2QCY26 Outlook

Choosing our Battles

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FBM KLCI (pts)	
Current	**Target**
1,690	**1,760 ↔**

While we acknowledge Malaysia's relatively appeal versus peers being net energy exporter, we are being more vigilant for the 2Q26, especially as YTD earnings expectations haven't been adjusted despite potential cost/inflation pressures. Our strategies are as follows:

i) **Tactical positioning still in play for 2Q26.** The conflict in the Middle East dragging on past its peak in 2Q26 before easing in 2H26 remains our central case. This will create a slightly longer window for trading/tactical positioning. This is especially in oil and gas and plantation sectors which we have recently upgraded, where we see potential upside if current selling prices stay stubbornly high.

ii) **Cost pass-through model becomes more attractive.** As we don't expect demand disruption, manufacturers on a "cost-plus" model may benefit, including in steel, plastics packaging, and gloves. On the other hand, construction players will have to absorb some cost near term, notwithstanding data centre EPCC prospects continues to support well the sector's pipeline. Utilities fit somewhere in between, with the impact to rising cost not impactful thanks to cost-pass through mechanisms.

iii) **More selective for cyclicals amid mixed consumer readthrough.** We are more cautious for 2Q26 in the timing of buying banks as we see the case for initially building up some provision buffers, before unwinding them later in the year as tensions subside. For the consumer space, where valuation reversals YTD are relatively aggressive, we expect some downtrading and prefer more defensive names for now.

iv) **Opportunity to position in structural growth names which may be oversold.** The straits of Hormuz effective blockade should spur countries to adopt renewable energy. Elsewhere, in the tech space, amid memory shortages, the leverage to AI play sees us continually backing front-end names.

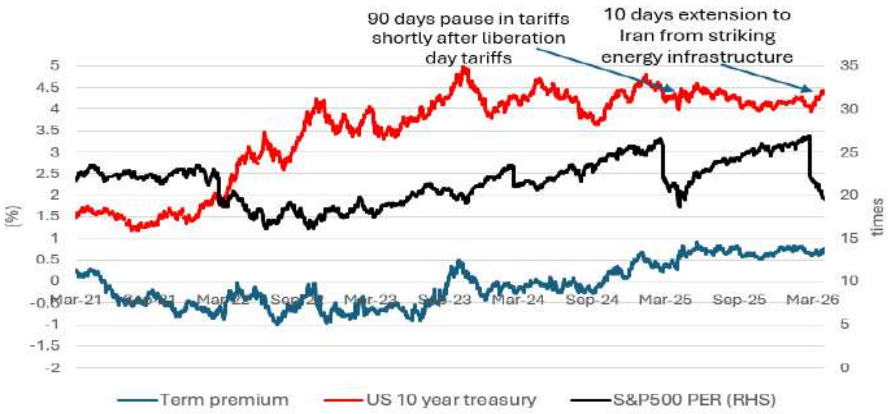
v) **Capital management should intensify.** Amid a still-developing conflict in the Middle East, we like dividend stocks where strong free cash flows sufficiently to meet yield expectations. We expect a bear case of FBMKLCI 1,610 to materialize if elevated oil price impact sustains at least 6 months. We have retained our year-end target of 1,760.

vi) **Conviction.** For outlook for 2Q26, our conviction sectors are utilities, oil and gas, renewable energy, and construction. Save for adding **SCGBHD** to small cap picks, our picks are largely retained (exhibits 10-12), counting the likes of **CIMB, SIME, TENAGA**, **GAMUDA**, **UWC** etc

Tactical positioning still in play for 2Q26

Keeping an eye out for the US inflation and treasury yields as a key barometer. Our base case is not for tensions to flare significantly higher and excludes a "boots on the ground" style protracted conflict, as oil price spikes could exert pressures to the US economy via 10-year US treasury yield creeping up. This could test "pain" thresholds and anecdotally, this is around the c4.5% level; previously a 90-day suspension on reciprocal tariffs was announced by US President Donald Trump when yields spiked to such levels. Moreover, the term premium, i.e. the additional yield demanded by investors to lend longer-term money remains high, implying that inflation uncertainty is still pronounced (both in Exhibit 1). Both these elements keep somewhat of a lid to the degree of escalation in our view. As such, our 2026 oil price is still penciled in a USD80 average oil price per barrel, where we see 2Q26 to see more uncomfortable oil prices that would hover at USD100 per barrel and beyond, before normalizing in 2H2026. In terms of duration, our view that it not for a prolonged conflict as that will also not be in the interest of the Donald Trump from a political standpoint, marching towards the mid-term elections in 4Q26.

Exhibit 1: US 10-Year Treasury, Term Premium, and S&P500 valuations



Source: Kenanga Research, Bloomberg

Exhibit 2: Valuation comparisons			
(times, Price-to-book)	**Current valuation**	**Peak valuations**	**Average**
Plantation (KLPLN index)	1.62x PB	1.85x PB	1.5x PB
Oil and gas (KLENG index)	1.0x	1.49x PB	1.12x PB
PCHEM	1.24x	1.5x (assuming 5.4% ROIC)	1.03x (past 3-year average)

Source: Kenanga, Bloomberg

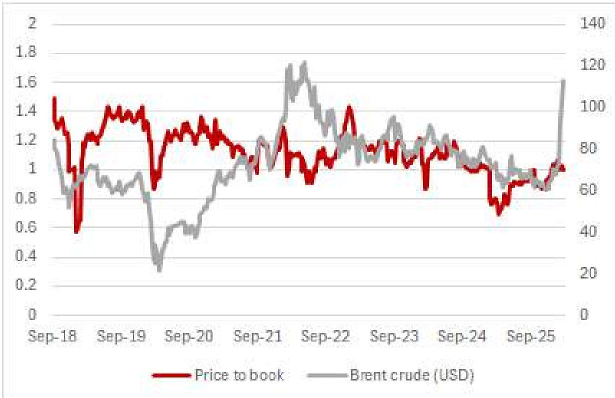
Upside remains under an oil and gas bull case. We have upgraded oil and gas sector at the onset of the Israel and US attacks on Iran, arguing that downstream usually peaks first, tracking oil price. This is thereafter followed by upstream services, where we prefer exposures to **DAYANG** (OP' TP: RM2.45) and **UZMA** (OP; TP: RM0.70), and recommend investors to keep and eye out for entry. Presently, we find that the peak price-to-book (instead of using PER due to volatile earnings) over the last decade for the energy sector at a larger than 1.4x, implying there could still be further upside versus current valuations of c1.0 price to book in a bullish market. To be more precise for **PCHEM** (OP; TP: RM4.90), our blue-sky scenario may also increase significantly if O&D prices average at USD1,450/mt and urea at USD500/mt, as this will deliver a ROIC of 5.4% for FY2026, commensurate with a price-to-book of 1.5x or cRM6.80 fair valuation; note that at time of writing, spot O&D prices and urea are actually higher than these levels but we do not see that as sustained.

Plantation has some catch-up room for valuations. While there are some concerns surrounding fertilizer cost increases, we believe this would be dwarfed by the impact from higher CPO prices. We have raised our CPO price estimate by RM150 per MT to RM4,250 for CY26. In that vein, we find that the sensitivity for each 5% change in CPO price assumption (annualized) would lead to a 5-14% impact to earnings estimate, with the pure-play names at the higher end of that spectrum. We prefer **KLK** (OP; TP: RM24.50) and **PPB** (OP; TP: 14.85), while for the smaller cap names, we like **TSH** (OP; TP: RM1.60) for organic upstream growth. Generally, on a price-to-book valuation basis, plantation stocks are still trading at a 12% discount from previous peak (of 1.85x). While not our base case, a sustained increase of CPO to RM5,000 per MT territory would lift target prices for plantation stocks under coverage by an average of 10%.

Exhibit 3: CPO Price Versus KL Plantation Index Valuation (price to book)

Source: Kenanga, Bloomberg

Exhibit 4: Oil Price Versus KLENG Valuation (price to book)



Source: Kenanga, Bloomberg

Cost past through business models rendered more attractive

"Cost-plus" business model may stand to gain. On the view that the current disruption in the Middle East doesn't curb demand, this could help in the attractiveness of the businesses under a cost-plus model. Under such an arrangement, typically these manufacturers make a spread and faced with a rising fixed cost environment, impact would either be neutral to slightly positive. This could also benefit some of the plastics packaging players, such as **SCIENTX** (OP; TP: RM3.84) and **TGUA**N (OP; TP: RM1.41), which has witnessed an increase of the resin prices of c60% since end-February. We estimate that with each percentage point rise in resin price, this potentially lifts the plastic packaging sector's profitability by 0.3% over a quarter or two. Still in the manufacturing space, we are also mindful that companies which stand to benefit include **TECHBOND** (OP; TP: RM0.47) and **ENGTEX** (OP; TP: RM0.65).

Some phasing in could happen. Amid the external environment, we expect that there could be some leeway to discuss passing through cost to customers. Case in point are glovemakers. For example, **TOPGLOV** expects that the ability to pass on the inflated cost of raw materials would probably take a couple of months (by May for its nitrile gloves). We also thus expect therefore some customers' rush to place orders before pricing adjustments could take place, albeit this impact would be short lived. The sensitivity for glove players are more complex. Supposing only a 20% rise in ASP but with cost pressure of a 30% nitrile raw materials increase, we estimate glove players could still reap in a benefit of 5-8% enhancement in earnings. We believe **KOSSAN** (OP; TP: RM1.42), our sector pick, would have the upper hand from cost front as it focuses on specialty gloves.

On the other hand, monitoring for impact of costs on contractors. The recent surge in building material and transportation costs—driven largely by the Middle East crisis—has resulted in a mixed impact across the sector. We believe contractors generally take fixed price and lump sum contracts, although some will have clauses that allow for passing on of costs (such as **GAMUDA** in Australia, we understand). Where there could be a higher cost impact is diesel usage, which we understand is likely to be absorbed. Likewise the case for port operator **WESTPORTS** (MP; TP: RM5.20), whereby we note that in 2025 diesel costs was equivalent to c15% of revenue. The increase in diesel costs could have a direct impact, unless this is being mitigated by higher value-added services income such as storage amid potential congestion.

More selective in some cyclicals, partly on weaker readthrough on consumption

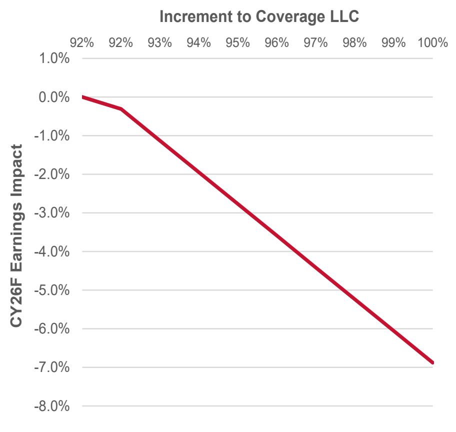
Banks may see a need to pre-emptively build up buffers initially. We believe that the banking sector remains under-owned by institutional fund managers generally (our compilation of unit trust funds indicate around mid-teens AUM exposure versus FBM KLCI index weight of above 30%), and there is likely buying pressure. We are nevertheless more mindful in terms of the timing of accumulating banks. For now, we expect that banks would in prudence raise provision buffers initially before lifting them off at a later part of the year. Our view is based on the likelihood that the loan loss cover (LLC) for the banking sector is lifted on average to above 100%, which is a psychologically "safe" level. If that was to occur, we estimate up to c7% impact to banks' earnings (exhibit 4), although this could be temporary as we expect these could be written back when the coast is clear. Among them, we believe that the consumer and SME exposed banks could be more exposed, namely **ABMB** (MP; TP: RM5.20)**, MBSB** (OP; TP: RM0.73) **and BIMB** (OP; TP: 2.55)**.** Adding to the potential need for such prudential provisions is back-loaded inflation effects in 2H26. On the demand end, mortgage approval rates have been generally trending lower. Our sector pick is **CIMB** (OP; TP: RM8.45)

Exhibit 5: Estimated Impact to Earnings to Prime Up LLC

Banks	CY26F Net Earnings (RM m)
ABMB*	860
AFFIN	567
AMBANK*	2,193
BIMB	601
CIMB	8,404
HLBANK*	4,746
MAYBANK	10,730
MBSB	406
PBBANK	7,495
RHBBANK	3,272
TOTAL	39,274

** Calendarised*

4QCY25 Total Coverage LLC			
NPL (RM m)	Provisions (RM m)	Loan Loss Coverage	CY26F Earnings Impact
32,259	29,557	91.6%	0.0%
LLC Increment	29,678	92%	-0.3%
	30,000	93%	-1.1%
	30,323	94%	-2.0%
	30,646	95%	-2.8%
	30,968	96%	-3.6%
	31,291	97%	-4.4%
	31,613	98%	-5.2%
	31,936	99%	-6.1%
	32,259	100%	-6.9%



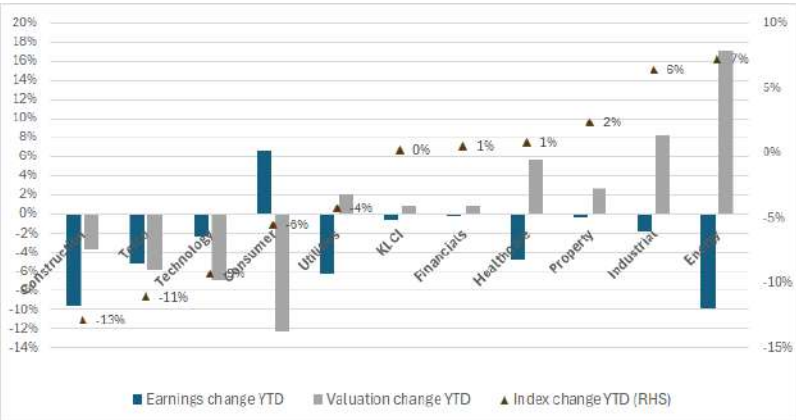
Source: Companies, Kenanga Research

Valuation unwinding has been most evident in the consumer space. SARA-related beneficiaries which have done well in previous years are seeing a reversal of such fortunes. At higher valuation, investors are less forgiving for names that miss sales guidance targets (such as same store sales growth). The KL Consumer index is down 6% YTD, as the impact of some earnings upgrades was insufficient to stem the valuation reversal (of more than 10%, see exhibit 6). Kenanga expects inflation to come in at 2.1% (previously 1.9%); this estimate is also at the upper-half of Bank Negara Malaysia's forecast of 1.5%-2.5%.

Expect some downtrading for consumer. From a demand perspective, we observe that the man on the street has spent their SARA 2.0 faster despite usage window up to end of 2026, versus the SARA 1.0 programme (see consumer section). Early utilization of the cash aid provides a useful read-through on household spending amid ongoing cost pressures. We thus expect some downtrading, especially with Ringgit seen as neutral (Brent oil prices correlate negatively to the strength of the Ringgit). We prefer more defensive names within the consumer space, where we have generally pegged at average 3-year PER or lower for consumer names. We prefer **MRDIY** (OP; TP: RM1.80) and **F&N** (OP; TP: RM37.70**)** for its defensive nature (we have upgraded the former to OUTPERFORM in this note). In terms of downtrading, we are also mindful for switching from four-wheeler to two-wheeler would benefit candidates like **HLIND** (OP; TP: RM18.90), which serves the more premium segment.

Looking for appeal beyond the affordable space in property. NAPIC, which has reported a rise in overhang of affordably priced homes (not more than RM300k), has yet to note a reversal in trend after 3 quarters. In contrast, service apartments in the mid-to-high price range (RM500k–RM1m) are witnessing gradual reduction in inventories, indicating relatively better take-up or more disciplined launches in recent periods. Our picks are **SIMEPROP** (OP; TP: RM1.97), **SPSETIA** (OP; TP: RM1.43), and for the property dividend yield leader **PARAMON** (OP; TP: RM1.49).

Exhibit 6: YTD Changes in BURSA Malaysia Indices Broken Down into Valuation and Earnings Components



Source: Kenanga Research, Bloomberg

Accumulate structural growth areas on share price weakness

Expecting renewed interest in renewable energy, post the disruptions from the Straits of Hormuz. We believe that the urgency towards renewable energy has only improved. Share price declines in the renewable energy space have been excessive in our view, as cost input material such as solar panel modules have eased from peak at this juncture. We foresee that there are significant opportunities as LSS5+ rollout of EPCC work is still gaining momentum. Within utility scale players, our top solar pick is **SAMAIDEN** (OP; TP: RM1.94), which at this juncture is more insulated given deliveries of solar modules are expected as a higher proportion of order book versus **SLVEST** (OP; TP: RM3.45). The bullishness for the latter would likely emerge if the current easing momentum of the solar panel price persists.

Utilities space continues to be busy. Aside the degree of insulation from cost past through mechanism in utilities from both rising coal and gas prices, we believe that opportunity for new capacity will keep investors interested. For instance, a new tender for gas-based capacity for 2029-2031, known as NEWGEN26, was released in late Feb with a Jul 2026 tender submission dateline. Elsewhere, we like **SCGBHD** (OP; TP: RM2.71) as a key proxy to Malaysia's accelerating grid upgrade cycle.

Leverage on the AI space for technology sector. The technology sector remains one of the more hard-hit sectors on a YTD basis (Exhibit 5). AI-driven memory tightness is shaping the industry, at the expense of non-AI plays. Case in point, IDC has sharply cut its 2026 smartphone shipment forecast. external risks to the sector — particularly global memory tightness — have intensified versus three months ago, partly leading us to downgrading the technology sector to neutral. Nevertheless, there are still bright spots – to capture the wafer front end exposures, we continue to like **UWC** (OP; TP: RM4.70) and **KGB** (OP; TP: RM6.15). We also like **INFOMINA** (OP, TP: RM1.90) for its ability to convert early AI adoption into a scalable and recurring earnings stream.

Safety in relative terms

Relatively insulated as net energy exporter. Malaysia has had a relatively good start in terms of foreign equity inflow, which remained in positive territory for the first 2 months of 2026. Upon the onset of the attacks of Israel and US on Iran, we have also noted that Malaysia whose oil intensity (to GDP) is somewhat resilient. Given the continued BUDI95 subsidy, the impact to inflation remains manageable, although the government will have a delicate balance of juggling fiscal concerns and the subsidy bill. To this end, it is not unreasonable to also expect Petronas coffers could be tapped, which confers some financial flexibility to Malaysia, relative to peers.

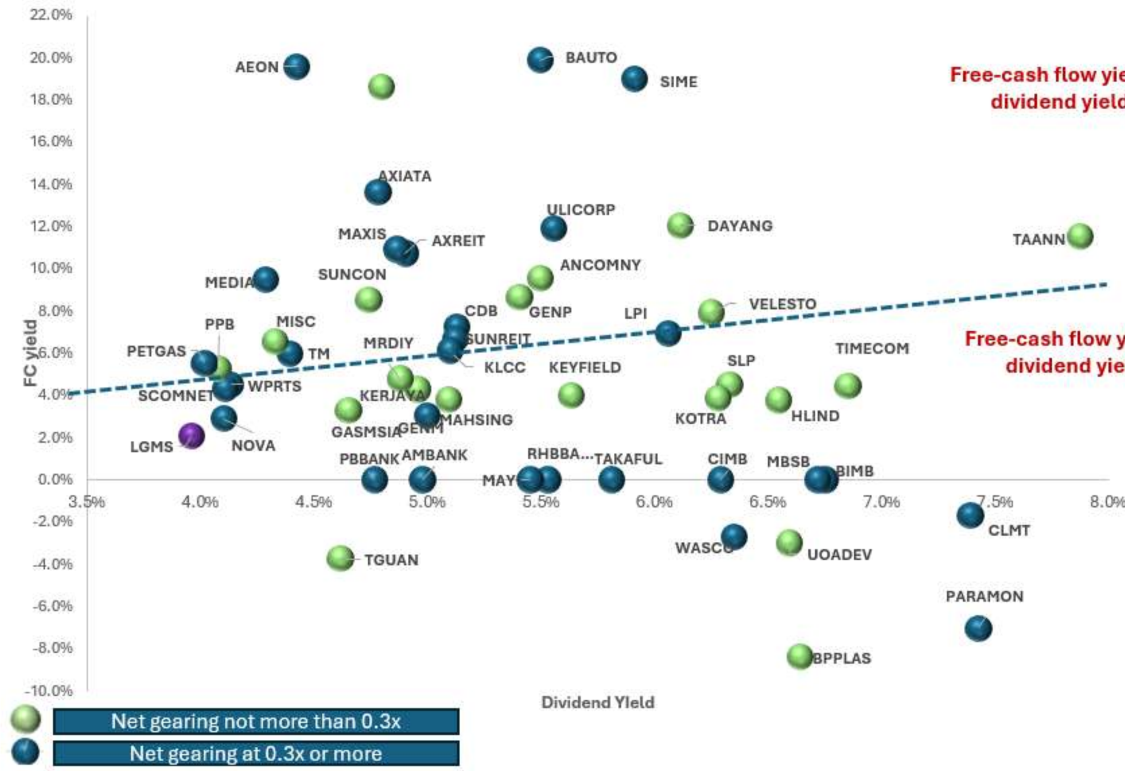
Top picks mostly unchanged. During end-February (in conjunction with 4Q25 wrap), we have introduced **CIMB** ad **PBBANK** into our top picks, as we focused on dividend optimization names, and added **SIME** (OP; TP: RM2.75). There are no changes at this juncture. Within the smaller cap picks, we add **SCGBHD** (in place of **HSPLANT** which no longer is a OUTPERFORM call for us after share price action. Some of the contrarian names under coverage include **IOIPG** (UP; TP: RM3.00), **HSPLANT** (UP; TP: RM2.00)**,** and **SUNREIT** (UP; TP: RM2.17)**.**

Amid volatility of Middle East conflict, dividends appeal is amplified. We have not changed our year-end expectation of 1,760 for the FBMKLCI (16x multiple on blended 2026/2027 EPS), although in the near-term given some overhang such as potential banks' provision top up risk, we estimate the FBMKLCI fairly trades around 1,690 for now. A bear case scenario of 1,610 for the FBM KLCI assumes a more severe drag of the conflict beyond six months.

Best dividend sector remains banks, followed by REIT. By our count, the banking sector under coverage generates a dividend yield of 5.3%. This is marginally below the 5.5% from the REIT sector. That being said, we don't see much capital appreciation, as we have only one positive recommendation for **ALAQAR** REIT (OP; TP: RM1.25), which fits well to the hospital and medical tourism theme. From a top-down perspective, we are also expecting MGS yields to inch up further (to 3.8% from the current c3.6%) which is a less bullish signal to REITs overall. As an aside, we have also upgraded **MBSB** and **BIMB** concurrently with this note after share price retracement, which in our view gives two Shairah options for access into banks yielding more than 6%.

Overarchingly, we have earlier highlighted Malaysia as an attractive dividend destination given that many companies have started to adopt more aggressive payout and capital management posture. We have made a case for dividend names which could have its dividend yield expectation supported by free cash flow, especially as businesess are more mindful of working capital amid the potential supply chain and logistics risks. In that regard, our dividend picks cuts across multiple sectors and those included **TIMECOM** (OP; TP: RM6.60)**, SUNCON** (OP; TP: RM7.76)**, MRDIY, PBBANK, CIMB**, **PARAMON, DAYANG, SIME** and **PPB.** A chart for perusal, obtained from previous "shock-proof dividends" report, is reproduced here (exhibit 7), where we screen for sufficiency of free cash flow and low indebtedness.

Exhibit 7: Free cash yield vs dividend yield of stocks, shown also with their gearing levels



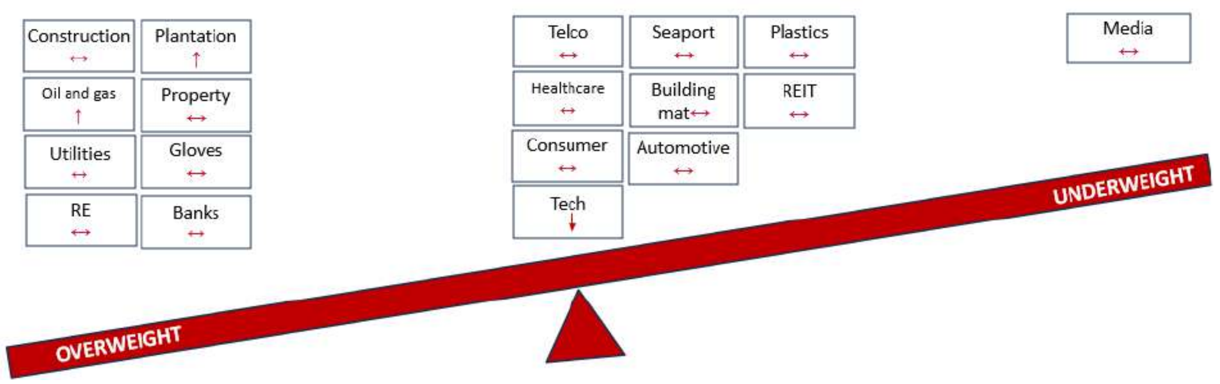
Source: Kenanga Research, Bloomberg

Exhibit 8: Sector Top picks

Overweight	Neutral		Underweight
Renewable Energy & Energy Efficiency KJTS, SAMAIDEN	**Technology** KGB, UWC	**Telco** TIMECOM	**Media** -
Utilities TENAGA	**Building materials** ENGTEX	**Automotive** BAUTO	
Gloves KOSSAN	**Healthcare** DUOPHARMA	**Consumer** F&N	
Banks AMBANK	**Plantation** KLK	**REIT** -	
Construction GAMUDA	**Plastics** SCIENTX	**PORT/Logistics** -	
Property SIMEPROP			
Gloves KOSSAN			
Oil and gas DIALOG			

Source: Bloomberg, Kenanga Research

Exhibit 9: Sector conviction from most conviction to the least



Source: Kenanga Research

Exhibit 10: Top Conventinoal 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)	NDPS (sen)
							FY26F	FY27F	FY26F	FY27F	FY25F	FY26F	FY25	FY25F
CIMB	OP	7.81	8.45	8.2%	84,381.3	12/2026	78.6	83.9	6.9%	6.8%	9.9	9.3	1.1	50.0
PBBANK	OP	4.82	5.75	19.3%	93,559.5	12/2026	38.6	40.0	3.7%	3.6%	12.5	12.1	1.5	23.5
GAMUDA	OP	3.98	5.30	33.2%	23,699.4	07/2026	17.8	23.4	5.3%	31.3%	22.3	17.0	1.9	10.0
TAKAFUL	OP	3.21	4.40	37.1%	2,799.7	12/2026	47.1	48.9	2.6%	3.7%	6.8	6.6	1.2	19.0
PCHEM	OP	5.80	4.90	-15.5%	46,400.0	12/2026	4.0	4.1	-48.7%	0.6%	143.5	142.7	1.3	2.0
KGB	OP	5.17	6.15	19.0%	4,079.2	12/2026	20.5	21.9	23.4%	6.8%	25.2	23.6	5.8	13.0
UWC	OP	4.24	4.70	10.8%	4,677.3	07/2026	9.0	14.3	143.3%	59.0%	47.3	29.7	8.1	0.0
TDC	OP	5.96	6.60	10.7%	11,019.0	12/2026	28.0	30.2	6.3%	7.8%	21.2	19.7	3.7	42.0
TENAGA	OP	14.38	17.00	18.2%	83,823.1	12/2026	85.6	88.1	2.9%	2.8%	16.8	16.3	1.3	50.8
YTLPOWR	OP	2.89	3.80	31.5%	24,968.9	06/2026	25.8	25.1	-27.1%	-2.6%	11.2	11.5	1.0	8.0

Source: Kenanga Research

Exhibit 11: 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)	NDPS (sen)
							FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25	FY25F
TENAGA	OP	14.38	17.00	18.2%	83,823.1	12/2026	85.6	88.1	2.9%	2.8%	16.8	16.3	1.3	50.8
TAKAFUL	OP	3.21	4.40	37.1%	2,799.7	12/2026	47.1	48.9	2.6%	3.7%	6.8	6.6	1.2	19.0
IJM	OP	2.37	3.40	43.5%	8,307.2	03/2026	14.4	15.9	11.8%	10.1%	16.4	14.9	0.8	8.0
PCHEM	OP	5.80	4.90	-15.5%	46,400.0	12/2026	4.0	4.1	-48.7%	0.6%	143.5	142.7	1.3	2.0
GAMUDA	OP	3.98	5.30	33.2%	23,699.4	07/2026	17.8	23.4	5.3%	31.3%	22.3	17.0	1.9	10.0
SIMEPROP	OP	1.34	1.97	47.0%	9,113.1	12/2026	8.2	9.2	8.0%	11.4%	16.3	14.6	0.8	3.3
KGB	OP	5.17	6.15	19.0%	4,079.2	12/2026	20.5	21.9	23.4%	6.8%	25.2	23.6	5.8	13.0
SIME	OP	2.37	2.75	16.0%	16,153.0	06/2026	19.8	21.5	15.6%	8.1%	11.9	11.0	0.8	14.0
TIMECOM	OP	5.96	6.60	10.7%	11,019.0	12/2026	28.0	30.2	6.3%	7.8%	21.2	19.7	3.7	42.0
UWC	OP	4.24	4.70	10.8%	4,677.3	07/2026	9.0	14.3	143.3%	59.0%	47.3	29.7	8.1	0.0

Source: Kenanga Research

Exhibit 12: 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)	NDPS (sen)
							FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25	FY25F
SCGBHD	OP	1.90	2.71	42.6%	2,148.2	12/2026	12.4	15.0	15.3%	21.7%	15.4	12.6	3.8	3.5
KJTS	OP	0.875	1.37	56.6%	604.3	12/2026	3.2	4.0	24.2%	23.9%	27.1	21.9	2.7	0.0
WASCO BHD	OP	1.04	1.45	39.4%	805.3	12/2026	1.8	2.0	-15.7%	6.4%	56.5	53.1	6.0	6.0
SLVEST	OP	2.30	3.45	50.0%	2,188.1	03/2026	10.3	14.3	51.9%	39.2%	22.3	16.0	4.5	0.0
SAMAIDEN	OP	1.02	1.94	90.2%	513.5	06/2026	6.3	7.5	21.3%	18.8%	16.1	13.6	2.5	11.0

FY24F and FY25F refers to FY25F and FY26F
Source: Kenanga Research

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Automotive

NEUTRAL

↔

Extensive Manoeuvring

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

We remain NEUTRAL on the sector. We project a TIV of 790K units in CY26 (-4% YoY) which matches the forecast by Malaysian Automotive Association (MAA), driven by discounts/rebates trend, coming likely at the expense of margin (automakers have started to focus on more profitable space such as Industrials for SIME), new OMV regulation (delayed to July 2026, and potentially beyond), a flood of localized Chinese vehicles, and attractive new launches leaning towards value-for-money offerings. The rising fuel prices exacerbated by the on-going middle-east tensions are expected to have minimal impact to the vehicles sales volume as the Malaysian market is still protected by the subsidized RON 95 and replacement cycles leaning towards EV, hybrids as well as motorcycles. In general, the industry's earnings visibility is still good, backed by a booking backlog of 205k units. Our sector top picks are BAUTO (OP; TP: RM1.10) driven by CBU niche JDM market, and HLIND (OP; TP: RM18.90) riding on higher-margin premium motorcycle segment. Both are less susceptible to price hike under OMV and both offer attractive dividend yield of 6%.

Extensive Manoeuvring. We project a TIV of 790K units in CY26 (-4% YoY) which matches the forecast by Malaysian Automotive Association (MAA). The rising fuel prices exacerbated by the ongoing middle-east tensions and reduced traffic in the Straits of Hormuz currently has minimal impact to the vehicles sales volume as Malaysian market still protected by the subsidized RON 95 at RM1.99 per litre under BUDI95 (as-of-writing, the unsubsidized RON95 at RM3.87 per litre) despite recently reduced quota to 200 litres per month (from earlier 300 litres per month) which the government indicates that 90% of Malaysian used less than 200 litres per month. We also foresee that the new replacement cycles leaning towards electrification (EV), hybrids (including plug-in EV) as well as switching to motorcycles (HLIND to be the biggest beneficiaries with motorcycles market share over 50% of TIV) impinged on the potential removal of subsidies.

Our thesis for CY26 TIV encompasses:

(i) new trend of discounts/rebates as a strategy to gain a headstart in capturing market share, coming likely at the expense of margin i.e. as a part of launching price gimmicks to gain huge initial booking volume. On that end, we believe that automakers have started to work around the discounting competition by focusing on other more profitable space i.e. SIME riding on better-margin industrials (at 7% vs 1% for is auto segment), BAUTO focusing on CBU market which are unaffected by the OMV policy, and HLIND focusing toward higher-margin premium motorcycles segment which commands solid demand,

(ii) new open-market-value (OMV) excise duty regulation which will be implemented gradually from July 2026. The policy to limit the vehicles price hike is still being developed, which we expect to be further delayed to beyond election period,

(iii) a rising market share of Chinese automakers' vehicles via vehicles production localisation programme (as CKD tax incentives for EVs continues until 2027), after CBU tax incentives ended. This counts Jaecoo & Chery brands from the Chery Shah Alam assembly plant, Xpeng, GWM, BAIC & SAIC brands' from EPMB (Not Rated) Melaka assembly plant, and BYD brand from the Tanjung Malim, Perak, at KLK TechPark,

(iv) sustained demand in the affordable segment with national marques remaining as the market leader at estimated market share of 65% for CY26 TIV verusus non-nationals marques' target focus of mostly in the RM100k-and-above vehicles segment,

(v) the new hire purchase loan policies (abolition of the Rule of 78 and flat rate loans) are designed to create a fairer lending environment for consumers, which may boost confidence in hire purchase loans over the long term, (vi) a stable labour market (our economic research team forecast unemployment rate of 3%, the same in CY25), and (vii) attractive new launches (leaning towards value-for-money offerings) i.e. Proton e.Mas 7 Phev, Perodua Myvi (new DNGA), Mazda CX-5 (new generation), Xpeng MO 3 sedan and BYD Shark PHEV 4x4.

In general, the industry's earnings visibility is still good, backed by a booking backlog of 205k units as at end-February 2026 (higher than average booking of 140k units in 2025 largely due to the addition of all-new Proton Saga reaching 100k units backlogs, limited by production capacity). More than half of the backlog is made up of new models, alluding to the appeal of new models to car buyers.

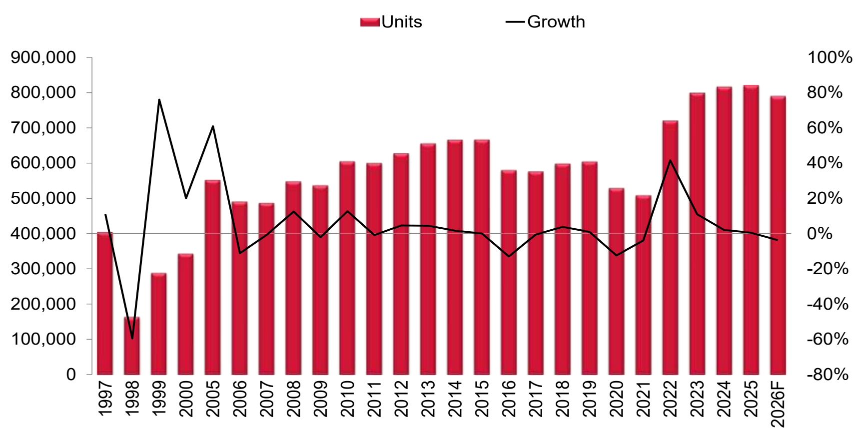
Gradual transition to battery electric vehicles (BEVs). We expect gradual transition to BEVs which currently benefit from tax exemption up until 2027 for locally-assembled CKDs. Looking further, we also have a balanced view of EV adoption eventually picking up and demand for gasoline vehicles will eventually peak, but not within the next five years due to infrastructure challenges. The new petrol subsidy mechanism, in our view, could make the transition even slower than earlier expected as the middle- and lower- income groups now have less incentive to switch from ICE to EV for the time being. Recall that new registration for BEVs leapt from 274 units in CY21 to over 3,400 units in CY22, 13,301 units in CY23, 21,789 units in CY24 and 44,800 units in CY25, or 5.5% of TIV. Malaysia aims for electric vehicles (EVs) to represent 20% of new vehicle sales by 2030, with a longer-term vision for 80% by 2050 (including hybrids vehicles). Government is currently focused on building out the EV ecosystem, including establishing 10,000 public charging points and providing tax incentives to stimulate adoption and local production. Despite the current build-to-date lagging behind with just tad above 50% of the target which stood at 5,360 units as of Dec-2025, no updated timeline target has been provided.

Our sector top picks are:-

BAUTO (OP; TP: RM1.10) for: (i) its strong near-term earnings visibility backed by a total order backlog of 3,500 units - Mazda (vs. average of 1,500 unit, a year ago), (ii) its premium mid-market Mazda brand offers superior margins, and (iii) its attractive dividend yield of about 7%. We expects BAUTO to benefit from the recent weakening of JPY against MYR, more so, as it expands its new Mazda launches towards CBU (CBU/CKD mix of 50%/50% expected in FY26 vs 40%/60% in FY25) such as its CX-60, CX-80 and Mazda 3. These have garnered strong demand from the market especially for its all-new Mazda 3 (RM118,900 for the 1.5L High Plus model) which offers an attractive price point compared to previous launches. Note that CBU models are unaffected by the new OMV excised duty regulation.

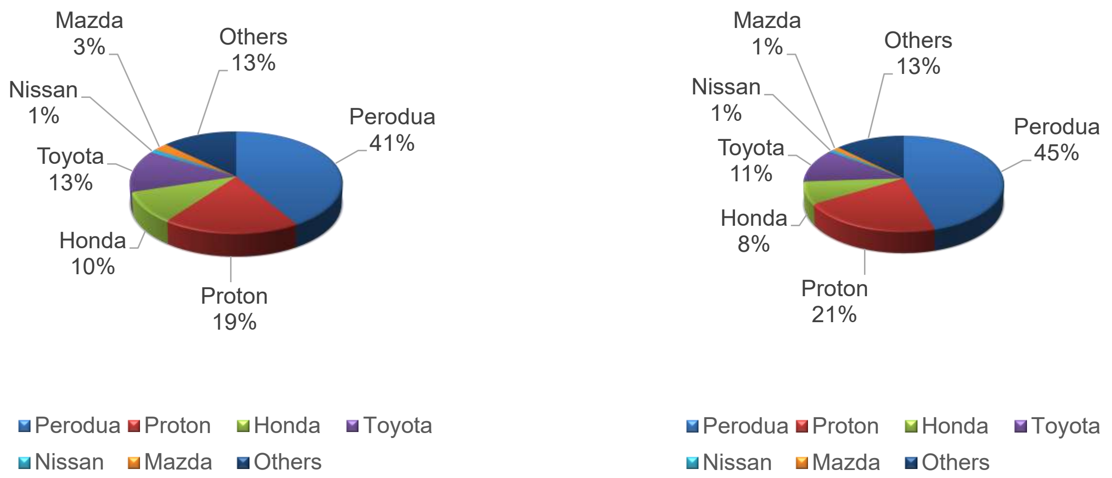
HLIND (OP; TP: RM18.90): (i) as it is a strong proxy to the booming gig economy given the critical role of motorized two-wheelers in executing online delivery transactions, (ii) for its association with the strong Yamaha motorcycle brand in Malaysia and the brand's market leader position in the local motorcycle segment, and (iii) for its solid war chest with a net cash of RM2b that could be deployed for earnings-accretive acquisitions. Its dividend yield is also attractive at 6%. We anticipate robust demand for the motorcycles market which achieved a record year of 700k units (+11%) in 2025, with Yamaha holding the lion's share of more than 50%.

