3QCY26 Outlook
Having An Eye for Goal

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FBM KLCI (pts)	
Current	Target
1,679	1,770↔

Borrowing from a football term, having an eye for goal is about being quick to capitalize on opportunities to score, and this reflects our 3Q approach to be agile, with stock-picking to generate alpha a key strategy. This is because as we usher in a milder domestic YoY GDP growth post 1HCY26, we expect the broader market (FBM KLCI) trading sideways in 3Q26, during which investors will focus on sector rotational play opportunities – banks are set to be beneficiaries, as with consumer. Timing-wise, we see that it would be in 4QCY26 when (i) market/company reforms gain traction, and in our expectation also (ii) the introduction of an expansionary Budget that will inject strength into the broader market.

i) **Expect that broader market will be more focused on rotational plays.** Moving into 2HCY26, GDP growth YoY seen slightly weaker versus 1HCY26, with market taking cues from any potential US tariff developments in July and assess US Fed Fund's rate outlook print. We expect the broader market i.e. the FBM KLCI to trade mainly sideways. In 2QCY26, we had advocated to be cautious on timing of buying banks, but have turned bullish as banks could benefit from rotational play given greater dividends visibility, potentially at the expense of interest in telcos or even utilities which are more defensive. Among the larger weight sectors, plantation should still do well as investors tend to be more receptive to neutral sectors amid monitoring political developments domestically.

ii) **Positive consumption.** The consumer sector is one of the laggard cyclical sectors YTD, and with our belief that targeted fiscal assistance should provide support for consumption, we upgrade the sector to Overweight amid valuations pull-back. We like consumption in its broader definition – for planters, our earnings forecasts are ahead of the curve, and PETDAG is now unveiled as our new Oil and Gas top pick.

iii) **Amid view of lower index volatility, stock picking for structural beneficiaries, is key.** We look to more stock picking to generate alpha. We stick to the best names in the tech space, mainly the wafer front-end names, while MEP and solar names hold the key to continued data centre wave rollout. In general, the relevance of Iran-US conflict tactical plays is past peak. We lower gloves sector weight in this note, after having earlier downgraded PCHEM; we like upstream services for oil and gas (UZMA).

iv) **Market and policy reforms to unlock value later.** Details on corporate value unlocking efforts that are expected to gradually come to light in 2HCY26 under My Value-Up scheme could help drive the market higher, in our view, with banking a heavyweight sector that could benefit. Our year-end 1,770 FBM KLCI target price is thus unchanged, with the belief also that the market will start to firm on an expansionary Budget 2027 (by October). A general election by 2026 (not in our view), could introduce variability to this forecast.

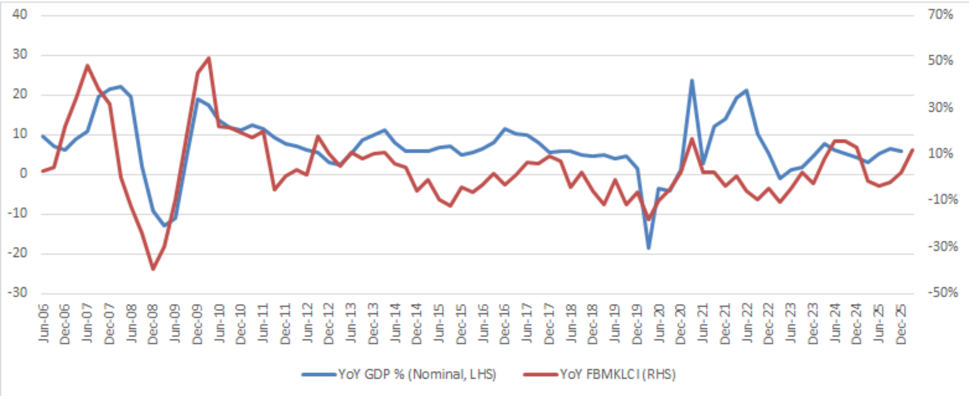
v) **Picks and conviction changes.** Reflecting the above strategy, we have added MRDIY, IOICORP into our market picks (in place of TAKAFUL and FRONTKN), while in the small cap space, we have expanded our small cap with KEEMING, and TSH. See exhibits 12-14 for picks. For conviction sectors for 3QCY26, we have removed the oil and gas, and utilities sectors which are replaced with banking, plantation, and consumer. Together with renewable energy and construction, these rounds up our 5 conviction sectors.

