Twists and (Over)turns

Tariffs risks shifts from wide sweeping to more targeted

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Following the US supreme court's ruling that the tariffs enacted under emergency powers by US President Donald Trump was unlawful, swiftly thereafter, President Trump moved to impose tariffs of 10% globally under Section 122 of the 1974 trade act, with a plan to raise this duty to the maximum allowable 15%. Given that with US treasury secretary also saying that tariff revenues should remain the same, the tariff risk hasn't been effectively removed. Rather, despite President Trump still wielding leverage via tariffs, tariff imposition will have turned less sweeping, and should augur positively to equities markets from a risk-reward standpoint.

With reciprocal tariff rates for ASEAN countries (except Singapore) largely above the 15% (maximum allowable under Section 122), sentiment should be modestly constructive. On a relative basis, we don't expect Malaysia to substantially benefit - firstly, this is judging by Malaysia's lower trade surplus with US (versus Vietnam and Thailand), and secondly Malaysia is among countries that have for now entered into an agreement (but yet to be ratified), whereby Kenanga expects the 19% rate to be maintained. Following that, while we recognize sentiment should improve for manufacturers/exporters, amid these developments we prefer exposures via broader economic proxies, such as banks. Reuters also reported that new investigations are being lined up, which we opine may cast some overhang over the technology sector, where near-term risk remains policy uncertainty and order/capex re-timing rather than a plunge in end-demand. Please see exhibit 5 for write-up on technology sector and other sectors.

Tariffs borne out of emergency overruled by supreme court, but more tariffs underway. In a 6 to 3 vote, the US supreme court found that the reciprocal tariffs that were enacted under the International Emergency Economic Powers Act (IEEPA) as unlawful. Swiftly thereafter, President Trump ordered, under Section 122 of the trade act of 1974, to raise tariffs to 10% via order which he later said would be increased to 15% (maximum allowable). At the time of this report, the 10% tariffs was slated to be effective Friday (24 February). To this end, the Whitehouse stated (link) that exemptions from the 10% global tariff would continue to apply on energy, critical minerals, fertilizers and certain agricultural imports, and also imports by US for goods eligible for duty-free treatment. With regards to US own key trading partners under the US-Mexico-Canda agreement, many exemptions will remain available for compliant goods.

US sees tariff revenue to remain, signalling potential pivot from broad-based tariffs to sector specifics. Treasury secretary Scott Bessent had also added that the 2026 revenue from tariffs would remain. Thus, Kenanga interprets that instead of sweeping tariffs, sector specific tariffs would be increasingly in play. While tariffs under IEEPA has been over-ruled, those under the powers of Section 301 and also Section 232 are intact. The former relates to addressing unfair trade practices affecting American commerce, while the latter of Section 232 provides the president authority to impose restrictions on imports that threaten US national security.

New Section 301 investigations on the cards, and will be accelerated. Several new Section 301 investigations are being prepared, according to the USTR, Reuters reports. Markets were been given a glimpse of possible risk areas – this would encompass most major trading partners and areas like pharmaceutical product pricing. Investigation focus areas could also range from industrial excess capacity, force labour, drugs pricing, discrimination against US tech companies, digital goods, digital services taxes, ocean pollution, trade practise related to seafood, rice and other items. A few of the active investigations are as follows (exhibit 1 below). The USTR has said that the new investigations would be quickened. As an example, we observed that the Nicaragua investigation that took 10 months, which culminated with Nicaragua imposing tariffs that is phased in over two years (goods not under free trade agreement).

Exhibit 1: Section 301 Investigations by the USTR (Non Exhaustive)

Date	Investigation
Oct 2025	Investigation of China's implementation of the Phase One Agreement
Jul-25	Determine whether Brazil's acts, policies, and practices related to digital trade and electronic payment service
Dec 2024	China's acts, policies, and practices related to targeting of the semiconductor industry for dominance
Dec 2024	Investigation regarding Nicaragua's acts, policies, and practices related to labor rights, human rights, and the rule of law.

Source: Kenanga, USTR.gov

Also watching for Section 232 tariffs, mostly for technology sector. Meanwhile, Section 232 confers the U.S president power to impose duties on imports deemed as threats to national security; these have in the past been applied to the steel, aluminium sectors, and also in automotive manufacturing. Investigation, carried out by the Bureau of Industry and Security (BIS), is mandatory and the outcomes can be tariffs or otherwise – for April 2025 investigation into semiconductor imports, a 25% ad valorem tariff applies to certain advanced computing chips and specified derivative products that do not contribute to U.S. supply chain buildout. Citing another example for processed critical minerals (launched in April and findings revealed in January 2026), US deemed it was necessary to enter into negotiations with trading partners to adjust the imports, and minimum import prices for specific critical minerals. Unlike Section 301 tariffs, from our understanding, there will not be cumulative taxing – goods currently taxed under Section 132 will not be subject to Section 122 taxes.