Exhibit 1: TIV Volume 1997−2026F



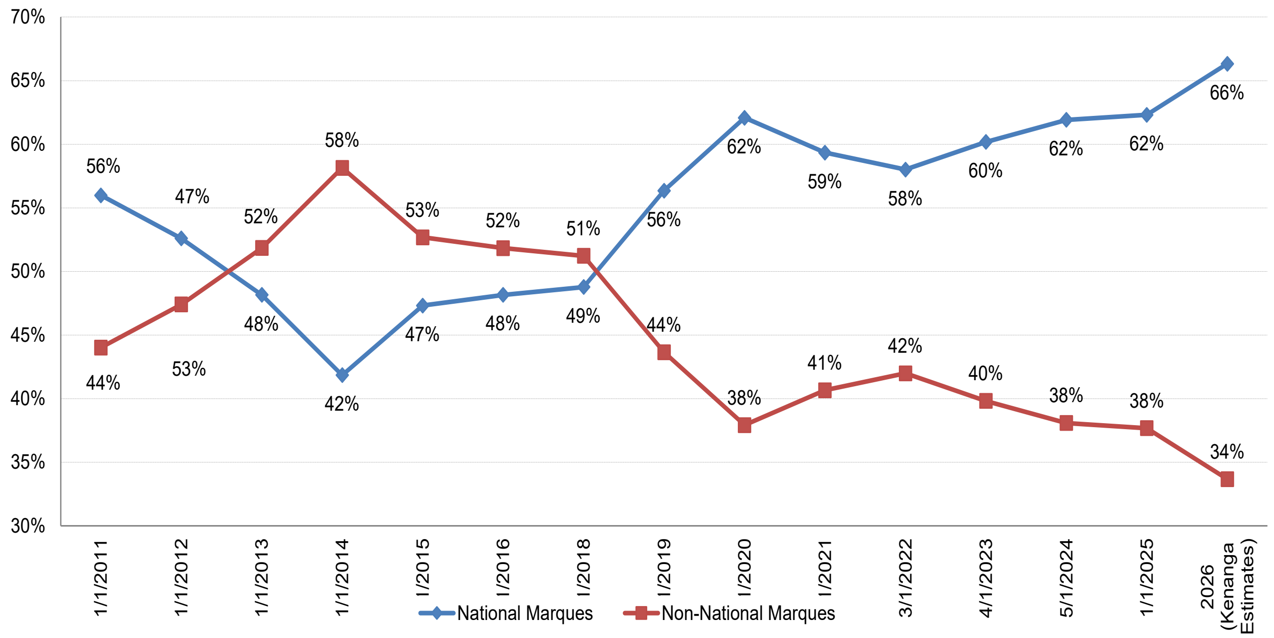
Source: MAA, Kenanga Research

Exhibit 2: Market Share by Brands CY23A vs. CY26F



Source: MAA, Kenanga Research

Exhibit 3: Nationals vs. Non-Nationals Market Share



Source: Kenanga Research, MAA

Exhibit 4: Various New Models

Perodua QV-E

Proton eMas 7


Proton eMas 5

Proton eMas 7 PHEV


Xpeng G6

Xpeng X9


TQ-Wuling Bingo

BYD Seal 06

BYD Shark 6 PHEV

Tentative-Xpeng M03 (budget model)


Perodua Traz


Toyota Yaris Cross hybrid

Source: Paultan.org, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM) as at 19.03.26	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	OP	0.900	1.10	22.2%	1,044.9	Y	04/2026	6.6	10.5	-50.6%	58.1%	13.6	8.6	1.4	10.4%	5.3	5.9%
DRB-HICOM BHD	UP	1.06	0.620	-41.5%	2,049.0	Y	12/2025	5.1	5.4	55.4%	6.3%	20.7	19.5	0.2	0.9%	3.0	2.8%
HIL INDUSTRIES BHD	OP	0.720	0.850	18.1%	239.0	Y	12/2025	11.2	11.4	2.8%	2.3%	6.4	6.3	0.4	7.2%	2.0	2.8%
HONG LEONG INDUSTRIES BHD	OP	17.10	18.90	10.5%	5,607.1	Y	06/2026	157.4	160.6	2.7%	2.0%	10.9	10.6	2.2	21.4%	110.0	6.4%
MBM RESOURCES BHD	MP	4.96	4.90	-1.2%	1,938.9	Y	12/2025	81.6	82.2	-5.9%	0.7%	6.1	6.0	0.7	11.5%	45.0	9.1%
SIME DARBY BHD	OP	2.41	2.75	14.1%	16,390.4	Y	06/2026	19.8	21.5	15.6%	8.1%	12.1	11.2	0.8	7.0%	14.0	5.8%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.500	0.290	-42.0%	336.0	Y	12/2025	(27.2)	(25.6)	-189.1%	-194.2%	N.A.	N.A.	0.1	-7.2%	1.0	2.0%
SECTOR AGGREGATE					**27,605.2**					**7.6%**	**8.3%**	**12.5**	**11.5**	**0.7**	**5.6%**		**5.0%**

Source: Kenanga Research

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Banking

Long-Term Stance Unhindered by Inflation

OVERWEIGHT
↔

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

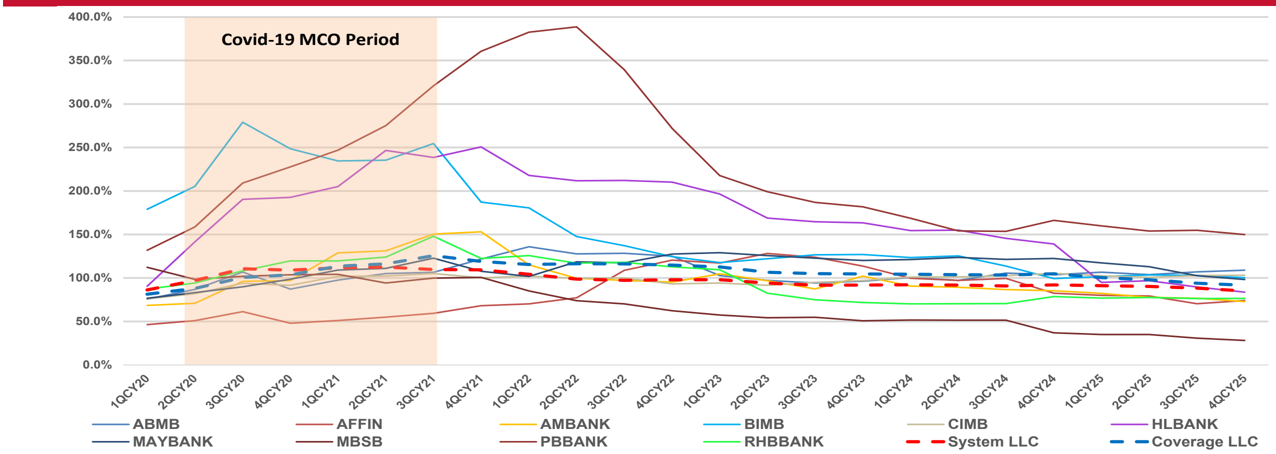
We maintain our OVERWEIGHT call on the banking sector. Following strong accumulation in 1QCY26 and a subsequent pullback amid heightened geopolitical tensions involving Iran, we believe the sector's longer-term resilience remains intact. That said, we flag potential credit cost risks heading into the upcoming May reporting season, where we expect banks are likely to raise macroeconomic overlays by 5–10 bps, translating to a c.3.5%–7.0% earnings impact. This is in response to rising inflationary pressures from oil price volatility, which could drive higher transportation and logistics costs and, in turn, weigh on borrowers' repayment capacity. That said, as we are anticipating tensions to gradually ease with commodity prices to normalise toward the year-end, we believe said provisions could be written back by 4QCY26, leading us to keep our earnings estimates for now. We also maintain our view that the OPR will remain unchanged at 2.75% throughout CY26.

For 2QCY26, our top pick is CIMB (OP; TP: RM8.45) as it pivots towards less capital-intensive growth channels, striking a better balance between expansion and shareholder returns. Its sustainable dividend yield of >6% positions CIMB as a sector leader on income appeal. Meanwhile, PBBANK (OP; TP: RM5.75) is an interesting tactical pick in our opinion, riding on our estimated special dividend potential of up to c.3.5%, on top of the group's commitment to pay out 60% of its earnings in the near-term.

Within the NBFI space, we still prefer TAKAFUL (OP; TP: RM4.40) for its continued growth in its key credit-related products backed by its renewed bancatakaful partnership with RHBBANK. Its increased pay-out expectations (6% yield) could also attract yield-seeking shariah investors. Following their share price correction which brings them to more favourable risk-reward levels, we upgrade our calls from BIMB (TP: RM2.55), MAYBANK (TP: RM12.30) and MBSB (TP: RM0.730) to OUTPERFORM from MARKET PERFORM.

Expecting provision top ups amid emerging macro concerns. Arising from the recent Iran conflict, the surge in crude oil prices is expected to intensify inflationary pressures. The government has already announced a reduction in the subsidised RON95 quota to 200 litres (from 300 litres), while diesel prices have risen sharply to RM5.52/litre from RM3.12/litre (+77%) at time of writing. These developments are likely to drive higher transportation and logistics costs across industries, potentially weighing on borrowers' repayment capacity and leading to further top-ups in management overlays as more accounts-at-risk emerge. Reflecting this, we have **raised our CY26 CPI forecast to 2.1% (from 1.9%),** with inflationary pressures expected to be more pronounced in 2HCY26.

Exhibit 1: Historical LLC Trends



Source: Companies, Kenanga Research

Based on BNM's statistics, industry loan loss coverage (LLC) stood at 85.0% as of 4QCY25, below the typically prudent threshold of 100%, with our total coverage LLC (excluding regulatory reserves) hovering at 92%. Banks within our coverage are comforted by their heavily secured/collateralised loans, notably with MBSB being the outlier with c.30% coverage. On the other end of the spectrum, PBBANK remains highly prudent with the highest coverage of c.150%. The last instance of industry LLC exceeding 100% was in May 2022, following post-pandemic writebacks, although new uncertainties soon emerged with the escalation of the Russia-Ukraine conflict.

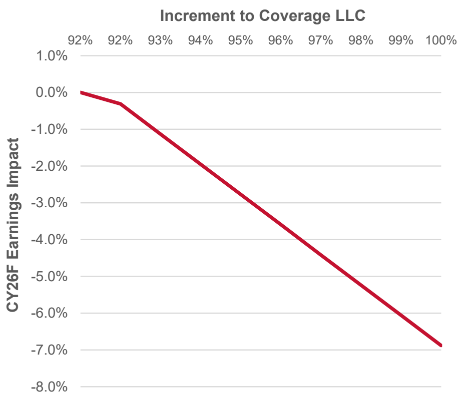
In line with past provision top up instances, **we expect most banks to top up credit costs by 5-10 bps to account for macroeconomic overlays (regardless of respective LLCs)** in the upcoming 1QCY26 reporting season, implying a 3.5%-7.0% impact to our CY26F. This appears broadly reflective of the provisioning required to lift coverage levels closer to 100%. However, given the possibility of gradual geopolitical de-escalation and a potential correction in oil prices, which could ease medium-term pressures, we have kept our earnings forecasts unchanged for now, as provision writebacks may still materialise before the end of CY26.

Exhibit 2: Estimated Impact to Earnings to Prime Up LLC

Banks	CY26F Net Earnings (RM m)
ABMB*	860
AFFIN	567
AMBANK*	2,193
BIMB	601
CIMB	8,404
HLBANK*	4,746
MAYBANK	10,730
MBSB	406
PBBANK	7,495
RHBBANK	3,272
TOTAL	**39,274**

** Calendarised*

4QCY25 Total Coverage LLC	NPL (RM m)	Provisions (RM m)	Loan Loss Coverage	CY26F Earnings Impact
	32,259	29,557	91.6%	0.0%
LLC Increment		29,678	92%	-0.3%
		30,000	93%	-1.1%
		30,323	94%	-2.0%
		30,646	95%	-2.8%
		30,968	96%	-3.6%
		31,291	97%	-4.4%
		31,613	98%	-5.2%
		31,936	99%	-6.1%
		32,259	100%	-6.9%



Source: Companies, Kenanga Research

Concerns on the ground start to rise. In relation to the above, we expect banks with higher exposure to consumer credit (personal financing and credit cards) and SMEs to face relatively greater provisioning pressure, given their higher sensitivity to economic shocks.

ABMB has the largest SME mix within its loan portfolio, reflecting its targeted strategy and smaller base. On the consumer side, **BIMB** and **MBSB** have relatively high exposures at 31% and 40%, respectively, largely driven by their participation in salary deduction schemes/structured repayment programmes. Excluding these two, **ABMB** appears to have the highest consumer credit mix, which also helps explain its relatively higher GIL within the sector (excluding **MBSB**, whose elevated levels are attributed to its i-Ihsan EPF deduction scheme and legacy corporate exposures).

Exhibit 3: Est. SME and Consumer Credit Loan Mix

4QCY25	Total Gross Loans (RM m)	Gross Impaired Loan (%)	% of loans: SME Financing	% of loans: Consumer Credit*
ABMB	65,763	1.89%	34.1%	11.3%
AFFIN	79,511	1.64%	14.1%	8.6%
AMBANK	142,692	1.76%	21.3%	4.7%
BIMB	74,726	0.97%	3.6%	30.5%
CIMB	452,947	1.72%	13.7%	8.5%
HLBANK	215,658	0.59%	19.2%	4.2%
MAYBANK	686,549	1.28%	17.3%	4.1%
MBSB	43,929	6.33%	9.8%	40.4%
PBBANK	445,758	0.51%	18.7%	4.1%
RHBBANK	250,643	1.41%	14.4%	6.6%

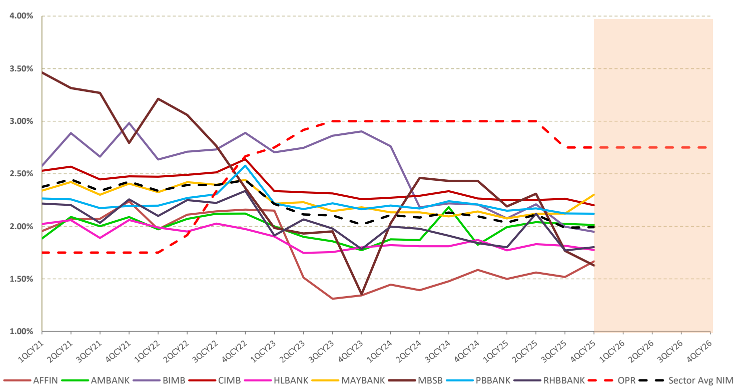
** Includes personal financing and credit card*

Source: Companies, Kenanga Research

NIMs trajectory skewed to some upside, though some remain concerned. Against a backdrop of rising inflationary pressures, we expect BNM to keep the OPR unchanged at 2.75% throughout CY26, allowing banks to continue re-optimising their funding mix which was a key drag on NIMs in CY24-CY25.

Still, banks such as **MAYBANK** and **PBBANK** remain cautious, noting that NIMs could stay compressed as competition shifts towards asset yields in CY26. Other banks are more optimistic, expecting improved performance through a more targeted loan acquisition strategy with a reduced emphasis on lower-yield segments such as mortgages and towards higher-yield portfolios, including corporate and SME lending.

Exhibit 4: Estimated Annualised NIMs



Source: Kenanga Research

Revised Reference Rate Framework to see improved standardized rate adjustments. BNM has issued a revised Reference Rate Framework Policy Document, effective 1 July 2026, to strengthen the timeliness and efficacy of monetary policy transmission. This sets tighter expectations for financial institutions to promptly reflect changes in benchmark rate, namely the OPR, via the Standardised Base Rate into customers' monthly instalments for floating-rate retail loans and financing facilities. This arises from the lack of standardized method or timeline previously for banks to implement newly adjusted rates, leading to some banks to appear to lag behind others during instances of rate cuts, which borrowers may perceive as unfair.

Under a phased approach to minimum turnaround time, Phase 1 will implement a 60 calendar days turnaround time, effective 1 July 2026, followed by Phase 2 with 30 calendar days effective 2 January 2028.

The revised framework is primarily intended to enhance and standardize industry practices, improve transparency, and reduce potential disputes between banks and borrowers. That said, we do not expect any material financial impact to banks, as the changes do not alter the final lending rates charged to customers, but rather the speed and consistency at which such adjustments are implemented. As such, profitability and net interest margins should remain largely unaffected.

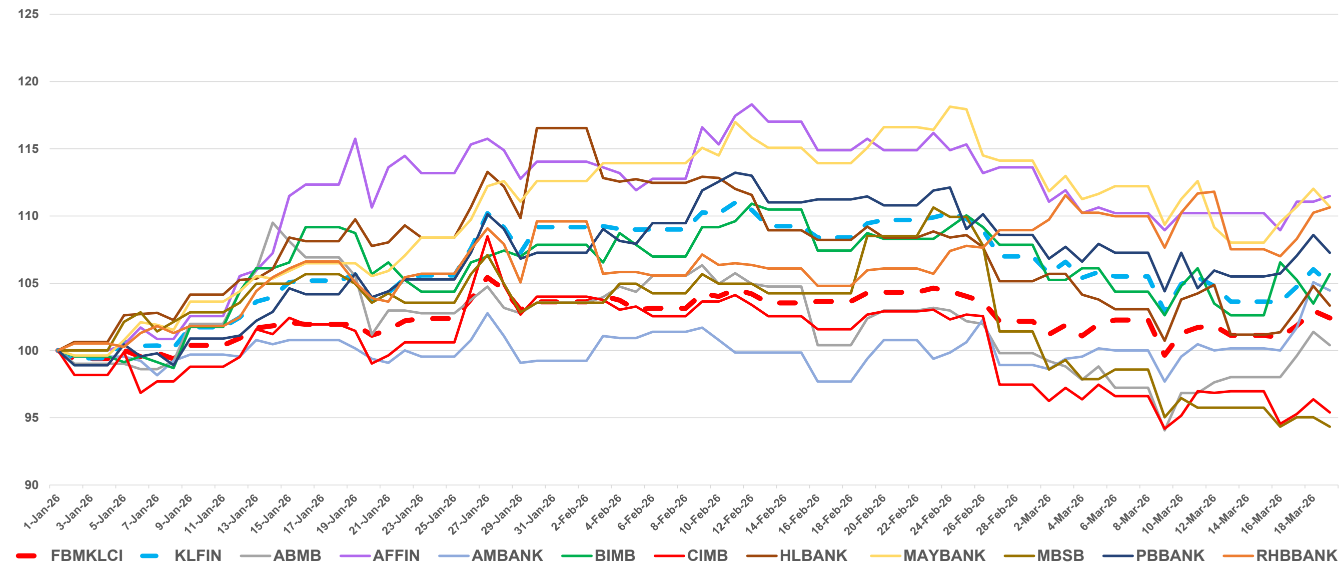
We maintain our OVERWEIGHT stance on the banking sector. We believe the effects of inflation could be back loaded as and thus we prefer to stay selective to banks that are more insulated to inflationary pressures. We believe the sector's resilience remains intact, supported by attractive and sustainable dividend yields of c.5%, which continue to position banks as a defensive haven for investors.

For 2QCY26, we highlight **CIMB** as our top pick. We find the stock compelling at current levels, as its strategic pivot towards less capital-intensive growth alleviates prior concerns over balancing expansion with capital distribution. With projected sustainable dividend yields of >6%, including payouts under its capital return plan, CIMB now compares favourably against MAYBANK and RHBBANK, traditionally viewed as the sector's dividend leaders.

We also introduce **PBBANK** as our second Top Pick, supported by nearer-term dividend catalysts, including potential special dividend yields of up to 3.6% upon the implementation of Basel III reforms on 1 July 2026. In addition, management's commitment to a 60% payout ratio enhances dividend visibility and stability. This is further underpinned by industry-leading asset quality, with a 4QCY25 GIL ratio of 0.51% versus the industry average of 1.37%. While its current ordinary dividend yield of 4.8% is slightly below the industry average of 5.2%, it remains well above its historical level of c.3.0%, suggesting valuations remain attractive as investors continue to assign a premium to its high-quality and resilient asset base.

Following the recent correction in the sector, we take the opportunity to upgrade **MAYBANK** to **OUTPERFORM** (from MARKET PERFORM). While we expect flattish earnings growth in CY26F relative to peers due to ongoing investments under its ROAR30 strategic initiatives, current valuations appear more compelling for investors seeking a lower-risk regional banking exposure, supported by its relatively lower exposure to Indonesia. Meanwhile, we also upgrade **BIMB** and **MBSB** to **OUTPERFORM** (from MARKET PERFORM), underpinned by their attractive dividend yields of >6%. For BIMB, we expect sentiment to improve with the onboarding of a new management team. As for MBSB, we anticipate a normalisation in earnings following the weak 4QCY25 performance from unforeseen provisions, which undermined the gradual recognition of its syndicated financing pipeline.

Exhibit 5: YTD CY26 Performance of Banking Stocks Against FBM KLCI and KLFIN (as of 19 Mar 2026)



Source: Bloomberg

Peer Table Comparison

Name	Rating	Last Price as of 19 Mar 2026 (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																	
Affin Bank Bhd	MP	2.61	2.50	-4.2%	6,613.3	N	12/2026	22.4	24.0	4.9%	7.1%	11.7	10.9	0.5	4.6%	9.0	3.4%
Alliance Bank Malaysia Bhd	MP	5.03	5.20	3.4%	8,703.0	N	03/2026	48.0	50.3	10.7%	4.6%	10.5	10.0	1.1	10.5%	19.5	3.9%
AMMB Holdings Bhd	OP	6.61	7.45	12.7%	21,857.5	N	03/2026	64.2	67.0	6.0%	4.5%	10.3	9.9	1.0	10.0%	34.0	5.1%
Bank Islam Malaysia Bhd	OP	2.41	2.55	5.8%	5,462.2	Y	12/2026	26.5	28.5	7.9%	7.5%	9.1	8.5	0.7	7.5%	16.0	6.6%
CIMB Group Holdings Bhd	OP	7.86	8.45	7.5%	84,921.5	N	12/2026	78.6	83.9	6.9%	6.8%	10.0	9.4	1.1	11.4%	50.0	6.4%
Hong Leong Bank Bhd	OP	22.80	25.95	13.8%	49,424.0	N	06/2026	227.1	236.0	-0.6%	3.9%	10.0	9.7	1.1	11.5%	105.0	4.6%
Malayan Banking Bhd	OP	11.60	12.30	6.0%	140,140.8	N	12/2026	89.0	90.4	2.1%	1.6%	13.0	12.8	1.4	11.0%	64.0	5.5%
MBSB Bhd	OP	0.670	0.730	9.0%	5,508.9	Y	12/2026	5.7	7.7	45.4%	36.4%	11.8	8.7	0.5	4.1%	4.5	6.7%
Public Bank Bhd	OP	4.86	5.75	18.3%	94,336.0	N	12/2026	38.6	40.0	3.7%	3.6%	12.6	12.2	1.5	12.2%	23.5	4.8%
RHB Bank Bhd	MP	8.35	8.40	0.6%	36,422.0	N	12/2026	75.5	79.9	-2.7%	5.8%	11.1	10.4	1.0	9.5%	47.0	5.6%
SECTOR AGGREGATE					**453,389**					**3.5%**	**4.5%**	**11.6**	**11.1**	**1.2**	**10.3%**		**5.3%**

Name	Terminal growth (%)	Sustainable ROE (%)	Cost of Equity (%)	Applied PBV (x)	Target Price (RM)	Call	Remarks
Affin Bank Bhd	3.00	6.25	9.4	0.51	2.50	MP	
Alliance Bank Malaysia Bhd	3.00	10.0	10.0	1.00	5.20	MP	+5% ESG Premium
AMMB Holdings Bhd	3.00	10.0	9.4	1.10	7.45	OP	
Bank Islam Malaysia Bhd	3.50	8.0	9.7	0.73	2.55	OP	
CIMB Group Holdings Bhd	3.50	11.5	10.7	1.12	8.45	OP	+5% ESG Premium
Hong Leong Bank Bhd	-	-	-	-	25.95	OP	Sum-of-Parts
Malayan Banking Bhd	3.50	11.5	9.0	1.45	12.30	OP	
MBSB Bhd	3.00	6.0	8.7	0.53	0.730	OP	
Public Bank Bhd	4.00	13.0	9.4	1.68	5.75	OP	+5% ESG Premium
RHB Bank Bhd	2.50	10.0	9.7	1.05	8.40	MP	

Source: Kenanga Research

Building Material

Watch closely

NEUTRAL

↔

By Teh Kian Yeong I tehky@kenanga.com.my; Tan Sue Wen, tansw@kenanga.com.my

The National Water Services Commission (SPAN) remains focused on lowering non-revenue water (NRW), with RM7.7bn in approved capex for water-related projects, which should continue to support infrastructure spending over the medium term. Steel prices have also begun to stabilise following recent volatility, supported by policy intervention in China. This could provide a more favourable cost environment for the sector. Any further upside in steel prices could also be positive for ENGTEX, given its price-taker position and cost-plus pricing model, which allows for cost pass-through and supports earnings visibility. And with the large cap heavyweight PMETAL at MARKET PERFORM, we maintain our sector call at NEUTRAL. ENGTEX (OP; TP: RM0.65) remains our top pick.

Geopolitics tensions push aluminium prices near 4-year highs. Aluminium prices remained elevated through 2HCY25 due to ongoing production constraints. However, the escalating Middle East crisis has recently propelled prices even higher in 1QCY26, touching USD 3,500/MT, levels not seen in four years. This surge is primarily driven by logistical bottlenecks, as tensions in the Strait of Hormuz have effectively closed the primary exit route for regional smelters, which account for 9% of global aluminium production. The inability to ship finished products or import raw alumina has forced production halts, further tightening global supply. While it is too early to fully gauge the long-term impact, any prolonged disruption is expected to drive prices higher. Over the medium term, however, the market should eventually rebalance through trade diversion and disciplined supply growth. We maintain our view that a recovery in Chinese demand, coupled with structural supply constraints and the current Middle East crisis, will keep aluminium prices firm with an upward bias. Despite the recent spot price surge, we are maintaining our average aluminium price assumptions for **PMETAL (MP; TP: RM7.30)** at USD2,750/MT for 2026 followed by USD2,850/MT for 2027. We believe that upside for **PMETAL** is capped by its significant hedging position. The company has already hedged 65% of its 2026 output at USD 2,750–2,800/MT and 50% of its 2027 output at USD2,850-2,900/MT. For sensitivity analysis, every USD50/MT increase in the aluminium price for FY26-FY27 (and a long-term assumption of USD2,400/MT) would raise FY26 earnings by 5.5% and increase our TP by 3.9% to RM 7.58.

Steel price recovery continues. The China's anti-involution policies are expected to support a gradual recovery in the steel sector, which has been identified as an industry subject to capacity discipline. Based on our checks, crude steel output declined by 4% YoY to 160m tonnes in Jan-Feb, largely due to production controls, in line with the government's target to reduce 2026 output to 930-944m tonnes (vs. 961m tonnes in 2025). At the same time, recent geopolitical tensions, particularly in the Middle East, have led to higher oil and freight costs. Disruptions to the Strait of Hormuz, a key global shipping chokepoint, have resulted in elevated freight rates and longer voyage times, which could provide some support to steel prices. Steel rebar prices have remained relatively stable at c.CNY3,160/t (based on National Bureau of Statistics data for early March 2026), representing a 3% increase from the February YTD low. This suggests some stabilisation in steel prices, which should help provide better cost visibility for downstream players. For **ENGTEX (OP; TP: RM0.71)**, any upward movement in steel prices translates directly into higher absolute revenue and profit given its price-taker status and cost-plus pricing model, providing strong earnings visibility.

We expect award flows to gradually gain traction, supported by several key developments:

(i) **Water tariff hikes** implemented on 1 September 2025 for users in Selangor, Kuala Lumpur and Putrajaya, marking the second consecutive year of increases, should help improve funding visibility. For domestic households, tariffs increase progressively above 20m³/month, while low-cost homes see a minimal increase of RM0.10/m³. This is expected to support higher capex spending on infrastructure upgrades and network expansion, which in turn could drive demand for water pipes.

(ii) Continued growth in the **data centre segment** is expected to support demand. Selangor has introduced a new water tariff subcategory for data centres, priced at RM5.31/m³ due to their high-water usage for cooling, which should drive additional demand for water treatment systems and pipes.

(iii) Several large-scale projects remain key opportunities, including the **Sungai Perak Raw Water Transfer Scheme** to Penang (SPRWTS), **Langat 2 water treatment plant**, and **Sungai Rasau Phase 2**. Based on our estimates, the total value of pipe-related components for these projects is c.RM1.1bn.

(iv) **PAAB** is investing c.**RM13bn** into water infrastructure, including treatment plants such as Langat 2, Machang and Sidam Kiri.

(v) In Sarawak, the **federal government has approved RM6bn** for 44 water and sewerage projects under the First Rolling Plan of the 13th Malaysia Plan (RMK13), comprising 11 new and 33 ongoing initiatives focusing on flood mitigation, river conservation, water supply and sewerage systems. This is complemented by an ongoing **RM1bn pipe replacement programme covering 2,742km** to reduce non-revenue water (NRW), with the state targeting **100% water coverage by 2030** under its Water Supply Master Plan.

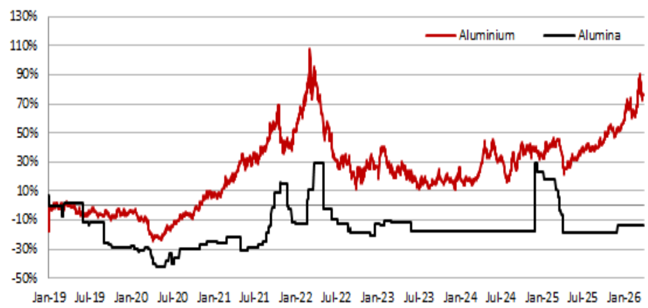
ENGTEX (OP; TP: RM0.71), which historically commands c.50% market share in water pipes, remains our top pick for the sector. This is supported by (i) strong potential in the domestic pipe replacement market, (ii) its dominant position in both large-diameter mild steel (MS) and ductile iron (DI) pipes, and (iii) good earnings visibility driven by a sizeable order book and a healthy pipeline of new projects.

We maintain our NEUTRAL rating for the sector as we have MARKET PERFORM call on **PMETAL,** which carries a significant weighting within the sector. This reflects our view that the recent strong aluminium price rally has largely priced in all key positives. In addition, we continue to like **ENGTEX**. Following the clearance of high-cost inventory, the company is now positioned to benefit from any steel price recovery. As a price taker with a cost-plus model, rising steel prices translate directly into higher absolute revenue and profit, provide earnings visibility.

Aluminium Prices

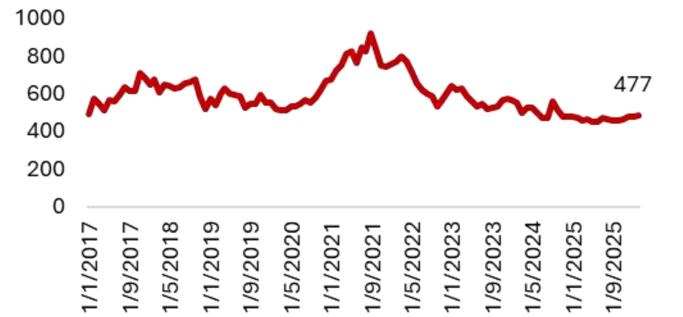
Source: Bloomberg, Kenanga Research

Aluminium vs. Alumina Prices – % Movement Since 2019



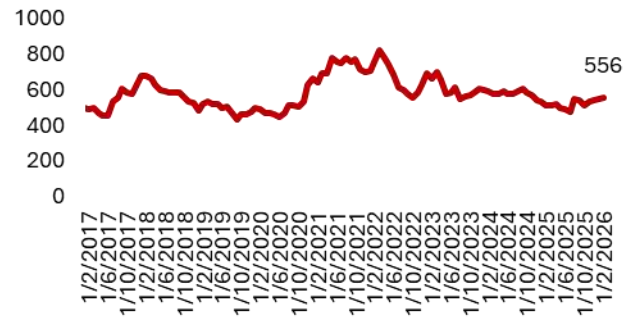
Source: Bloomberg, Kenanga Research

China Rebar Steel Prices



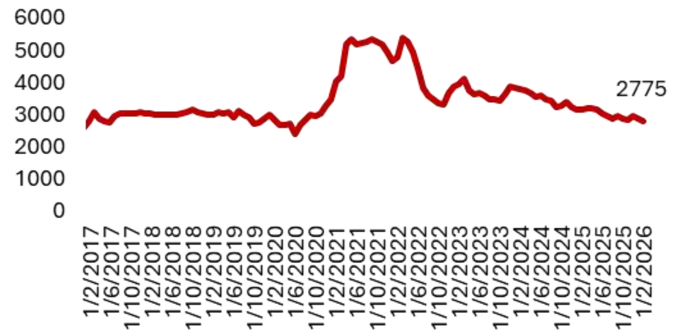
Source: Bloomberg, Kenanga Research

Malaysia Rebar Steel Prices



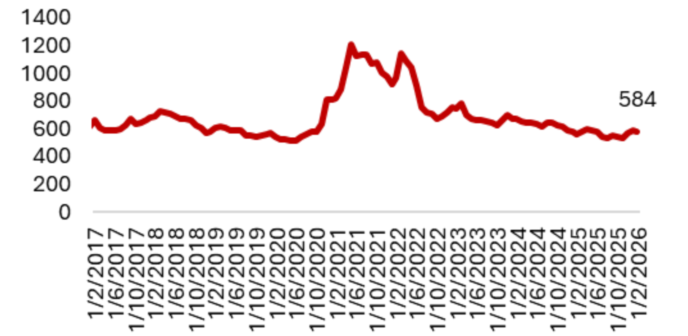
Source: Bloomberg, Kenanga Research

Malaysia Cold Rolled Coil Prices



Source: Bloomberg, Kenanga Research

Malaysia Hot Rolled Coil Prices



Source: Bloomberg, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price @ 19/9/25 (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	0.550	0.650	18.2%	460.1	Y	12/2026	1.2	4.7	25.9%	276.5%	44.5	11.8	0.3	0.8%	0.0	0.0%
PRESS METAL ALUMINUM HOLDINGS BHD	MP	7.77	7.30	-6.0%	64,021.8	Y	12/2026	29.5	34.9	14.0%	18.0%	26.3	22.3	5.7	23.2%	11.8	1.0%
UNITED U-LI CORPORATION BHD	OP	1.40	1.83	30.7%	304.9	Y	12/2026	18.7	22.9	13.3%	22.3%	7.5	6.1	0.7	10.3%	8.0	5.7%
SECTOR AGGREGATE					**64,786.8**					**14.0%**	**18.7%**	**26.1**	**22.0**	**5.2**	**19.8%**		**2.2%**

Source: Kenanga Research

Construction

OVERWEIGHT
↔

Built for Growth

By Teh Kian Yeong I tehky@kenanga.com.my

Despite near-term geopolitical headwinds impacting profit margins and a slower-than-expected rollout of infrastructure projects, we remain bullish on the sector. This outlook is underpinned by persistent demand for data centres and sustained capital expenditure commitments from global technology firms through 2026. While contract awards reached near-record levels in 2024 and 2025, we maintain our RM180b projection for 2026, as data centre development continues to be the primary growth engine alongside ongoing public-sector projects. Major infrastructure works in the pipeline include the Penang LRT Package 2 & 3, Pan Borneo Phase 2, and various airport expansions, providing further earnings visibility. We remain OVERWEIGHT on the sector, with large-cap players GAMUDA (OP; TP: RM5.30), SUNCON (OP; TP: RM7.76), and IJM (OP; TP: RM3.40) best positioned to capture sustained data centre activity and a solid project pipeline. GAMUDA remains our Top Pick, with KERJAYA (OP; TP: RM3.05) as our preferred mid-to-small-cap selection.

Robust contract flows. According to the Construction Industry Development Board (CIDB), contract awards hit near-record levels of RM232.0b in 2024 and RM225.5b in 2025, the strongest performance since the RM241.0b peak in 2016. This significantly exceeds the historical annual average of RM140b-RM150b (recorded across 2013-2015, 2017-2019, and 2021-2023) and surpasses our original 2024–2026 assumption of RM180b per annum. We maintain our RM180b forecast for 2026, supported by public-sector rollouts and sustained private-sector momentum, particularly in data centres. With a healthy pipeline of near-term awards and a development cycle extending to 2030, we expect data centre projects to remain the primary growth driver for the sector in 2026.

Infrastructure projects in the pipeline. While the roll-out of major infrastructure works has been slower than expected, our constructive view on the sector in 2026 remains unchanged. Sector visibility continues to improve on both public infrastructure and private development fronts. Although the timing for MRT3, now with final approval from the Transport Ministry, remains unclear, several key projects are poised for near-term roll-out. These include the Penang LRT Mutiara Line Packages 2 & 3, Phase 2 of the Pan Borneo Highway, the Sabah-Sarawak Link Road, Subang Airport redevelopment, and the Johor E-ART. In addition, the KL–Singapore High Speed Rail remains a medium-term catalyst. Meanwhile, finalization of the Upper Padas Water Dam (Sabah) and the Kerian Water EPCC (Perak) is still pending, though **GAMUDA** has already secured both water concessions.

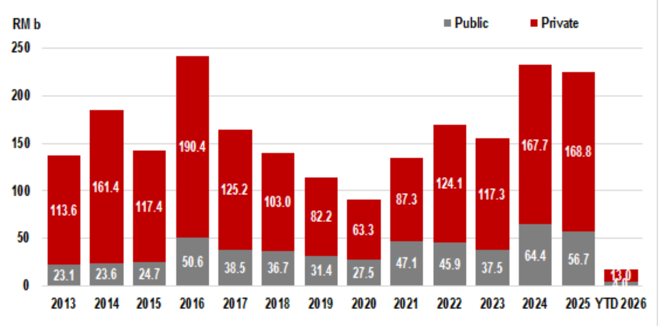
Data centre remains the sector's anchor for 2026. In 2025, six major land transactions involved US tech giants, with Microsoft and Pearl Computing each acquiring two parcels for data centre expansion. Notably, **GAMUDA** sold a 389-acre parcel at Springhill Industrial Park, Port Dickson to Pearl Computing for RM455.2m, alongside RM1b of enabling infrastructure works. This positions **GAMUDA** favourably for follow-on work at the site, which can host 800MW-1,000MW of data centre capacity, translating into RM14b-RM20b in construction value. **GAMUDA** has already secured two of Pearl Computing's core and shell DC packages worth RM2.14b via **ECOWLD (OP; TP: RM2.35)**, with M&E works pending award. In October 2025, IJM also secured a milestone win from Pearl Computing - RM1.26b in core and shell works from **SIMEPROP (OP; TP: RM1.97)** and RM874m in M&E works directly from Pearl Computing. Two additional Pearl Computing data centres in the Klang Valley are pending awards, while initial tenders for Springhill are expected to roll out progressively starting mid-2026. **GAMUDA, SUNCON,** and **IJM** remain active bidders across these packages. Separately, **SUNCON** secured two data centre projects in Dec 2025 and Feb 2026 for RM570m and RM1.15b, respectively from US-based MNCs.

According to **TENAGA (OP; TP: RM17.00)**, seven data centre projects (1.2GW) had signed Energy Supply Agreements (ESAs) in 2025, bringing the cumulative total to 56 projects (7.5GW), of which 35 projects (4.5GW) are already completed. We expect the data centre boom to persist for at least the next two years and maintain our assumption of 700MW of new annual capacity, equivalent to about RM21b worth of data centre construction value each year.

Mixed outlook amid rising building material and logistics costs. The recent surge in building material and transportation costs—driven largely by the Middle East crisis—has resulted in a mixed impact across the sector. Based on our recent management checks, the implications vary depending on contract structures. Rising diesel fuel costs are particularly challenging, as these are typically not pass-through expenses under existing contract agreements, leading to direct margin pressure. Conversely, certain material costs include pass-through clauses, allowing players to mitigate some of the inflationary pressure. We understand that impact on **GAMUDA** is bifurcated by geography where overseas projects are on a cost-plus model which effectively insulates it from cost fluctuations while domestic projects, such as the Penang reclamation, face downside risks due to the spike in diesel fuel costs. Overall, our channel checks suggest that if the crisis does not persist beyond three months, the resulting margin compression should remain manageable. Consequently, we are maintaining our current earnings estimates for the time being.