Expect Broader Market Will Be More Focused on Rotational Plays

Moving into a lower growth rate in 2HCY26. Historically, there is some predictive value between the growth rate of an economy and that of its stock market. For Malaysia, counting quarterly YoY growth between GDP growth (nominal) and FBM KLCI over the past 20 years (exhibit 1), this correlation sits at a 0.55, or exhibiting moderate positive correlation. We thus expect less exuberance for the market in 3Q26, as we expect that GDP growth will moderate in 2H26, albeit staying above 4.0%. This compares to likely being around 5.0% or higher for 1H26 (2025: 5.2%).

The backdrop is also that global risks are tilted to the downside, according to Kenanga economist forecast, as inflation risks are expected to weigh on global growth, though easing energy prices and policy support are likely to provide cushion. We have also not factored in risk of additional US tariffs as we view that it would be difficult to enforce the tariffs under Section 301, which is subject to public consultation and due process. Recall that the US earlier announced new tariffs of 10%-12.5% on 60 countries (of which Malaysia falls under the 10%), with a 10% global tariff set to expire in July, unless extended by the US Congress. On a positive note, Kenanga views that a pause for 2026 is the likely scenario for US Fed Fund Rates, and now sees a delayed rate cut scenario to 2QCY27. The implication of this view is that we believe Ringgit will continue to improve from here to RM3.95 to the Dollar, which is broadly supportive of a domestic consumption theme and the broader market usually.

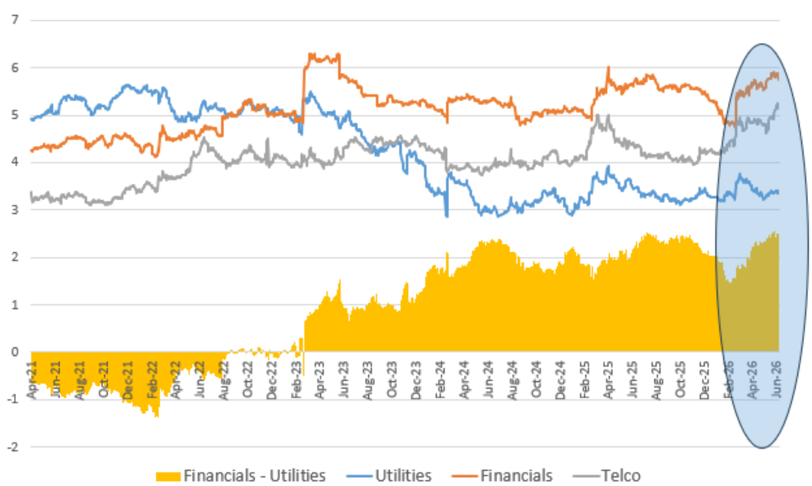
Exhibit 1: Graph showing YoY Growth of Malaysia GDP (Nominal) and the YoY Growth of FBM KLCI



Source: Kenanga Research, Bloomberg

Rotational plays in focus. Against the macro outlook above, we believe that market would thus likely look at rotational plays in the near term. In the 2QCY26 outlook, we have recommended investors to be cautious as to the timing of accumulating banks, which in hindsight was a validated (KLFIN index slide 2% in 2Q26). We have renewed conviction now that banks offer very good risk-reward, given that their dividends yield as a sector has continued to see widening gaps versus other sectors. The tone across several anchor banks on dividends (despite still being at the time when the Hormuz Straits situation was still on gridlock) remain relatively constructive over the 1QCY26 results season. This belief is reinforced now that provisions for SME and retail segment is likely averted, which could help shield against some slippage from the revenue front amid some potential NIM pressure. We believe also that banks would be in an ideal space to attract foreign interest amid My Value Up scheme. We like **PBBANK** (OP; TP: RM5.95), **CIMB** (OP; TP: RM8.45), and **AMBANK** (OP; TP: RM7.45).