Exhibit 2: Section 232 Investigations by the BIS (Not Exhaustive)

Date	Investigation
Sept 2025	Investigation to determine the effects on the national security of imports of robotics and industrial machinery.
Sept 2025	investigation to determine the effects on the national security of imports of personal protective equipment, medical consumables, and medical equipment including device.
Aug 2025	Investigation to determine the effects on the national security of imports of wind turbines and their parts and components.
July 2025	Investigation to determine the effects on the national security of imports of polysilicon and its derivatives.
April 2025	Investigation to determine the effects on the national security of imports of semiconductors and semiconductor manufacturing equipment, and their derivative products.
Apr 2025	Investigation to determine the effects on the national security of imports of processed critical minerals as well as their derivative products.
Mar 2025	Investigation to determine the effects on U.S. national security of imports of copper in all forms.

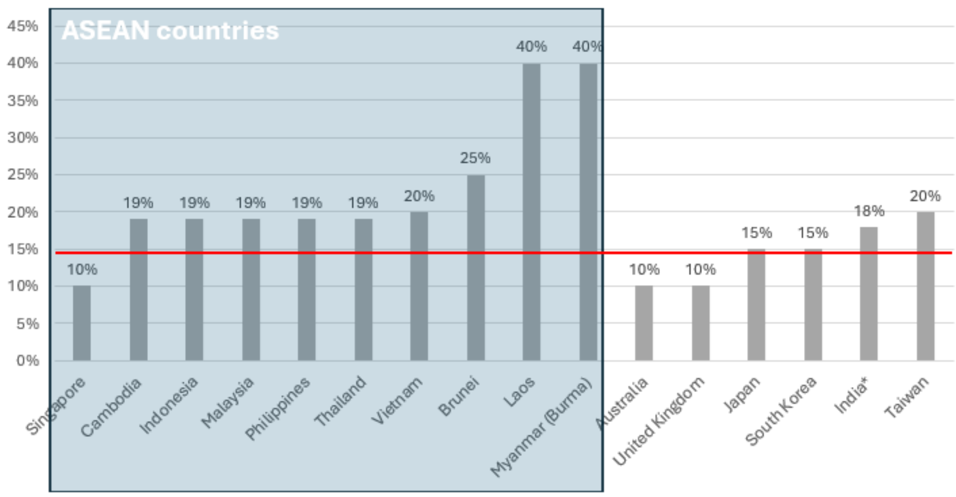
Source: Kenanga, Federalregister.gov

Markets impact

Less sweeping tariffs good news from risk standpoint. Trump has signed an order following the supreme court decision to employ a 10% global tariff, which he later said would be increased to 15% (maximum allowable). Under section 122, these import surcharges could be valid for 150 days, beyond which congress approval would have to be sought. This improves control. Section 122 states that the underlying factor for invoking this section for tariffs is tied in to international payments problems, and thus its use could lead to correction of balance of payment (BOP) deficits. This is the first time section 122 is invoked to raise tariffs. Thus, while current account could be under the pressure of trade deficits, we will monitor how financial accounts (investment flows into the US) will be considered.

Kenanga's base case is that the Agreement on Reciprocal Trade (ART) would be honoured. Kenanga's base case is Malaysia would for now honour the agreement that has been entered into; the agreement, has yet to be ratified (link). Trump's trade representative, Jamieson Greer, has said that Malaysia and Cambodia would be taxed at negotiated rates of 19%, despite the universal rate being lower (link). Countries that have agreements with US tariffs include as Indonesia and Cambodia (all signed but not locally ratified). Usually, the agreement have to be put through the paces for domestic lawmaker approvals, and the agreement will come into force 60 days after exchange of documents.

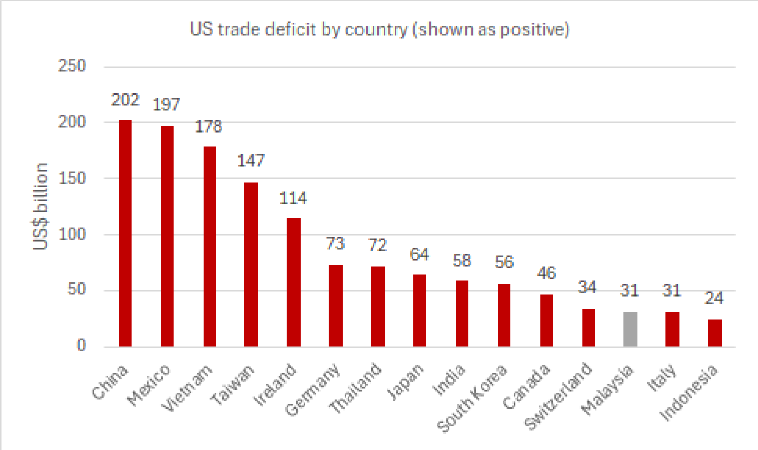
Exhibit 3: Existing IEEPA Reciprocal Tariffs for ASEAN and Selected non-ASEAN Countries