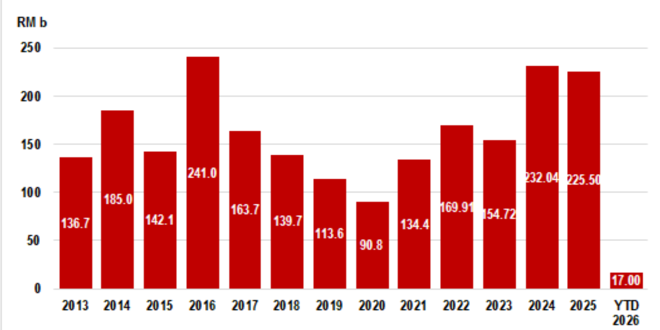
Maintain OVERWEIGHT for the sector. Despite near-term geopolitical headwinds and a slower-than-expected rollout of infrastructure projects, we remain bullish on the sector. This outlook is underpinned by persistent demand for data centres and sustained capital expenditure commitments from global technology firms. We maintain our peak PER valuation of 22x for large-cap players, **GAMUDA, SUNCON,** and **IJM**, as they are primary beneficiaries of a multi-year upcycle extending into 2026. For mid-caps, we retain our 18x PER valuation for **KERJAYA (OP; TP: RM3.05)**, while small caps **KIMLUN (OP; TP: RM1.50)** and **WCT (OP; TP: RM1.13)** remain at 12x and 10x, respectively. **GAMUDA** remains our **Top Pick** for the sector, supported by: (i) strong positioning in upcoming data centre tenders, (ii) proven track record in overseas markets, (iii) earnings visibility backed by a record RM36.6b order book, and (iv) consistent progress in renewable energy initiatives. We also continue to favour **SUNCON** and **IJM** among the large caps. **KERJAYA** is our mid-to-small-cap pick for its resilient earnings that offers attractive dividend yields of 5%. Among the small caps, **KIMLUN** stands to benefit from future infrastructure roll-outs. Finally, we recap that our recommendation is for a REJECT on **SUNWAY's (MP; TP: RM5.32)** takeover offer for **IJM**.

Malaysian Projects Awarded by Sector



Source: CIDB

Malaysian Projects Awarded



Source: CIDB

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	Gelang Patah	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
29 Aug 2025	Megaspeed International	CRESNDO	Bandar Cemerlang Industrial Park, Johor	52.5	263.2
14 Nov 2025	Pioneer Real Estate	CRESNDO	Kota Tinggi, Johor	40.1	200.8

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	Pear Computing	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	Gelang Patah, 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
29 Aug 2025	Pear Computing	GAMUDA	Eco Business Park V	2,138	3Q 2027
29 Oct 2025	Pear Computing	IJM	Elmina Business Park	2,134	1Q 2028
16 Dec 2025	US-based MNC	SUNCON	Klang Valley	570	Dec 2026
25 Feb 2026	US-based MNC	SUNCON	Klang Valley	1,146	May 2027

Source: Bursa

Key Infrastructure Projects			
Projects	**Value (RM b)**	**Status**	
		Ongoing	**Pending**
MRT3	45.0		√
Mutiara Line, Penang LRT	16.8	√	
Penang Airport Expansion	1.5	√	
Subang Airport Redevelopment Plan	3.7		√
KL-SG HSR	N/A		√
Johor Bahru E-ART	N/A		√
Johor Bahru-Singapore RTS	4.3	√	
Central Spine Road	10.7	√	
Pan Borneo Sarawak Phase 1	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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Peer Table Comparison

Name	Rating	Last Price @ 19/3/26 (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE 1-Yr. Fwd.	Net. Div. (sen) 1-Yr. Fwd.	Net Div Yld 1-Yr. Fwd.
Stocks Under Coverage																	
GAMUDA BHD	OP	4.13	5.30	28.3%	24,592.6	Y	07/2026	17.8	23.4	5.3%	31.3%	23.2	17.6	1.9	8.5%	10.0	2.4%
IJM CORP BHD	OP	2.37	3.40	43.5%	8,307.2	Y	03/2026	14.4	15.9	11.8%	10.1%	16.4	14.9	0.8	5.1%	8.0	3.4%
KERJAYA PROSPEK GROUP BHD	OP	2.40	3.05	27.1%	3,017.6	Y	12/2026	16.7	18.9	29.8%	13.2%	14.3	12.7	2.5	17.8%	12.0	5.0%
KIMLUN CORP BHD	OP	1.10	1.50	36.4%	427.6	Y	12/2026	21.8	20.3	70.1%	-6.8%	5.0	5.4	0.5	10.3%	2.0	1.8%
SUNWAY CONSTRUCTION GROUP	OP	6.64	7.76	16.9%	8,816.7	Y	12/2026	32.0	33.6	0.3%	5.1%	20.8	19.8	8.1	38.9%	32.0	4.8%
WCT HOLDINGS BHD	OP	0.420	1.13	169.0%	654.7	Y	12/2026	4.1	4.4	19.2%	7.3%	10.2	9.5	0.2	1.9%	0.0	0.0%
Sector Aggregate					**45,816.4**					**9.4%**	**18.3%**	**19.4**	**16.4**	**1.5**	**7.9%**		**2.9%**

Source: Kenanga Research

Consumer

NEUTRAL

↔

Essentials Hold as Discretionary Waits

By Thin Yun Jing I thinyj@kenanga.com.my

We maintain NEUTRAL on the sector, as consumer spending remains supported but increasingly selective, with households prioritizing essentials amid rising living costs. Recent retail data reinforces this trend, with spending continuing to be skewed towards essentials and value-for-money offerings despite policy support and festive-driven demand. This could be further exacerbated by mounting cost pressures and geopolitical uncertainties linked to Middle East tensions, which may weigh on consumer purchasing power and discretionary spending. Seasonality-driven tailwinds are also expected to fade post-1Q, while the tourism outlook has become more clouded given elevated travel costs, potentially limiting incremental spillover to retail and F&B.

While the one-off RM100 SARA cash aid continues to support consumption, particularly across mass-market F&B and value-oriented retail, we believe much of its positive impact has already been reflected in valuations, with recent performance indicating partial normalization as the SARA-driven impulse has begun to fade. Overall, we continue to favour selective exposure to defensive and value-driven names, with our top picks being F&N (OP; TP: RM37.70) for its exposure to essential consumption and defensive F&B profile, which remain resilient amid rising living costs, and MRDIY (OP; TP: RM1.80) for its value-for-money positioning and leverage to ongoing consumer downtrading trends.

Selective spending caps retail momentum as external risks loom. Retail Group Malaysia (RGM) maintained its CY26 retail sales growth forecast at 4.0%, but highlighted rising external headwinds from escalating Middle East tensions, the impact of which has yet to be fully reflected in the current projection. This follows a disappointing CY25 performance, with full-year growth of 2.4% (vs 3.6% forecast), following a 4QCY25 expansion of just 2.5% being well below the expected 5%, despite year-end festive and tourism support. The muted outcome suggests that while consumption remains resilient, spending is still cautious and selective, with consumers prioritizing essential and value-for-money purchases. This is reflected in full-year sub-sector trends, where mini-markets and convenience stores outperformed (+13%), while more discretionary segments such as furniture, home improvement and electrical goods contracted (-10%), indicating continued deferment of non-essential spending.

1Q uplift on festive demand, amid potential cost pressures. RGM expects 1QCY26 growth to improve to 4.4% YoY, supported by the dual festive boost of Chinese New Year and Hari Raya, ongoing fiscal support under STR and SARA, and tourism initiatives under VM2026. However, the group noted increasing uncertainties from higher energy prices and potentially severe supply chain disruptions linked to geopolitical tensions. These risks raise the likelihood of RON95 fuel subsidy adjustments and broader cost-of-living pressures, which could weigh on consumer purchasing power.

Essential spending takes priority as inflation stays on the rise. Consistent with this trend, we believe consumption is likely to remain skewed towards essentials in the near term, resulting in softer discretionary spending should cost pressures intensify. As such, this should support consumer staples players such as **F&N** and **NESTLE (MP; TP: RM106.00)**, which stand to benefit from resilient demand for food and beverage essentials. This is in line with our in-house view that inflation could trend higher amid the Middle East conflict, with our CY26 inflation forecast revised to 2.1% (from 1.9%). While energy subsidies and a stronger Ringgit should continue to anchor prices, potential disruptions to oil and fertilizer supply chains may lift food and transport costs, thereby eroding household purchasing power.

RON95 subsidy quota revision manageable for now. In this environment, the government recently announced a reduction in the standard monthly subsidised RON95 fuel quota under the Budi95 programme to 200 litres (from 300 litres) effective April 2026, while maintaining the pump price at RM1.99 per litre. We expect the direct impact on consumers to remain limited as ~90% of eligible users consume below 200L monthly, with average usage at c.100L. That said, we are mindful of potential second-order effects should elevated fuel prices persist, particularly through higher transportation and operating costs. For now, logistics costs appear relatively stable based on our channel checks, supported by continued diesel subsidies.

Faster SARA uptake signals front-loaded essential spending behaviour. Meanwhile, early utilisation of the one-off RM100 SARA cash aid provides a useful read-through on household spending behaviour amid ongoing cost pressures. As of 13 Feb, 8.1m people (37% of eligible Malaysians) had already used the second round disbursed on 9 Feb, with total spending reaching RM780m (c.36% of the RM2.2b allocation) and an average basket size of ~RM96. This represents a faster uptake compared to the first round disbursed on 31 Aug, where five-day utilisation stood at 30% of recipients, with only roughly 19% of the allocation spent and a smaller basket size of ~RM64. Despite a longer utilisation window for the current round (Feb–Dec versus Sep–Dec previously) which would typically imply more staggered spending, the stronger early redemption suggests more front-loaded spending, partly driven by festive demand ahead of Chinese New Year and Ramadan. That said, the higher participation rate and c.50% increase in basket size also point to improved programme familiarity alongside greater spend intensity, which in our view potentially reflects underlying cost-of-living pressures driving more immediate essential purchases.

The RM100 SARA cash aid, equivalent to c.4% of monthly disposable income for B40 households (see Exhibit 1 for breakdown by state and income group), should continue to support spending on groceries and daily necessities, particularly across mass-market F&B and value-oriented retail formats, with the merchant network expanding to ~10,700 outlets (from ~9,200 at end-Nov), including a growing base of small grocery shops (current: 3,000; target: 10,000 by year-end, which may introduce some marginal share dilution for larger chains.

SARA-driven valuation gains normalizing as momentum begins to cool. That said, while SARA remains a supportive demand driver, we continue to believe that much of its positive impact has already been reflected in valuations, with recent performance into end-March 2026 indicating partial normalization despite largely unchanged earnings revisions. Among key beneficiaries, **NESTLE** has retraced (c.-10% from Dec) alongside multiple compression of roughly 5x, while **99SMART (NR)** has held up better despite similarly stable earnings expectations, suggesting a more limited valuation unwind; **ECOSHOP (NR)**, meanwhile, de-rated on lacklustre results and weak same-store sales growth. Outside the SARA theme, **AEON (OP; TP: RM1.30)** and **PADINI (MP; TP: RM1.75)** saw weaker share price performance amid earnings downgrades, while **FFB (MP; TP: RM2.70)**'s valuation uplift appears driven more by its venture into Cambodia and expansion of higher-margin ice cream business than by SARA-related factors (see Exhibit 2). We note that the recent de-rating has also coincided with rising macro uncertainties, particularly elevated oil prices and inflation concerns linked to Middle East tensions, which may further weigh on valuations. Overall, this reinforces our earlier view that SARA-driven share price gains were predominantly led by valuation (with only c.20–25% of the re-rating into December driven by earnings revisions), with future performance hinging on execution and earnings delivery. In this environment, we continue to favour defensive names such as F&N, underpinned by resilient staple demand and its exposure to on-the-go consumption.

Exhibit 1: Monthly Household Disposable Income by State and Income Category (RM)

State	B40	M40	T20
Malaysia (Median)	**2,690**	**5,794**	**13,967**
Malaysia	**< 4,500**	**4,500 - 9,919**	**≥ 9,920**
Selangor	< 7,010	7,010 - 12,889	≥ 12,890
Kuala Lumpur	< 7,130	7,130 - 13,349	≥ 13,350
Johor	< 4,880	4,880 - 10,159	≥ 10,160
Penang	< 4,740	4,740 - 9,479	≥ 9,480
Sarawak	< 3,580	3,580 - 7,979	≥ 7980

**Note: median disposable income is estimated based on available data on median household income*

Source: Household Income Survey Report 2022, Kenanga Research

Exhibit 2: Market Reaction to SARA-related Policy Announcements

Company	Sub-sector	Change in Market Cap (%)		Change in FY26 Consensus Earnings (%)		Change in Valuation Multiple (x)	
		Cumulative (Jul-Mar)	Recent (Dec-Mar)	Cumulative (Jul-Mar)	Recent (Dec-Mar)	Cumulative (Jul-Mar)	Recent (Dec-Mar)
NESTLE	F&B	32%	-10%	13%	1%	5.7	-4.9
FFB*	F&B	44%	-12%	13%	1%	6.0	-4.1
F&N	F&B	3%	-17%	-7%	0%	1.9	-3.7
PWROOT*	F&B	-14%	-5%	-25%	-13%	1.8	1.1
QL*	F&B	-18%	-9%	-6%	-3%	-4.1	-1.8
99SMART	Retail	54%	0%	11%	0%	11.2	0.1
ECOSHOP	Retail	0%	1%	-5%	-2%	1.4	0.9
MRDIY	Retail	3%	13%	-1%	-1%	0.7	2.8
AEON	Retail	-20%	5%	-14%	-3%	-0.7	0.8
PADINI	Retail	-11%	-6%	-18%	-12%	0.9	0.6

Source: Bloomberg, Kenanga Research

Note: (i) *FY26F refers to FY27F

(ii) *Cumulative* covers the period from just before the July 2025 SARA announcement to end-March 2026

(iii) *Recent* covers from our last sector report (December 2025) to end-March 2026.

Tourism outlook clouded by geopolitical headwinds. Tourism prospects have become increasingly uncertain amid rising geopolitical tensions and disruptions in West Asian airspace, which are pushing up fuel costs and airfares, potentially dampening global travel demand and challenging Visit Malaysia 2026 (VM2026) targets of 47m visitor arrivals and RM329b in tourism receipts. While tourist arrivals grew strongly by over 30% YoY in Jan-Feb, supported by Chinese New Year traffic and double-digit growth in Chinese visitors, sustaining this momentum may be difficult if travel costs stay elevated. In response, the government is pivoting promotional efforts toward more resilient regional markets, including ASEAN, China, South Korea and Japan, and exploring alternative transit hubs to support arrivals. Although tourists from Middle East (c.0.4% of arrivals but typically high spenders) may decline, the overall impact on arrival numbers is expected to be limited, with 75-80% of arrivals historically coming from ASEAN providing some buffer. However, if elevated oil prices and high airfares persist, especially for long-haul travel, this could still weigh on tourism receipts, limiting spillover benefits to consumer-facing segments such as F&B and retail.

Price swings in commodities (see Exhibit 3). Coffee prices have eased to multi-month lows on stronger production outlooks, before rebounding slightly amid short-term supply constraints coupled with recent uncertainty over global trade flows amid geopolitical tensions. Cocoa prices have continued to decline (-48% YTD), near the lowest since July 2023, driven by improving weather in key production regions (like West Africa), rising inventories and slowing global demand. Meanwhile, prices of wheat, corn and soybean trended higher overall, albeit with some recent volatility, with corn seeing more muted gains. This was driven mainly by elevated energy and fertilizer costs, as well as tightening supply expectations, which could raise input costs for food producers and poultry players. On a brighter note, a stronger Ringgit should help offset part of these headwinds by easing import costs. In freight dynamics, the Baltic Dry Index has risen 7% YTD, likely supported by firmer bulk commodity demand, while the Shanghai Shipping Index has remained largely flat, reflecting continued softness in container freight rates from China.

Valuation update: Our earnings forecasts, valuation methodology, target prices, and ratings remain unchanged for the consumer sector portfolio, except for names with discretionary exposure, i.e. **AEON**, **MRDIY**, **PADINI** and **QL (MP; TP: RM4.05)**. We revise our valuation assumptions for **AEON** and **PADINI**, while maintaining the unchanged discounts, with ascribed PERs adjusted to 12.5x (10% discount) and 11x (20% discount), respectively. While the PER revision is primarily driven by the updated valuation base period, we note that it also better reflects current conditions amid rising cost-of-living pressures, particularly given ongoing Middle East tensions. We believe the extended conflict may increase living costs, eroding consumers' purchasing power and likely prompting them to scale back on discretionary spending. Consequently, we lower our TP for **AEON** to RM1.30 (from RM1.40) and for **PADINI** to RM1.75 (from RM1.90). The ratings for **AEON** and **PADINI** remain unchanged at OP and MP, respectively. For **MRDIY**, we lower our TP to RM1.80 (from RM1.95) as we ascribe a lower PER of 24x (vs. 26x previously). However, we upgrade the stock to OP following recent share price weakness, which has improved its risk-reward profile backed by decent dividend yield of c.5%; we expect consumer downtrading trends to support its value-for-money positioning. Meanwhile, for **QL**, we tweak our DCF assumptions by incorporating more conservative margin assumptions, primarily reflecting weaker performance in its CVS segment amid heightened competition and its discretionary exposure via *FamilyMart*, while demand in core segments such as MPM and ILF remains relatively stable. We maintain MP for the stock, with TP lowered to RM4.05 (from RM4.26).

Our TP and recommendation for consumer stocks are summarised in Exhibit 4.

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 (including STR and SARA), a stronger Ringgit and selective resilience in categories such as F&B. From a portfolio perspective, heavyweight names remain broadly neutral; however, we are selectively positive on specific counters with better earnings resilience, defensive essentials-led exposure fundamentals and value-oriented positioning.

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) 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 value-for-money appeal which resonates with cost-conscious consumers, and (iv) its continued efforts to improve operational efficiency such as the introduction of an automated inventory system.

Exhibit 3: Raw Material / Commodities Price Trend

	3/20/2026	1M	QTD	4QCY25	YTD	vs. 2025 average price	vs. 2024 average price	vs. 2023 average price	Future Price Trend*
Sugar (USD/lb)	15.9	10.1	5.7	-6.8	5.7	-6.3	-23.5	-34.1	↑
Coffee (USD/lb)	307.7	7.6	-11.8	-7.0	-11.8	-15.7	31.1	79.3	↑
Cocoa (USD/MT)	3,164.0	6.4	-47.8	-10.1	-47.8	-61.2	-60.9	-4.1	↑
Milk (USD/MT)	3,709.0	0.1	17.3	-16.6	17.3	-4.9	7.8	20.4	
Wheat (USD/MT)	410.5	2.3	19.3	-0.2	19.3	12.2	4.4	-7.3	↓
Corn (USD/Bushel)	385.6	4.1	6.1	6.0	6.1	5.5	8.7	-16.1	↑
Soybean (USD/Bushel)	1,173.8	1.6	14.1	2.9	14.2	12.7	6.5	-16.7	↓
CPO (RM/MT)	4,501.0	14.0	13.8	-7.1	13.8	5.5	7.2	18.0	↓
Cotton (USD/lb)	69.4	8.7	7.6	1.5	7.5	5.9	-9.5	-16.4	↑
Aluminium (USD/MT)	3,330.8	5.6	11.8	11.0	11.8	26.3	36.8	47.0	↓
Baltic Dry Index	2,014.0	-5.9	7.3	-12.0	7.3	19.8	14.8	46.1	
WTI Crude Oil (USD/Barrel)	94.5	42.4	66.2	-7.9	66.2	46.0	24.7	21.7	
Volatility Index	27.4	40.4	86.6	-8.2	86.6	45.0	76.5	62.9	
Dollar Index	1,216.2	2.5	1.1	0.3	1.1	-1.3	-2.9	-1.9	
USDMYR	4.0	-2.9	1.2	-3.5	-1.2	-6.7	-12.7	-12.5	
Shanghai Shipping Index	1,120.6	9.0	-0.7	5.4	-0.7	-6.4	-27.7	19.6	

*Source: Bloomberg, Kenanga Research, *World Bank Commodity Price Forecasts (10 October 2025)*

Exhibit 4: Changes to Valuation, TPs and Recommendations

Company	FYE	Valuation					Target Price (RM)			Recommendation		
		Basis	Base Year	After	Before	Chg	After	Before	Chg	After	Before	Chg
AEON	Dec	PER (x)	FY26	12.5	13.5	↓	1.30	1.40	↓	OP	OP	↔
FFB	Mar	PER (x)	FY27	30	30	↔	2.70	2.70	↔	MP	MP	↔
F&N	Sep	PER (x)	CY26	24	24	↔	37.70	37.70	↔	OP	OP	↔
MRDIY	Dec	PER (x)	FY26	24	26	↓	1.80	1.95	↓	OP	MP	↑
NESTLE	Dec	WACC (%)		5.3	5.3	↔	106.00	106.00	↔	MP	MP	↔
PADINI	Jun	PER (x)	FY27	11	12	↓	1.75	1.90	↓	MP	MP	↔
PWROOT	Mar	PER (x)	FY27	15	15	↔	1.08	1.08	↔	MP	MP	↔
QL	Mar	WACC (%)		5.8	5.8	↔	4.05	4.26	↓	MP	MP	↔
KAREX	Jun	PER (x)	FY27	25	25	↔	0.580	0.580	↔	MP	MP	↔

Source: Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price @ 19/3/26 (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.
CONSUMER																	
AEON CO. (M) BHD	OP	1.09	1.30	19.3%	1,530.4	Y	12/2026	10.3	11.3	8.6%	9.0%	10.5	9.7	0.7	7.1%	5.0	4.6%
FARM FRESH BHD	MP	2.55	2.70	5.9%	4,805.1	Y	03/2026	7.5	9.0	29.2%	20.4%	34.1	28.3	5.8	18.2%	3.0	1.2%
FRASER & NEAVE HOLDINGS BHD	OP	29.30	37.70	28.7%	10,746.6	Y	09/2026	144.2	160.7	3.6%	11.4%	20.3	18.2	2.6	13.2%	70.0	2.4%
MR D.I.Y. GROUP (M) BHD	OP	1.66	1.80	8.4%	15,732.6	Y	12/2026	7.5	8.2	11.6%	9.0%	22.1	20.3	7.8	35.3%	8.0	4.8%
NESTLE (MALAYSIA) BHD	MP	100.40	106.00	5.6%	23,543.8	Y	12/2026	256.9	284.7	20.2%	10.8%	39.1	35.3	40.5	104.1%	255.0	2.5%
PADINI HOLDINGS BHD	MP	1.74	1.75	0.6%	1,717.1	Y	06/2026	14.0	15.9	-15.0%	13.5%	12.4	11.0	1.4	11.1%	8.2	4.7%
POWER ROOT BHD	MP	1.12	1.08	-3.6%	470.7	Y	03/2026	5.6	7.2	-21.5%	28.3%	20.0	15.6	1.6	7.5%	5.0	4.5%
QL RESOURCES BHD	MP	3.65	4.05	11.0%	13,323.4	Y	03/2026	12.2	13.4	-2.0%	9.5%	29.9	27.3	3.7	14.1%	5.0	1.4%
KAREX BHD	MP	0.500	0.580	16.0%	526.7	Y	06/2026	1.0	2.3	5250.0%	126.2%	49.2	21.8	1.1	2.3%	1.5	3.0%
SECTOR AGGREGATE					**72,396.4**					**8.2%**	**11.4%**	**26.3**	**23.7**	**4.8**	**18.1%**		**3.2%**

Source: Bloomberg, Kenanga Research

Glove

OVERWEIGHT

↔

Visible Signs of Recovery Despite Challenges Ahead

Raymond Choo Ping Khoon I pkchoo@kenanga.com.my

We remain OVERWEIGHT on the sector. We see positive improvements in Malaysian glove manufacturers in its cost structure leading to higher margins and visible recovery signs since the pandemic, with key manufacturers reporting improved results. In the meantime, Malaysian glove makers could in the short-term face regional supply chain disruptions and operational challenges. Based on channel checks, due to the high oil price amidst geopolitics tension in the Middle East, correspondingly, input raw material nitrile has risen >50% over the past few weeks. In terms of competition, based on channel checks, Chinese glovemakers are not competing heavily in Europe especially in public procurement due to strict EU trade restrictions and punitive tariffs, forcing them to pivot towards the Chinese domestic market and lower-tier non-US markets which augurs well for Malaysian glovemakers. Our Top Pick is KOSSAN (OP↔; TP: RM1.40↔).

Mixed recovery in sales volume but visible margin improvement gathering momentum. In latest quarterly results, glove makers have continued to show positive gradual recovery in sales volume and improvement in their cost structure leading to higher margins. Specifically, the recent quarterly results showed positive sales volume growth led by TOPGLOV (+23%), HART (+3%) and KOSSAN. In terms of margins in TOPGLOV's past three quarterly results (4QFY25, 1Q2FY6 and 2QFY26), EBITDA margins have expanded from 10% in 4QFY25 to 14% and 12% in 1QFY26 and 2QFY26, respectively. KOSSAN's past quarters EBITDA margin was between 11%-15% (4QFY24 to 4QFY25). We believe the gradual margins and volume sales improvement are expected to dispel earlier concerns of Malaysian glove makers' less-than-robust cost structure leading to margins being crimped which stymied overall profitability. TOPGLOV margins improvement and reactivation of four plants are indicating positive signs of higher demand. Due to higher plant utilization and improved economies of scale, margins have improved. Specifically, production costs have been reduced by about 20% over the past two years, narrowing its cost gap with Chinese glove manufacturers and allowing it to compete on pricing strategy while maintaining profit margins. It reiterated that cost savings have been achieved across multiple areas, including labour, chemicals, energy, electricity, water, packaging materials and operational efficiency. It is hopeful of achieving further cost savings by an additional 5% over the next few quarters.

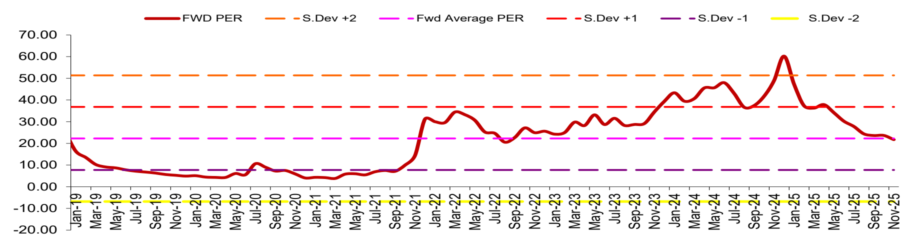
Malaysian glove makers could in the short-term face regional supply chain disruptions and operational challenges. Based on channel checks, due to the high oil price amidst geopolitics tension in the Middle East, correspondingly, input raw material nitrile has risen >50% over the past few weeks. For illustration purposes, since raw material accounts for 40% of total cost, a 50% increase in input nitrile will reduce bottom line by 20% assuming no cost pass through. Consequently, based on our channel checks in terms of guidance on ASP going forward, nitrile ASP for thin gauge glove is expected to gradually increase by up to USD7.00 per 1,000 pieces to USD23-USD25 per 1,000 pieces in the months of April and May.

In terms of competition, based on channel checks, Chinese glovemakers are not competing heavily in Europe especially in public procurement due to strict EU trade restrictions and punitive tariffs, forcing the Chinese glovemakers to pivot towards their domestic market and lower-tier non-US markets which augers well for Malaysian glovemakers. As an indication, TOPGLOV 2QFY26 results showed a strong sales volume growth in Europe on the back of orders secured there. Facing restricted access to both the US and high-value EU public tenders, we understand that Chinese producers have redirected their massive capacity into non-US markets, including Southeast Asia, Europe (private sector), and within China.

We believe **KOSSAN** would be the least 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. We like KOSSAN for: (i) trading at 12x PER-ex cash (RM1.6b net cash or RM0.62/share net cash per share), (ii) trading below book value despite being the most profitable listed medical grade glove in Bursa Malaysia, (iii) its solid track record, and (iv) focusing on specialty gloves which fetches better margins. We like **TOPGLOV** for: (i) it is gaining market share in the US which accounts for 33% of total sale volume and has a target for 40% of group sales volume over the next two years; and (ii) savings initiatives which led to a reduction of cost by 20% over the past two years which is being reflected in its EBITDA margin rising to 14% in 1QFY26 from 10% in 1QFY25.

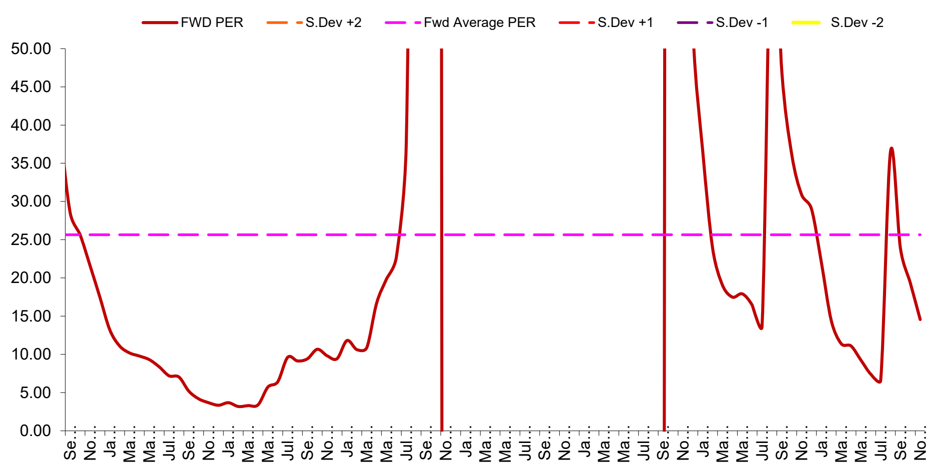
Downgrade Kossan FY26F and Hartalega FY27F net profit forecasts in anticipation of higher input nitrile raw material cost. We have downgraded TOPGLOV FY26 net profit following its recently released 2QFY26 result. Similarly, we are now downgrading KOSSAN and HARTA net profit to account for higher input raw material price. For **KOSSAN**: We cut our FY26F net profit by 5% to better reflect the higher input nitrile raw material and the assumption that cost is not fully passed through. We cut our FY26F EBITDA margin from 14% to 13.5%. Our TP is RM1.42 (from RM1.50) based on unchanged 23x FY26F EPS. **HARTA** : We cut our FY27F (FY Mar 27) net profit by 8% to better reflect the group's guidance of higher input nitrile raw material and the assumption that cost is not fully passed through. We cut our FY26F EBITDA margin from 14% to 13%. We maintain our asset-based TP of RM1.13 based on 0.9x FY26 PBV which implied FY27 PER of 24x.

Kossan : PER Band



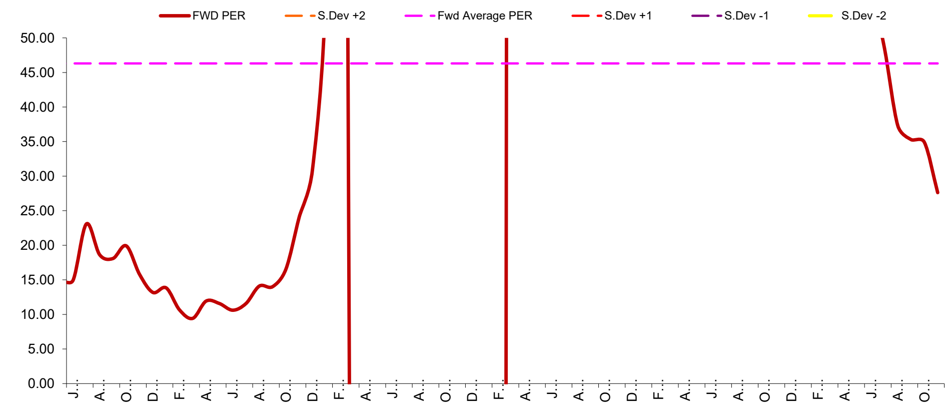
Source: Bloomberg, Kenanga

TOP GLOVE : PER Band



Source: Bloomberg, Kenanga

HARTA : PER Band



Source: Bloomberg, Kenanga

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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	0.940	1.13	20.2%	3,953	Y	12/2026	2.1	3.5	-2.3%	61.1%	43.9	27.2	0.7	1.7%	1.0	1.1%
KOSSAN RUBBER INDUSTRIES	OP	1.02	1.42	39.2%	2,900	Y	12/2026	6.2	7.2	4.1%	17.7%	16.6	14.1	0.7	4.2%	4.0	3.9%
SUPERMAX CORP BHD	UP	0.290	0.240	-17.2%	948	Y	06/2026	(3.1)	0.6	-163%	-82.1%	N.A.	52.3	0.2	-2.5%	0.0	0.0%
TOP GLOVE CORP BHD	OP	0.555	0.750	35.1%	5,172	Y	12/2026	1.5	1.7	117%	17.1%	38.1	32.5	0.9	2.5%	73.0	131.5%

Source: Company, Bloomberg, Kenanga Research

Healthcare

NEUTRAL

↔

Private Hospitals Run Ahead of Fundamentals

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

We reiterate our NEUTRAL call on the healthcare sector given that IHH's valuation appears rich compared to its earnings growth. Looking ahead, we believe IHH's structural shift into an increasing focus on day-care and its skew towards more surgical cases offer greater efficiency. In the meantime, we believe medical tourism will continue to gain momentum and benefit private healthcare operators in Malaysia. Recognizing the sector's strong potential, MHTC has set a medical tourism revenue target of RM12b (USD2.6b) by 2030. 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, our top pick for the sector is DPHARMA (OP; TP: RM1.72).

1. Private Hospitals

We are neutral on the healthcare sector given that we have MP on IHH, which could have less upside for now from an operational viewpoint. For **IHH (MP; TP: RM8.50)**, it is trading at EV/EBITDA of 16x and 15x on FY26F and FY27F numbers. In our view, we believe IHH's valuation appears rich. As an indication, IHH's EV/EBITDA multiple rose 60% to 18x compared to its EPS growth averaging 29% since CY2023 till Mar CY2026. The valuation appears riche over the past 12 months, where the EV/EBITDA multiple of the stock rose 26% compared to its negative EPS growth averaging 1.9%. (pls refer to chart in page 2).

We view positively the proposed base medical and health insurance, and takaful (MHIT) plan as a step in the right direction to expand healthcare accessibility, potentially raising the total number of insured individuals across all insurance and takaful operators. We believe the cheaper base MHIT entry could encourage higher participation in low-risk groups and hence indirectly benefiting the private healthcare operators. Theoretically, it encourages earlier engagement with formal healthcare rather than delaying treatment due to cost concerns, mitigating the potential incidence of more severe and expensive health outcomes over time.

In our view, the financial impact to private healthcare operators is muted in the immediate term as the plan targets essential care. According to the White Paper, it is expected that highly complex and costly treatments that are likely to exceed the policy limits will continue to be managed within the public healthcare system as the base MHIT plan is complementary to, and not a replacement of, the public healthcare system.

However, we are concerned for: (i) hospital operators targeting high-end complex procedures, as this segment could potentially yield lower revenue intensity and compel a right-sizing of services with cost-effective, standardized packages to maintain revenue intensity (note that the MHIT's benefits are benchmarked against lower and mid-tier private hospital costs); (ii) the required co-payment or deductible structure which may deter B40 policyholders from subscribing; and (iii) the annual coverage limit of RM100,000 or RM150,000 could cover many routine procedures and admissions, but we believe this could prove insufficient for complex or prolonged conditions like cancer, major cardiovascular events, complicated infections, or multi-disciplinary rehabilitation, especially if care is required for multiple months.

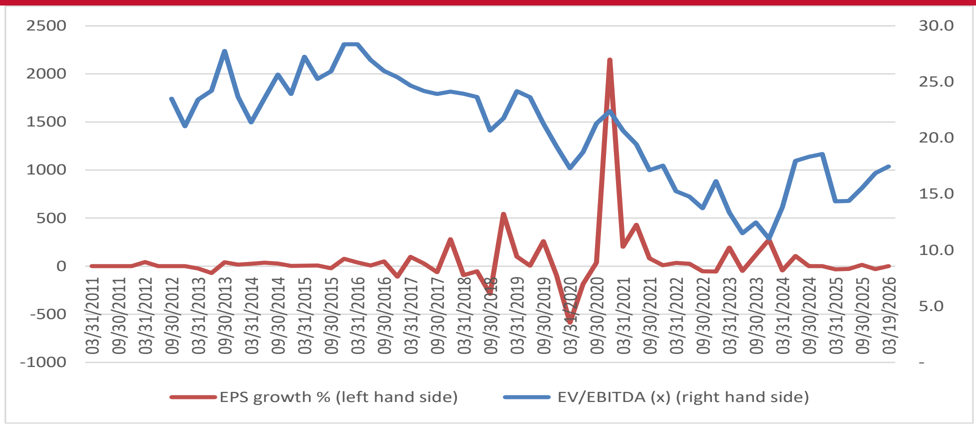
The base MHIT plan is an integral part for a gradual transition from the traditional fee-for-service charge to diagnosis-delated group (DRG). We expect near-term impact to be muted or neutral to private healthcare operators, during the pilot phase (expected 2HCY26). Over the longer-term, the implementation 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 treatments or minor illnesses. Over longer-term, growth prospects of the healthcare sector will continue to be underpinned by an ageing population, rising affluence and cases of chronic diseases globally.

Based on channel checks, insurance panels or payors are tightening measures such as stricter approval for hospital stays due to medical inflation, which may deter patients from using private healthcare providers. The challenge here is that private healthcare operators could be exposed to periodic negotiations on pricing and discounts from insurance panels and their commitment to providing quality care.

IHH (MP; TP: RM8.50) plans to add >4,000 beds (+30%) over the next five years across Malaysia, India, Türkiye and Europe which has been extended to CY2030. The extension was probably due to the pivot towards day-care model which in turn frees up inpatient bed capacity. In Malaysia, the expansion focuses on hospitals with occupancy rates greater than 80% with emphasis on secondary hospitals. The group's structural shift in 2QFY25 gained momentum in 4QFY25 from its healthcare model that increasingly focused on day-care and skewed towards more surgical cases, while moving away from medical cases. For example, gallbladder surgery and angiogram can be done via day-care instead of as inpatient. Generally, day-care treatment refers to a patient's pre-planned medical procedures, both surgical and non-surgical, which require a short hospital stay, typically less than 24 hours, with admission, treatment, and discharge occurring on the same day. We believe margins are not expected to be crimped because day-care requires less operating costs. Typically, inpatient wards need three shifts of nurses and 24 hours operations. However, day-care requires one shift of nurses, and the wards are not operating overnight. 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. Looking ahead in Singapore - it has responded to persistent payor pressure and a structural shift towards outpatient care by implementing a "tactical change" centred on an "out of hospital" strategy. Specifically, this involves growing its network of ambulatory care centres to free up hospital beds for more complex, high-acuity, and higher-margin procedures, while shifting lower acuity (less severe) cases to new ambulatory care centres. It has fully re-opened Mount Elizabeth Orchard in 3QCY25 and expects full operations in 2HFY26 with beds to ramp up from 110 to 220 beds.

In our, view, we believe IHH valuation appears rich. As an indication, IHH's EV/EBITDA multiple rose 60% to 18x compared to its EPS growth averaging 29% since CY2023 till Mar CY2026. The valuation appears richer in over the past 12 months, which saw the stock's EV/EBITDA multiple rising 26% compared to its QoQ core EPS growth averaging 3%.

Rich valuation - EV/EBITDA multiple rose 26% to 16x compared to QoQ core EPS growth averaging 3% past 12 months to Mar CY2026



Source: Bloomberg, Company, Kenanga Research

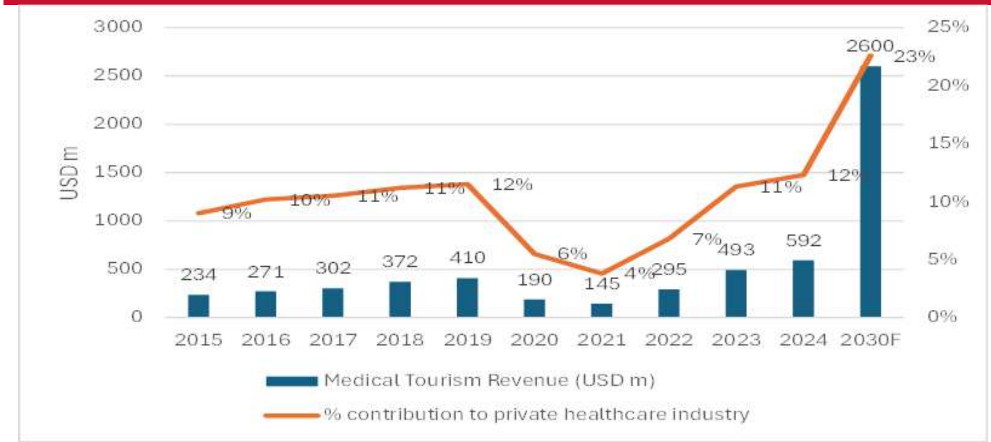
MHTC medical tourism forecast is augers well for private healthcare operators. Overall, we believe medical tourism will continue to gain momentum and benefit private healthcare operators in Malaysia. Amplifying the optimism for medical tourism, with the launch of the Malaysia Year of Medical Tourism 2026 (MYMT 2026), the country is set to bring all these strengths together in a landmark campaign that positions Malaysia as one of the world's leading destinations for medical tourism.