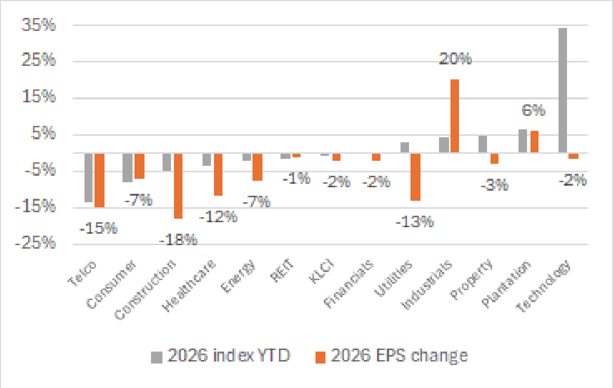
Exhibit 2: Dividend Yield of KLFIN Index vs Telco and Utilities Sectors



Source: Kenanga Research, Bloomberg

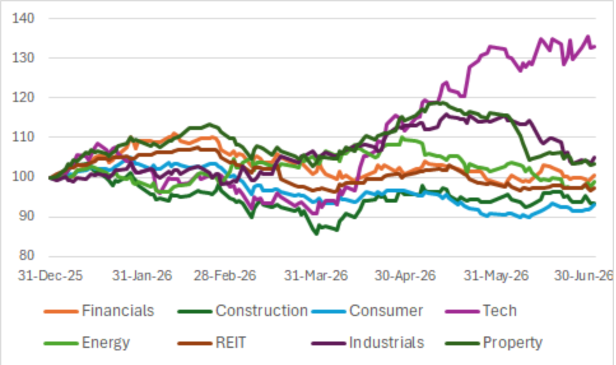
Positive on Consumption Theme

Exhibit 3: YTD Index Movements and EPS Changes by The Street



Source: Kenanga, Bloomberg

Exhibit 4: Cyclical sectors and YTD index (rebased end-2025=100)

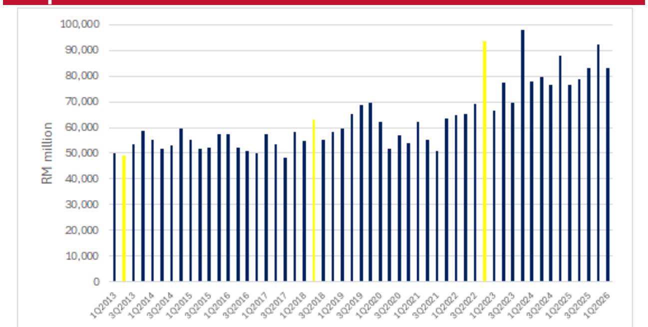


Source: Kenanga, Bloomberg

Consumer sector upgrade on potential tailwind sector. The consumer sector is one of the sectors that we believe could enjoy some look-in, as sentiment improves on the back on targeted fiscal support being intact. On a YTD basis, consumer is one of the worse performing sectors among cyclical sectors (see exhibit 4). Our conviction for the sector also counts the fact that consensus has also put through earnings changes (see exhibit 3). Consumer has in the past empirically seen valuations improvements in 3 out of the 4 times ahead of elections (see consumer write-up in this note). This we attribute to the fact that there is data to support that government operating expenditure had tended to peak as we moved into the election timing (see exhibit 5 which shows the operating expenditure typically high during election quarters). The tailwinds for the sector could also count Kenanga's view that Ringgit should strengthen from here (end-2026 forecast: 3.95), but that will have to wait for our call that US Fed is going to resume cuts next year after an extended pause to be proven right.