*Source: Kenanga Research, Bloomberg. *18% based on joint statement on 7 February 2026*

ASEAN countries, by virtue of mostly having reciprocal tariff rate higher than the 15% (maximum allowable) should from optics benefit from interest (exhibit 3). From a relative basis, we expect a roll-back of reciprocal tariffs would not likely result in Malaysia emerging as the chief beneficiary, given the fact that US trade deficits stacks behind Thailand, Vietnam albeit slightly better than Indonesia (exhibit 4).

Exhibit 4: US Trade Deficit (Goods) with Various Countries, Non Exhaustive (2025) (US$ billion)



Source: Kenanga Research, www.census.gov

Room to lower further the 19% rate would be an upside scenario to us, benefitting exporters. We foresee there is room for negotiation of the Trade Agreement, as Ministry of Trade and Industry (MITI) have said that Reciprocal Trade Agreement with US can't be reversed, but there would be opportunity to request for renegotiation on grounds of unfair elements (link). The incentive for other governments to gain a competitive advantage by entering into trade deals early is likely diminished, and thus those that have have entered into agreements may also look to renegotiate lower. Indonesia, which have also finalized deal recently to lock in a 19% rate on exports, have said is ready to face all possibilities, adding that agreed-upon tariff exemptions items will prevail.

For the near term the ability to get to a lower tariff rate would naturally benefit exporters, although we think that it is too soon to call at this juncture. We highlighted exporters may benefit (exhibit 5), including gloves, manufacturing including plastics and packaging.

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Exhibit 5: Assessment of by sector risks		
Sector	**Risk assessment on tariffs**	**Sector winners and losers on potential rollback**
Automotive	Not affected due to automotive companies under our coverage only serves local market with zero export to the US.	-
Banks	From prior assessments on US-trade related financing, most banks claim immaterial direct exposure to US but guides indirect exposure to be <5% (largest expected exposure being CIMB), thanks to Malaysian banks being largely ASEAN-centric.	Largest expected indirect exposure to US being CIMB.
Building materials	Neutral. Aluminium has been subjected to a 50% tariff under Section 232 (National Security). The 15% global surcharge, under Section 122, does not "stack" on top of existing duties that are already higher. It has clarified there is no "double-taxing" for goods already covered by these specific national security protections.	PMETAL (MP; TP: RM6.20) has minimal direct risk, as exports to the US account for less than 2% of its total revenue.
Consumer	No direct impact, but excess production capacity from China being redirected to Malaysia is indirectly positive for MRDIY and PADINI, which source ~60-70% of imports from China. Goods shipped through the international postal system to the US will also be subject to the temporary import duty imposed under section 122, as part of the reaffirmed continued suspension of duty-free *de minimis* treatment for low-value shipments.	-
Gloves	Chinese rubber and medical gloves have been tariffed under Section 301. Broadly neutral. Factoring in the 100% tariffs imposed on China medical gloves in 2026, the pricing gap between Malaysia and China producers for US exports still favours the former. Recall, the tariffs-imposed Biden Administration at 100% in CY2026 stays. Based on Supreme Court's Tariff Ruling and Trump's immediate new levies imposing 10% global tariff (it has since been raised to 15%), this effectively works out to 110%-115% tariff imposition on Chinese glovemakers in CY2026. To recap, before the latest Supreme Court's ruling, the tariffs imposition on Chinese glovemakers was 130% (Biden's 100% + Trump's 30%) in CY2026.	For illustration purposes, a 10%-15% tariff is expected to raise Malaysian gloves ASP from USD18-USD20 per 1000 pieces to USD19.8-USD23 per 1000 pieces. In the case of Chinese glovemakers, a 110%-115% tariff hike is expected to raise Chinese glove producers' ASP to USD31.5-USD34.4 per 1,000 pieces (from an assumed base case ASP at USD15-16 per 1,000 pieces). This makes Malaysian glove makers >37% cheaper. Note that the latest Trump's global tariffs of 10%-15% is effectively lower than the ASEAN reciprocal tariffs of 19% for Thailand, Malaysia and Indonesia.
Oil and gas	S301 puts tariff on China's petrochemical exports to US hence the volumes have been rerouted to other regions (ASEAN, India, Africa and Latin America). However, the impact to global supply is still manageable as it accounts for 10% or lower of its total global petrochemical exports (USD331b in 2025) where as USD23.7b worth of total plastics & chemicals exports to US was at c.USD23.7b. Hence, S301 will only have a mildly negative impact on petrochemical prices as the sector is already dealing with structural overcapacity in China. This would unlikely change our view of still a potential for supply increase slowdown in petrochemicals due to weak spreads globally.	The rollback of IEEPA tariffs could ease some pressure on supply chains for EPCC players i.e. **DIALOG (OP; TP: RM2.28)** but S232/301 could still put pressure on main cost items like steel and aluminium as well as some China-manufactured parts and equipment.
Plantation	Minimal to no direct impact. US imports only 2-3% of palm oil. Most of its edible oil comes from soyabean planted in the US.	We believe that the tariff exemptions will apply. We will likely watch for commitments for China to buy soybean.
Manufacturing	The reduction in U.S. tariffs on Malaysian plastic products from 19% to 15% is only mildly positive for the sector, but the overall impact should remain limited as Malaysian plastic packaging producers typically derive only about 5–10% of total revenue from the U.S. market.	**TECHBOND(OP; TP: RM0.44)** has already deprioritised its woodworking segment serving the US and Europe (~10-15% of revenue) due to weaker pricing power.