The propensity for medical tourism in Malaysia underpins growth potential for private healthcare operators including IHH. The Malaysia Healthcare Travel Council (MHTC) has projected CY2026 growth of 13% to RM3.45bn. Specifically, health tourism revenue for **IHH (OP; TP: RM8.50)** accounts for an estimated 15% of IHH Malaysia's operations, versus 6%-7% historically. IHH has seen an increase in medical tourism in Prince Court, Gleneagles KL, Pantai KL and Gleneagles Johor hospitals. For Sunway healthcare Group, foreign patient revenues account for an 8%,10% and 12% mix in CY22, CY23 and CY24, respectively. Malaysia is known for certain medical services including vitro fertilisation, gastroenterology, orthopaedic surgery, and obstetrics and gynaecology, which has attracted a significant number of medical tourists. The National Heart Institute is also a popular destination for many medical tourists, thanks to the hospital being recognised as the Cardiology Service Provider of the Year in Asia Pacific by the Global Health and Travel Award for seven consecutive years.

Malaysian private hospitals are beneficiary of medical tourism. The propensity for medical tourism in Malaysia underpins the growth potential for private healthcare operators. To support the growth of medical tourism, the Malaysian government has implemented several strategic initiatives including establishing the Malaysia Healthcare Travel Council (MHTC) in 2005 by the MOH with the mandate to raise Malaysia's medical tourism industry, thus elevating Malaysia's private HCS. MHTC has been actively promoting Malaysia's medical tourism industry and launched initiatives such as the Malaysia Healthcare Travel Industry Blueprint 2021-2025, a strategic roadmap to guide recovery and rebuild momentum post-pandemic, positioning Malaysia as the preferred medical tourism destination. In 2023, the medical visa was introduced by offering shorter processing time (within two working days) and allowing patients to bring two companions for stays of up to 30 days. Malaysia also provides dedicated immigration lanes for medical tourists, healthcare concierge services and lounge facilities at major airports and a dedicated call centres to assist patients in the country. These initiatives have strengthened Malaysia's position as a medical tourism hub in SEA. Recognizing the sector's strong potential, MHTC has set a medical tourism revenue target of RM12b (USD2.6b) by 2030.

Generally, Malaysia's medical tourism growth has been largely driven by patients from Indonesia, which accounted for an estimated 50%-80% of the total medical tourists historically. An estimated 50% of Indonesians who make overseas medical trips annually choose Malaysia as the destination for their medical treatments, due to Malaysia's relatively affordable prices, advanced medical infrastructure, high-quality medical professionals, linguistic similarities, cultural compatibility, geographic proximity and ease of travel due to frequent flights. Moreover, many private hospitals in Malaysia have established a network of representative offices or collaboration with partner agents in Indonesia to support patient referrals and established international patient services teams to coordinate travel arrangements.

Medical Tourism : 28% CAGR in 2024-2030



Source: MHTC, Kenanga Research

2. Health Supplements and OTC Drugs

DPHARMA (OP; TP: RM1.720 is optimistic that public sector sales are expected to be higher in FY26 in which APPL contract expires end-CY26. Generally, APPL contracts are awarded on a 3-year basis and typically the last year of the contract will see a spike in demand or peak in volumes usually. It expects the APPL government's contract renewal bidding cycle to start in 2HCY26. Overall, we are encouraged to see the alignment between the immediate fiscal measures in Budget 2025 and the priorities under the 13th Malaysia Plan (13MP). Specifically, the 13MP prioritizes strengthening medical supply security, encouraging domestic pharmaceutical manufacturing, and increasing the use of generic medicines in both public and private hospitals significantly. We are encouraged by the government's allocation of RM46.5b to the MOH, 2.7% higher than the allocation under Budget 2025. All these augur well for DPHARMA.

The trend also 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, **NOVA (OP; TP: RM0.47)** is optimistic for increased demand for health supplements in FY26. It is focusing on Activmax and Sustinex range of functional food products (such as plant-based protein including specialty Activmax for hospitals). Specifically, Activmax and Sustinex are house brand products developed with embedded vitamins and other nutrients to fulfil consumers' nutritional needs. The group has made further inroads over the past two years penetrating into the local public hospitals. Looking ahead in FY26, we expect EBITDA margins to improve to between 35%-40% compared to a historical range of 30%-51% in FY22-FY25 due to better economies of scale and efficiency coupled with incremental revenue, as its new plant is expected to have better overhead absorption and in turn margin improvements.

We like **SCOMNET (OP; RM1.00)** for: (i) the bright prospects of disposable endoscopes and ECG cables, (ii) its solid business model from product conceptualisation, design and manufacturing of OEM and ODM tubing cable assemblies and devices, hence keeping most of the margins to the group, and (ii) the superior margins of its business model.

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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	1.35	1.72	27.4%	1,299	Y	12/2026	11.5	12.1	14.0%	5.4%	11.7	11.1	1.6	14.0%	4.6	3.4%
IHH HEALTHCARE BHD	MP	9.03	8.50	-5.9%	79,790	Y	12/2026	23.8	25.9	15.1%	8.5%	37.9	34.9	2.5	6.8%	10.0	1.1%
KOTRA INDUSTRIES BHD	OP	4.04	4.90	21.3%	599	Y	06/2026	28.7	32.5	-4.7%	13.2%	14.1	12.4	2.1	15.3%	25.5	6.3%
NOVA WELLNESS GROUP BHD	OP	0.390	0.470	20.5%	124	Y	06/2026	3.6	3.8	49.4%	4.3%	10.8	10.3	1.1	10.1%	1.6	4.1%
PHARMANIAGA	UP	0.260	0.200	-23.1%	1,705	Y	12/2026	1.0	1.1	34.0%	8.0%	26.2	24.3	3.4	13.9%	0.0	0.0%
SCOMNET	OP	0.560	1.00	78.6%	477	Y	12/2026	4.2	4.9	38.5%	18.1%	13.4	11.3	1.1	8.3%	2.3	4.1%

Source: Company, Bloomberg, Kenanga Research

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Media

UNDERWEIGHT

↔

Meaningful IP Earnings still a Distant Catalyst

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

Traditional adex in Malaysia is expected to continue its multi-year decline, as digital channels capture an increasing share of the market. Legacy media players have limited digital advertising presence, being largely confined to website ads. However, this segment has also recently begun to decline, registering a steep 33%–38% drop since 2024, eliminating what was previously a growth area for Malaysian media companies.

Looking ahead, we believe media companies should strategically shift their focus towards scaling and monetizing their intellectual property (IP) portfolios. This could serve as a long-term growth driver, helping to offset the decline in traditional adex. However, at this nascent stage, such efforts remain work in progress.

We reiterate our FY26F adex of RM4.24b (–10% YoY), reflecting a downturn across the board for both traditional media and web-based digital inventory. We maintain our UNDERWEIGHT call on the sector, given ongoing earnings pressures from fierce competition and heavy legacy overheads. We do not have any stock picks within the sector.

Traditional media adex continues to shrink. Based on Nielsen data, traditional adex in Malaysia contracted at a 6-year CAGR of 3% in 2019-25, largely due to sustained market share losses to digital channels. Advertisers are increasingly gravitating toward: (i) social media: which offers interactive and personalized content, and (ii) search advertising: which captures high-intent consumers at the point of purchase. These digital channels are further strengthened by programmatic buying, data-driven strategies, and AI-powered analytics. These features enable precise targeting, real-time optimization, and measurable results. In contrast, traditional TV, radio, and print rely on broad, passive reach, offering limited engagement resulting in low conversion rates.

Website adex also declining. Traditional media players in Malaysia maintain only a limited digital advertising presence, with exposures largely confined to basic formats such as banner ads and basic video placements on their own websites. In contrast, digital-native players like **FOODIE (NOT RATED),** offer more sophisticated digital advertising on their social media platforms. Moreover, Nielsen data revealed a sharp decline in adex on Malaysian websites—falling 33% YoY in 2024 and a further 38% in 2025. With this former growth area now hamstrung, Malaysian media companies face an urgent need to adapt more quickly to shifting digital trends.

While **ASTRO (MP; TP: RM0.08)** recently invested in KULT, a digital marketing venture, it remains in its early startup phase and has yet to gain meaningful revenue traction. KULT allows advertisers and brands to tailor campaigns across ASTRO's content ecosystem, including both proprietary and external digital platforms such as YouTube, TikTok, and Meta. However, at this stage, digital adex remains immaterial, accounting for just 2% of ASTRO's total adex in FY26.

Need to diversify earnings via IP expansion. Looking ahead, Malaysian media companies would benefit from prioritizing the development of intellectual property (IP) as a core strategic pillar. A strong IP portfolio can provide more stable and diversified revenue streams, helping to offset the decline in traditional adex. Additionally, it will also strengthen brand equity and audience loyalty, while enabling ancillary monetization opportunities (eg. via merchandising, format licensing, and cross-platform adaptations). In an evolving and challenging media landscape, we believe players that successfully scale their IP will be better positioned to remain relevant and achieve long-term growth.

Nascent progress in scaling IP. In response to these trends, ASTRO has ramped up its investments in local content through its in-house production and distribution arm, Astro Shaw. It recently delivered Malaysia's highest-grossing local animated film to-date, *Papa Zola*, which garnered over RM69m in gross box office (GBO) receipts. For this title, ASTRO retained an estimated 15% of GBO, reflecting its position as the primary marketing and distribution partner. In contrast, for franchises where ASTRO holds leading ownership stakes (eg. *Polis Evo),* the group may secure significantly larger share of up to 90% of GBO.

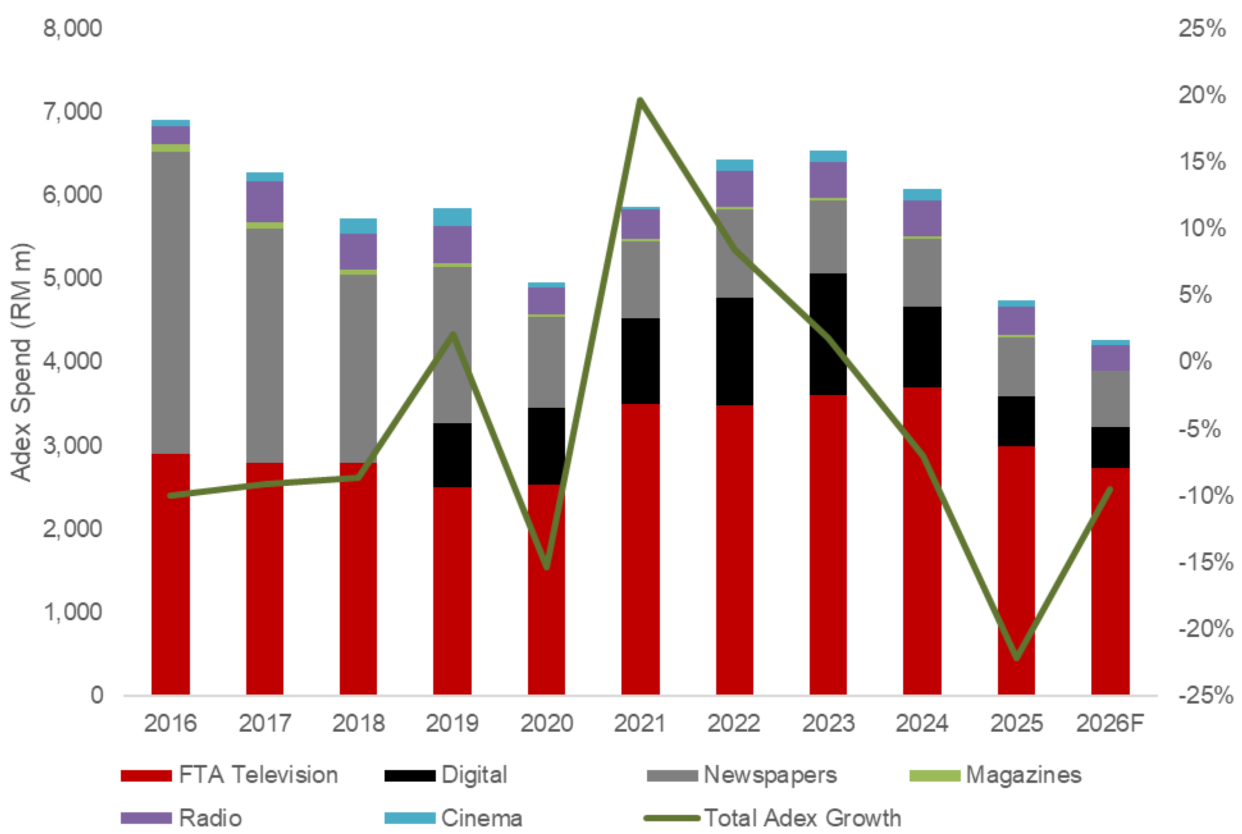
In FY26, Astro Shaw and its partners produced six of the top 10 highest-grossing Malaysian films, generating a combined RM111m in box office revenue. Beyond theatrical performance, sponsorship income from its films rose 3-fold YoY, supported by multi-year agreements under the Astro Shaw Cinematic Universe as well as strategic brand collaborations.

However, while these achievements signal encouraging early momentum, the scaling of IP into recurring revenue streams remains work in progress.

Stay underweight amidst sustained adex decline. We retain our FY26F adex of RM4.24b (-9.5% YoY), driven by broad-based weakness across FTA TV (-8.6% YoY), newspapers (-5.6% YoY), magazines (-6.6% YoY), radio (-8.7% YoY), cinema (-23% YoY), and digidex (-17.3% YoY). Despite the anticipated decline, we expect a milder YoY contraction, supported by a lower base effect and potential uplift in advertising spend tied to major sporting events in 2026, including: (i) SUKMA Selangor, (ii) 2026 FIFA World Cup, and (iii) the 2026 Winter Olympics.

Earnings headwinds from competition and legacy costs. We maintain **UNDERWEIGHT** on the sector, underpinned by sustained earnings headwinds as a result of: (i) loss of adex share to digital-native players, and (ii) escalated costs from legacy infrastructure (eg. broadcast towers, satellite transponder leases, printing facilities, and physical distribution networks). Meanwhile, diversification into IP monetisation remains limited at this early juncture, as media companies require time to build, scale and strengthen their IP portfolios. We do not have any stock picks for the sector.

Annual Adex



Source: Nielsen, Kenanga Research

Peer Comparison – Media

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE 1-Yr. Fwd.	Net Div. (sen) 1-Yr. Fwd.	Net Div. Yld. 1-Yr. Fwd.
MEDIA																	
ASTRO MALAYSIA HOLDINGS BHD	MP	0.075	0.080	6.7%	391.9	N	01/2027	0.5	0.5	24.0%	5.9%	16.4	15.5	0.3	1.8%	0.0	0.0%
MEDIA CHINESE INTERNATIONAL	UP	0.080	0.085	6.3%	129.7	Y	03/2026	(2.7)	(2.3)	-63.6%	12.2%	N.A.	N.A.	0.3	-8.8%	0.0	0.0%
MEDIA PRIMA BHD	MP	0.350	0.370	5.7%	388.2	N	06/2026	1.2	1.8	-39.4%	53.0%	29.0	18.9	0.5	2.0%	1.5	4.3%
STAR MEDIA GROUP BHD	UP	0.315	0.330	4.8%	228.3	N	12/2026	(0.8)	0.8	-153.5%	198.4%	N.A.	38.1	0.3	-0.9%	0.0	0.0%
SECTOR AGGREGATE					**1,138.2**					**-155.2%**	**-187.8%**	**-81.9**	**93.3**	**0.4**	**-0.4%**		**1.1%**

Source: Bloomberg, Kenanga Research

Oil & Gas

History Never Repeats, But it Rhymes

OVERWEIGHT

↑

By Lim Sin Kiat, CFA / limsk@kenanga.com.my

Brent crude prices have surged significantly since end Feb 2026 when US and Israel launched attacks against Iran. Looking back at history, previous serious geopolitical conflicts have on average brought about 200% increase in crude prices compared to pre-crisis levels. At this juncture, we took the view that US-Iran situation for oil will escalate in the coming 4 to 5 weeks, with potential of Brent reaching USD100 per barrel, before de-escalating in 2HCY26 (with still some premium to Brent crude), as we are also mindful that the market possesses more readiness to adjust to supply shocks due to US shale and OPEC+ spare capacity. Accordingly, we adjusted our FY26 Brent average forecast to USD80/bbl) from USD67/bbl.

Looking back at history for the listed segments within the local oil & gas space also reveals an interesting trend for portfolio considerations. Back during the start of the Russia-Ukraine war, downstream names peaked together with oil prices in 2022 before gradually settling on a lower level while midstream companies' market cap stayed rather stable with some upside seen in 2024 due to change in shipping routes. The upstream segment in our view possesses the most multi-year upside and if history repeats, this subsegment will be in a sustaining uptrend in the coming two years. Please see exhibit 3.

We rerate our target multiple to +1SD for the upstream service providers under coverage, which remain a bigger play for the longer-run despite near-term volatilities. Near term, our supply-led re-rating thesis is now being amplified for PCHEM and we raised our target price (OP; TP: RM4.90) but concede that it would be a short-term trade on crude prices and natural gas price spikes for this high beta name. Thus, we employed a blended valuation model of 50% normalised PBV (0.9x which assumes a lower product prices in the longer term) and 50% bullish scenario (implying PCHEM will trade up to 1.2x PBV, supportable by historical ROIC). See exhibit 7. DIALOG (OP; TP: RM2.28) remains our big cap top pick due to its defensive earnings base with gradual upside potential from its independent tank terminals. For mid-caps, we prefer UZMA (OP; TP: RM0.70) due to higher FY26F earnings certainty on exploration ramp-up coupled with heavily discounted valuations (4.8x FY26F PER) followed by DAYANG (OP; TP: RM2.45) due to its net cash balance sheet and strong FY27F earnings upside potential. Upgrade the sector to OVERWEIGHT from NEUTRAL.

Upstream

A look back at the history. We take a look back at the history of crude oil prices as well as the previous Middle East conflicts/crises. We have identified a few key crises which led to significant increases in Brent prices for sustained period of time namely the 1973 Arab oil embargo, 1979 Iranian revolution, 1990 Gulf War, 2003 Iraq occupation by US, and Arab Spring. On average, oil price peaks were 200% higher than the base pre-crisis prices. On average, the elevated Brent prices were sustained for a duration of three years for the time period under review. Looking at the ranges, oil price peaks where 38%-300% higher than pre-crisis levels the duration of sustained elevated Brent prices were 6 months to eight years. This puts Brent prices having spiked 34% since 26th Feb 2026 on the onset of US and Israel jointly launching attacks against Iran at the lower end of the range. All in all, if a geopolitical event progresses into a more serious conflict of at least six months, Brent crude prices will usually rise sharply due to sentiment and supply disruptions.

Tweaking Brent forecast up to factor in short-term geopolitical premium. We are lifting our Brent price average forecast to **USD80/bbl from USD67/bbl** previously to factor in the near-term premium on Brent crude due to the Iran conflict. We also lifted **FY27F Brent average to USD74/bbl** (from USD68/bbl) to account for the slight risk of Iran production sustaining at less than optimal levels as conflicts within the country may still arise even if the conflict was to end in the coming weeks. That aside, the traffic along Straits of Hormuz might still be at partial closure risks as the ships might still face sporadic attacks by unfriendly parties and US Navy escort may still be needed. In our base case, we for now stick to Trump's stated timeline of four to five weeks for the military operation to end, based on Daily Mail and NBC News. Hence, within our scenario, we expected 2QCY26 to be a strong quarter for Brent prices with it potentially averaging at USD100/bbl as the operation escalates but in 2HCY26 we expect the prices to normalise to USD75/bbl as we assume that the tension will deescalate by end of 2QCY26 (as major military operations conclude but lingering tensions could still surface sporadically in the foreseeable future.

Exhibit 1: History of oil prices in previous crises

Date	Trigger	Pre-Crisis Oil Price (USD/bbl)	Peak Oil Price (USD/bbl)	Price Increase (%)	Supply Lost (mb/d)	Duration of Elevated Prices	Key Characteristics
Oct 1973 – Mar 1974	Yom Kippur War; OPEC embargo on US & allies	USD2.90	USD11.65	~300%	2.6	~6 months embargo; prices stayed elevated for years	Quadrupled prices; stagflation; fuel rationing in US; reshaped global energy policy
Dec 1978 – 1981	Iranian Revolution; then Iran-Iraq War (1980)	USD14	USD39.50	~180%	3.5 (Iran) + 3.3 (war)	~3 years (prices elevated to 1985)	Global recession; interest rate spikes; conservation push; Iran at center — direct parallel to today
Aug 1990 – Feb 1991	Iraq invades Kuwait	USD17	USD33	~94%	4.3 (Iraq + Kuwait)	~6 months (sharp spike, quick reversal)	Short war, fast resolution; prices normalized quickly; best-case scenario template
Mar 2003 – 2011	US invasion of Iraq; prolonged occupation	USD26–30	USD147 (July 2008)	~390% (to 2008 peak)	~2.0 (Iraq)	~8 years (sustained above USD100 from 2011–2014)	Quick invasion, long occupation; oil elevated for years; occupation scenario template for Iran
Jan – Dec 2011	Revolutions across MENA; Libyan civil war	USD91	USD126	~38%	1.5 (Libya)	~3 years (oil above USD100 through mid-2014)	Market already tight; Libya production fell to zero; Saudi spare capacity absorbed most of the shock
Feb 2022	Russian invasion of Ukraine; sanctions on Russian oil	USD90	USD127	~41%	~1.0–1.5 (sanctions)	~6 months (above USD100 until mid-2022)	Sanctions reshaped trade flows; Europe pivoted away from Russian energy; US gas hit USD5/gallon

Source: Company

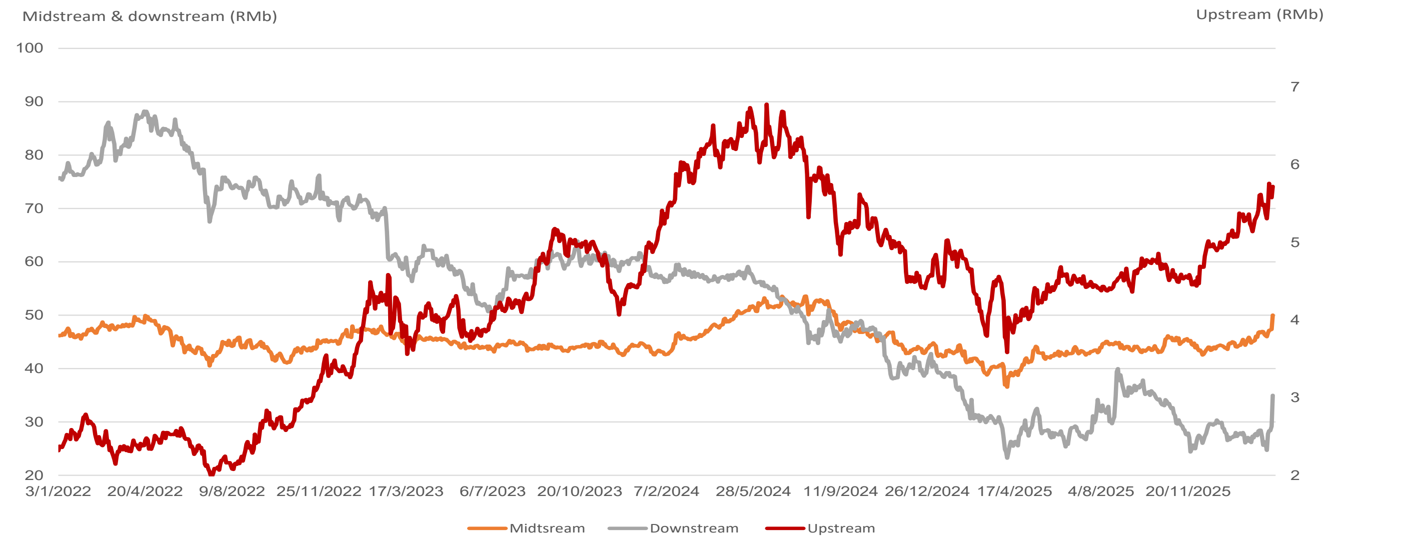
Full blown crisis impact. If the conflict expands beyond 2QCY26, this could cause structural disruption of cargo movements in the Straits of Hormuz and damage to major OPEC producers' infrastructure. Brent crude prices could still have significant upside from the current level which could sustain for six months to years depending on the situation. If we take the lowest range of Brent crude upside (revolutions across MENA), the Brent price could go up to USD93.8/bbl from USD67/bbl base in late Feb 26. If we take the highest upside scenario (US Invasion of Iraq), the crude prices could go up to USD261.3/bbl which is unlikely to happen as we are also aware of the fact that the OPEC+ spare capacity is still quite significant at 5m bbls per day compared to 2m bbls per day or below during the Iraqi war. That aside, US shale in our view still have moderate capacity to ramp up production by 0.6-1m bbls per day in six months to one year of drilling ramps-up substantially. Therefore, at this juncture, the oil market still have buffers for potential disruptions in Iran and Straits of Hormuz at least in one years' time.

Exhibit 2: Long-term Brent Prices Tend to Show 4-year Cycles

Source: Company

Where are we in the cycle. With oil prices in the highlight recently, we decide to looking back and previous cycles to gauge where are we in the oil & gas four year cycles (short-term cycle). In the last decade, we notice that crude oil prices tend to be bullish in US mid-term years and we are in one now for 2026. For some context, back in 2022 Brent opened at USD78/bbl and surged 78% to the peak of USD140/bbl before heading lower later in the year. Going further back into 2018, crude prices went up by 28% to USD86/bbl (peak of the year). Linking it to valuations, we believe that typically midterm years provide good entry points for upstream service providers and PER usually expand to factor in earnings recovery prospects even when its 1-year forward earnings remain tepid. If we refer to exhibit 4, DAYANG was trading between its mean PER and +1SD level during the downcycle in upstream activities (2022 and 2023) and it proved to be good time to increase exposure to the stock as the price averages RM1.1 for the two years before rallying to a high of RM3.00 in 2024. We also saw similar trends in UZMA valuations.

Exhibit 3: Downstream Peak First Before Upstream, Midstream Flattish (Market Cap RM b)

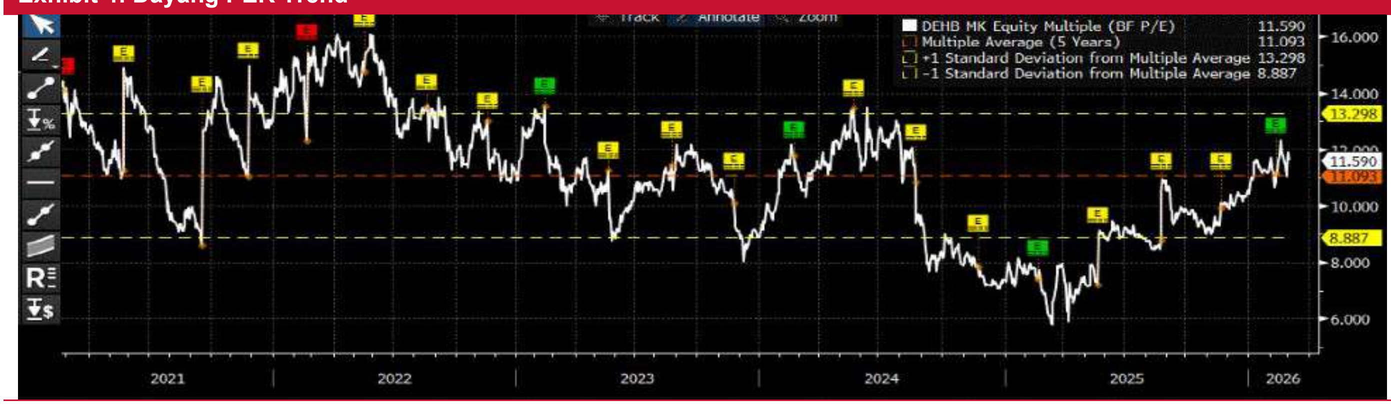


Source: Company. Midstream = MISC, DIALOG, Downstream = PCHEM ,LCTITAN, Upstream = DAYANG, DELEUM, UZMA, VELESTO,

This set up have some similarities with the Russia-Ukraine war crisis. While far from perfect, we believe that it is still helpful to refer to the previous crude oil cycle under the on-going Russian-Ukraine war. In 1QCY22, crude oil price spiked to USD129/bbl peak upon the beginning of the Russian-Ukraine war in Feb 2022. Subsequently, brent crude prices sustained at elevated levels for another three months before gradually correcting to USD85/bbl in end of 2022. After that, crude prices stayed at the range of USD70-90/bbl throughout 2023 and up to August 2024 before going on a downtrend since. **Downstream segment** (represented by LCTITAN and PCHEM)'s total market capitalisation peaked during April 2022, which is a month after Brent crude peaked. The **midstream segment** (MISC and DIALOG) were largely rangebound between 2022-2023 before starting a more modest rally in 2024 and subsequently normalising back.

The upstream services segment (DAYANG, VELESTO, UZMA and DELEUM), were already starting a modest uptrend in 2022 and continued to create new highs in 2023 and 2024 (up to mid-2024). Hence, if history repeats (Brent went to a high of more than USD100/bbl levels and subsequently stabilise at USD75/bbl levels for next 1-2 years), investors can go for a trading position in downstream names like PCHEM in FY26. For stability, midstream is a decent choice but we believe that the longer term alpha would largely be in the upstream services segment if crude prices don't collapse to low levels (closer to USD60/bbl) in the next two years as the subsector could kick start another upcycle in 2027 and 2028, if history repeats.

Exhibit 4: Dayang PER Trend



Source: Company

Exhibit 5: UZMA PER Trend

Source: Company

Upstream services segment deserves to rerate +1 SD. Given that we are currently in the mid-cycle phase (transitioning from downcycle to the next cycle) and the near-term crude oil price outlook remains constructive, we believe the upstream services sector warrants a valuation rerating to +1SD from current levels. As visibility improves, the market is likely to gradually begin pricing in growth beyond the next 12 months, rather than focusing solely on the current earnings run-rate. In addition, several companies under our coverage have begun paying dividends above historical norms, providing a stronger valuation floor amid the ongoing sectoral downcycle. This reinforces balance-sheet resilience and positions these players favourably to capitalise on the next potential upcycle in upstream activity. The valuation premium is further justified by the expectation that FY26F earnings will remain relatively modest, with most players guiding for flattish or slightly higher YoY earnings. However, if Brent averages around USD80/bbl in 2026, we anticipate a partial recovery in upstream activity beginning in FY27, with momentum strengthening into FY28, potentially marking the next cyclical peak in activity levels.

Exhibit 6: Upstream services companies under coverage and change in recommendations

Company	Old TP (RM/share)	New TP (RM/share)	Remark
DAYANG	1.80	2.45	Higher target PER of FY27F 13x PER (+1SD above 5-year mean) from 10x.
KEYFIELD	1.60	1.75	Higher target PER of 11x from 10x to factor in growth beyond FY27F. Upgrade to OUTPERFORM from MARKET PERFORM.
UZMA	0.60	0.70	Higher target PER of 7x from 6x
WASCO	1.32	1.45	Upgrade oil & gas segment to 10x from 9x.

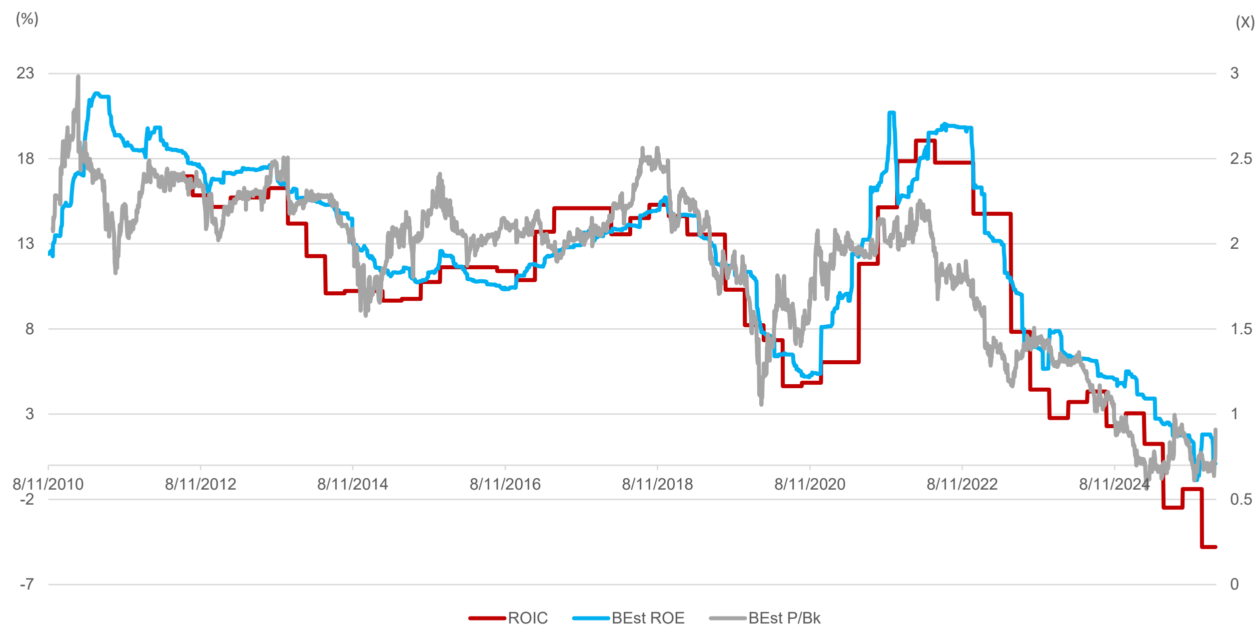
Source: Company

Downstream

PCHEM, the big cap trading pure-play in crude prices. The more immediate play for the strength in Brent crude prices would be PCHEM as typically polyolefin prices correlate partially with crude oil prices. That aside, PCHEM also possesses earnings leverage on product prices over its peers as its ethane feed cost is fixed (c. 40% of its total feedstock volume), with the exception being PPC as the plant's feedstock is mainly olefins (ethylene and propylene which are in turn driven by oil prices). Due to its low earnings base, a 10% increase in PE price assumption would bring about a 44% in FY26F earnings. While spot prices have remained unchanged, PE futures (DCE-Dalian) have already shown recent spike in future prices, reflecting the market's bullish positioning in the coming months for petrochemical prices.

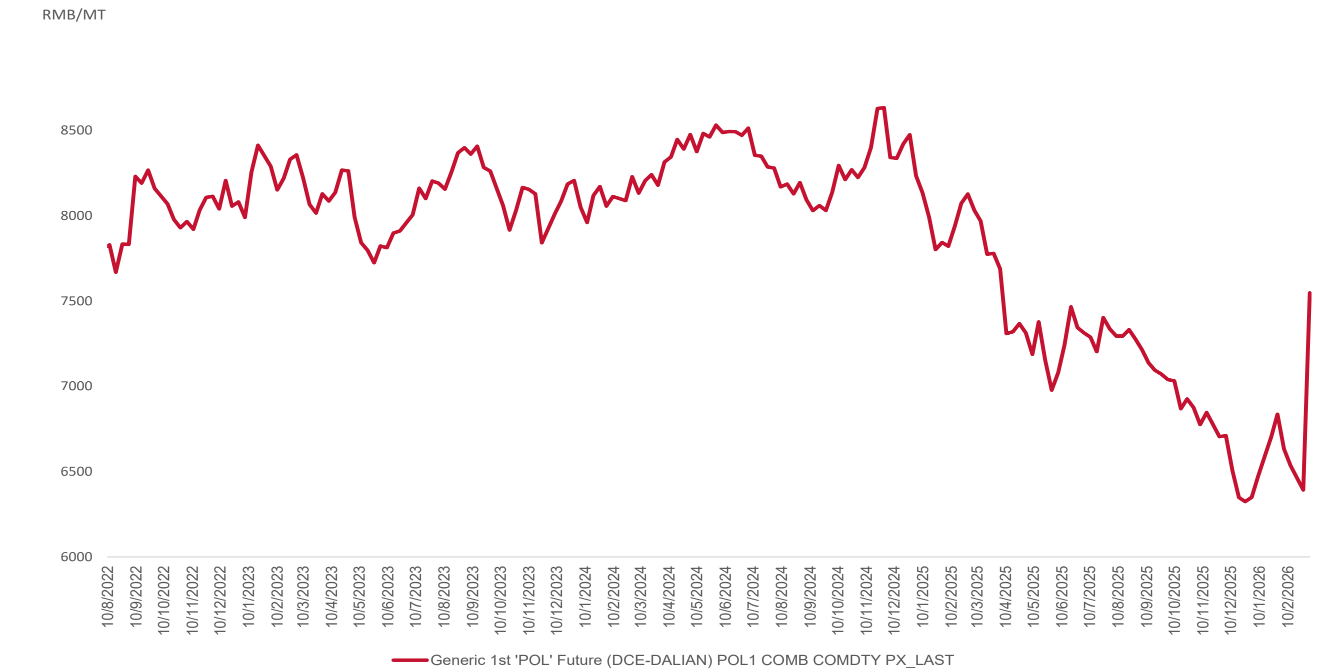
We lift our FY26F/FY27F earnings by 200%/220% after accounting for higher PE (from USD1,150mt to USD1,250/mt), methanol (from USD300/mt to USD330/mt) and urea prices (USD290/mt to USD320/mt) We decide to value the stock based on a **2-stage model where we assign 50% weightage to the near-term bull case of RM5.55 (assuming the stock will trade to a peak valuation of 1.2x PBV to price in ROIC reaching 3.1% in FY26-27 (back in FY24 when ROIC averaged 3.3% and the stock traded at an average of c. 1.2x PBV)) and 50% of a longer term normal cycle valuation at 0.9x PBV translating into RM4.16** which assumed that polyolefin prices will normalise back to lower levels after FY26-27 when global supply readjusts. Hence, our TP is revised to **RM4.90 from RM4.10** and we believe our two-stage model has sufficiently priced in the longer term risk of product prices reverting back down after the anticipated upcycle in the next two years. We maintain **OUTPERFORM** call on the stock.

Exhibit 7: Historical Relationship Between ROIC, ROE and PBV



Source: Company, left axis refers to ROIC and ROE while the right axis refer to PBV multiple.

Exhibit 8: PE Future (DCE-Dalian) Showed Early Spikes



Source: Bloomberg

Exhibit 9: PCHEM PBV Trend

Source: Company

Conclusion

Multi-step approach for the sector. At this juncture, we believe that we are at the stage of the sector where Brent crude prices are on a sharp uptrend before normalizing at a higher level (compared to pre-Iran conflict run levels (USD69/bbl). Hence, the immediate near-term trade would be PCHEM (which has already seen a major jump in share prices due to turn-around in near-term product price outlook) and if history repeats, the stock may peak one month after Brent crude peaks (within our assumption 2QCY26 could see Brent prices reaching USD100/bbl before normalizing at lower levels assuming the global supply chains realign swiftly). Hence, we believe in 2QCY26, PCHEM could be a good proxy for a near-term trade on oil price strength. For defensiveness in the longer run, **DIALOG** remains as our big cap top pick due to its more certain gradual recovery in earnings base and also its independent terminals might also benefit from a potential global rush into storage of petroleum products.

A good time to set up for a another potential upcycle in upstream services despite tepid near-term earnings outlook. Beyond 2QCY26, we believe that at this stage of the cycle, investor could prepare or start to position into upstream service providers particularly **UZMA** (our mid cap top pick) due to its higher certainty of ramp up in exploration and seismic-related activities in Malaysia and in our view its valuation is still unjustifiable discounted relative to the subsector (which is trading at 9-10x). Followed by UZMA, **DAYANG** is a close runner up in our view due to its balance sheet strength as well as its higher potential for ramp up in topside maintenance and HUC work orders in FY27 and beyond. All in all, we believe that the oil & gas sector looks prime to set up for another upcycle in the coming two years particularly in the upstream services while downstream appears to be a solid short term trade. We upgrade the sector to **OVERWEIGHT** from NEUTRAL.