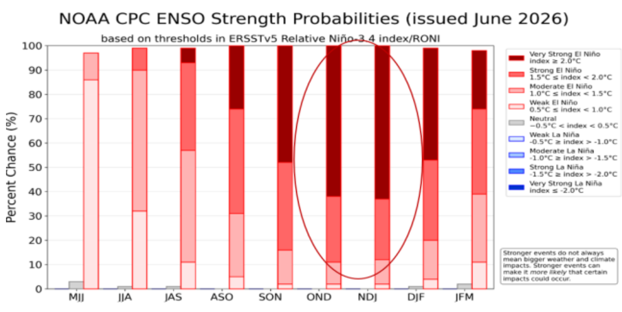
Picks are MRDIY and QL. With the above belief, our top pick is **MRDIY** (OP; TP: RM1.95), which is seen will continue to perform well, and which we prefer over **99SMART** (OP; TP: RM3.80), due to still relatively high valuations gap between the two. We will be monitoring for entry point for the latter. Our consumer conviction pick is followed by **QL** (OP: TP: RM4.05), which in our view also fits into the bill of "under-owned" by GLICs theme as My Value Up scheme develops. We have earlier preferred **F&N** (OP; TP: RM37.40) although we admittedly under-appreciated the extent of disruption in Indochina and higher than expected start-up costs. Elsewhere, in line with the broader consumption play, we have upgraded **PETDAG** (OP; TP: RM21.20) as our oil and gas sector pick, whereby we believe that market has overly discounted its risk on subsidy withdrawal, replacing the previous pick **DIALOG** (OP; TP: RM2.63).

Exhibit 5: Historical Trend of Government Operating Expenditure Relative to Election