Sector	Risk assessment on tariffs	Sector winners and losers on potential rollback
Renewable Energy	Most Malaysian solar EPCC players procure panels directly from China and do not export modules to the US. While Malaysia accounts for 14% of US solar cell imports (The Edge), the key local manufacturer First Solar (US-based) operates primarily within the US supply chain ecosystem.	
Technology	On 14 January 2026, U.S. President Donald Trump issued a proclamation titled “Adjusting Imports of Semiconductors, Semiconductor Manufacturing Equipment, and their Derivative Products into the United States.” Effective 15 January 2026, a 25% ad valorem tariff applies to certain advanced computing chips and specified derivative products that do not contribute to U.S. supply chain buildout, subject to defined end-use exceptions. The latest 15% blanket tariff is lower than the earlier 25% rate. From a Malaysia tech perspective, direct exposure is limited mainly to chip exports and derivative electronics shipped into the U.S. Malaysia is largely back-end (OSAT, EMS, equipment modules) rather than advanced leading-edge chip fabrication. In most cases, tariff costs are passed through to U.S. end customers. The current Section 301 action is specifically tied to China’s semiconductor industry practices, not Malaysia. USTR’s (united state trade representative) page confirms the semiconductor-focused Section 301 investigation was launched in Dec 2024, and the final action found China’s conduct “actionable. Separately, the section 232 investigation on semiconductors, semiconductor manufacturing equipment (SME), and derivative products, and the notice explicitly says derivative products include downstream products across the electronics supply chain. The White House proclamation (14 Jan 2026) confirms the administration concluded imports of semiconductors / SME / derivatives threaten U.S. national security and adopted a two-phase approach - near-term negotiations + a narrow 25% tariff on certain advanced computing chips and certain derivatives, with potential broader tariffs later after negotiations. Besides, Reuters also recently noted the broader Section 232 probe could potentially cover a wide array of electronics devices containing chips from all countries (not just China), though officials signalled it might not be imposed immediately. In short, the key near-term risk to Malaysia tech/semiconductor remains policy uncertainty and order/capex re-timing rather than a collapse in end-demand. Section 301 is largely China-specific and may preserve Malaysia’s diversification appeal, but Section 232 is the more material medium-term risk because it explicitly covers semiconductors, equipment and derivative products across the electronics supply chain, potentially affecting both semiconductor and EMS relative competitiveness depending on final implementation and exemptions. Per Trump, there were earlier signals of broader semiconductor tariffs (up to 100% on non-U.S. made chips). However, no such 100% blanket tariff has been implemented to date. While the risk of escalation remains, current measures are narrower, and this remains more of a policy overhang than an immediate base-case assumption.	**Most affected: EMS players** EMS customers (U.S. OEMs) are likely to request cost-sharing, compressing margins. EMS operates on thin margins; even a 1–2% absorption materially affects profitability. **ATE:** although the impact was minimal in the previous tariff rounds, the 'timing' issue will remain its near term risk as players are often impacted indirectly when customers delay capex, stagger factory expansion, or postpone tool acceptance due to tariff uncertainty. **OSAT:** impact is expected to be minimal for now. Nonetheless, should the tariff uncertainty persist, OSAT players will be affected by qualification (site qualification timing) and allocation (customer allocation shifts) risks.

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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