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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																	
BUMI ARMADA BHD	OP	0.315	0.450	42.9%	1,867.3	Y	12/2026	6.1	5.4	-45.7%	-10.9%	5.2	5.8	0.4	7.6%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.79	2.45	36.8%	2,072.4	Y	12/2026	16.1	18.8	7.8%	17.0%	11.1	9.5	1.1	9.8%	11.0	6.1%
DIALOG GROUP BHD	OP	1.76	2.28	29.5%	9,931.1	Y	06/2026	10.4	11.4	31.4%	9.7%	16.9	15.4	1.6	9.9%	5.0	2.8%
LIANSON FLEET GROUP BHG	OP	2.00	2.30	20.0%	2,332.1	Y	12/2026	8.7	10.3	0.0%	18.7%	23.1	19.5	2.2	11.9%	0.0	0.0%
KEYFIELD INTERNATIONAL	OP	1.45	1.75	20.7%	1,170.7	Y	12/2026	14.0	17.5	-49.6%	24.3%	10.3	8.3	1.5	15.6%	6.0	4.1%
MISC BHD	OP	8.07	8.60	6.6%	36,022.4	Y	12/2026	47.3	49.5	-0.4%	4.6%	17.1	16.3	1.0	6.2%	36.0	4.5%
PETRONAS CHEMICALS GROUP	OP	4.29	4.90	13.9%	24,000.0	Y	12/2026	4.0	4.1	-48.7%	0.6%	74.2	73.8	0.7	0.9%	2.0	0.7%
PETRONAS DAGANGAN BHD	MP	21.98	21.20	-3.5%	21,836.1	Y	12/2026	116.9	116.5	5.7%	-0.4%	18.8	18.9	3.5	19.1%	94.0	4.3%
UZMA BHD	OP	0.395	0.700	53.8%	235.2	Y	06/2026	14.8	15.9	6.9%	7.5%	2.7	2.5	0.2	8.5%	0.0	0.0%
VELESTO ENERGY BHD	MP	0.305	0.320	4.9%	2,505.8	Y	12/2026	2.0	2.1	-21.5%	7.3%	15.4	14.3	0.9	6.1%	3.0	9.8%
WASCO BHD	OP	1.00	1.45	45.0%	774.3	Y	12/2026	1.5	1.7	-41.5%	9.4%	65.5	59.9	6.3	10.1%	5.0	5.0%
YINSON HOLDINGS BHD	OP	2.35	2.84	20.9%	6,867.6	N	01/2026	16.6	20.4	20.3%	22.3%	14.1	11.5	1.4	10.1%	6.0	2.6%
SECTOR AGGREGATE					**109,612.0**					**12.1%**	**5.3%**	**18.7**	**17.8**	**1.7**	**9.8%**		**3.3%**

Source: Kenanga Research

Plantation

No Geo-political Premium Yet

OVERWEIGHT

↑

By Khoo Teng Chuan I khootc@kenanga.com.my

We are upgrading the plantation sector to OVERWEIGHT, from Neutral on several counts (a) CPO prices is set to gain from rising energy prices (b) while its food-derived demand should not contract much (c) sector is also asset rich and (d) valuations are not excessive nor demanding any premium for its potential upside, with downside limited.

Our sector picks are: (i) KLK (OP; TP: RM24.50) for better FFB output and property earnings, (ii) PPB (OP; TP: RM14.85) given its earnings recovery amidst low valuation, and (iii) TSH (OP; TP: RM1.60) from organic upstream growth. We also upgraded IOI from MP to OP on a higher TP of RM4.55 due to good FFB growth and higher CPO prices.

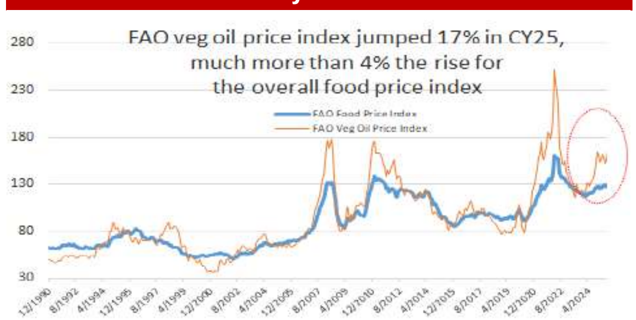
After two years of premium, CPO is now trading at a discount to gasoil again. The disruptions caused by the ongoing Middle East conflict on global crude oil supply has caused Brent crude prices to soar >50% and gasoil prices to spike by over 70% since late Feb CY26. Actual direct disruption to the international palm oil supply chain is manageable if not limited as over 80% of palm oil originates from Asia (notably Indonesia and Malaysia) and more than 60% of palm oil is used within Asia – Indonesia, India, China and Malaysia alone absorbed half of the world's palm oil supply last year. However, about 22% of edible oil goes into the production of bio-diesel, hence the recent spike in crude oil prices have led to higher edible oil prices as well, to the extent that CPO price is now cheaper than gasoil price.

Edible oil supply was already tight even before the Middle East conflict. CY25 was a good year for the plantation sector due to an unusual confluence of higher harvest and stronger prices for CPO (and PK); normally higher supply pressures prices. Therefore**,** CY26 started with better-than-expected opening inventory and even so the overall outlook is still one of tightness as supply can only match the pace of demand growth in an optimistic case. As such, edible oil prices were already elevated compared to other food prices such as meat, dairy, cereals and sugar which formed the FAO Food Price index. Hence, during the February reporting season, our CY26-27F CPO price assumptions had already been raised from RM4,000 to RM4,100 per MT. Now, with bio-diesel demand on the rise, CPO prices staying higher for longer is looking likely in CY26 and CY27.

CPO Price Is Now Cheaper Than Gasoil Again

Source: Bloomberg, Kenanga Research

Edible Oil Prices Already Elevated Beforehand



Source: FAO, Kenanga Research

Higher energy prices are supportive of firmer edible oil prices. While escalating energy costs is causing fertiliser and transport costs to rise for planters, on the whole the sector is set to be a net beneficiary due to higher CPO prices. Importantly, besides shipping disruption along the Strait of Hormuz, more lasting damage on regional oil production infrastructure also suggest crude prices may stay not only elevated for several months but likely to settle at prices above the levels seen before the conflict started. Kenanga has upgraded CY26-27F Brent crude oil prices from USD67 per barrel to USD80 for CY26F and USD74 in CY27F. As the bulk of palm oil is traded within Asia, more muted impact on CPO prices is expected but an upgrade is still warranted for CY26-27F CPO prices, from RM4,100 per MT to RM4,250 for CY26 and RM4,200 in CY27 as we expect CPO prices to spike in 2Q then ease gradually to around RM4,200 come late CY26 and into CY27.

Cost wise, higher energy price is set to push up the cost of fertilizer and transport. In percentage terms, fertilisers typically make up 10-15% and transport 3-5% of total cost. The larger cost items are labour and depreciation which make up 35-40% and 20% of overall cost respectively. More importantly, many planters have tendered out and locked in about half their CY26 fertiliser requirements at lower prices already. SDG has even locked both prices and volume for its entire fertiliser programme in CY26.

Revised Core EPS Following CPO Price Upgrade

	------ Core EPS (sen) ------		% Change in
	Old FY26F	New FY26F	Core EPS
Genting Plantations	43.7	46.9	+7%
HS Plantations	16.3	17.6	+8%
IOI Corp*	23.5	24.6	+5%
KL Kepong	127.1	133.2	+5%
PPB Group	115.2	117.7	+2%
SD Guthrie**	27.8	29.7	+7%
Ta Ann	43.9	46.4	+6%
TSH Resources	13.3	13.9	+5%
United Malacca*	70.8	76.0	+7%

**Based FY27 CEPS as IOI FY26 ends in June & UMCCA ends in April.*

***SDG has locked in both prices and volume for its entire FY26 fertiliser requirement.*

Source: Kenanga Research

Core EPS Sensitivity To CPO Prices

	FY26	FY26	Impact on CEPS
	RM/MT	Core EPS (Sen)	if CPO price +/- 5%
Genting Plantations	4,050	46.9	+/- 14%
HS Plantations	4,400	17.6	+/- 14%
IOI Corp	4,250	24.9	+/- 9%
KL Kepong	4,250	133.2	+/- 11%
PPB Group	4,250	117.7	+/- 5%
SD Guthrie	4,250	29.7	+/- 10%
Ta Ann	4,250	46.4	+/- 12%
TSH Resources	3,950	13.9	+/- 10%
United Malacca	4,250	76.0	+/- 14%

Source: Kenanga Research

Plantation sector ratings are not excessive. Using the Bursa Plantation Sector as consensus, consensus plantation multiples of 15.6x PER and 1.6x PBV are slightly lower and comparable to the broader Bursa KLCI PER of 16.1x and PBV of 1.6x respectively. Consensus PERs have also been falling for the past 12 months (from 16.3x to 15.6x) indicating earnings upgrades while the KLCI PER trend is the reverse, rising from 14.3x 12 months ago to 16.1x currently. Kenanga's plantation universe PER and PBV are lower than consensus and broader market, a consistent trend for the past 12 months, reflective of different constituents. Compared to past ratings, Kenanga's latest 12.9x PER is below historical 3-10-year PERs of 15.5-34.8x while current 1.25x PBV is slightly above the 3-year average of 1.2x though below the 5-year PBV of 1.3x and 10-year's 1.5x PBV.

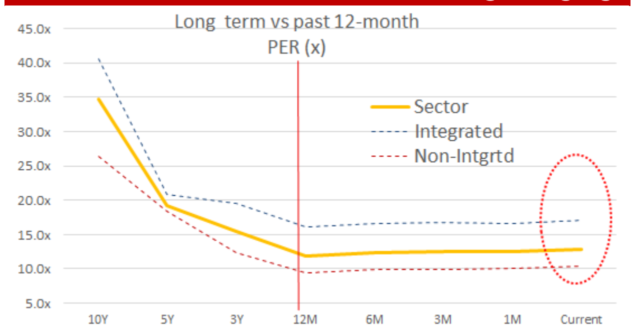
All in, plantation sector valuations suggest the sector is not expensive, be it against historical ratings or relative to the KLCI. While there is room to argue the sector should trade at premium valuations to the broader market given that planters stand to gain from the current CPO price uptick while downside is limited by defensive food (and fuel) driven earnings, dividend yields of 4% and strong asset backing, such premium is not in the price at this juncture.

New Kenanga PER < Consensus & KLCI PERs

PER	--------------	Kenanga	-------------	Bursa	Bursa
(x)	Integrated	Non-Intgrtd	Sector	Plnt Sctr	KLCI
10Y	40.6x	26.4x	34.8x	30.8x	17.0x
5Y	20.8x	18.4x	19.2x	17.5x	16.3x
3Y	19.5x	12.3x	15.5x	14.9x	15.1x
12M	16.0x	9.4x	11.9x	16.3x	14.3x
6M	16.7x	9.9x	12.4x	14.5x	15.1x
3M	16.8x	10.0x	12.6x	14.9x	16.1x
1M	16.7x	10.1x	12.6x	15.0x	17.0x
Current	**17.1x**	**10.4x**	**12.9x**	**15.6x**	**16.1x**

Source: Bloomberg, Kenanga Research

PER Indicators HaveAlso Been Rising Nudging



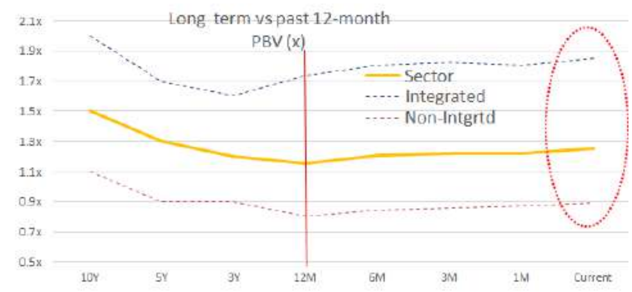
Source: Bloomberg, Kenanga Research

Our Upgraded PBV Is Also < Consensus & KLCI

PBV (x)	Kenanga Integrated	Kenanga Non-Intgrtd	Kenanga Sector	Bursa Plnt Sctr	Bursa KLCI
10Y	2.00x	1.10x	1.50x	1.50x	1.60x
5Y	1.70x	0.90x	1.30x	1.40x	1.50x
3Y	1.60x	0.90x	1.20x	1.37x	1.40x
12M	1.74x	0.81x	1.16x	1.36x	1.41x
6M	1.80x	0.85x	1.21x	1.44x	1.47x
3M	1.82x	0.86x	1.22x	1.54x	1.58x
1M	1.81x	0.87x	1.22x	1.53x	1.61x
Current	**1.85x**	**0.89x**	**1.25x**	**1.60x**	**1.60x**

Source: Bloomberg, Kenanga Research

PBVs Are Inching Up But Still Not Excessive



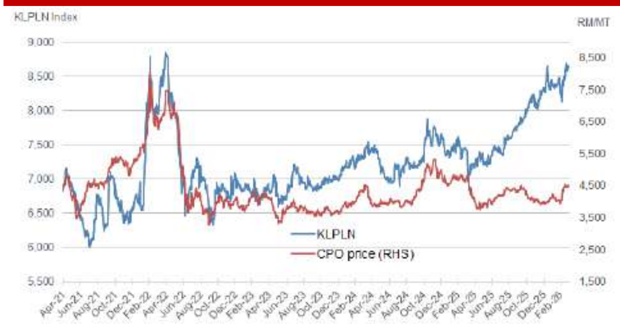
Source: Bloomberg, Kenanga Research

KL Plantation Index is starting to outperform the KLCI. YTD, KL Plantation Index is up 5% versus KLCI's 3%. Peering ahead, KL Plantation Index should continue to be well supported due to its defensive qualities and with potential upside included, further uptick cannot be ruled out. Despite slower widening recently, the divergence between the KL Plantation Index and CPO prices is still large and likely to stay sticky given the net gains to the sector from the current conflict.

KL Plantation Index Starting to Outperform The KLCI

Source: Bloomberg, Kenanga Research

Sticky KL Plantation Index & CPO Price Divergence



Source: Bloomberg, Kenanga Research

Upgrade from NEUTRAL to OVERWEIGHT on the back of the following:

a) The plantation sector is set to be a net gainer as the current surge in energy prices support more elevated CPO prices with little impact on its food and bio-fuel driven demand. This is amid the risk of higher global inflation and slower economic activity dampening many other sectors.

b) Target prices for planters have been revised up by between 1 to 5% on higher CPO prices assumptions of RM4,250 in CY26 and RM4,200 in CY27, up from RM4,100 per MT previously.

c) Sector valuations are not demanding either, trading at or even below the broader KLCI.

d) Over half our coverage is now rated OP as we upgraded IOI from MP to OP for its improving harvest coupled with the CPO price upgrade.

Looking ahead, we are watchful for any policy measures undertaken including price caps on cooking oil or restriction of exports to mitigate the impact of rising living costs. As it is, planters in Malaysia are also paying windfall taxes while those in Indonesia just faced higher export levy (from 10% to 12.5%) since 1 March 2026.

Planters with less or no non-plantation earnings are preferred. Our sector picks are thus as follow:

(a) **KLK (OP; TP: RM24.50)** for recovering FFB output and stronger property earnings ahead.

(b) **PPB (OP; TP: RM14.85)** on strong position in the region's food FMCG markets and decade low valuations.

(c) **TSH (OP; TP: RM1.60)** offers rare exposure into organic upstream growth over the coming 3-5 years.

We also like **IOI (OP; TP: RM4.55)** for improving FFB output and upgrades to its Indonesian upstream associate as well as **UMCCA (OP; TP: RM6.70)** for growth from maturing Indonesian estates.

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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) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE 1-Yr. Fwd.	Net. Div. (sen) 1-Yr. Fwd.	Net Div Yld 1-Yr. Fwd.
Plantation																	
GENTING PLANTATIONS BHD	MP	5.20	5.50	5.8%	4,665.2	Y	12/2026	46.9	46.1	18.8%	-1.8%	11.1	11.3	0.9	7.8%	30.0	5.8%
HAP SENG PLANTATIONS HOLDINGS	UP	2.35	2.00	-14.9%	1,879.3	Y	12/2026	17.6	17.4	0.9%	-1.0%	13.4	13.5	0.8	6.4%	8.0	3.4%
IOI CORP BHD	OP	4.25	4.55	7.1%	26,712.1	Y	06/2026	24.7	24.6	22.8%	-0.5%	17.2	17.3	2.0	12.9%	11.0	2.6%
KUALA LUMPUR KEPONG BHD	OP	21.48	24.50	14.1%	23,921.4	Y	09/2026	133.2	143.0	22.8%	7.3%	16.1	15.0	1.5	10.2%	60.0	2.8%
PPB GROUP BHD	OP	11.66	14.85	27.4%	16,587.5	Y	12/2026	117.7	119.1	23.7%	1.2%	9.9	9.8	0.7	6.9%	42.0	3.6%
SD GUTHRIE BHD	MP	6.21	5.55	-10.6%	42,946.6	Y	12/2026	29.7	27.7	3.2%	-6.7%	20.9	22.4	2.0	12.4%	15.0	2.4%
TA ANN HOLDINGS BHD	MP	5.29	4.40	-16.8%	2,330.0	Y	12/2026	46.4	45.8	-4.3%	-1.4%	11.4	11.6	1.2	10.8%	40.0	7.6%
TSH RESOURCES BHD	OP	1.37	1.55	13.1%	1,720.6	Y	12/2026	12.6	13.0	-9.5%	3.1%	10.8	10.5	0.8	7.9%	5.0	3.6%
UNITED MALACCA BHD	OP	5.80	6.45	11.2%	1,216.7	Y	04/2026	76.1	70.8	37.2%	-7.0%	7.6	8.2	0.7	10.4%	20.0	3.4%

Source: Bloomberg, Kenanga Research

Plastic Packaging

Supported by Rebound in Resin Prices

NEUTRAL

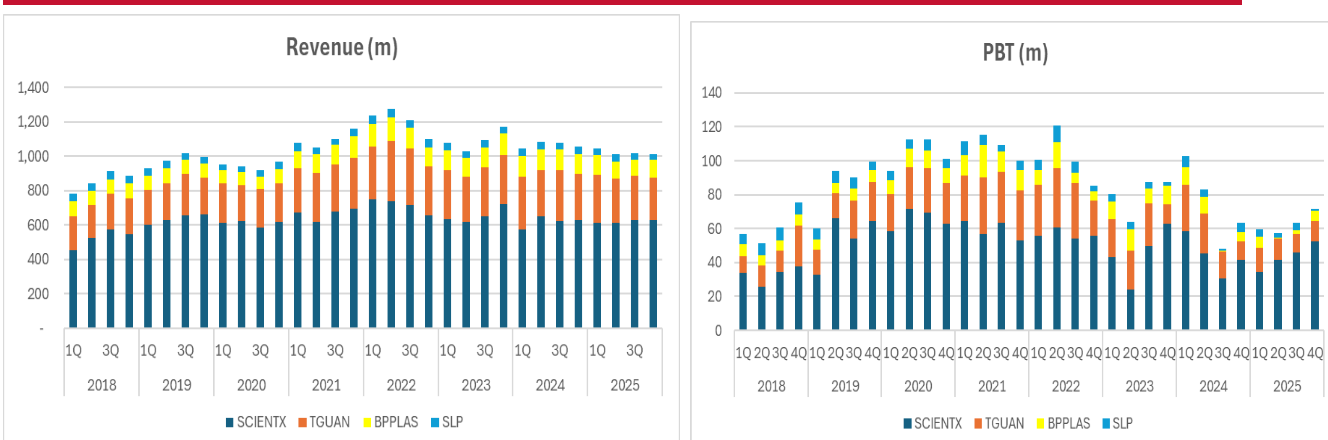
↔

By Chris Tong I christong@kenanga.com.my

Surging oil prices arising from the Middle East conflicts since Feb 2026 has resulted in resin prices rising by about 60%. Kenanga is expecting Brent oil prices peaking in 2Q before easing in the 2H to average at $80 in CY26F and $74 for CYF. All in, higher resin prices are thus expected as well. With each percentage point rise in resin price potentially lifting the plastic packaging sector's profitability by 0.3% over a quarter or two, we are raising sector earnings for FY26 by 6% and FY27 by 2%. Consequently, TP for (a) TGUAN is raised from RM1.37 to RM1.41 (b) BPPLAS from RM0.63 to RM0.65 and (c) SLP from RM0.81 to RM0.85, mapping to an OUTPERFORM (from MARKET PERFORM).

Our NEUTRAL stance for the sector is unchanged, but we include SCIENTX and TGUAN into our sector picks for this quarter. We like SCIENTX (OP; TP: RM3.84) for its growing property development performance and its more resilient packaging segment backed by a well-diversified product range. We also stay positive on TGUAN for its solid performances in the F&B segment and upcoming income recognition from its property development segment from CY26 onwards, coupled with the fact the stock is trading at a discount of c25% to its 10-year historical forward price to earnings ratio of ~9x.

Exhibit 1: Aggregate Performances (SCIENTX, TGUAN, BPPLAS, and SLP)



The surge in oil prices led by the Middle East conflicts since Feb 2026 has resulted in a sharp rise in resin prices of about 60% on average (refer to Exhibit 3). Kenanga is forecasting Brent oil to average at $80 and $74 per barrel for CY26-27F. Many plastic packaging players are estimated to have between 1.5 months to 3 months of inventories, so the sector may actually enjoy higher profits for a quarter or two from (a) inventories bought at a cheaper level but sold at higher cost-plus prices currently and (b) orders should also be good as customers rush to buy before prices adjust for rising resin prices. However, higher resin costs will eventually be reflected in newly bought inventory and COGS as well, with margin gradually narrowing towards more normalized cost-plus levels. Resin supply may also face disruptions as 40-60% of the sector's resin is sourced from the Middle East. Importantly, many players also buy resin from US suppliers which should cushion against any Middle East supply interruption. The MYR has also strengthened from RM3.88 per USD in Feb 2026 to around RM4.00 level. As this is broadly in-line with Kenanga CY26 forecast of RM3.95, the impact on our forecast is more contained.

Having said that, the plastic packaging sector continues to navigate through headwinds flagged earlier such as:

1) **Slower long-term demand from global trade uncertainties**: We see small direct impact for the Malaysian plastic packaging sector from higher U.S. tariffs as exports to U.S. amount to below 10% of overall revenue. However, trade tension has created uncertainties for many businesses and a significant portion of plastic packaging films is used in B2B trades including inter-country trade to ease shipping and logistics. Any slowdown or decline in global trade volumes is thus likely to dampen overall demand for plastic packaging materials. On that note, SCIENTX stands out for being the only player among our coverage that runs a plant in Arizona, USA, which had in FY25 shown improved orders and possibly better ASP as well to cater to U.S. demand.

2) **Intensifying competition**: Since CY24, plastic packaging players have been facing not only slower demand growth but more intense competition as well due to overcapacity. Part of this arises from manufacturers maintaining their old facilities even after having upgraded to newer ones e.g. new thin-gauge production lines. This allows for operational flexibility but also very competitive marginal pricing for "old" packaging products. Compounding this is demand shifting away from China by some U.S. and European buyers which in turn compelled Chinese players to offload stock at lower prices to other buyers such as those in SE Asia. Notably, following our visit to one of China's largest plastic packaging exhibitions in Shanghai (SWOP 2025), our findings indicate that such competitive pressures are likely to persist and escalate further moving forward. The recent softening of the MYR, albeit slight, should help abate some of this "imported competition."

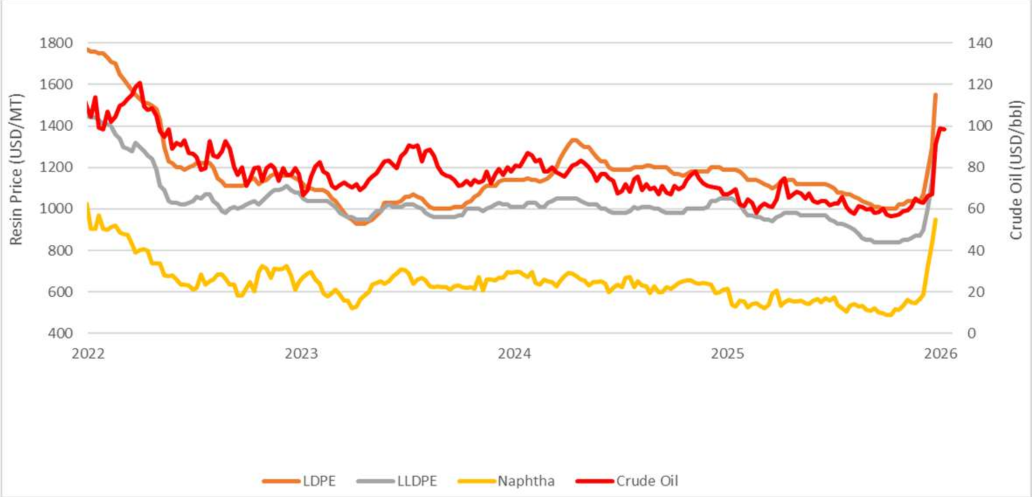
All in, we expect better CY26 earnings from better margins, initially from lower COGS but higher selling prices due to a long accepted cost-plus practice. As our sensitivity analysis suggests that a one percentage point rise in resin prices should improve the plastic packaging sector's profitability by 0.3%. we are raising our sector-wide earnings forecasts for FY26 by an average of 6% and FY27 by an average of 2% except for SCIENTX which we have already accounted for in the last result note. Hence, we upgrade our TP for the following stocks:

1. **TGUAN** to RM1.41 (from RM1.37), maintain OUTPERFORM
2. **BPPLAS** to RM0.67 (from RM0.63), maintain MARKET PERFORM
3. **SLP** to RM0.85 (from RM0.81), upgrade to OUTPERFORM from MARKET PERFORM
4. **SCIENTX** (unchanged), maintain TP at RM3.84 and an OUTPERFORM call.

Exhibit 2: USD/MYR Chart

Source: Bloomberg, Kenanga Research

Exhibit 3: Resin and Crude Oil Prices Chart



Source: Bloomberg, Kenanga Research

We like **SCIENTX (OP; TP: RM3.84)** for its growing property development performance and its more resilient packaging segment among its peers backed by a well-diversified product range. We remain positive on **TGUAN (OP; TP: RM1.41)** given: (i) its growth momentum in the F&B segment, (ii) its aggressive push into overseas markets with environmentally friendly, high-performing products, and (ii) upcoming income recognition from its property development segment starting from CY26. At the current valuation, TGUAN is trading at a discount of close to 25% to its 10-year historical forward price to earnings ratio of ~9x. We remain cautiously optimistic on **SLP (OP; TP: RM0.85)** on the potential impacts from the recent reduced tourist arrivals in Japan.

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																	
BP PLASTICS HOLDINGS BHD	MP	0.640	0.670	4.7%	180.1	Y	12/2026	8.4	8.8	85.2%	4.6%	7.6	7.3	0.6	8.5%	4.3	6.7%
SCIENTEX BHD	OP	3.61	3.84	6.4%	5,618.2	Y	07/2026	37.9	39.0	12.1%	3.1%	9.5	9.2	1.2	12.9%	12.5	3.5%
SLP RESOURCES BHD	MP	0.780	0.850	9.0%	247.2	Y	12/2026	4.9	5.5	52.0%	12.9%	16.0	14.1	1.4	8.9%	4.8	6.2%
THONG GUAN INDUSTRIES BHD	OP	1.26	1.41	11.9%	495.3	Y	12/2026	19.3	19.5	7.9%	0.9%	6.5	6.5	0.5	8.1%	6.0	4.8%
SECTOR AGGREGATE					**6,540.9**					**13.8%**	**3.1%**	**9.3**	**9.0**	**1.1**	**11.3%**		**5.3%**

Source: Kenanga Research

Property

OVERWEIGHT

↔

Structural Shifts Could Curb Supply Surge

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

We maintain our OVERWEIGHT on the property sector. While recent headlines on higher disposal requirements for GLC/GLIC-owned developers (for assets above RM20m) may pose near-term challenges to land-banking activity, we see the silver lining in that it could encourage more targeted and demand-driven developments. This would be particularly important in allowing the market to gradually absorb excess supply, especially with regards affordable homes (<RM300k) which continue to see inventories piling up.

Meanwhile, industrial property demand has remained resilient despite ongoing macroeconomic challenges as longer-term industrial outlook in manufacturing and E&E sectors are still highly relevant in regional markets. Therefore, we remain confident that industrial sales will continue to support developers' earnings in the near term, particularly if residential demand moderates.

Our Top Picks for the sector remain SIMEPROP (OP; TP: RM1.97) for its sustained industrial development pipeline via JVs with SD Guthrie. We also like SPSETIA (OP; TP: RM1.43) which we have conservatively ascribed an undemanding 60%-discount to RNAV (highest within our coverage) with its outlook being anchored by upcoming industrial launches at Setia Fontaines, alongside narrowing losses at Battersea, similar to SIMEPROP. For dividends, PARAMON (OP; TP: RM1.49) stands out with attractive yields of c.8%, the highest within the sector supported by its expanding Northern-region portfolio and higher-end product offerings.

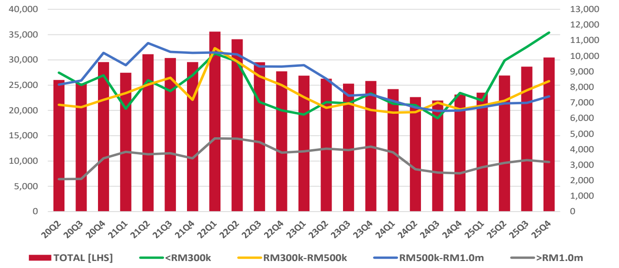
Tighter regulations could demand more strategic land-banking. Following the revisions to the Ministry of Economy's Properties Acquisition Guidelines, stricter bumiputera equity participation requirements of 50% (up from 30%) are now imposed on companies intending to purchase properties from GLICs valued above RM20m. This would narrow the pool of eligible buyers, potentially slowing landbank management activities (both monetisation and replenishment). We opine as a workaround, landowners may consider breaking up larger land parcels into smaller tranches to fall below the threshold, though this would likely result in higher administrative and execution costs for both buyers and sellers.

All said, the tighter regulation would likely call for more targeted developments which could help improve market absorption rates over time, allowing excess supply to be gradually taken up while aligning new launches more closely with prevailing demand trends. Based on the upper end of recent land transaction prices of c.RM80 psf, the RM20m threshold imply land deals of roughly 5.7 acres, which would skew toward denser, high-rise developments to optimise land use below these constraints. Within our coverage, the most exposed GLIC-linked developers are **SIMEPROP** and **SPSETIA.**

Affordable homes overhang grew larger. NAPIC's 4QCY25 data continues to point to a persistent increase in the supply of affordable homes (<RM300k), likely driven by the completion of earlier pipeline projects, further undermining absorption rates which could be uneven across locations. While affordability remains a structural concern, the data suggest that simply increasing supply at the lower end may not fully address underlying demand constraints such as financing access and income levels. That said, a similar build-up is beginning to emerge within the <RM300k segment for serviced apartments, suggesting that oversupply risks may not be confined to traditional residential products alone but could extend into the more affordable strata-titled segment as well.

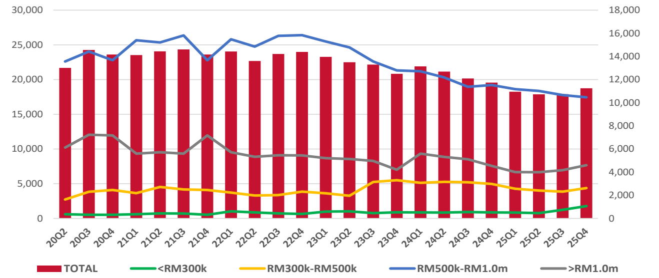
On the other hand, service apartments in the mid-to-high price range (RM500k–RM1m) are seeing a gradual reduction in inventories, indicating relatively better take-up or more disciplined launches in recent periods. For now, the developers within our coverage have indicated that they are not facing take-up issues, which could suggest that the oversupply could be coming from less prominent or specialised developers.

Exhibit 1: Residential Overhang (units)



Source: NAPIC, Kenanga Research

Exhibit 2: Service Apartment Overhang (units)



Source: NAPIC, Kenanga Research

Exhibit 3: Unsold Units Under Construction

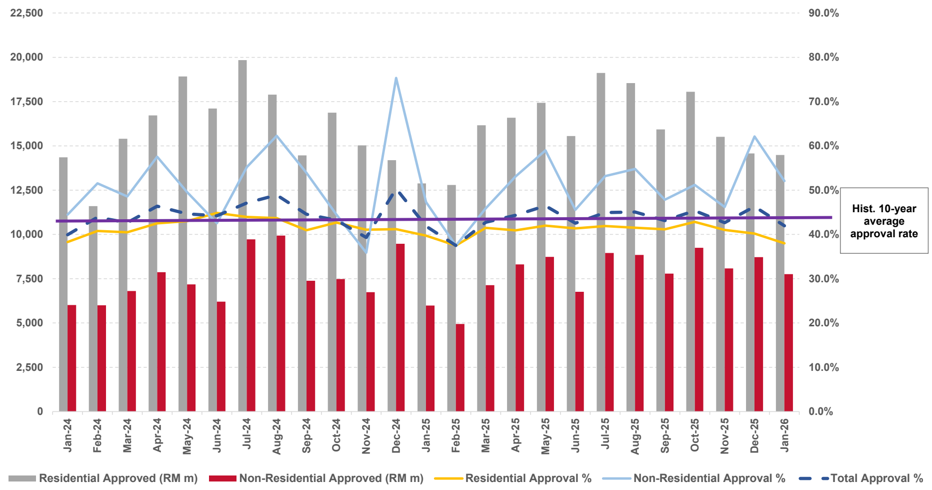
Region	4QCY25			3QCY25		
	Residential	Serviced Apartment	Total	Residential	Serviced Apartment	Total
W.P. Kuala Lumpur	5,516	9,619	15,135	5,356	8,212	13,568
W.P. Putrajaya	18	125	143	18	0	18
W.P. Labuan	36	0	36	43	0	43
Selangor	14,832	18,379	33,211	13,448	18,116	31,564
Johor	8,108	8,189	16,297	8,183	5,592	13,775
Pulau Pinang	7,826	3,784	11,610	7,804	3,150	10,954
Perak	9,219	204	9,423	8,524	258	8,782
Negeri Sembilan	4,111	469	4,580	4,214	658	4,872
Melaka	3,530	1,043	4,573	3,434	1,434	4,868
Kedah	3,191	0	3,191	2,598	0	2,598
Pahang	3,408	2,923	6,331	2,807	2,552	5,359
Terengganu	1,163	389	1,552	1,009	0	1,009
Kelantan	1,262	486	1,748	1,399	549	1,948
Perlis	186	0	186	268	0	268
Sabah	4,147	2,104	6,251	4,473	1,408	5,881
Sarawak	5,831	2,615	8,446	5,778	2,106	7,884
TOTAL	**72,384**	**50,329**	**122,713**	**69,356**	**44,035**	**113,391**

Source: NAPIC, Kenanga Research

Meanwhile, residential mortgage approval rates continue to trend lower, reflecting heightened risk associated with lower-income segments that are more vulnerable to ongoing cost-of-living pressures. This could lead to tighter lending standards by banks, further constraining accessibility to financing and exacerbating existing supply-demand imbalances, particularly within the affordable housing segment where supply continues to outpace effective demand.

On a more positive note, the industrial segment remains resilient. Supported by our channel checks and recent survey of the Penang property market (refer to our 18 March 2026 Sector Update – Northbound Trip to Penang), excess industrial supply appears limited, with new supply being introduced in a measured manner. This gradual replenishment is aligned with incoming demand, suggesting a more balanced market dynamic and continued support for developers' industrial sales momentum.

Exhibit 4: Residential, Non-Residential Approval Rates



Source: BNM, Kenanga Research

We hold an **OVERWEIGHT call on the sector** as we believe most of the developers within our coverage are sufficiently positioned to ride against the headwinds of potentially slowing demand for residential properties with supplementary business units (property investments) supporting long-term earnings visibility. For 2QCY26, our Top Picks remain **SIMEPROP (OP; TP: RM1.97)** and **SPSETIA (OP; TP: RM1.43). SIMEPROP** continues to pivot towards a broader industrial product mix, with new launches now accounting for c.35% of its pipeline (from c.25% previously), while its upcoming data centre initiatives are expected to generate sustainable recurring income by FY27. Meanwhile, both **SIMEPROP** and **SPSETIA** are likely to benefit from narrowing losses at their Battersea JV, which should improve overall sentiment. **SPSETIA's** outlook is further supported by its industrial exposure, particularly upcoming launches at Setia Fontaines. We also **favour PARAMON (OP; TP: RM1.47)** for its attractive dividend yield of c.8%. Contributions from its 28%-stake in Envictus International Holdings are expected to account for 10%-15% of future earnings. Additionally, its recent acquisition of prime land in Jalan Ampang reinforces its positioning as a premier developer, appealing to investors seeking exposure beyond the affordable housing segment.

Peer Table Comparison

Name	Rating	Last Price as of 19 Mar 2026 (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.
PROPERTY DEVELOPERS																	
Eco World Development Group	OP	2.15	2.35	9.3%	6,925.4	Y	10/2026	17.9	18.1	28.9%	1.4%	12.0	11.9	1.0	8.6%	8.0	3.7%
IOI Properties Group Bhd	UP	3.45	3.00	-13.0%	18,996.2	Y	06/2026	13.5	14.3	154.5%	5.9%	25.6	24.2	0.7	5.0%	6.0	1.7%
LBS Bina Bhd	OP	0.460	0.640	39.1%	709.1	Y	12/2026	8.1	8.8	15.2%	8.3%	5.7	5.2	0.3	6.9%	3.3	7.2%
Mah Sing Group Bhd	OP	1.04	1.78	71.2%	2,662.5	Y	12/2026	10.9	11.7	7.0%	7.3%	9.6	8.9	0.6	6.7%	5.5	5.3%
Malaysian Resources Corp Bhd*	MP	0.290	0.560	93.1%	1,295.6	Y	12/2026	1.8	1.4	19.2%	-18.9%	40.8	22.0	0.3	1.7%	1.0	3.4%
Paramount Corporation Bhd	OP	1.02	1.47	44.1%	635.2	Y	12/2026	19.1	21.8	66.6%	14.2%	5.3	4.7	0.4	7.8%	7.5	7.4%
S P Setia Bhd	OP	0.905	1.43	58.0%	4,528.0	Y	12/2026	6.1	7.3	-33.3%	18.9%	14.8	12.5	0.3	2.4%	2.0	2.2%
Sime Darby Property Bhd	OP	1.39	1.97	41.7%	9,453.2	Y	12/2026	8.2	9.2	8.0%	11.4%	16.9	15.2	0.9	5.1%	3.3	2.4%
Sunway Bhd	MP	5.39	5.32	-1.3%	36,438.7	Y	12/2026	20.5	19.4	7.8%	-5.4%	26.3	27.8	2.0	7.8%	6.5	1.2%
UOA Development Bhd	MP	1.83	1.91	4.4%	4,858.7	Y	12/2026	13.7	14.5	18.1%	6.0%	13.3	12.6	0.8	5.8%	12.0	6.6%
SECTOR AGGREGATE					**86,502.5**					**22.8%**	**3.6%**	**22.0**	**21.3**	**0.7**	**5.5%**		**4.2%**

** Under Review*

Source: Kenanga Research

REIT

WHT Removal Priced In

NEUTRAL

↔

By Chris Tong I christong@kenanga.com.my

We maintain our NEUTRAL stance on REIT. Following our sector-wide average TP trim of 4% post confirmation of the withholding tax removal on 18th Mar 2026, we subsequently saw a 5% correction in the KL REIT index, suggesting the impact of the new ruling has been priced in. As it is more punitive to foreign investors, we anticipate selling pressures to persist in the immediate term for REITs with higher foreign shareholding such as AXREIT (MP, TP: RM1.93) and SUNREIT (UP, TP: RM2.17). On this note, we believe REIT-planning companies such as IOIPG and SPSETIA may see marginal impact to their upcoming spin-off listing. Within the sector, we expect stable performance for office and industrial assets while prime retail and hospitality assets in tourist hotspots may see tailwinds fuelled by the ongoing Visit Malaysia Year 2026's initiatives. These names may include PAVREIT (MP, TP: RM1.67), KLCC (MP, TP: RM9.22), IGBREIT (MP, TP: RM2.50) and SUNREIT. All in, we believe M-REITs will remain a safe haven in the near-term due to the recent geopolitical tensions in the Middle East. We do not have any sector top picks in this quarter.