Source: Kenanga, Bank Negara Malaysia

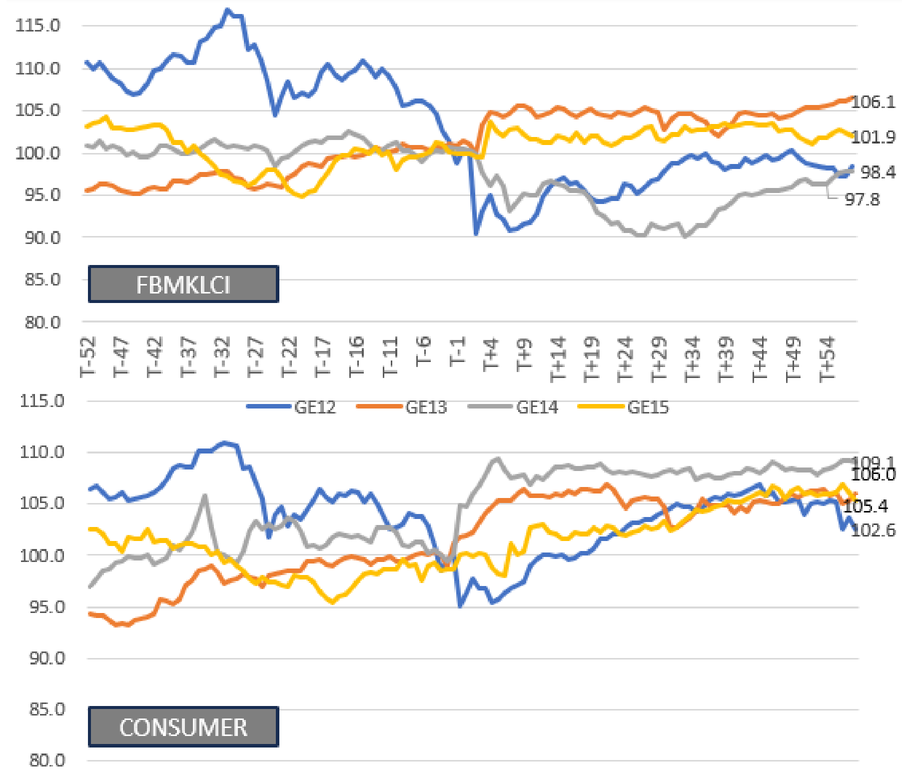
Exhibit 6: 63% Chance of Severe El-Nino



Source: Kenanga, NOAA

Plantation sector earnings forecasts for CY27 are ahead of the curve. The reasons for backing plantations to do well have been amplified by the better-than-even chance for a very strong El Nino, having risen to 63% from latest reading, based on the US-based NOAA. In general, we interpret that under such conditions, the spike in CPO prices could exceed the concern of production concern from the warm conditions that would affect yields in CY27. All in our forecasts are in aggregate c.6% ahead of street for CY27, and we prefer **IOICORP** (OP; TP: RM4.65). We like **UMCCA** (OP; TP: RM6.80) and **TSH** (OP; TP: RM1.60) among the small caps, where the latter offers better stock liquidity. Investors may look for sectors that are generally more neutral towards domestic politics and elections, which would keep interest for this sector buoyant. Prime Minister Anwar Ibrahim had previously said that an early election may be considered if there was rising tension within the alliance (news). There is no consistent pattern for plantations when price action was plotted against past elections, however; where it was more evident that elections provided a fillip was in the consumer sector, where sector index rose in the past 4 elections (see exhibit 7).

Exhibit 7: Behaviour of FBMKLCI and BURSA Consumer index during past elections (T = election day)

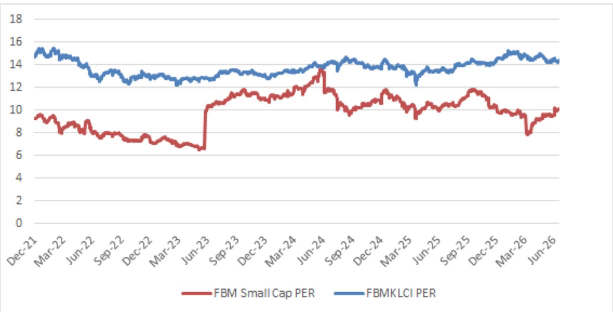


Source: Kenanga Research, Bloomberg

Stock-picking mode in 3Q

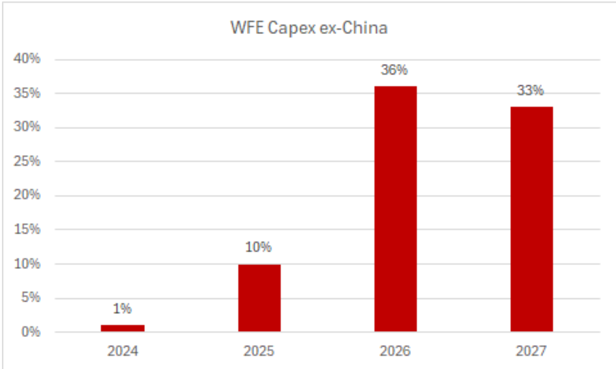
Amid our assessment that the broader market could be more range bound in 2H26 with lower volatility, this may create a condition whereby investors take advantage of potential larger movements of individual stocks. We believe some of the opportunities with structural earnings growth can usually be found in the mid to smaller cap space; FBMSC (Small Cap Index) is generally trading at a less demanding PER valuation versus the large cap space (exhibit 8). Some of our preferred names in the small to mid-cap space are in the MEP and solar plays (more below), and currently in the oil and gas upstream services names we have **UZMA** (OP; TP: RM0.70) as small cap pick. Within tech names, we like the mid-cap names, ie **KGB** (OP; TP: RM9.05), **UWC** (OP; TP: RM7.00) and **FRONTKEN** (OP; TP: RM5.10). Within the energy efficiency space, we fancy **KJTS** (OP; TP: RM1.34). Within plantations, we like TSH and UMCCA, although this would be more for more upstream exposure on the back of expected ASP increases.

