	FY25F	FY25F
BAUTO	OP	0.815	0.800	-1.8%	926.9	04/2026	5.7	9.8	-57.2%	70.2%	14.2	8.3	1.4	10.0%	5.0	6.1%
PARAMON	OP	1.05	1.49	41.9%	653.9	12/2025	17.9	21.3	8.6%	19.2%	5.9	4.9	0.4	7.5%	8.5	8.1%
SLVEST	OP	2.27	3.45	52.0%	2,145.5	03/2026	10.3	14.3	51.9%	39.2%	22.0	15.8	4.5	22.7%	0.0	0.0%
SAMAIDEN	OP	1.06	2.08	96.2%	532.2	06/2026	6.9	8.4	24.0%	21.6%	15.3	12.6	4.2	29.8%	0.0	0.0%
WASCO	OP	0.910	1.17	28.6%	704.6	12/2025	1.5	1.7	-41.5%	9.4%	59.6	54.5	5.7	10.1%	5.0	5.5%

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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