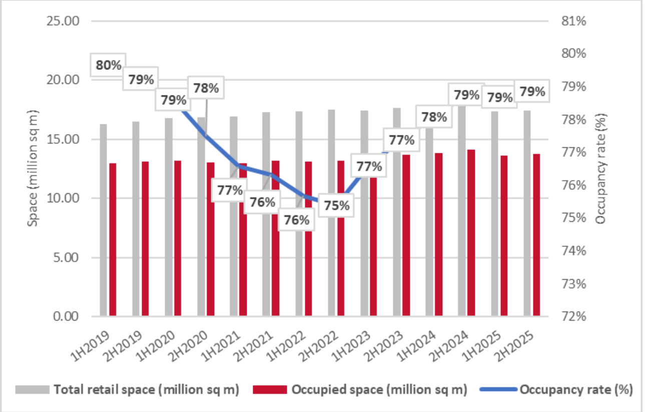
Removal of Withholding Tax for REIT

From the sector report we published per the Inland Revenue Board's update on 18th March 2026, it was confirmed that the preferential 10% withholding tax treatment for M-REIT that had been in place since 2007 was not renewed after it lapsed in Dec 2025. From year 2026 onwards, investors will be taxed based on their respective tax profiles instead of a flat 10% withholding tax (WHT) applied in the past. As a result, both resident and non-resident corporates will be charged with an unchanged 24% tax rate on income distributions, resident non-corporate investors such as institutional and individual investors will be subject to a tax rate of 0% to 30%, while foreign institutional and individual investors will be charged a 30% tax rate being the most punitive category. Having said that, we note that certain provident and retirement funds may continue to be tax-exempt on income generated including dividends, while retirees with lower tax brackets may stand to benefit. After considering all the above, we have trimmed our sector-wide valuation by an average of about 4% to reflect lower expected after-tax dividend shareholders will receive. With the new tax framework, we have shifted our valuation metrics from Net DPU to Gross DPU and our target yield for consistency. (For more information, see our sector update report published on 24 April 2026).

On that note, we believe companies such as IOIPG and SPSETIA that have REIT in its plans may see marginal impact on their upcoming spin off listing. For example, these companies may have to consider the valuation impact of offering slightly higher gross yield in order to offset the effects of higher taxation on the REIT's distributions.

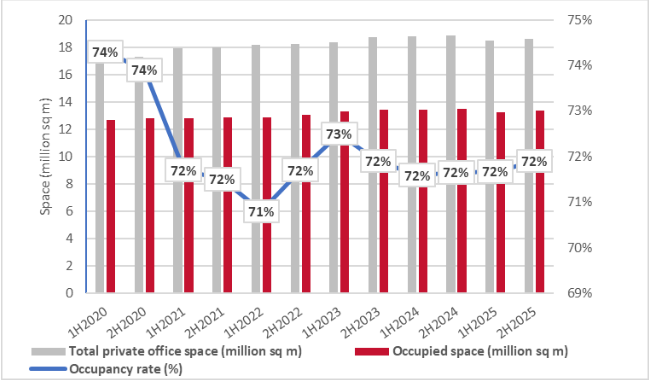
Segmental Review

Exhibit 1 - Retail Space Occupancy Rate Trend



Source: NAPIC, Kenanga Research

Exhibit 2 - Office Space Occupancy Rate Trend



Source: NAPIC, Kenanga Research

Retail - Stable mall occupancy. 4QCY25 retail occupancy rates in shopping complexes held steady at 79.0% from 3QCY25 from a total retail space of 17.4m sqm (refer to Exhibit 1).

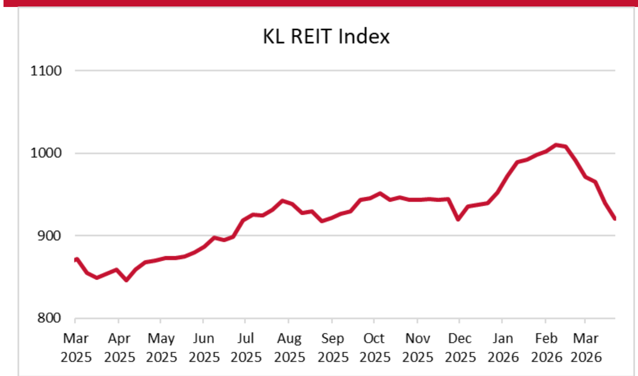
Office - Steady office occupancy. 4QCY25 occupancy rate was broadly stable at 72.0% with a total private office space of 18.6m sqm (refer to Exhibit 2).

Hospitality – The hotel operators under our coverage have seen a rebound in 2HCY25, we believe, largely attributable to the relief of RON95 subsidy rationalisation, the gradual easing of tariffs anxiety and cushioned by the normalization of air travel following the disruptions experienced in certain regions in 1HCY25. This is being fuelled by the increased allocation on tourism in the national budget and our in-house CY26 projection of 30m tourist arrivals in Malaysia (+11% increase from 2025). We foresee tailwinds for REITs with hospitality exposures such as SUNREIT, PAVREIT and KLCC on the back of Visit Malaysia Year 2026.

Exhibit 3 - 10-Year MGS Yield Movement

Source: Bloomberg

Exhibit 4 - KLREIT Index (1 Year)



Source: Bloomberg

We reiterate our NEUTRAL stance on the REIT sector as the downsides from the WHT removal appeared to have been adequately priced in by the market after the KL REIT index falling by c.5% since 18 Mar 2026 (refer to Exhibit 4). Meanwhile, the MGS 10-year yield remains broadly stable at ~3.6% as compared to 4QCY25.

PARADIGM (non-rated) – being a laggard in the sector post-IPO, we remain positive on PARADIGM on a 8.0% estimated gross dividend yield for FY26 (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. For more detailed information, refer to our IPO note on PARADIGM, published on 10 June 2025.

Exhibit 5 - Target Yield at a Glance

REIT	Stock Call	Target Price (RM)	Target Yield (%)
AMEREIT	MP	1.58	5.50
AXREIT	MP	1.93	5.75
CLMT	MP	0.65	8.00
IGBREIT	MP	2.50	6.00
KLCC	MP	9.22	5.50
PAVREIT*	MP	1.67	6.25
SUNREIT	UP	2.17	5.75

^ Derived from yield spread above our 10-year MGS yield assumption of 3.5%.
**PAVREIT: Under Review.*
Source: Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (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																	
AME REIT	MP	1.68	1.58	-6.0%	892.2	Y	03/2026	7.6	8.0	17.3%	4.8%	22.1	21.1	1.5	6.9%	8.0	4.8%
AXIS REIT	MP	1.94	1.93	-0.5%	3,928.3	Y	12/2026	10.6	11.1	6.2%	5.1%	18.3	17.4	1.2	6.3%	10.1	5.2%
CAPITALAND MALAYSIA TRUST	MP	0.630	0.630	0.0%	2,098.7	N	12/2026	5.2	5.4	10.1%	4.2%	12.1	11.6	0.7	5.4%	4.8	7.7%
IGB REIT	MP	2.66	2.50	-6.0%	11,505.9	N	12/2026	10.1	14.0	18.1%	38.6%	26.4	19.1	2.5	12.6%	10.0	3.8%
KLCCP STAPLED GROUP	MP	9.07	9.22	1.7%	16,374.4	Y	12/2026	47.8	49.2	5.8%	2.9%	19.0	18.4	1.3	6.1%	46.9	5.2%
PAVILION REIT	MP	1.72	1.63	-5.2%	6,756.1	N	12/2026	9.3	9.7	21.0%	5.0%	18.6	17.7	1.3	7.5%	8.9	5.2%
SUNWAY REIT	UP	2.34	2.17	-7.3%	8,014.1	N	12/2026	12.7	13.3	1.7%	5.3%	18.5	17.5	1.5	7.8%	12.5	5.3%
SECTOR AGGREGATE					**49,569.7**					**9.5%**	**10.0%**	**19.5**	**17.8**	**1.4**	**7.6%**		**5.4%**

Source: Bloomberg, Kenanga Research

Renewable Energy

OVERWEIGHT

↔

The Sun Just Got Cheaper

By Tan Sue Wen, tansw@kenanga.com.my

We expect utility-scale solar activity to gradually pick up in 2Q2026, supported by moderating solar module prices, which have started to soften to c.USD0.11-0.12/W from a peak of c.USD0.13/W (exhibit 4). This is driven by easing upstream cost pressures, with polysilicon prices (n-type silicon: -17% YTD) and wafer prices (average: -12% YTD) declining due to ongoing oversupply. In addition, silver prices, one of the key components in solar panels, have normalized to c.USD69/t (from a peak of USD116/t), which should help support further cost moderation over time. The remaining external EPCC opportunities for LSS5+ are estimated at c.RM2-3bn over the next 12 months, which should continue to support sector earnings visibility through to 2028. Looking ahead, LSS6, with a 2GW allocation and mandatory BESS integration, is expected to be the next key catalyst. Tender is likely in 2Q, with awards potentially materializing in late 2026 or early 2027. We estimate this could translate into c.RM8bn in EPCC opportunities. CRESS is expected to see gradual adoption following the SAC revision. In the rooftop segment, Solar ATAP has seen a softer start following the transition from NEM, with demand impacted by longer payback periods, lower returns and higher upfront costs. Nonetheless, we expect a gradual recovery from 2H 2026 as the market adjusts to the new framework. At the same time, the SELCO framework is strengthening the case for BESS adoption among C&I users, particularly high energy-intensive customers, supported by higher peak demand charges and declining battery costs. This should continue to support adoption of solar-plus-storage solutions. We maintain our OVERWEIGHT stance on the sector, with SAMAIDEN (OP; TP: RM1.94) and KJTS (OP; TP: RM1.37) as our top picks, given their strong positioning to benefit from the National Energy Transition Roadmap (NETR).

LSS5+ EPCC rollout is expected to gradually improve, supported by recent moderation in solar module prices, which have softened to c.USD0.11-USD0.12/W from a peak of c.USD0.13/W. This has been driven by easing raw material costs, including declines in polysilicon and wafer prices, as well as the normalization in silver prices (see solar module price discussion). EPCC rollout has been slow to date, mainly due to delays in financial close as developers adopt a wait-and-see approach amid previously elevated panel prices following China's 9% export VAT removal, which had compressed project IRRs. Based on channel checks, COD for LSS5+ projects is expected by end-Feb 2028. According to the Energy Commission, 13 developers have been awarded LSS5+ quotas totalling 2GWac, implying an EPCC opportunity of c.RM6bn. To date, only ~1.5% of EPCC value has been publicly announced (SLVEST: EPCC contract value RM90m), pointing to a slower pace of conversion. After adjusting for internal EPCC execution by asset owners, we estimate the remaining external addressable EPCC market at c.RM2-3bn over the next 12 months, which should continue to support sector earnings visibility through to 2028.

Exhibit 1: LSS5+ Award List Based on Public Information

No.	Award name	Installed Capacity	Location
1.	Malakoff Corp Bhd (80%) + Solarvest Holdings Bhd (20%)	470MWac	Larut & Matang, Perak
2.	Sunview Group Bhd (51%) + Cypark Resources Bhd (49%)	99.99MWac	Negeri Sembilan
3.	Samaiden Group Bhd (60%) + JBB Builders (M) Sdn Bhd (40%)	99.99MWac	Johor
4.	YTL Power International Bhd	100MWac	Kelantan
5.	Leader Energy Group Bhd	136MWp	Mukim Kuala Ketil, Baling, Kedah
7.	Masdar (49%) (Abu Dhabi Future Energy Company) + Citaglobal Renewable Energy Sdn Bhd (30%) + TIZA Global Sdn Bhd (21%)	200MW	Chereh Dam, Kuantan, Pahang (floating solar)

Source: Energy Commission, The Edge, The Star and Kenanga

LSS6: The Next Major Catalyst with BESS Mandate. Following the successful rollout of LSS5 and LSS5+, the LSS6 programme is set to be the next major catalyst for the renewable energy sector. With a target allocation of 2GW and mandatory Battery Energy Storage System (BESS) integration, we estimate the programme will drive c.RM8bn in EPCC opportunities. This represents a 40-50% increase from solar-only installations, as batteries account for the majority of the additional component cost.

Based on channel checks, LSS6 is likely to be rolled out in 2Q, with awards expected in late 2026 or early 2027, in line with the historical 6-month tender process. While competition is expected to intensify as more players enter to capture a share of the market, we believe existing leading players, particularly those with strong balance sheets, are better positioned to emerge as winners.

This is supported by two key factors:

(i) **Larger contract sizes.** The inclusion of BESS increases overall contract sizes, which in turn raises working capital requirements and performance bond commitments, potentially limiting participation from smaller players.

(ii) **Stronger financing profiles.** Players with stronger financial positions are better placed to benefit from bulk procurement, allowing them to secure more competitive pricing.

As such, we expect incumbent players such as **SLVEST(OP, TP:RM3.45)** and **SAMAIDEN (OP, TP:RM1.94)** to be key beneficiaries, given their established track records in utility-scale projects and stronger balance sheet positions (as reflected in their sukuk issuances), which place them in a better position to undertake larger-scale, particularly BESS-integrated projects.

CRESS: Gradual adoption following SAC revision. We expect adoption of CRESS to gradually increase following the government's revision of the System Access Charge (SAC) to 20 sen/kWh for firm supply (from 25 sen/kWh) in July 2025. Based on public disclosures, total green electricity supply agreements (ESAs) signed under CRESS reached c.1.3GW, including Tenaga Nasional's 400MW agreement with Bridge Data Centres, UEM Lestra's 360MW contract with ESR Group, and TNB's 500MW deal with DayOne, all linked to data centre developments in Johor. We expect further announcements to be driven primarily by large energy users under the ultra-high voltage (UHV) tariff category, particularly data centres, given the increase in electricity costs under the revised TNB tariff structure. In this context, CRESS is now relatively more attractive compared to the Green Electricity Tariff (GET), with contract tenures of 10-21 years offering better cost visibility and some protection against future tariff increases. Overall, we expect development to be gradual as most new projects remain at a preliminary stage.

Solar ATAP: A Slow Start. Rooftop solar installers are likely to see earnings improve from 2Q 2026 onwards, following the 1 January 2026 implementation of the Solar ATAP programme, which replaced the expired NEM scheme. However, we expect near-term demand to remain subdued, driven by three key factors: (i) payback periods have lengthened, as Solar ATAP tariffs cover only the energy charge component, compared to NEM, which previously offset both capacity and energy charges; (ii) returns are lower, as tariffs are now based on the System Marginal Price (SMP), introducing variability versus the fixed offset mechanism under NEM; (iii) higher solar panel prices have increased upfront installation costs, further weighing on project economics. Despite these headwinds, solar remains one of the more effective renewable options to offset the recent tariff structure. We expect a gradual recovery from 2H 2026, as the market gradually adjusts to the new framework.

SELCO: Stronger Case for BESS Integration. For solar capacity exceeding 1MWac, the SELCO framework applies. Effective 1 January 2026, BESS has become mandatory for such systems under SELCO. Following the RP4 tariff adjustment, we expect stronger demand for solar among C&I customers, particularly high energy-intensive users. This is driven by two key factors:

(i) **Higher peak demand charges.** For medium voltage (MV) customers, peak demand charges have increased significantly, rising by 162% (refer to Exhibit 3). This makes BESS-enabled peak shaving increasingly attractive.

(ii) **Lower battery costs.** Battery prices have declined to c.USD100/kWh (vs c.USD115/kWh a year ago), improving project IRRs and enhancing the economic viability of BESS integration.

This is more favourable to high-energy users, especially MV customers, who face the steepest increase in peak demand charges and stand to benefit the most from demand reduction through BESS integration.

Exhibit 3: RP3 vs RP4 comparison table for medium-voltage (MV)

Item	RP4 (Non-Domestic MV ToU)	RP3 (Industrial E2 ToU)	%
Peak energy charge	31.32 sen/kWh	35.50 sen/kWh	-12%
Off-peak energy charge	27.23 sen/kWh	21.90 sen/kWh	24%
Peak MD	Capacity: RM30.19/kW/month + Network: RM66.87/kW/month	RM37.00/kW/month	162%
Retail charge	RM200/month	None	

Source: TNB, Kenanga Research
For illustration purposes, we use RP3 Industrial E2 as the comparable tariff category to RP4 Non-Domestic MV ToU

Exhibit 4: RP3 vs RP4 comparison table for high-voltage (HV)

Item	RP4 (Non-Domestic MV ToU)	RP3 (Industrial E2 ToU)	%
Peak energy charge	44.52 sen/kWh	33.70 sen/kWh	32%
Off-peak energy charge	40.43 sen/kWh	20.20 sen/kWh	100%
Peak MD	Capacity: RM21.76/kW/month + Network: RM23.06/kW/month	RM35.50/kW/month	26%
Retail charge	RM250/month	None	

Source: TNB, Kenanga Research
For illustration purposes, we use RP3 Industrial E3 as the comparable tariff category to RP4 Non-Domestic HV ToU

Solar Module Prices: Potential Upside for EPCC Contractors. Based on our checks, solar module prices have softened to c.USD0.11/W from a peak of c.USD0.13/W, which was previously driven by China's cancellation of the 9% export VAT rebate in April 2026. This moderation has been supported by softer upstream costs, with polysilicon prices (n-type silicon: -17% YTD) and wafer prices (average: -19% YTD) declining, mainly due to ongoing oversupply. In addition, silver prices, one of the key components in solar panels, have normalized to c.USD69/t (from a peak of USD116/t), which should help support further cost moderation over time. This presents a potential upside for EPCC contractors that have yet to lock in panel procurement under fixed-price contracts. In addition, developers seeking improved returns may expedite EPCC contract rollouts should module prices moderate.

Top picks:

- **SAMAIDEN (OP; TP:RM1.94).** We previously highlighted SAMAIDEN as the safer play and will watch for a rotation into **SLVEST (OP; TP:RM3.45)** post 1 April. Our thesis that panel cost will start to ease from 1 April is now seeing initial data validation and the confirmation of a trend, especially with a retracement to the levels below 10 cent/w level could tilt our preference to SLVEST, as the cost concerns is alleviated the most (given a smaller volume mix is locked in via pre procurement). However, based on current data points, we believe prices are likely to stabilise at current levels and may require more time to see further meaningful declines, particularly post April after factoring in the 9% VAT, which could translate into an additional one cent/W on quoted solar panel prices. In this context, we continue to favour SAMAIDEN, supported by its early procurement strategy. The Group has pre-purchased c.800MW of solar panels, with the majority expected to be delivered to site by this end of March, which helps to mitigate panel price volatility. We also continue to like SAMAIDEN for its established track record in utility-scale projects, where it typically commands c.10%-15% market share. In addition, its solid financial position, including c.RM1.4bn in unutilised sukuk capacity, provides flexibility to participate in up to c.583MWac of asset ownership opportunities. Looking ahead, any positive developments under CRESS, particularly in terms of project crystallization, could provide further support to our order book growth assumptions.
- **KJTS (OP; TP:RM1.37).** As Malaysia's only listed energy efficiency player, KJTS offers exposure to a c.RM41bn cooling energy market, which is seeing increasing demand driven by regulatory requirements. The Group is also transitioning from a one-off EPCC model to a cooling-as-a-service model, providing greater earnings visibility. The Lestari JV with Stonepeak and KWAP unlocks a new growth vector, providing up to RM2.1bn in funding capacity to scale the platform, address clients' upfront capex constraints, and capture larger projects including ex-Malaysia opportunities. While we await the first project awards from the JV, we view the inclusion of KWAP as a positive development, as it enhances funding flexibility and expands the addressable market, including ex-Malaysia projects. We believe this will accelerate project rollout and enable KJTS to capture recurring income across a broader range of opportunities.

Exhibit 4: Solar Module Prices

Module Type (TOPCon Bifacial)	USD/w					
	Week8	Week9	Week10	Week11	Week12	YTD (%)
182mm, 72 cells (580-590w)	0.12	0.12	0.12	0.11	0.11	15%
210mm, 60 cells (630-655w)	0.12	0.12	0.13	0.12	0.11	16%
210mm, 60 cells (700-725w)	0.12	0.12	0.13	0.12	0.11	16%
210R, 60 cells (610-635w)	0.12	0.12	0.13	0.12	0.12	N/A

Source: TaiyangNews, Kenanga Research
Note: RMB-denominated module prices are converted into USD based on the end-of-week RMB/USD exchange rate.

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																	
KJTS Group Bhd	OP	0.785	1.37	74.5%	542.1	Y	12/2026	3.2	4.0	24.2%	23.9%	24.3	19.6	2.4	12.1%	6.0	0.8%
Pekat Group Bhd	OP	1.33	1.72	29.3%	939.8	Y	12/2026	8.5	9.2	22.4%	7.3%	15.6	14.5	2.4	18.6%	0.0	0.0%
Samaiden Group Bhd	OP	0.990	1.94	96.0%	498.4	Y	06/2026	6.3	7.5	21.3%	18.8%	15.7	13.2	2.4	17.4%	11.0	1.1%
Solarvest Holdings Bhd	OP	2.42	3.45	42.6%	2,302.3	Y	03/2026	10.3	14.3	51.9%	39.2%	23.5	16.9	4.7	22.7%	0.0	0.0%
Swift Energy Technology Bhd	OP	0.170	0.470	176.5%	170.1	Y	09/2026	1.3	2.0	-29.3%	53.8%	13.1	8.5	2.2	19.1%	0.0	0.0%
Sector Aggregate					**4,452.8**					**26.1%**	**26.5%**	**22.2**	**17.6**	**2.8**	**18.0%**		**0.4%**

Source: Kenanga Research
**Note that Sunview numbers based on Bloomberg consensus*

Seaport & Logistics

Rock the Boat

NEUTRAL

↔

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

We maintain our NEUTRAL stance on the sector. The WTO in March 2026 raised its projection for CY26 global merchandise trade volume growth to 1.9% (from 0.5% in its October 2025 projection), while introducing CY27 growth at 2.6% quoting a surge in AI-related products, adaptations in supply chains and the avoidance of tit-for-tat retaliation on tariffs. However, this baseline forecast is under pressure from the conflict in the Middle East and sustained increases in energy prices. Note that, the high energy price scenario would see world merchandise trade volume growth slow to 1.4% from 1.9%. Locally, the rising fuel prices exacerbated by the reduced traffic in the Straits of Hormuz currently has minimal impact to the sector. Logistics players are insulated by the rising diesel price by using subsidy fleet card to pump at a fixed price of RM2.15 per litre, while seaport operators cushioned the use of unsubsidized diesel with the rising containers storage income on expected port congestion from the reduced shipping traffic to the middle-east. Nevertheless, the domestic logistics sector fared better as Malaysia is a beneficiary of the booming e-commerce and trade diversion on US-China trade tensions. We do not have any top picks for the sector.

Cautiously Optimistic. The WTO in March 2026 raised its projection for CY26 global merchandise trade volume growth to 1.9% (from 0.5% in its October 2025 projection), while introducing CY27 growth at 2.6% quoting a surge in AI-related products, adaptations in supply chains (restructuring logistics, sourcing, and technology to boost resilience against volatility) and the avoidance of tit-for-tat retaliation on tariffs. However, this baseline forecast is under pressure from the conflict in the Middle East and sustained increases in energy prices with potential spillovers for food security and cost pressures on consumers and businesses. Note that, the high energy price scenario would see world merchandise trade volume growth slow to 1.4% from 1.9%, shaving 0.5 percentage points off.

Moreover, the shipping diversion from the Red Sea is continuing to weigh down on global trade, especially the Asia-Europe routes (**WPRTS** indicated that 80% of shipping lines 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 (as well all other ports in the region).

Locally, the rising fuel prices exacerbated by the reduced traffic in the Straits of Hormuz currently has minimal impact to the sector. Logistics players are unaffected by the rising diesel price (at time of writing diesel pump price is at RM5.52 per litre) as logistics players are eligible to purchase diesel at a fixed price of RM2.15 per litre under Malaysia's Targeted Diesel Subsidy (SKDS 2.0) for logistics using subsidy fleet card (limit varies based on the type of logistics vehicle approved by KPDN). On the contrary, seaport operators can only use unsubsidized diesel (largely for its tugboats), but it is expected to be cushioned by the expected increase in container storage income following the potential port congestion arising from the reduced traffic in the Straits of Hormuz.

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's growth are surging due to their emerging role as "connecting" economies, trading across geopolitical blocs, thereby potentially mitigating the risk of trade fragmentation. Based on the latest Malaysia's external trade in February 2026, exports to the US recorded a strong growth of 42.3% YoY (higher than January's 33.9%) due to robust demand for E&E product. The US now is Malaysia's largest export destination during the month. We expect domestic logistic sector growth to remain steady in 2026, which is a beneficiary of the booming e-commerce, supported by the global tech up-cycle led by AI data centre demand, a resilient US economy, and potential trade diversion amid US-China trade tensions.

We believe that Malaysia will benefit from the trade diversion as the global trade reposition itself around the higher US tariff barriers. Note that, 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: RM5.30)** which took a dive due to its largest exposure to China, 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). Overall, Malaysian ports' container growth volume is expected to remain in low single-digit growth (based on Kenanga estimates of 4% growth for 2026 as Malaysian ports are heavily invested in the intra-Asia trade route which are less affected by the surges in tariff to the US) , partially benefitting from the potential trade diversion amid US-China trade tensions while the biggest beneficiary in the long-run could be **BIPORT** due to its largest exposure to China as its biggest LNG export market. Nevertheless, Petronas MLNG complex is currently running at maximum capacity which we expect to persist for few years until Petronas finalised its plan to expand (no timeline given at the moment).

We also note that tightening global climate regulations could pose structural headwinds to global trade flows, particularly those introduced by the International Maritime Organization (IMO) and the European Union (EU).

IMO Net-Zero Framework: At the shipping level, the IMO approved, in principle, a Net-Zero Framework at MEPC 83 in April 2025, comprising a global fuel-intensity standard and a greenhouse gas emissions pricing mechanism to support the IMO's 2023 GHG Strategy. However, formal legal adoption was deferred after the extraordinary MEPC session in October 2025 was adjourned due to insufficient consensus among member states, and discussions remain ongoing into 2026. As such, the Net-Zero Framework has not yet been adopted and is not legally binding. Entry into force will only occur following formal adoption and completion of the IMO's tacit acceptance process, pushing the earliest realistic implementation timeline beyond initial expectations. In the interim, existing IMO climate measures, namely the Energy Efficiency Existing Ship Index (EEXI) and Carbon Intensity Indicator (CII), remain the only binding global efficiency requirements for international shipping.

EU Carbon Border Adjustment Mechanism (EU CBAM): Separately, the **EU CBAM** entered its definitive regime on 1 January 2026. Under the CBAM framework, EU importers of selected carbon-intensive goods are required to report embedded emissions and, from 2027, surrender CBAM certificates priced in line with the EU Emissions Trading System. Recent "Omnibus" amendments have simplified CBAM implementation, most notably via a new 50-tonne annual mass-based de minimis exemption for certain sectors, while maintaining the overall policy objective of preventing carbon leakage.

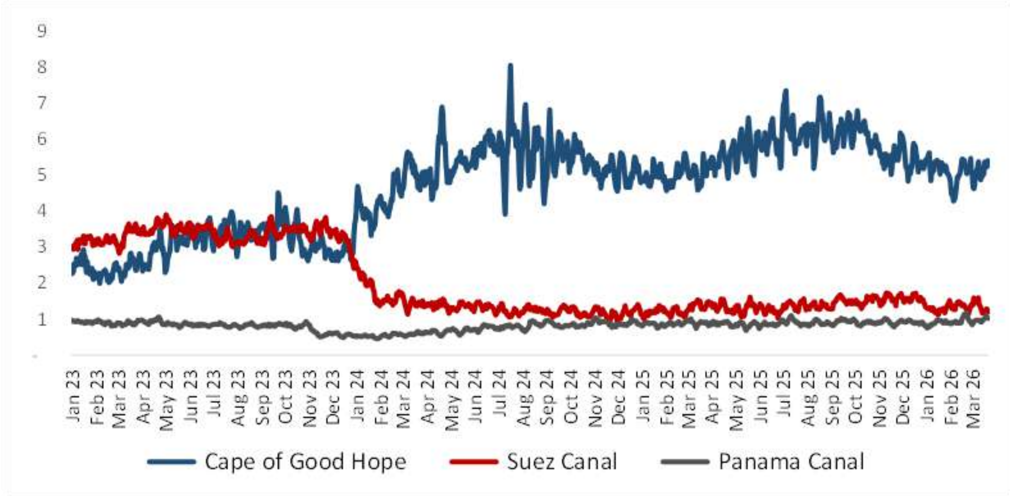
Although the near-term impact of IMO and CBAM regulations on seaports and logistics volumes remains uncertain, Asia–Europe trade lanes, which account for roughly 18% of WPRTS's container throughput, could face gradual volume or cargo mix adjustments over time as carbon-related costs are increasingly internalised along the supply chain. At this stage, we view IMO and CBAM regulations as **medium-term structural risks**, rather than immediate earnings shocks, with execution risk and policy uncertainty remaining elevated, particularly for global shipping decarbonisation.

IMO and EU CBAM Regulatory Snapshot

Item	IMO Net-Zero Framework (Shipping Climate Rules)	EU – Carbon Border Adjustment Mechanism (CBAM)
Regulator	International Maritime Organization (United Nations body)	European Union
Current status (as of Mar 2026)	Net-Zero Framework approved in principle but **not legally adopted**; discussions ongoing	CBAM **legally in force** under definitive regime
When	• EEXI & CII: In force since **2023** • Net-Zero Framework: Approved **Apr 2025**; adoption **deferred to at least 2026** following adjournment of Oct 2025 session; entry into force subject to adoption and tacit acceptance	• Transitional (reporting-only) phase: **2023–2025** • Definitive regime effective: **1 Jan 2026** • First surrender of CBAM certificates: **30 Sep 2027** (for 2026 imports)
Who / what is in scope	• Oceangoing ships **above 5,000 GT** engaged in international trade • Covers the majority of container, tanker and bulk shipping	• EU imports of **iron & steel, aluminium, cement, fertilisers, electricity and hydrogen** • **50-tonne annual mass-based de minimis exemption** per importer for certain goods (excludes electricity and hydrogen)
Key requirements	• Technical energy-efficiency compliance (EEXI) • Annual operational carbon-intensity rating (CII) • Proposed future fuel-intensity standard and emissions pricing under the Net-Zero Framework (not yet binding)	• Importers to report embedded emissions • Purchase and surrender CBAM certificates priced in line with EU ETS
Penalties / compliance impact	• Poorly rated ships under CII must submit corrective action plans • Future compliance costs under the Net-Zero Framework remain uncertain pending adoption	• Financial penalties aligned with EU ETS • Customs authorities may restrict or block imports for non-compliance
Implications for trade & logistics	• Regulatory uncertainty may delay fleet and fuel investment decisions • Potential longer-term impact on vessel deployment and port call patterns	• Higher landed costs for carbon-intensive imports • Indirect impact on trade flows, sourcing decisions and Asia–Europe volumes

Overall sector view	Medium-term structural headwind, with elevated policy execution risk	Medium-term structural headwind

Exhibit 1: Daily Transit Trade Volume*



**million tonnes, 7-day moving average*

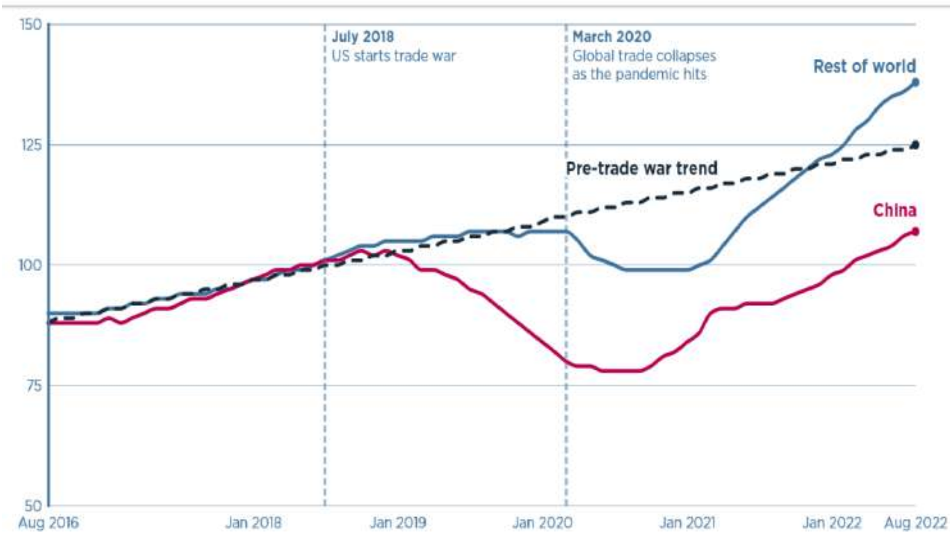
Source: International Monetary Fund, United Nations, Port Watch

Logistics to ride on e-commerce boom. On the other hand, the domestic logistics sector still fared better as Malaysia's total trade moderated to 9.5% in February 2026 (Jan: 12.3%), while trade surplus narrowed to RM16.7b in the same period (Jan: RM22.2b), especially in the domestically driven third-party logistics (3PL) sector (thanks to the 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 5% from 2024 to 2027, reaching RM1.5t by 2027 from RM1.2t in 2024. Local players such as **SWIFT,** however, are faced with intense competition from Chinese players which constrain local players' ability to fully leverage on Malaysia's strong total trade growth. This situation arises 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 come in as a package following the new entrant of China's 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.

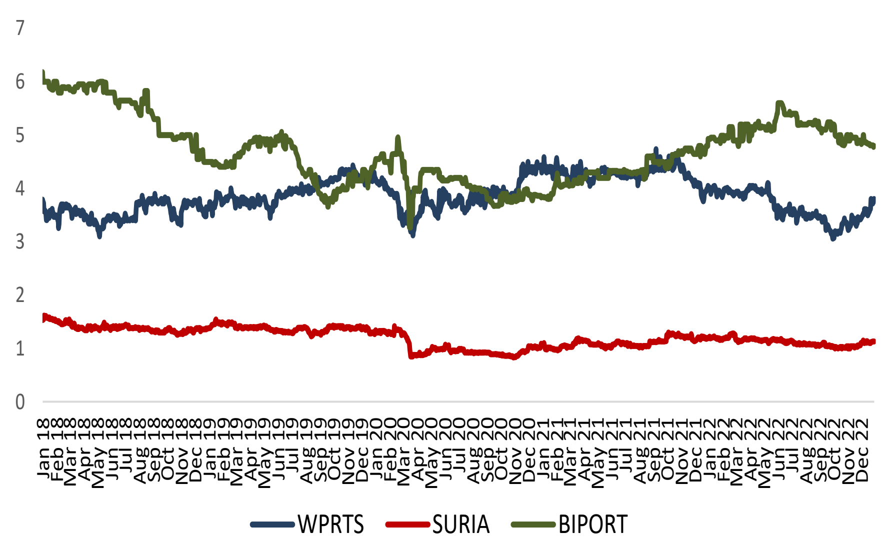
We maintain **NEUTRAL** on the sector with no top pick at the moment.

Exhibit 2: Trade War Impact in 2018–2022



Source: Constructed by theUS Bureau of Census
www.piie.com

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



Source: Bloomberg, Kenanga

Peer Table Comparison

Name	Rating	Last Price as at 19.03.2026 (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.
Stocks Under Coverage																	
BINTULU PORT HOLDINGS BHD	MP	5.25	5.30	1.0%	2,415.0	Y	12/2025	29.8	30.9	14.3%	3.7%	17.6	17.0	1.2	6.8%	15.0	2.9%
POS MALAYSIA BHD	UP	0.295	0.140	-52.5%	230.9	Y	12/2025	(19.8)	(17.2)	-174.4%	-187.2%	N.A.	N.A.	4.1	-223.6%	0.0	0.0%
SWIFT HAULAGE BHD	UP	0.400	0.320	-20.0%	355.9	Y	12/2025	3.2	3.4	5.4%	8.2%	12.6	11.6	0.5	3.7%	1.6	4.0%
WESTPORTS HOLDINGS BHD	MP	6.19	6.20	0.2%	21,182.2	Y	12/2025	33.0	35.4	13.2%	7.1%	18.7	17.5	4.8	26.2%	24.8	4.0%
SECTOR AGGREGATE					**6,046.0**					**-35.4%**	**-42.0%**	**16.3**	**15.4**	**2.6**	**-46.7%**		**2.7%**

Source: Kenanga Research

Technology

NEUTRAL ↓

Memory Tightness, Selective Tech

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The global semiconductor upcycle remains intact, with the market still on track to approach USD1t by 2026, supported by structural drivers such as AI, HPC, 5G and next-generation device upgrades. However, gains are becoming more concentrated as AI-driven memory tightness increasingly benefits AI infrastructure at the expense of non-AI end-markets as tighter DRAM/NAND supply pushes up costs for smartphones, PCs, vehicles and broader electronics. While AI-driven demand remains supportive of memory-led WFE spending, which should continue to outpace other segments, it also raises affordability risks and margin pressure across the wider technology chain. Concurrently, AI applications are evolving from assistants and copilots into agents and agentic AI, extending the spending cycle beyond model training into real-world deployment, with a focus presently more on monetisation rather than capability alone. Against this backdrop of intensifying external risks — particularly global memory tightness, supply-chain fragility and persistent cost pressure — we downgrade the sector to NEUTRAL from OVERWEIGHT, while continuing to prefer front-end names on clearer earnings visibility, with KGB (OP, TP: RM6.15) and UWC (OP, TP: RM4.70) as our top picks, alongside INFOMINA (OP, TP: RM1.90) for its scalable and recurring AI-driven earnings potential.

Global semiconductor upcycle remains intact, but gains are becoming more concentrated. The global semiconductor cycle remains firm, with industry sales still accelerating and the market on track to approach US$1t by 2026. January 2026 sales rose 3.7% MoM and 46.1% YoY to USD83.7b, while WSTS expects the market to grow by more than 25% in 2026 to c.USD975b, led by continued strength in Logic and Memory. Unlike previous cycles, this upturn has been supported by more structural drivers, including AI, HPC, 5G and next-generation device upgrades, which should help extend the cycle, although the benefits are becoming increasingly uneven across the sector.

AI-driven memory tightness is reshaping the industry, but at the expense of non-AI demand. AI workloads are significantly more memory-intensive, prompting suppliers to prioritize HBM and high-capacity DDR5 for AI servers over conventional DRAM and NAND for smartphones, PCs, vehicles and other consumer devices. This has created a zero-sum environment, where hyperscalers and AI server customers are absorbing a disproportionate share of industry output, while non-AI end-markets face tighter supply, higher costs and weaker affordability.

The AI boom is also making phones, PCs and electronics more expensive. IDC has sharply cut its 2026 smartphone shipment forecast, while Gartner now expects global PC shipments to experience a double-digit decline, both citing surging memory costs. In short, the AI build-out is no longer only lifting demand for AI infrastructure, but is also pushing up input costs across the broader electronics chain, which could squeeze margins, weaken affordability and place structural pressure on lower-end devices.

Memory remains the key driver of the next WFE upcycle. Against this backdrop, memory is emerging as the clear leader of the next wafer fabrication equipment (WFE) upcycle. We expect memory WFE to have grown 13% in 2025 followed by 23% in 2026, before moderating to 9% in 2027, making it the strongest growth segment across semiconductors. This reflects the highly equipment-intensive migration in 3D NAND and DRAM; we estimate memory will account for roughly 65%–70% of total WFE capex over 2024–2027. By comparison, logic spending should recover more gradually, supported by continued migration towards 3nm-class and sub-3nm nodes.

AI applications are evolving rapidly, but monetization is now the key differentiator. AI has progressed from basic automation to assistants, copilots, agents, and now agentic AI, where systems can increasingly reason, use tools and execute tasks with limited human intervention. In practical terms, AI is moving from a reactive helper to a more autonomous digital worker, extending the spending cycle beyond model training into real-world deployment. From an investment perspective, however, the focus is shifting from AI capability alone to sustainable monetization.

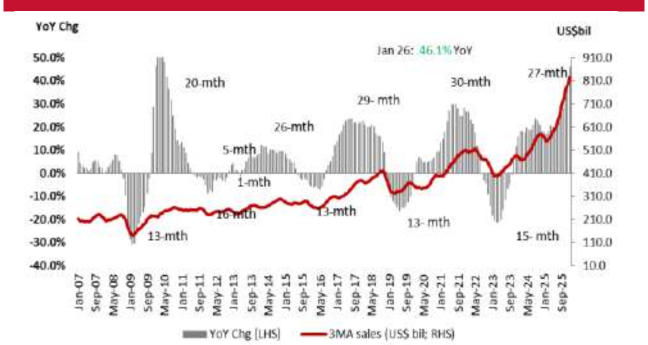
Downgrade the sector rating to NEUTRAL from OVERWEIGHT as external risks have intensified, particularly from global memory tightness, supply-chain fragility and persistent cost pressure across the value chain. In response, we revise our valuation framework for key OSAT, ATE and EMS names. For OSATs, we move away from the FY20-based benchmark and now anchor valuations to the historical average 26x PER across the past three upcycles, versus 29.3x previously, implying c.+0.5 standard deviation above KLTEC's five-year forward PER. We also value PENTA at 30x PER, consistent with the historical average ATE PER across the same period, while our EMS valuation assumptions are being reassessed to reflect the tougher operating backdrop. All in, we continue to prefer front-end (FE) names on clearer earnings visibility, with **KGB (OP, TP: RM6.15)** and **UWC (OP, TP: RM4.70)** remaining our top sector picks. We also like **INFOMINA (OP, TP: RM1.90)** for its ability to convert early AI adoption into a scalable and recurring earnings stream.