Exhibit 8: Valuation of Small Caps (FBMSC) Vs. Big Caps (FBM KLCI)



Source: Kenanga, Bloomberg

Exhibit 9: WFE Growth (ex-China)



Source: Kenanga estimates, Bloomberg

Strong WFE growth, and we stick to our picks. Within the tech space, top picks remain **KGB, UWC** and **FRONTKEN**. Within the OSAT space, we find that the best risk-reward remains **INARI** (OP; TP: RM2.42) in our view. Based on Kenanga's bottom-up computation, wafer-front end (ex China) should see growth eclipsing 30% in both FY26 and FY27, presenting significant opportunities. This underpins our view that investors will be keen to buy on dips and thus providing price support during pull backs. Even so, within the tech space, some names have received a negative recommendation from us at this juncture as we see their valuations to be rich, including **OPPSTAR** (UP; TP: RM0.43), **SKPRES** (UP; TP: RM0.30), and **UNISEM** (UP; TP: RM2.47). As an aside, for a picks and shovel play, we recently wrote on **AMS** (Not Rated; Fair Value: RM0.62), which presents an alternative way to participate in the semiconductor equipment upcycle as a preferred aluminium supplier to Malaysia's semiconductor precision engineering ecosystem.

Enablers of the next DC wave. The massive Electricity Supply Agreement pipeline of 8.3GW (with 3.8GW under construction) grew by 0.8GW in one quarter alone, portending strong M&E demand over the next 12 months. This cements outlooks for names such as **KEEMING** (OP; TP: RM2.00). **SCGBHD** (OP; TP: RM2.76) benefits as it supplies a full range of power cables for local power distribution; **PEKAT** (OP; TP: RM1.91), a key MV switchgear player, continues to supply directly to **TENAGA's** grid expansion. To facilitate the signed ESA pipeline, and to ensure that this baseline demand integration would not pressure Peninsula Malaysia's reserve margins, we see CRESS as one of the most viable near-term solutions to this energy capacity deficit, and an ongoing government review of grid access charges is expected to refine cost parameters and improve commercial viability. This in turn would continue to support outlook for **SLVEST** (OP; TP: RM3.36) and **SAMAIDEN** (OP; TP: RM1.94).

No longer looking at the Straits of Hormuz disruption tactical trade; glove sector downgraded. After signing an initial memorandum of understanding on 18 June, a 60-day window towards a comprehensive final agreement was opened up for discussions between US and Iran. We see that intensity of conflict has peaked and no longer have conviction tactical trades relating to the Straits of Hormuz gridlock. We had earlier downgraded **PCHEM** to MARKET PERFORM. However, we keep our OVERWEIGHT for plastics and packaging players as they have been able to gain market share from new customers, giving their business longer runway. On the other hand, demand dynamics for glove makers are different with ASPs trajectory likely coming off in future quarters, and we have downgraded the sector to neutral in this note. Among the glove makers, we retain **KOSSAN** (OP; TP: RM1.50) as the sector pick, and sole positive recommendation.

Picks Changes

Modest earnings growth but market reforms and value unlocking opportunities abound. Our earnings growth is built on an earnings growth of 4.3% excluding **PCHEM** for FY26. An expansionary Budget 2027, coupled with market reforms will boost the market higher. We foresee that the former will continue to gain momentum, once there is more clarity on companies that will volunteer for the My Value Up programme. The names that we like from an under-owned by GLIC perspective include **UWC, QL** and **ECOWORLD** (OP; TP: RM2.35). These are in addition to names that we had earlier spotlighted as low hanging fruit on undemanding price-to-book in the property space such as **SIMEPROP** (OP; TP: RM1.97), **SPSETIA** (OP; TP: RM1.43), **GENM** (OP; TP: RM3.07), **PPB** (OP; TP: RM13.00), and **IJM** (OP; TP: RM3.35). Other market reforms include proposal to expand FBM KLCI from 30 stocks to 50 stocks, which is still under review, and which we also support.

We also anticipate more value capture on asset unlocking. **SIMEPROP** and **YLTPOWR** (OP; TP: RM4.55) as two names that could in the future inject assets, including data centre assets, into separate listing vehicles, keeping interest in these names strong. For the latter, supposing it ramps up data centre to 600MW, our TP would see RM1.25 upside to RM5.80. Considering all the above, we view that our FBM KLCI target based of 1,770, based on 16x blended FY26/FY27 EPS, remains achievable. Our index target does not take into account, however, the variability if an earlier general election is called in 2026.

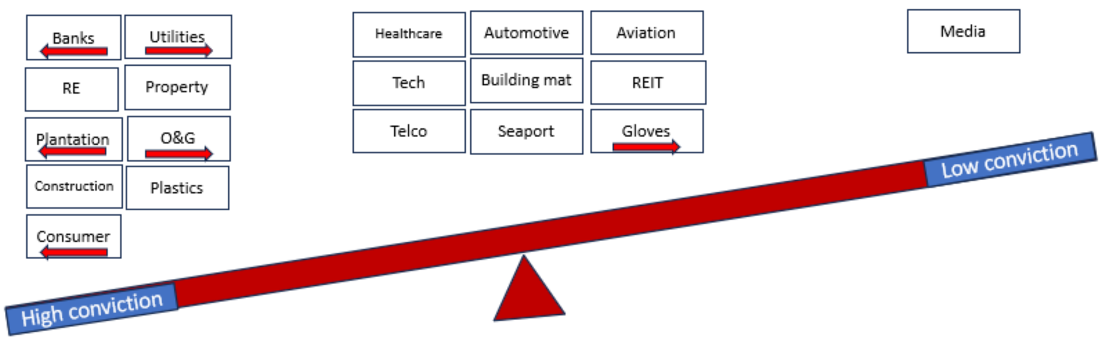
Top picks changes. We added **MRDIY** and **IOICORP** into our top picks (replacing TAKAFUL and FRONTKEN, the latter after its price run-up). Within the small cap picks, given our focus on stock-pickings, we have added **KEEMING**, and **TSH.** Elsewhere, we are contrarian against the market for mainly neutral calls for hospital groups in the healthcare sector.

Exhibit 10: Sector Top picks

Overweight	Neutral		Underweight
RE & Energy Efficiency KJTS, SAMAIDEN	**Technology** KGB, UWC **Small cap: INFOMINA**	**Telco** TIMECOM **Small cap: OCK**	**Media** -
Utilities TENAGA **Small cap: KEEMING**	**Building materials** ENGTEX	**Automotive** BAUTO	
Oil and gas PETDAG **Small cap: UZMA**	**Healthcare** DUOPHARMA	**Gloves** KOSSAN	
Financials PUBLIC	**Plantation** IOICORP **Small cap: UMCCA**	**REIT** SUNREIT	
Construction GAMUDA **Small cap: KERJAYA**	**Plastics** TGUAN	**PORT/Logistics** BIPORT	
Property SIMEPROP **Small cap: PARAMON**	**Gloves** KOSSAN		
Consumer MRDIY **Small cap: AEON**			

Source: Bloomberg, Kenanga Research

Exhibit 11: Sector conviction from most conviction to the least (arrow shows change in conviction since previous report)