Global Chip Market on Track for Approaching USD1t by 2026, led by AI-driven Logic and Memory upcycle

Global semiconductor sales continued to accelerate in January 2026, rising 3.7% MoM and 46.1% YoY to USD83.7b, supported by sustained strength in the Logic and Memory segments. For 2026, WSTS projects the global semiconductor market to expand by more than 25% to roughly USD975b, bringing the industry close to the USD1t milestone. Growth is expected to remain broad-based across regions and product categories, with Memory and Logic once again leading the cycle, each forecasted to grow by more than 30% YoY. This will be driven by structural demand from AI, high-performance computing and data centres. Regionally, the Americas and Asia Pacific are expected to remain the strongest contributors, while Europe and Japan should record low double-digit growth as the recovery broadens beyond the core AI and data-centre segments.

The current semiconductor upcycle, which began in November 2023, has now sustained strong double-digit growth through October 2025. Historically, semiconductor upcycles have averaged around 22 months, with the longest lasting about 30 months, implying that the current 27-month rally has already exceeded historical norm and could potentially extend into mid-CY26 or beyond. More importantly, unlike previous cycles, this upturn appears to be supported by stronger structural drivers, including accelerating AI adoption, high-performance computing, 5G proliferation and next-generation AI smartphone upgrades. Together, these trends continue to fuel demand for advanced logic chips, GPUs and AI accelerators, reinforcing the view that the current cycle remains more durable than a typical cyclical rebound.

Exhibit 1: Global Semiconductor Sales (% YoY)



Source: Kenanga, WSTS

Exhibit 2: Global Semiconductor Market (USD b) Actual vs. Forecast

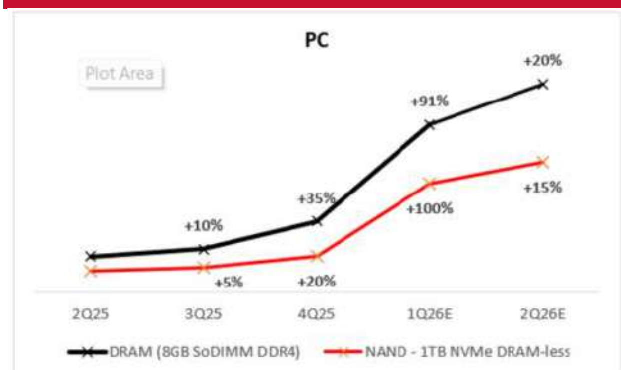
Source: WSTS

Unprecedented Memory Shortage Driven by AI Demand. The global memory market is facing an unusually severe supply crunch, with demand now materially outpacing available capacity. Unlike previous memory cycles, which were largely driven by swings in consumer electronics demand, the current shortage is being reshaped by the rapid expansion of AI infrastructure. AI workloads are significantly more memory-intensive and are increasingly absorbing industry capacity, prompting memory manufacturers to redirect production away from conventional DRAM and NAND used in PCs, smartphones, vehicles and other consumer devices to higher-value products such as HBM and high-capacity DDR5 for AI data centres. As a result, the supply of general-purpose memory has tightened meaningfully, driving broad-based price increases across the market.

AI Servers Are Consuming a Disproportionate Share of Global Memory Capacity. Compared with consumer devices, AI servers and enterprise systems require substantially more memory per unit, meaning the rapid build-out of AI infrastructure is taking up an outsized share of industry output. In response, memory suppliers have prioritized orders from hyperscalers and OEMs building AI servers, leaving less DRAM available for traditional end-markets. Supply for AI-specific memory remains relatively manageable, however, as major customers have secured capacity through long-term agreements with leading suppliers such as Samsung, SK hynix and Micron. This has allowed hyperscalers including Microsoft, Google, Meta and Amazon to lock in production slots for HBM and other AI-optimised memory solutions, further reinforcing the preferential allocation of capacity toward the AI segment.

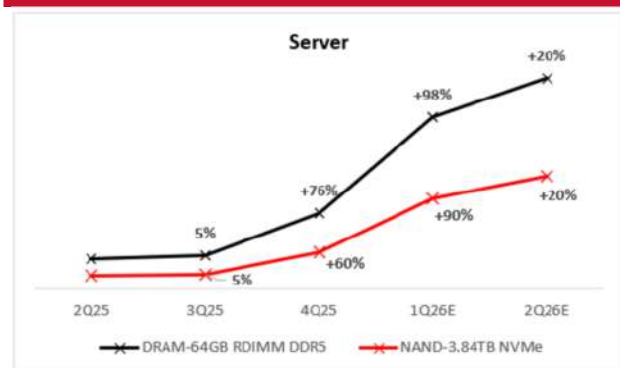
Driving a Strategic Shift in Manufacturing Focus to the Detriment of Other End-Markets. With meaningful new memory capacity unlikely to come onstream before 2027, the industry is effectively operating in a zero-sum environment, where each wafer allocated to HBM for AI accelerators reduces the supply available for LPDDR5X in smartphones or SSDs in consumer laptops. The knock-on effect is rising cost pressure across non-AI applications, including consumer electronics, automotive and industrial segments, where higher memory prices are squeezing margins and could weaken end-demand as costs are passed through to customers. For instance, server memory prices have risen sharply, with the price of 64GB RDIMM climbing from US$450 in 4Q25 to more than USD900 in 1Q26 and will potentially exceed USD1,000 by 2Q26. The PC market is seeing a similar trend, with 8GB SoDIMM DDR4 prices having risen 91% in 1Q26, although growth in both markets is expected to moderate to around 20% in 2Q26 due to the high base effect.

Exhibit 3: Price Trends for PC Memory



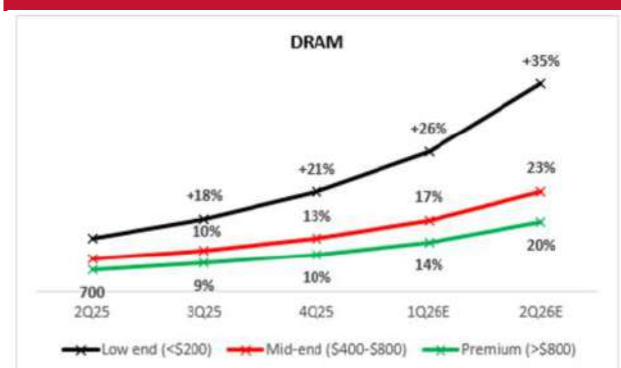
Source: Kenanga Research

Exhibit 4: Price Trends for Server Memory



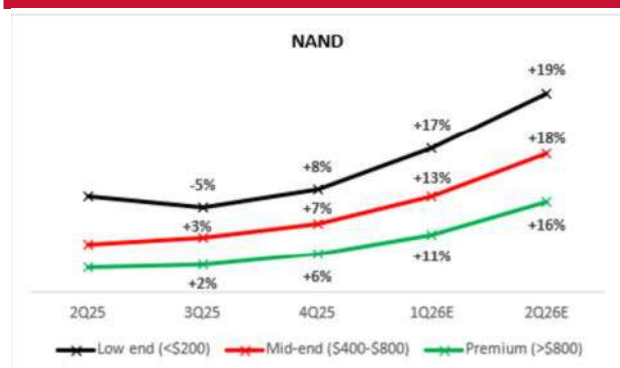
Source: Kenanga Research

Exhibit 5: Smartphone Memory Cost BOM



Source: Kenanga Research

Exhibit 6: Smartphone Memory Cost BOM



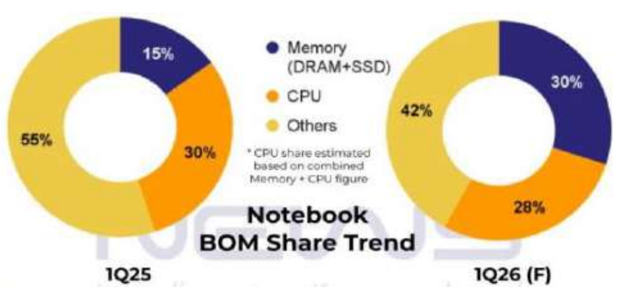
Source: Kenanga Research

Memory Price Surge Drives Structural Reset in Smartphones and PCs
IDC has materially lowered its 2026 global smartphone outlook, now projecting shipments to fall 12.9% YoY (vs. low single digit decline three months ago) to 1.12b units. This would mark the sharpest annual decline on record and drive the market to its lowest level in more than a decade. The downgrade is driven primarily by a sharp surge in memory prices, as DRAM supply is increasingly being redirected toward higher-margin AI data-centre demand, leaving smartphone makers facing tighter supply and elevated component costs. IDC expects the impact to be most severe for low-end Android vendors, given their weaker pricing power and greater exposure to margin pressure, while Apple and Samsung are likely to be relatively more resilient due to their stronger balance sheets and more premium product mix. It also forecasts smartphone ASPs to rise 14% to a record USD523 in 2026, as vendors shift towards higher-margin models to offset cost inflation.

More importantly, IDC views the current high memory cost is not as a temporary dislocation, but as a structural reset for the industry, with only a modest recovery expected in 2027 and 2028 and the sub-USD100 smartphone segment potentially becoming uneconomical even after memory prices normalize. This reflects how memory, once a smaller portion of the total bill of materials (BOM), has now become a major cost burden. Typically accounting for c.15–20% of BOM in mid-range devices and c.10–15% in high-end models, Trendforce suggests that memory could now represent as much as 30–40% of total device cost in certain cases, following a more than 200% surge in memory prices since 1Q26.

Separately, Gartner's latest forecast points to a similar trend in the PC market, with worldwide PC shipments expected to decline 10.4% YoY in 2026 due to surging memory costs. Gartner estimates combined DRAM and SSD prices could rise 130% by end-2026, which in turn could lift PC prices by 17% versus 2025, weighing on demand and driving a greater skew towards premium devices. This is notable given Gartner had earlier expected AI PCs to account for 55% of the total PC market in 2026, with AI PC shipments reaching 143m units. However, its latest update suggests that near-term weakness in the broader PC market is now outweighing the benefits from replacement demand and the AI PC refresh cycle. More importantly, PC memory costs are expected to rise to 23% of total BOM from 16% in 2025, leaving vendors with limited ability to absorb higher costs and rendering low-margin entry-level laptops increasingly uneconomical. As a result, Gartner expects the sub-USD500 entry-level PC segment to disappear by 2028, while rising AI PC prices are also likely to delay the segment's projected 50% market penetration until 2028.

Exhibit 7: Notebook BOM Share Trend



Source: TrendForce, Kenanga Research

Exhibit 8: CPU, Memory components on the rise

CPU, Memory Components on the Rise

Category	Price Update	BOM Share	Details
CPU	Intel raised **entry-level/older notebook CPU** prices **15%+**	**Memory + CPU expected to hit 58% of NB BOM in 1Q26, up from 45% in 1Q25**	Intel plans further 2Q hikes for mid- to high-end CPUs Tight Intel and AMD supply is prioritizing mid- to high-end CPUs, driving up PC costs
Memory	PC DRAM (DDR4 & DDR5 blended) prices expected to surge **105–110%**		DDR4 & DDR5 blended; up 38–43% in 4Q25

Source: TrendForce, Kenanga Research

Memory is set to lead the next WFE (wafer fabrication equiment) upcycle, with our forecast pointing to growth of 13% in 2025 and 23% in 2026, before easing to 9% in 2027 — the strongest growth profile across all major semiconductor segments. The key driver is the highly equipment-intensive nature of memory technology migration, particularly as 3D NAND moves beyond 300 layers and DRAM advances toward smaller nodes and more complex 3D structures, both of which require greater use of advanced deposition and process tools. We estimate memory will account for c.65%–70% of total WFE capex over 2024–2027, making it the primary driver of the next industry upcycle. In contrast, logic spending should recover more gradually, albeit remaining constructive, supported by ongoing migration to 3nm-class and sub-3nm technologies where tighter geometries and higher process complexity should continue to underpin equipment demand.

Exhibit 9: Bottom-Up Derivation of WFE Capex (2026-2027F)

US$bn	2023	2024	2025	2026	2027
Foundry					
TSMC	30.5	29.8	40.9	52.8	59.7
UMC	2.9	2.8	1.8	1.8	1.7
Global Foundries	1.8	0.6	0.7	1.0	1.2
VIS	0.2	0.5	2.0	1.2	1.0
PSMC	1.5	0.7	0.6	0.4	0.5
Rapidus	0.0	0.0	0.0	1.0	2.0
DB Hitek	0.3	0.1	0.1	0.1	0.1
SMIC	7.6	7.7	7.2	6.8	6.2
Hua Hong	0.9	2.8	2.1	1.9	1.6
Tower Semi	0.4	0.4	0.4	0.5	0.4
Others	2.7	3.5	4.8	5.0	5.0
Total	**48.9**	**48.9**	**60.6**	**72.4**	**79.4**
Y/Y changes		*0%*	*24%*	*19%*	*10%*
Logic					
Intel	25.8	23.9	15.9	15.1	15.8
Texas Instruments	5.1	4.8	4.9	3.0	3.0
Nexchip	1.0	1.8	1.4	0.8	0.8
Others	8.0	9.0	8.0	8.2	8.5
Total	**39.9**	**39.6**	**30.1**	**27.1**	**28.2**
Y/Y changes		*-1%*	*-24%*	*-10%*	*4%*
Memory					
Micron	7.7	8.4	15.9	21.3	24.9
SK Hynix	6.4	11.7	16.4	22.0	23.4
Samsung	44.1	37.7	33.5	39.8	41.5
Sandisk	-	-	0.2	0.3	0.3
Nanya Tech	0.4	0.5	0.5	0.5	0.9
Kioxia	3.7	2.1	1.5	1.8	2.1
CXMT	3.0	3.5	4.0	5.0	6.0
YMTC	3.0	4.0	4.5	5.0	6.0
Others	6.0	7.4	8.9	9.0	9.5
Total	**74.3**	**75.3**	**85.3**	**104.7**	**114.6**
Y/Y changes		*1%*	*13%*	*23%*	*9%*
Grand Total Capex	**163.1**	**163.7**	**176.1**	**204.2**	**222.1**
Y/Y changes		*0%*	*8%*	*16%*	*9%*
Total Capex ex-China	**147.5**	**144.0**	**156.9**	**184.8**	**201.5**
Y/Y changes		*-2%*	*9%*	*18%*	*9%*
WFE Capex	**106.0**	**108.1**	**119.8**	**138.9**	**155.5**
WFE% Total Capex	*65%*	*66%*	*68%*	*68%*	*70%*
Y/Y changes		*2%*	*11%*	*16%*	*12%*
WFE Capex ex-China	**92.9**	**93.6**	**102.0**	**120.1**	**135.0**
WFE% Total Capex ex-China	*63%*	*65%*	*65%*	*65%*	*67%*
Y/Y changes		*1%*	*9%*	*18%*	*12%*

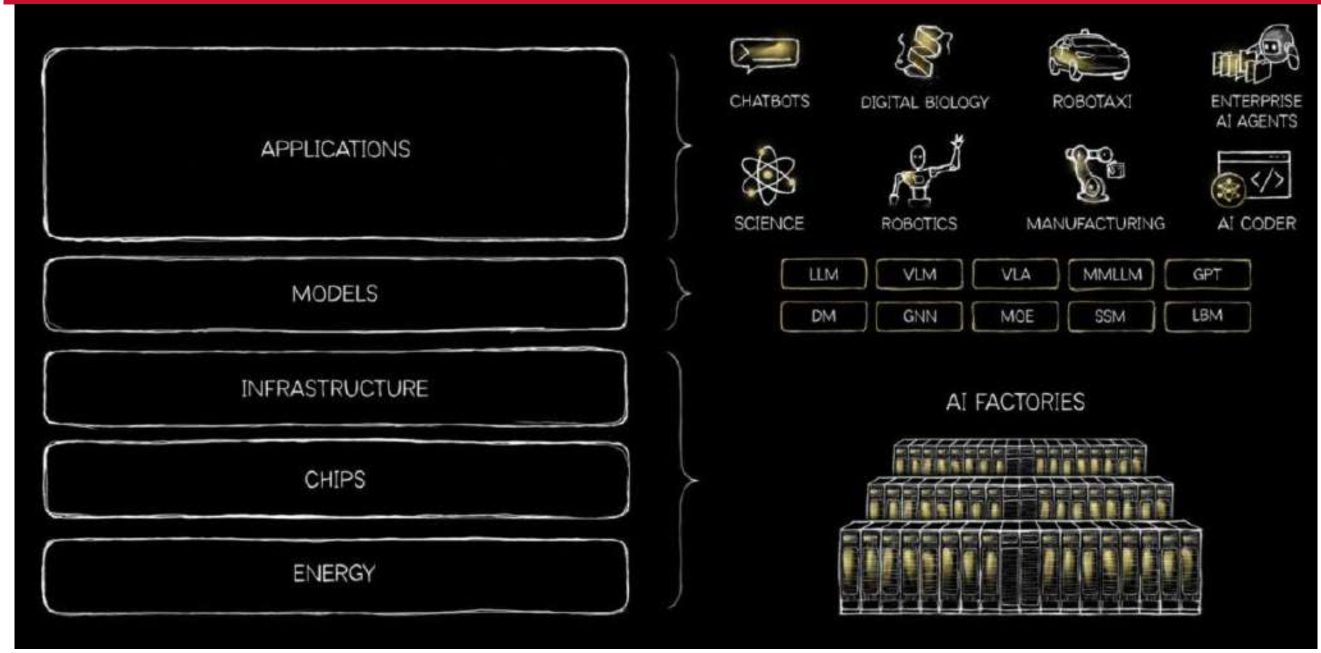
Source: Various news sources, Earnings Transcript, Bloomberg, Kenanga Research

NVIDIA's "AI is a 5-Layer Cake"

NVIDIA CEO Jensen Huang has recently described AI as a complex five-layer structure requiring trillions in investment to fully develop and unlock its potential in a recent post. Through this "AI Is a 5-Layer Cake" perspective, NVIDIA framed AI as not just a narrow software theme, but as a full-stack infrastructure revolution. The central idea is that AI now produces intelligence in real time, which means the entire computing stack must be rebuilt around it. Nvidia breaks this stack into five layers: **energy, chips, infrastructure, models** and **applications**. **Energy** underpins AI through power availability, heat management and electricity supply; **chips** convert that energy into compute; **infrastructure** encompasses the data centres, networking, cooling and power systems that form what Nvidia calls "**AI factories**"; **models** span not only LLMs but also biology, chemistry, physics, robotics and autonomy; and **applications,** where actual economic value is created, sit at the top with technology set to monetize across different areas such as drug discovery, industrial automation, legal copilots and self-driving vehicles.

The core message is that every successful AI application pulls demand through the entire stack beneath it — from models, to infrastructure, to chips, all the way down to energy supply. In Nvidia's view, AI has already crossed a critical inflection point, with better reasoning, fewer hallucinations, stronger grounding and clearer commercial traction across software, logistics, customer service, manufacturing and healthcare. In simple terms, AI is no longer just a software story — it is becoming a multi-year industrial buildout story. That broadens the opportunity set well beyond model developers to include companies exposed to power, semiconductors, data centre infrastructure, networking, cooling and real-world AI deployment, reinforcing Nvidia's argument that AI is emerging as a foundational platform on par with electricity or the internet. NVIDIA also highlights that open-source models matter because they broaden adoption and stimulate demand across the full AI stack.

Exhibit 10: NVIDIA's AI is a 5-Layer Cake



Source: Nvidia Blog, Kenanga Research

Evolution of AI applications: From Basic Automation to Agentic AI
AI application has progressed through several distinct stages — from **basic automation, to AI assistant, AI copilot, AI agent**, and now **agentic AI.** At its most basic level, **automation** follows fixed rules and predefined instructions to execute repetitive tasks. **AI assistants** marked the next step forward by enabling machines to answer questions and generate content, while **AI copilots** further enhanced productivity by helping users complete tasks more efficiently, albeit still under human guidance. The next phase is **AI agents**, which are more action-oriented and capable of planning tasks, using tools and executing steps to achieve a defined objective. **Agentic AI** builds on this by enabling multiple agents or systems to coordinate across a workflow with limited human intervention.

In practical terms, AI is evolving from a reactive helper into a more autonomous digital worker. This shift is commercially significant because it broadens AI's role from improving productivity at the margin to supporting the execution of real business processes. As such, the market is increasingly viewing agentic AI not simply as an extension of generative AI (a technology that can create content on demand, with AI assistants and AI copilots are practical applications of that technology), but as the next phase of enterprise adoption — one that could unlock a much larger value pool across software, workflows and digital infrastructure.

Exhibit 11: Evolution of AI: From Basic Automation to Agentic AI

Entity	Core role	What they actually do	AI exposure	Monetisation path	Remarks
Anthropic, OpenAI, Google DeepMind	**Model developer**	Foundation models and AI platforms	**Very direct**	API usage, enterprise subscriptions, model access	Upstream model owners; benefit from rising enterprise AI and agent adoption. Anthropic positions Claude as its AI product, while Google markets Gemini as its assistant/model family.
Microsoft Power Automate, UiPath (classic RPA (robotic process automation))	**Basic Automation**	Automate repetitive, rules-based tasks across apps, screens and workflows	**Indirect to moderate**	Software licences, workflow automation, enterprise subscriptions	This is the most mature and proven layer. It is strong in repetitive workflows, but limited in reasoning and autonomous decision-making. Microsoft defines RPA (robotic process automation) as automating legacy systems through UI actions.
Claude, ChatGPT, Gemini, Grok	**AI Assistant**	Answer prompts, write, summarise, analyse and support users conversationally	**Very direct**	Subscription fees, API usage, enterprise assistant adoption	This is the conversational layer. Claude is officially described by Anthropic as a family of large language models.
Microsoft Copilot, GitHub Copilot, enterprise copilots built on Claude/GPT/Gemini	**AI Copilot**	Assist users inside existing workflows by suggesting, drafting, retrieving and guiding actions, while the human remains in control	**Very direct**	Seat-based pricing, software uplift, workflow integration	This sits between assistant and agent. A copilot helps users do work faster, but typically does not independently own the full task flow. This is a synthesis based on how copilots are positioned in enterprise software.
Manus, OpenAI Operator, ChatGPT agent	**AI Agent**	Execute multi-step tasks using tools, browsers, or connected systems	**Very direct**	Usage-based pricing, premium subscriptions, enterprise licences	This is where AI starts to act rather than just respond. OpenAI describes Operator as handling browser tasks such as filling forms and ordering groceries, and ChatGPT agent as thinking and acting using tools on its own computer.
OpenClaw, LlamaIndex, AutoGen, CrewAI, UiPath Maestro	**Agentic AI**	Orchestrate agents, tools, robots, rules and people across longer-running, goal-driven processes	**Direct, but infrastructure-oriented**	Platform licences, orchestration software, enterprise automation stack	This is the highest layer in the stack: not just one agent doing one task, but coordinated, governed, multi-step autonomous workflows. UiPath describes Maestro as the orchestration layer connecting robots, AI agents and systems, and defines agentic automation as the latest step in automation's evolution.

Source: Various Sources, Kenanga Research

The Emerging of Claude and OpenClaw

Recent Nasdaq volatility reflects a market that is becoming more selective on AI. Investors are no longer rewarding AI exposure indiscriminately, but are instead differentiating between companies positioned to benefit from the next phase of AI adoption and those whose business models may be vulnerable to disruption. A key catalyst was the market's reaction to Anthropic's expanding enterprise capabilities, with Reuters reporting that a new legal tool built on Claude (a flagship AI product/model that built by Antrophic) triggering a sharp sell-off in software and data-services stocks as investors reassessed whether AI could begin competing directly with parts of the application layer. Sentiment was further unsettled by Anthropic's USD30b fund-raise at a USD380b post-money valuation, which reinforced the view that capital, customers and talent are becoming increasingly concentrated among a small group of frontier AI platforms. Overall, the recent Nasdaq swings point to a transition from broad-based AI enthusiasm towards a more disciplined repricing of where future AI value is likely to be created and captured.

OpenClaw has recently drawn significant attention across the global technology landscape. As an open-source AI agent framework, it goes beyond traditional chatbot-style interaction by enabling software to understand tasks, utilise tools and execute actions directly within a system. This marks a broader shift in AI from a "talking assistant" to a "digital worker" capable of acting autonomously. The wider implication is potentially meaningful for the technology value chain. As agentic AI adoption gains traction, it could drive stronger demand for both cloud and edge computing, while also creating new opportunities across servers, processors, cooling solutions and the broader semiconductor infrastructure ecosystem.

From an investment perspective, the agentic AI could extend the AI spending cycle beyond model training into real-world execution infrastructure. That said, adoption is unlikely to be frictionless, as security, compliance and system-control risks remain key constraints when these agents operate with higher levels of access. In other words, while the long-term opportunity is meaningful, sustainable deployment will likely depend not only on performance, but also on security, compatibility and enterprise-grade governance.

Exhibit 12: OpenClaw vs. Claude Code Architecture Comparision

Source: AI Free API, Kenanga Research

Exhibit 13: OpenClaw vs. Claude Code Security Model Comparison

Source: AI Free API, Kenanga Research

Malaysia AI Application Landscape

Overall, the read-through to Malaysia's technology and semiconductor sector is positive, but the benefits are likely to be selective rather than broad-based. As AI shifts from simple prompt-based use cases towards heavier inference and more autonomous, agent-led workflows, demand should increasingly favour the underlying infrastructure needed to support that complexity — including advanced packaging, testing, precision engineering, interconnects, server-related manufacturing and industrial automation — which plays to Malaysia's strengths in semiconductor assembly, electronics manufacturing and specialised industrial supply chains. At the same time, the emergence of agentic AI is also supportive for local software and IT services players such as **Infomina (OP, TP: RM1.90)** and **Agmo (Not Rated),** as enterprises increasingly look for partners that can integrate AI into real workflows, data systems and governance frameworks. That said, the market is unlikely to reward AI exposure on the theme alone; the key differentiator will be the ability to convert early AI adoption into scalable, recurring and commercially meaningful contracts. In short, agentic AI strengthens Malaysia's relevance to the global AI value chain, but the upside is likely to accrue most to companies with clear execution, monetization and infrastructure-linked exposure.

Exhibit 14: Malaysia AI Application Players

Entity	Core role	What they actually do	AI exposure	Monetisation path	Remarks
Infomina	**AI Copilot / emerging AI Agent enabler**	Deploys enterprise AI, data and infrastructure solutions for customers	**Indirect to moderate**	Project wins, implementation work, recurring support	Infomina is best classified as a downstream enterprise deployment proxy. Today it looks closer to the AI Copilot stage, with upside to move toward AI Agent as customers adopt more workflow-led AI execution. This is an inference based on its enterprise integration role rather than on ownership of frontier models.
Agmo	**AI Copilot / AI Agent enabler**	Builds enterprise apps, AI workflows and digital solutions with selected consumer-facing application layers	**Moderate and increasingly direct at application level**	Software delivery, subscriptions, implementation and support	Agmo appears slightly further downstream at the application layer, so it fits better as an AI Copilot / AI Agent enabler, especially where enterprises want packaged AI workflows rather than just conversational tools. This is an inference based on its role as a workflow/application builder.

Source: Kenanga Research

Infomina positions AI as an enterprise value engine that moves decision-making up the value chain—from explaining what happened, to anticipating what comes next, and ultimately recommending what should be done. This reflects its view of AI as a practical business enabler that can sharpen insights, improve responsiveness and drive better operational outcomes. Central to this strategy is AiMod, Infomina's "agent-to-agent" enterprise AI solution and AI pipeline builder. AiMod is designed to ingest data across structured, semi-structured and unstructured formats—including CRM/ERP systems, databases, CSV/XML/JSON files, emails, PDFs, images, videos and handwritten documents—and convert them into governed, decision-ready inputs. This provides the foundation for more scalable analytics, automation and AI-led enterprise workflows.

In layman terms, imagine a lender receives hundreds of loan applications daily, each with emails, PDF payslips, bank statements and supporting images. AiMod first "reads" and pulls the key details out of those documents, then cleans and standardizes the data so it is consistent across applicants. Next, it runs an AI model to flag risky or suspicious applications and explains what drove the alert. Finally, it sends the result to the credit team via a dashboard or alert list so staff focus on exceptions, approve clean cases faster, and keep improving the model as new outcomes (good/bad loans) are fed back into the system.

Exhibit 15: Infomina's AiMod (Agent to Agent Solution)

Source: Infomina, Kenanga Research

Downgraded the Sector Rating to NEUTRAL

All in, external risks to the sector — particularly global memory tightness — have intensified versus three months ago. Firstly, the US technology sector is likely to remain volatile in the near term, as firmer oil prices and inflation concerns continue to weigh on risk appetite and valuation multiples, especially for high-growth names, despite a still-supportive earnings and capex backdrop for AI-linked semiconductor, custom silicon and data-centre infrastructure players. More importantly, any disappointment in AI adoption or returns could quickly spill over to tightly linked counterparties, amplifying downside risks and increasing the likelihood of valuation de-rating. Secondly, supply-chain fragility remains a concern, particularly for critical materials and logistics, including packaging inputs such as substrates and leadframes, where geopolitical chokepoints could disrupt both front-end fabs and backend operations; recent Middle East tensions have also underscored the risk of knock-on effects through higher energy and freight volatility. Thirdly, broad-based cost inflation and margin pressure persist across the value chain, driven by global memory shortages, FX volatility and customer-led cost-sharing or price-down mechanisms, with the impact most visible in more commoditized segments, especially EMS, where utilization remains sub-optimal.

Against this backdrop, we downgrade the sector to NEUTRAL from OVERWEIGHT and revise our PER assumptions for key names under our OSAT, ATE and EMS coverages. We believe the previous valuation framework for OSAT names, which was anchored to the FY20 valuation band when trade-war concerns temporarily eased during the first Trump administration, is no longer reflective of current conditions. Accordingly, we now peg OSAT valuations to the historical average PER of 26x across the past three industry upcycles, versus 29.3x previously (see Exhibits 13 and 14), implying c.+0.5 standard deviation above KLTEC's five-year forward PER.

Likewise, we value PENTA at 30x PER, in line with the average ATE PER across the past three upcycles. That said, we have not cut valuations aggressively, as we are only moving from c.+0.5 standard deviation to the historical average PER, given that: (i) the current semiconductor upcycle still has room to run, supported by continued strength in logic and memory demand; and (ii) growth in AI-related memory/device content, alongside the improving mix towards mid- to premium-tier smartphones and PCs, which should still provide some support — rather than an outright negative read-through — for local OSAT and ATE players.

On the EMS front, we peg an average 14.3x PER, which is -1x standard deviation below the historical average forward PER for the subsector over the past three downcycles (see Exhibit 18). This adjustment reflects the lingering headwinds facing the sector, with costing pressures and uncertainty in end demand continuing to impact performance expectations.

Exhibit 16: Revised TPs and Valuation Methodologies

	New TP	Rating	Last Price @ 19 Mar (RM)	% Upside/ (downside)	
OPPSTAR	0.23	MP	0.23	0%	Based on a lower PER of 25x (~40% discount to global peers) versus the previous 28x, we adjust for weaker end demand driven by geopolitical tensions and rising costs.
INARI	1.80	OP	1.32	36%	Based on a lower targeted CY26 PER of 26x, aligned with the historical average OSAT PER across the past three upcycles and implying c.0.5 SD above KLTECH's five-year forward PER. Note that our TP consist of 5% ESG premium
UNISEM	1.97	UP	2.70	-27%	Based on a lower targeted FY26 PER of 26x, aligned with the historical average OSAT PER across the past three upcycles and implying c.0.5 SD above KLTECH's five-year forward PER.
MPI	31.30	MP	29.60	6%	Based on a lower targeted FY27 PER of 26x, aligned with the historical average OSAT PER across the past three upcycles and implying c.0.5 SD above KLTECH's five-year forward PER.
SKP	0.50	MP	0.48	4%	Based on a lower margin assumption of 3.3% for FY27F (versus 3.5% previously), we account for the challenging macro environment, which has weakened demand for consumer electronics products and resulted in higher operating costs.
PIE	1.28	MP	1.19	8%	Based on a lower PER of 16x (near the mean) versus the previous 17.2x, we reflect weaker end demand as a result of geopolitical tensions and rising costs.
NATGATE	0.66	OP	0.66	0%	Based on a lower PER of 15x (-0.5SD below the mean) versus the previous 18x, we reflect weaker end demand due to geopolitical tensions and rising costs. As a result, we have lowered our FY26 earnings estimate by 7% on the back of a more conservative margin assumption.
D&O	0.47	MP	0.51	-8%	Based on unchanged FY26F PER of 30x, implied D&O 5-year mean.
LGMS	0.58	OP	0.51	14%	Based on an unchanged FY26F PER of 24x, which is -0.5SD below its average forward mean PE, to reflect the slower-than-expected business pickup
KGB	6.15	OP	5.00	23%	Based on an unchanged targeted FY26F PER of 30x, in line with +1SD of KLTECH's 5-year forward PER.
UWC	4.70	OP	4.15	13%	Based on FY27 PER of 33x (slightly below its 5Y average mean PER of 35.7x).
PENTA	3.65	OP	3.13	17%	Based on a lower targeted 30x FY26F PER, aligned with the average ATE PER across the past three upcycles.
INFOMINA	1.90	OP	1.15	65%	Based on FY27 PER of 25x, in line with the historical 3-year blended average of selected listed IT/systems integrator peers (Kronologi Asia, Cloudpoint, LGMS)

Source: Kenanga Research

Exhibit 17: Previous TPs and Valuation Methodologies

	TP	Rating	Last Price @ 19 Mar (RM)	
OPPSTAR	0.40	MP	0.23	Based on unchanged FY27F PER of 36x, implying a 10% discount to the peer-group forward PER to reflect OPPSTAR's smaller scale and narrower capabilities versus global peers.
INARI	2.05	OP	1.32	Based on a targeted PER at 29.3x, to align with the OSAT peers. Note that our TP consist of 5% ESG premium
UNISEM	2.22	UP	2.70	Based on an unchanged FY26F PER of 29.3x, in line with its peers' average.
MPI	35.30	MP	29.60	Based on target FY27 PER of 29.3x, anchored to the FY20 valuation band, when the first Trump administration's policy stance helped ease the initial trade-war overhang.
SKP	0.53	OP	0.48	Based on a lower PER of 12x FY27F EPS, in line with the peer group's 1-year forward mean, to reflect broader sector-wide uncertainties arising from ongoing supply-chain relocation
PIE	1.40	MP	1.19	Based on a lower PER of 17.2x – aligned with its 5-year average forward mean PE, to reflect broader sector-wide uncertainties arising from ongoing supply-chain relocation
NATGATE	0.85	OP	0.66	Based on a lower PER of 18x, slightly below its mean since its listing in Jan 2023, to reflect broader sector-wide uncertainties arising from ongoing supply-chain relocation
D&O	0.47	MP	0.51	Based on unchanged FY26F PER of 22x, implied -1 SD below its 5-year mean.
LGMS	0.58	MP	0.51	Based on a lower FY26F PER of 24x, which is -0.5SD below its average forward mean PE, to reflect the slower-than-expected business pickup
KGB	6.15	OP	5.00	Based on targeted FY26F PER of 30x, in line with +1SD of KLTECH's 5-year forward PER.
UWC	4.38	OP	4.15	Based on CY26 PER of 33x (slightly below its 5Y average mean PER of 35.7x).
PENTA	4.25	OP	3.13	Based on a targeted 35x FY26F PER, c.+1 SD above its own 5-year mean
INFOMINA	1.90	OP	1.15	Based on FY27 PER of 25x, in line with the historical 3-year blended average of selected listed IT/systems integrator peers (Kronologi Asia, Cloudpoint, LGMS)

Source: Kenanga Research

Exhibit 18: Historical forward PER comparisons (past 3 cycles)

	CY10	CY11	CY12	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22	CY23	CY24	CY25
				May 13 - Jun 15				Aug 16 -Dec 18			Feb 20 - Jul 22				Nov 23 - current	
				Uptrend				Uptrend			Uptrend				Uptrend	
OSAT																
INARI	-	-	8.7	12.3	17.4	17.3	19.5	23.1	25.5	31.3	35.2	29.0	27.7	36.1	34.8	24.9
MPI	13.2	11.2	35.7	40.0	15.2	11.6	12.5	14.6	14.1	15.0	23.1	23.9	44.9	61.7	40.7	30.4
UNISEM	9.4	23.7	19.1	—	21.2	13.1	11.3	15.5	25.2	27.0	35.1	31.4	18.6	67.6	65.7	37.7
GLOBETRONICS	19.3	—	10.8	17.2	18.4	24.9	35.4	35.4	15.8	31.5	34.6	21.8	19.0	41.5	14.2	-
Simple Average	**10.5**	**11.6**	**18.6**	**23.2**	**18.1**	**16.7**	**19.7**	**22.1**	**20.1**	**26.2**	**32.0**	**26.5**	**27.6**	**51.7**	**38.8**	**23.2**
ATE																
VITROX	6.3	7.8	7.4	11.0	11.8	15.9	15.5	35.3	28.6	42.1	63.4	53.0	36.8	48.0	66.8	62.3
PENTAMASTER	—	—	—	—	8.6	16.6	—	—	14.6	25.2	52.1	47.8	35.7	35.1	35.3	35.7
ELSOFT	-	-	-	-	-	-	-	-	-	-	66.9	52.6	46.5	36.4	34.0	40.0
MI TECH	-	-	-	-	-	—	—	—	23.7	26.5	51.8	46.9	21.0	29.8	26.0	26.8
Simple Average	**6.3**	**7.8**	**3.7**	**3.7**	**5.1**	**10.8**	**7.7**	**17.6**	**16.7**	**23.5**	**58.5**	**50.1**	**35.0**	**37.3**	**40.5**	**41.2**
EMS																
NATGATE	-	-	-	-	-	-	-	-	-	—	—	—	—	47.2	45.2	9.8
V.S. INDUSTRY	8.7	7.0	6.5	8.4	12.7	13.7	15.0	18.6	17.5	20.6	25.1	21.3	20.8	23.5	28.7	21.1
SKP RESOURCES	—	—	8.5	9.5	18.0	18.7	14.8	14.6	16.1	12.1	19.2	16.2	12.9	11.8	8.9	8.2
PIE	9.5	—	—	11.6	11.3	17.8	24.3	13.9	13.5	14.6	32.3	25.3	15.8	19.1	35.2	14.7
JHM	-	-	-	-	-	-	11.7	25.0	14.3	30.4	39.8	41.2	20.6	20.6	13.7	15.3
UCHI TECH	11.0	9.0	10.5	12.7	13.0	12.7	13.4	20.3	16.1	16.4	16.3	16.1	13.2	14.5	15.5	13.5
Simple Average	**7.3**	**5.4**	**6.4**	**8.4**	**11.0**	**12.6**	**15.8**	**18.5**	**15.5**	**18.8**	**26.5**	**24.0**	**16.7**	**22.8**	**24.5**	**13.8**

Historical Forward Average PER (past 3 cycles)		
	Upcycle	**Downcycle**
OSAT	25.7	28.6
ATE	29.8	19.8
EMS	17.7	17.5
KLTEC	30.5	22.4

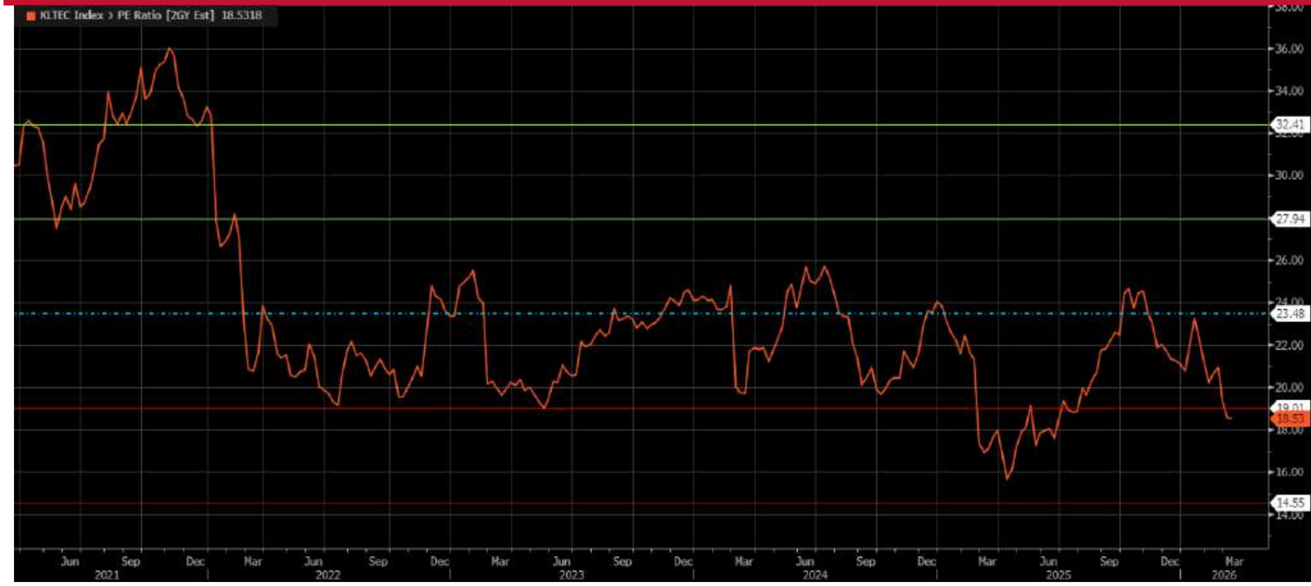
Source: Kenanga Research

Exhibit 19: Semiconductor recovery & growth cycles

May 13 - Jun 15	Uptrend (26)		Boom in smartphones, cloud, and data centres	Surge in demand for smartphones, cloud services	Memory, logic, micro	Boom in smartphones and cloud computing demand drove adoption of FinFET technology. Significant investments in advanced semiconductor nodes.
Jul 15 - Jul 16		Downtrend (13)	Saturation in PCs and smartphones	Declining PC sales, market saturation	Memory, analog	Declining PC sales and market saturation in smartphones led to capacity reductions. Focus on IoT and low-power chip R&D.
Aug 16 - Dec 18	Uptrend (29)		IoT and automotive drive growth	IoT, automotive electronics, and AI adoption	Sensors, logic, memory	Strong momentum in IoT, automotive electronics, and AI drove growth. Heavy investment in 7nm technology and advanced process nodes.
Jan 19 - Jan 20		Downtrend (13)	US-China trade tensions and inventory glut	Trade tensions, oversupply	Logic, analog, memory	Inventory glut caused by US-China trade tensions prompted diversification into automotive and industrial semiconductors.
Feb 20 - Jul 22	Uptrend (30)		Pandemic-driven demand for remote work and 5G	Remote work, 5G, and data centre demand	Memory, logic, analog	COVID-19 pandemic spurred remote work demand, boosting PCs, tablets, and data centres. Accelerated investment in 5nm/3nm nodes.
Aug 22 - Oct 23		Downtrend (15)	Post-COVID overcapacity and reduced demand	Overcapacity, reduced consumer demand	Memory, logic, analog	Overcapacity from the COVID-driven boom led to inventory management strategies. Focus on AI accelerators and high-margin products.
Nov 23 - Current	Uptrend (27)		AI-driven recovery and sustainable manufacturing focus	AI, energy-efficient chips, and advanced packaging	Logic, memory, sensors	Recovery driven by AI chips and energy-efficient technologies. Investments in advanced packaging and sustainable semiconductor manufacturing.

Source: Kenanga Research

Exhibit 20: KLTEC's 5-year forward PER



Source: Bloomberg, Kenanga Research

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Malaysian Technology Peers Comparison

Name	Rating	Last Price @ 24 Mar. (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	0.485	0.470	-3.1%	601.1	Y	12/2026	2.1	2.3	132.7%	39.9%	22.8	21.3	0.9	3.8%	1.0	2.1%
INARI AMERTRON BHD	OP	1.38	2.05	48.6%	5,251.1	Y	06/2026	5.7	7.5	-14.6%	30.6%	24.0	18.4	1.9	7.2%	5.0	3.6%
KELINGTON GROUP BHD	OP	5.17	6.15	19.0%	4,079.2	Y	12/2026	20.5	21.9	23.4%	6.8%	25.2	23.6	5.8	26.1%	13.0	2.5%
LGMS BHD	OP	0.480	0.580	20.8%	218.9	Y	12/2026	2.9	3.6	30.4%	21.8%	16.5	13.5	1.7	10.5%	2.0	4.2%
M'SIAN PACIFIC INDUSTRIES BHD	MP	29.02	35.30	21.6%	5,786.5	Y	06/2026	104.4	120.3	35.2%	15.2%	27.8	24.1	2.6	9.7%	35.0	1.2%
NATIONGATE HOLDINGS BHD	MP	0.660	0.850	28.8%	1,493.3	Y	12/2026	4.7	5.7	7.8%	21.1%	14.0	11.6	1.4	10.2%	2.0	3.0%
OPPSTAR BHD	MP	0.200	0.280	40.0%	128.3	Y	03/2026	(1.6)	1.0	-184.7%	-40.0%	N.A.	20.3	1.0	-8.0%	0.0	0.0%
P.I.E. INDUSTRIAL BHD	MP	1.15	1.40	21.7%	441.6	Y	12/2026	8.1	8.8	37.6%	8.0%	14.2	13.1	0.7	4.8%	0.0	0.0%
SKP RESOURCES BHD	MP	0.445	0.530	19.1%	695.3	Y	03/2026	5.7	4.4	-24.4%	-22.5%	7.9	10.1	0.6	8.0%	0.0	0.0%
UNISEM (M) BHD	UP	2.69	2.22	-17.5%	4,339.2	Y	12/2026	7.6	9.2	94.1%	21.8%	35.5	29.2	2.0	5.8%	6.0	2.2%
UWC BHD	OP	4.24	4.70	10.8%	4,677.3	Y	07/2026	9.0	14.3	143.3%	59.0%	47.3	29.7	8.1	18.7%		0.0%
PENTAMASTER CORP BHD	OP	3.02	4.25	40.7%	2,148.2	Y	12/2026	12.1	13.1	39.0%	8.1%	24.9	23.0	2.5	10.4%	2.0	0.7%
INFOMINA BHD	OP	1.10	1.90	72.7%	661.4	Y	05/2026	5.6	7.6	60.7%	34.8%	19.5	14.5	3.3	18.3%	1.0	0.9%
Simple Average					**30,521.4**					**21.5%**	**20.7%**	**25.2**	**20.9**	**2.5**	**9.7%**		**1.6%**

Source: Kenanga Research

Telecommunication

NEUTRAL ↔

5G: Endgame in Sight, But Questions Remain

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

We maintain NEUTRAL on the sector amid uncertainty over the impact of the takeover of Digital Nasional Berhad (DNB) by the mobile network operators (MNO). In contrast, fixed-line players are more compelling, as they are largely insulated from this overhang that affects earnings, capex, and dividend outlooks for the MNOs. Our sector top pick remains TIMECOM (OP; TP: RM6.60).

We expect subscriber growth and ARPU trends to remain largely healthy across segments: (i) postpaid: supported by sustained popularity of converged bundles; (ii) prepaid: underpinned by subscriber clean-up and upselling; and (iii) home broadband: driven by stabilizing competition, strong uptake of entry-level offerings, and network coverage expansion.

As the retail market reaches maturity, fixed operators are expected to focus more on enterprise and wholesale segments. Enterprise demand is being boosted by the fast growth of co-location data centres in Malaysia, while the wholesale segment is gaining from hyperscaler investments in local campuses and cloud regions.

On a brighter note, sector sentiment could be boosted by potential yield upside from higher payouts or special dividends from TM (OP; TP: RM8.86), TIMECOM and MAXIS (MP; TP: RM3.63) amid subdued capex, robust cash flows, and balance sheet optimisation (for TIMECOM). Additionally, further updates on M&A activity may arise from AXIATA's (MP; TP: RM2.70) ongoing efforts to unlock value in edotco, potentially through a strategic divestment, sale of a partial stake, or other monetization measures.

1. MOBILE

Pending clarity on DNB takeover's financial and cashflow impact. Looking ahead, we anticipate greater clarity and further progress on the government's rollout of the 5G Dual Network (5GDN) framework. In the latest development, the three mobile network operators (MNOs) — YTLPWR, CDB (OP; TP: RM4.27), and MAXIS — have each paid RM327.9m to the Ministry of Finance Inc. (MoF), following the exercise of MoF's put option on Digital Nasional Berhad (DNB). However, we understand that the completion of the overall transaction is subject to several conditions precedent, which are expected to be fulfilled by 1HCY26. Upon completion, each MNO will take over a 33% stake in DNB together with MoF's remaining shareholder loan (including accrued interest) and additional shareholder advances (c. RM161.2m each). Depending on the final completion date, each MNO is expected to begin recognising its share of DNB's contribution (or losses) as an associate under the equity accounting method. Therefore, we await confirmation of the transaction's completion date, as it will determine the timing and extent of DNB's contribution to each MNO. The takeover may also have implications for the MNOs' dividend capacity, given that their cash flows could be affected by the need to commit additional capital to fund DNB's operational and capex requirements.

Awaiting further insight into DNB's financial prospects. Although DNB reported net loss of RM1.2b in FY24, we believe its financial performance may potentially improve in the coming years. This is driven by initiatives from its MNO shareholders to narrow losses and strengthen the company's long-term sustainability. Recall that DNB underwent a restructuring exercise in early 2025, involving a comprehensive overhaul of its business model, funding structure, and operational setup. Following this, we expect narrowed losses in FY26, supported by savings from manpower and operational streamlining. Looking ahead, further efficiencies could be realized through network improvements and renegotiation of supplier contracts. In line with this, DNB is exploring potential network expansion and optimization by leasing existing sites from its MNO shareholders to generate capex and opex savings.

NW2 Shaping Up Well. Meanwhile, control of U Mobile has transitioned to Mawar Setia Sdn. Bhd., a vehicle owned by Tunku Tun Aminah Binti Sultan Ibrahim and Tan Sri Dato' Seri Vincent Tan. This was following its acquisition of a majority stake (over 50%) from Temasek's ST Telemedia Pte Ltd. Subsequently, Tunku Tun Aminah has been appointed Chairman of U Mobile, succeeding Tan Sri Dato' Seri Vincent. The acquisition by Mawar Setia was partially financed via a RM3.8b syndicated facility arranged by Affin Group and MBSB Bank Bhd. We view this transition to local ownership as part of broader initiatives aimed at laying the groundwork for U Mobile's planned initial public offering.

U Mobile recently secured a major customer, TM, through a three-year 5G wholesale contract, under which it will provide end-to-end 5G Multi-Operator Core Network (MOCN) services. The scope includes provisioning, system integration, activation, testing, and ongoing service optimisation. This contract follows hot on the heels of a three-year access agreement awarded by Eastel, U Mobile's first 5G and 4G wholesale customer.

However, we do not rule out the possibility of potential delays or revisions to TM's contract with U Mobile. This is in light of DNB's announcement that it does not accept TM's notice to terminate its existing 10-year access agreement (end: Oct 2032).

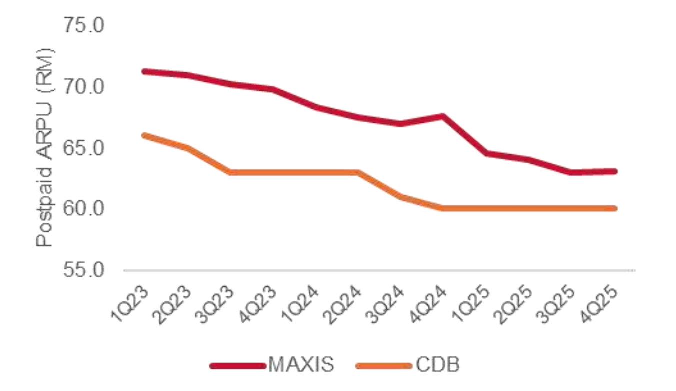
Expect convergence offerings to sustain postpaid subscriber base expansion. Looking ahead, we expect continued strong subscriber net adds in the postpaid segment for the major MNOs, supported by successful convergence strategies. This is because converged bundles strengthen subscriber stickiness while continuing to attract new users. Hence, this helps to mitigate competitive pressure from smaller players that lack comparable bundled offerings.

On postpaid ARPUs, we expect CDB to maintain stability in the coming quarters, following signs of a trough since 4QCY24. In contrast, we remain cautious on MAXIS, as its postpaid ARPUs could resume its prior decline, after a temporary respite in 4QCY25. This is underpinned by ongoing pre-to-postpaid migration trends.

Prepaid ARPU strength to persist but subs base could be volatile. In the prepaid segment, we expect subscriber trends to remain mixed, with heightened competition likely to drive continued volatility in net adds. While CDB's churn has moderated over the past 3 consecutive quarters, we believe this largely reflects the tail end of its post-merger subscriber base rationalisation. Recall that as part of this exercise, CDB deliberately phased out low-value, one-off SIM users that weighed on ARPU and contributed to fluctuations in subscriber net adds.

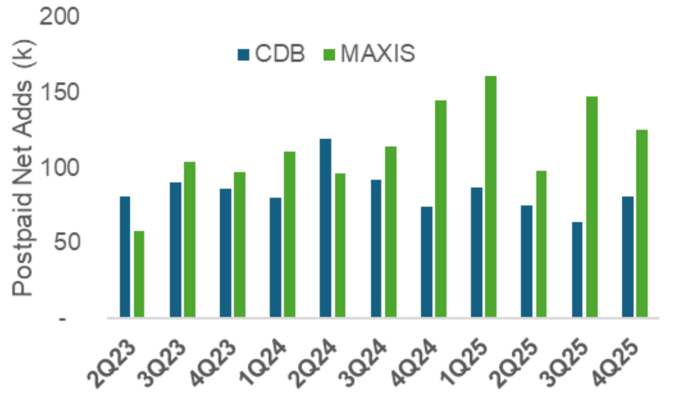
Whereas for prepaid ARPUs, we expect the current uptrend for both CDB and MAXIS to sustain in the near term, underpinned by: (i) CDB: a more stable subscriber mix post clean-up, and (ii) MAXIS: boosted by ongoing cross-selling and upselling initiatives.

Postpaid ARPU



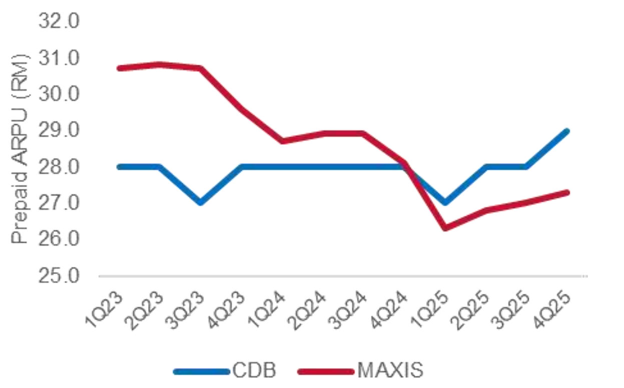
Source: Companies, Kenanga Research

Postpaid Net Adds



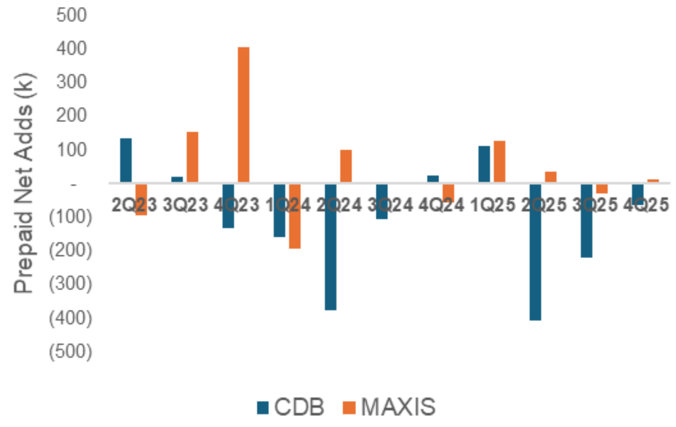
Source: Companies, Kenanga Research

Prepaid ARPU



Source: Companies, Kenanga Research

Prepaid Net Adds



Source: Companies, Kenanga Research

2. FIXED

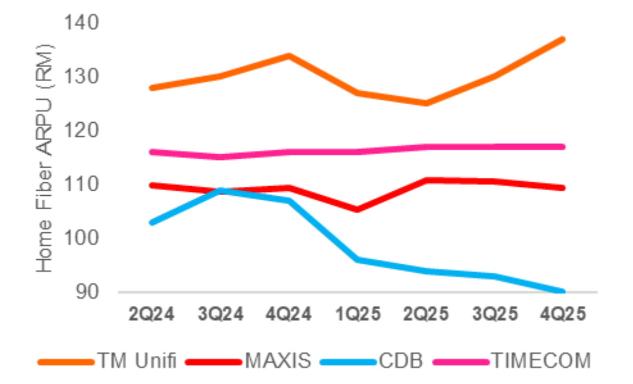
Retail landscape stabilizing and looking better. In the near term, we expect stabilizing competition in the retail fiber market to support broadly resilient ARPUs across the sector, with the exception of CDB. The recent softness in CDB's ARPUs likely reflects its push into lower-priced fixed wireless access (FWA) offerings to expand its subscriber base. As this strategy continues, we anticipate near-term pressure on ARPUs to persist, although an inflection point could emerge if upselling initiatives are successful, similar to TM's experience.

In terms of subscriber growth, we expect net adds to remain healthy for both TM and CDB, driven by sustained demand for competitively priced entry-level packages. For TIMECOM, steady growth should be supported by its focus on the less crowded premium segment, coupled with ongoing coverage expansion to single dwellings at suburban areas. In contrast, MAXIS' emphasis on preserving ARPUs will likely result in muted net adds, as customers gravitate towards lower-priced offerings from competitors.

Co-location DC boom lifts enterprise demand. We expect fixed operators to place greater emphasis on the enterprise and wholesale segments, as the retail market reaches maturity. Enterprise demand will likely be supported by the rapid expansion of co-location (co-lo) data centres (DCs) in Malaysia, which is driving demand for advanced, high-capacity connectivity. These include solutions such as Metro Private Line, Metro Ethernet, IP VPN, software-defined WAN (SD-WAN), and cloud on-ramps. Such services enable secure, high-speed private connectivity that bypasses the public internet. Hence, enterprises may seamlessly interconnect their data centres, co-lo facilities, nationwide branch networks, and hyperscale cloud environments.

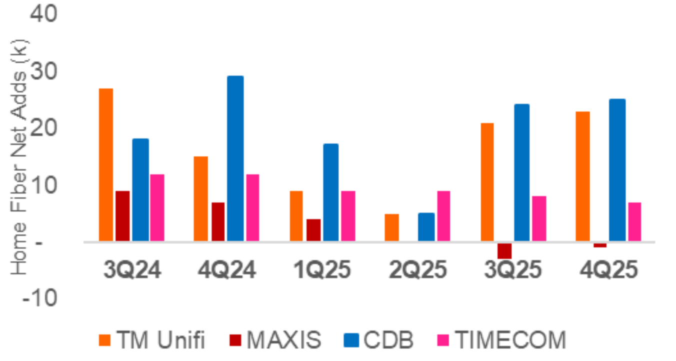
Wholesale market expands as hyperscalers invest in Malaysia. In parallel, the wholesale segment is well-positioned to benefit from ongoing hyperscaler investments in Malaysia as they establish and scale their campuses and cloud regions. Key offerings include international and domestic private leased circuits (PLCs), managed wavelength services dark fibre, hot standby bandwidth allocation (HSBA), and indefeasible rights of use (IRUs). These solutions facilitate high-capacity, low-latency connectivity for DC-to-DC, as well as between DC-to-cloud (public or private).

Home Fiber ARPU



Source: Companies, Kenanga Research

Home Fiber Subscriber Net Adds



Source: Companies,Kenanga Research

3. SUMMARY

Overhang from DNB uncertainties… We retain a **NEUTRAL** view on the telco sector, given ongoing uncertainties surrounding DNB's financial outlook and the implications of its takeover by the MNOs. Further clarity on these developments will remove ambiguity surrounding the sector's earnings trajectory, capex requirements, and dividend outlook. In the interim, we favour fixed-line operators, which are comparatively less exposed to overhangs linked to the 5GDN framework.

…but dividend upside supports sentiment. On a brighter note, the potential for enhanced dividend distributions could support overall sector sentiment. TM, TIMECOM and MAXIS may have scope to declare special dividends or raise payouts, underpinned by robust cash flows coupled with muted capex needs. In particular, TIMECOM's ongoing balance sheet optimisation could provide a boost to payouts. This is reflected in its revised dividend policy, which targets a 50%–75% payout of normalized PATAMI (previous: 50% cap on normalised PAT). It has also introduced: (i) bi-annual cash review to assess special dividends, and (ii) plans to fund capex via debt, with a target net debt/EBITDA of 1.0x–1.5x over the next 2-3 years. Based on our estimates, FY26F dividend yield could increase by up to 3.3%, supported by improved free cash flow as the group targets to gear up to 1.5x net debt/EBITDA (current: net cash), with incremental borrowings used to fund capex.

Our top pick is **TIMECOM** underpinned by: (i) its ability to leverage on growing enterprise demand for bandwidth services at co-location hyperscale DCs; (ii) its exposure to AIMS' regional expansion into markets with rising demand amid tightening domestic data residency regulations; (iii) potential for higher dividends supported by balance sheet optimisation and modest capex needs; and (iv) resilient retail ARPUs and sustained subscriber net adds momentum driven by network coverage expansion.

Peer 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 (%)	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	2.31	2.70	16.9%	21,224.6	Y	12/2026	5.8	5.9	-37.7%	2.8%	40.0	38.9	1.2	0.5%	11.0	4.8%
CELCOMDIGI BHD	OP	3.06	4.27	39.5%	35,898.4	Y	12/2026	13.6	13.6	6.2%	0.6%	22.6	22.4	2.3	10.1%	16.0	5.2%
MAXIS BHD	MP	3.66	3.63	-0.8%	28,676.4	Y	12/2026	20.5	21.3	1.3%	3.9%	17.8	17.2	4.5	25.6%	18.0	4.9%
OCK GROUP BHD	OP	0.365	0.430	17.8%	378.5	Y	06/2026	2.5	2.8	-12.6%	10.8%	14.4	13.0	0.6	4.4%	1.0	2.7%
TELEKOM MALAYSIA BHD	OP	7.43	8.86	19.2%	28,514.4	Y	12/2026	47.7	47.9	3.1%	0.4%	15.6	15.5	2.5	16.6%	33.0	4.4%
TIME DOTCOM BHD	OP	6.10	6.60	8.2%	11,277.8	Y	12/2026	28.0	30.2	6.3%	7.8%	21.7	20.2	3.8	16.8%	42.0	6.9%
SECTOR AGGREGATE					**125,970.1**					**-2.0%**	**2.3%**	**20.7**	**20.3**	**2.5**	**12.3%**		**4.8%**

Source: Bloomberg, Kenanga Research

Utilities

OVERWEIGHT

↔

Powering the 6GW-8GW of Growth Through 2030

By Teh Kian Yeong I tehky@kenanga.com.my

The utilities sector remains a prime beneficiary of the country's accelerating data centre rollout, underpinned by resilient electricity demand growth and long-term recurring income streams. TENAGA (OP; TP: RM17.00) expects demand to expand by 4.0%-4.5% in FY26 tracking GDP and exceeding our 3.5% assumption. This is supported by rising commercial load on rapid data centre capacity additions. TENAGA remains our Top Pick, benefiting from demand growth, a transmission and distribution (T&D) capex upcycle, PPA extensions, and upcoming capacity build-outs, alongside IPPs such as MALAKOF (OP; TP: RM1.04), and YTLPOWR (OP; TP: RM4.40). To meet 6GW-8GW of new capacity target by 2030, the NEWGEN25 program was announced in February with the tender submission dateline for NEWGEN26 set for July 2026. Furthermore, rising electricity demand will further lift gas consumption, supporting prospects for additional regasification terminals, benefiting PETGAS (MP; TP: RM18.70) and GASMSIA (MP; TP: RM4.45). We also like SCGBHD (OP; TP: RM2.71) as a key proxy to Malaysia's accelerating grid upgrade cycle. With c.3GWac of ESAs in the pipeline, demand for power cables, a key component of power infrastructure, is expected to remain firm over the medium term. The sector continues to offer earnings resilience, backed by regulated assets, stable cash flows, and decent dividend yields of up to >4%, particularly from GASMSIA. Maintain OVERWEIGHT.

Demand growth remains robust in 2026, with **TENAGA** expecting demand to expand by 4.0%-4.5% in FY26, tracking GDP and exceeding our current 3.5% assumption. This momentum is primarily fuelled by the accelerating data centre segment, which saw load utilisation double to 850MW in Dec 2025 from 405MW a year prior. While demand growth moderated to 2.3% YoY in FY25 following a high base of 6.2% in FY24, the commercial sector remained a key driver with 10.0% growth led by data centres and retail services. This offset softer demand from the industrial sector, which declined 5.8% due to weakness among iron and steel players. The scaling of the data centre industry is underpinned by a robust completion rate, where 35 projects totalling 4,500MW were completed as of late 2025, including 17 projects commissioned in 2025 alone. With 1,800MW currently under construction and 49 Electricity Supply Agreements (ESA) signed for a cumulative capacity of 7,500MW, the surge remains earnings-positive for **TENAGA**. Stronger demand enhances plant efficiency and necessitates higher transmission capital expenditure for specialized high-voltage requirements, an impact already evident in **TENAGA's** GenCo operations, which saw core PAT jump to RM315.6m in FY25 from RM10.6m in FY24.

NEWGEN25 done; next is NEWGEN26. Following the completion of the NEWGEN25 cycle, the focus shifts to NEWGEN26 to meet a target of 6,000MW to 8,000MW of new capacity by 2030. In Feb 2026, the Energy Commission announced the NEWGEN25 winners, including a new 1,400MW combined cycle power plant in Paka awarded to a **TENAGA**-led consortium and Power Purchase Agreement (PPA) extensions for nine IPPs totalling 4,869MW. These extensions involved three **TENAGA** plants (SJ Gelugor, SJ Putrajaya, and SJ Tuanku Ja'afar), three **MALAKOF** assets (Prai Power, GB3, and SEV), two Edra plants (Panglima Power and Kuala Langat Power), and one Petronas unit (Pengerang Power). A new tender for gas-based capacity for 2029-2031, known as NEWGEN26, was released in late Feb with a Jul 2026 tender submission dateline. **TENAGA** and **MALAKOF** remain strong contenders due to their existing land banks, while **YTLPOWR** is reportedly partnering with a landowner for new bids. **MALAKOF** has already secured four units of gas turbines and generators capable of supporting two new 1,400MW plants, and we believe the 6GW to 8GW pipeline provides sufficient scale for all major players to participate meaningfully.

Gas demand to rise alongside electricity demand. As coal-fired plants are phased out, gas-fired generation is set to become the key swing capacity, with its mix expected to rise toward 50% by 2030 from **TENAGA's** 33.6% in FY25. This transition is supported by data centre demand, coal retirements, and the massive influx of new gas capacity. In mid-June, Petronas confirmed plans for a third regasification terminal (RGT), likely to be operated by **PETGAS,** given its ownership of the existing Sungai Udang (Melaka) and Pengerang (Johor) terminals, at a preferred location in Lumut due to its proximity to **MALAKOF's** gas assets and **TENAGA's** Janamanjung plant, where 2,100MW of coal capacity will retire by 2030. Simultaneously, **GASMSIA** has received approval for a RM2b-RM3b RGT in Yan, Kedah, with a capacity of up to 6 MTPA to bolster northern region energy security. The rationale for **GASMSIA's** RGT in Yan is further bolstered by **MALAKOF's** procurement of four gas turbines, two of which are specifically earmarked for a new power plant in the northern region to support the structural shift toward natural gas

Rising gas/coal prices remain neutral for the players. The recent spike in fuel costs due to the Middle East crisis is expected to be neutral for most players given the established fuel cost pass-through mechanisms for **TENAGA** and **MALAKOF**. A rising coal price may actually favour these generators as the moving average price used for reporting typically stays higher than the actual application coal cost during such periods. This timing difference results in a net gain, or a positive fuel margin, for the GenCo segment. At this juncture, given that the magnitude of price movement remains small compared to the volatility seen in 2022–2023, we do not anticipate any immediate material earnings impact. While **YTLPOWR's** Singapore unit, PowerSeraya, faces high gas cost risks following the expiry of 40% of its favourable supply contracts in late 2025, this is partially mitigated by higher selling prices as the Uniform Singapore Energy Price (USEP) rose due to the geopolitical crisis. For **GASMSIA**, the impact of rising gas prices is immaterial because its "cost-plus" formula ensures a stable profit spread based on the Malaysia Reference Price (MRP), rather than direct exposure to price volatility. In addition, a higher MRP (which lags Brent by 3-6 months) impacts non-regulated retail margins, which are calculated as a fixed percentage (1%-2%) over the selling price. Based on our FY26 estimates, a 10% jump in MRP would only add RM6m (1.5%) to our FY26 net profit forecast of RM406.8m.

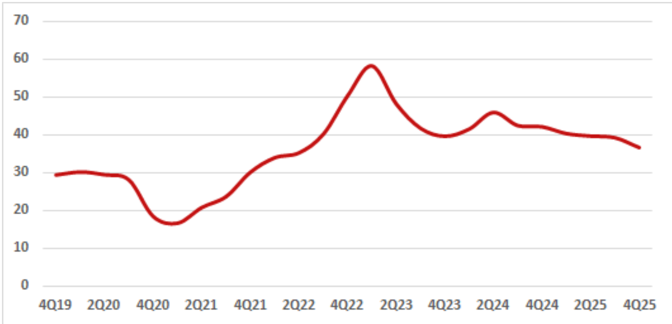
ESAs keep power cable demand strong. We expect demand for power cables to remain firm, supported by ongoing ESAs under **TENAGA's** Green Lane Pathway, which accelerates data centre grid connections to c.12 months (vs. the typical 36-48 months). This is reflected in TENAGA's procurement activity, where **SCGBHD**'s 1+1 contract variation orders (VOs) were called within the first year, compared to past cycles where VOs typically materialized in the second year. Recent increases in polymer prices have raised concerns over potential margin compression for SCGBHD's long-term fixed-price contracts. Based on our analysis, every RMB500/MT increase in plastic prices could reduce SCGBHD's earnings by c.RM4m or a 2% impact on our baseline FY26F earnings. However, the near-term impact remains manageable, as management has secured sufficient polymer inventory to support production through 1HCY26. In addition, the in-house plastic compounding plant, expected to commence in 2QCY26, is projected to contribute c.1ppt to gross profit margins, which should help mitigate cost pressures. Current polymer prices stand at around RMB9,000/MT, leaving c.5% headroom before impacting our base case.

Maintain OVERWEIGHT on the utilities sector. We continue to rate the utilities sector OVERWEIGHT. **TENAGA** remains our top pick, as the long-term primary beneficiary of the data centre boom, given its exposure to demand growth, the T&D capex up-cycle, and new capacity build-outs. Independent power producers such as **MALAKOF** and **YTLPOWR** also stand to benefit from both brownfield extensions and greenfield opportunities. Meanwhile, rising gas demand underpins positive earnings prospects for **PETGAS** and **GASMSIA**. Overall, the sector offers earnings resilience underpinned by regulated assets and stable cash flows, supporting decent yields of up to >4%, particularly from **GASMSIA.** We also like **SCGBHD** as a key proxy to Malaysia's accelerating grid upgrade cycle. With c.3GWac of ESAs in the pipeline, demand for power cables, a key component of power infrastructure, is expected to remain firm over the medium term.

Indonesia Coal Benchmark Price (USD)

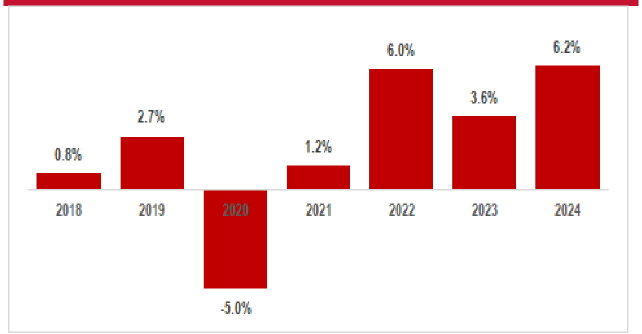
Source: Bloomberg

Natural Gas Price Movement



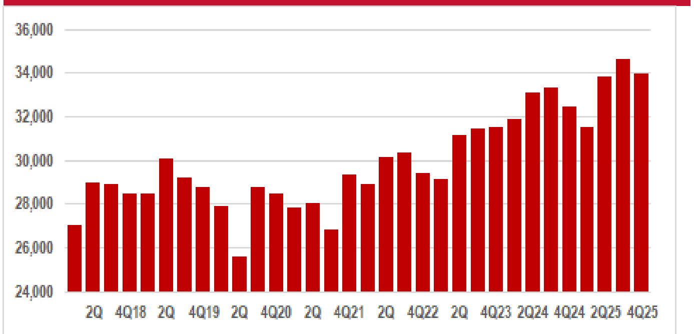
Source: GASMSIA

TENAGA: Annual Electricity Demand Growth



Source: Tenaga

TENAGA: Monthly Electricity Sales (GWh)

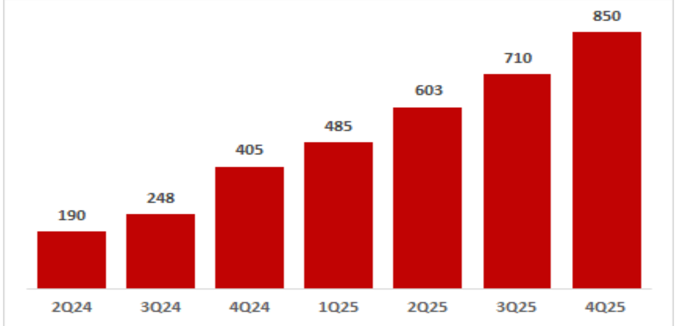


Source: Tenaga

Data Centre Updates

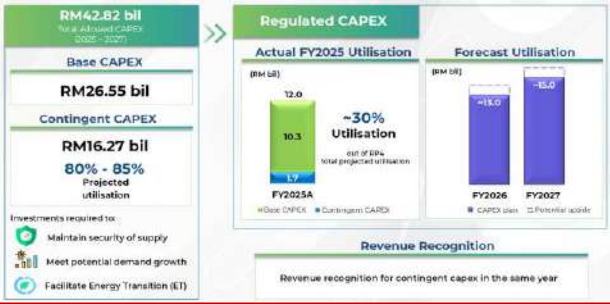
Source: Tenaga

Data Centre Actual Load Utilization



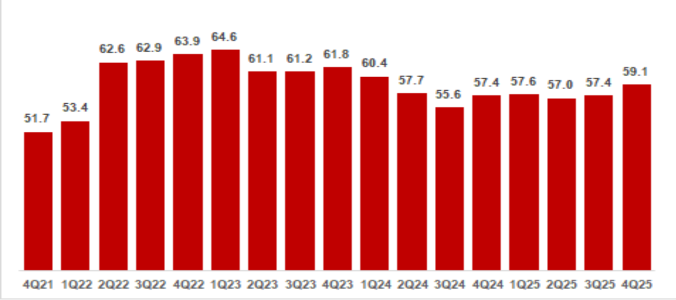
Source: Tenaga

RP4 Allowed Capex (RM b)



Source: Tenaga

TENAGA: Borrowings (RM b)



Source: Tenaga

Peer Table Comparison

Name	Rating	Last Price @ 19/3/26 (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	5.40	5.23	-3.1%	6,933.6	Y	12/2026	31.7	32.1	5.6%	1.3%	17.0	16.8	4.2	25.4%	25.3	4.7%
KJTS GROUP BHD	OP	0.785	1.37	74.5%	542.1	Y	12/2026	3.2	4.0	24.2%	23.9%	24.3	19.6	2.4	12.1%	0.6	0.8%
MALAKOFF CORP BHD	OP	0.780	1.00	28.2%	3,811.8	Y	12/2026	3.6	4.8	58.2%	32.9%	21.8	16.4	0.8	3.9%	2.9	3.7%
PEKAT GROUP BHD	OP	1.33	1.72	29.3%	939.8	Y	12/2026	8.5	9.2	22.4%	7.3%	15.6	14.5	2.4	18.6%	0.0	0.0%
PETRONAS GAS BHD	MP	16.80	18.80	11.9%	33,242.7	Y	12/2026	95.9	97.2	12.1%	1.4%	17.5	17.3	2.3	13.1%	72.0	4.3%
SAMAIDEN GROUP BHD	OP	0.990	1.94	96.0%	498.4	Y	06/2026	6.3	7.5	21.3%	18.8%	15.7	13.2	2.4	17.4%	1.1	1.1%
SOLARVEST HOLDINGS BHD	OP	2.42	3.45	42.6%	2,302.3	Y	03/2026	10.3	14.3	51.9%	39.2%	23.5	16.9	4.7	22.7%	0.0	0.0%
SWIFT ENERGY TECHNOLOGY BHD	OP	0.170	0.470	176.5%	170.1	Y	09/2026	1.3	2.0	-29.3%	53.8%	13.1	8.5	2.2	19.1%	0.0	0.0%
TENAGA NASIONAL BHD	OP	14.30	17.00	18.9%	83,356.7	Y	12/2026	85.6	88.1	2.9%	2.8%	16.7	16.2	1.3	7.8%	50.8	3.6%
YTL POWER INTERNATIONAL BHD	OP	2.93	3.80	29.7%	25,314.5	N	06/2026	25.8	25.1	-27.1%	-2.6%	11.4	11.7	1.0	9.2%	8.0	2.7%
SECTOR AGGREGATE					**157,112.2**					**-3.1%**	**2.3%**	**16.2**	**15.8**	**2.4**	**14.9%**		**2.1%**

Source: Kenanga Research

Name	Rating	Last Price @ 19/3/26 (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																	
ANCOM NYLEX BHD	OP	0.900	1.20	33.3%	948.3	Y	05/2026	8.8	9.6	49.8%	11.5%	10.2	9.4	1.3	13.9%	5.0	5.6%
BM GREENTECH BHD	UP	1.26	1.72	36.5%	866.6	Y	03/2026	11.3	12.2	11.5%	7.5%	11.1	10.4	2.4	22.5%	1.8	1.4%
BP PLASTICS HOLDINGS BHD	MP	0.640	0.670	4.7%	180.1	Y	12/2026	8.4	8.8	85.2%	4.6%	7.6	7.3	0.6	8.5%	4.3	6.7%
HPP HOLDINGS BHD	MP	0.300	0.300	0.0%	122.4	Y	05/2026	2.0	2.3	146.9%	12.7%	14.7	13.1	0.9	6.3%	2.0	6.7%
KUMPULAN PERANGSANG SELANGOR	UP	0.550	0.480	-12.7%	295.6	Y	12/2026	4.4	4.8	143.9%	8.4%	12.4	11.4	0.3	2.2%	2.0	3.6%
SCIENTEX BHD	OP	3.61	3.84	6.4%	5,618.2	Y	07/2026	37.9	39.0	12.1%	3.1%	9.5	9.2	1.2	12.9%	12.5	3.5%
SLP RESOURCES BHD	MP	0.790	0.850	7.6%	247.2	Y	12/2026	4.9	5.5	52.0%	12.9%	16.2	14.3	1.4	8.9%	4.8	6.1%
TECHBOND GROUP BHD	OP	0.285	0.470	64.9%	216.2	Y	06/2026	4.1	4.5	37.5%	9.1%	6.9	6.3	0.8	12.0%	1.0	3.5%
THONG GUAN INDUSTRIES BHD	OP	1.26	1.41	11.9%	495.3	Y	12/2026	19.3	19.5	7.9%	0.9%	6.5	6.5	0.5	8.1%	6.0	4.8%
SOUTHERN CABLE GROUP BHD	OP	1.92	2.71	41.1%	2,170.6	Y	12/2026	12.4	15.0	15.3%	21.7%	15.5	12.8	3.9	30.6%	3.5	1.8%
SECTOR AGGREGATE					**8,990.1**					**30.3%**	**4.6%**	**9.8**	**9.4**	**1.0**	**10.6%**		**4.6%**

Source: Kenanga Research

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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