Source: Kenanga Research

Exhibit 12: 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)	DIV (%)
							FY26F	FY27F	FY26F	FY27F	FY26F	FY27	FY26	FY26	FY26F
CIMB	OP	7.39	8.45	14.3%	79,851.9	12/2026	78.3	84.0	6.5%	7.3%	9.4	8.8	1.0	50.0	6.8%
PBBANK	OP	4.81	5.95	23.7%	93,365.4	12/2026	38.7	40.1	4.0%	3.6%	12.4	12.0	1.5	29.4	6.1%
GAMUDA	OP	4.25	5.30	24.7%	25,348.3	07/2026	17.8	23.4	5.3%	31.3%	23.8	18.2	2.0	10.0	2.4%
IOICORP	OP	4.25	4.65	9.4%	26,712.1	06/2026	24.0	25.1	19.5%	5.1%	17.7	16.9	2.0	11.0	2.6%
SPSETIA	OP	0.955	1.43	49.7%	4,824.3	12/2026	6.6	9.7	-47.5%	46.3%	14.5	9.9	0.3	2.5	2.6%
KGB	OP	7.94	9.05	14.0%	6,893.2	12/2026	21.4	24.5	29.1%	14.1%	37.0	32.5	9.0	15.0	1.9%
TENAGA	OP	14.24	17.00	19.4%	83,007.0	12/2026	85.6	88.1	2.9%	2.8%	16.6	16.2	1.3	50.8	3.6%
TIMECOM	OP	6.04	6.60	9.3%	11,166.9	12/2026	28.0	30.2	6.3%	7.8%	21.5	20.0	3.8	42.0	7.0%
MRDIY	OP	1.65	1.95	18.2%	15,637.8	12/2026	7.5	8.2	11.6%	9.0%	21.9	20.1	7.7	8.0	4.8%
YTLPOWR	OP	4.09	4.55	11.2%	35,427.8	06/2026	24.5	24.1	-27.1%	-1.4%	16.7	16.9	1.6	8.0	2.0%

Source: Kenanga Research

Exhibit 13: 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)	DIV (%)
							FY26F	FY27F	FY26F	FY27F	FY26F	FY27	FY26	FY26	FY26F
IOICORP	OP	4.25	4.65	9.4%	26,712.1	06/2026	24.0	25.1	19.5%	5.1%	17.7	16.9	2.0	11.0	2.6%
MRDIY	OP	1.65	1.95	18.2%	15,637.8	12/2026	7.5	8.2	11.6%	9.0%	21.9	20.1	7.7	8.0	4.8%
IJM	OP	2.32	3.35	44.4%	8,132.0	03/2027	13.5	14.3	53.9%	5.3%	17.1	16.3	0.8	8.0	3.4%
SPSETIA	OP	0.955	1.43	49.7%	4,824.3	12/2026	6.6	9.7	-47.5%	46.3%	14.5	9.9	0.3	2.5	2.6%
GAMUDA	OP	4.25	5.30	24.7%	25,348.3	07/2026	17.8	23.4	5.3%	31.3%	23.8	18.2	2.0	10.0	2.4%
MRDIY	OP	1.65	1.95	18.2%	15,637.8	12/2026	7.5	8.2	11.6%	9.0%	21.9	20.1	7.7	8.0	4.8%
KGB	OP	7.94	9.05	14.0%	6,893.2	12/2026	21.4	24.5	29.1%	14.1%	37.0	32.5	9.0	15.0	1.9%
SIME	OP	2.13	2.75	29.1%	14,517.2	06/2026	19.8	21.5	15.6%	8.1%	10.7	9.9	0.7	14.0	6.6%
TIMECOM	OP	6.04	6.60	9.3%	11,166.9	12/2026	28.0	30.2	6.3%	7.8%	21.5	20.0	3.8	42.0	7.0%
TENAGA	OP	14.24	17.00	19.4%	83,007.0	12/2026	85.6	88.1	2.9%	2.8%	16.6	16.2	1.3	50.8	3.6%

Source: Kenanga Research

Exhibit 14: 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)	DIV (%)
							FY26F	FY27F	FY26F	FY27F	FY26F	FY27	FY26	FY26	FY26F
BAUTO	OP	1.04	1.15	10.6%	1,179.4	04/2027	7.3	10.9	-45.7%	49.5%	14.3	9.5	1.8	6.0	5.8%
UZMA	OP	0.370	0.700	89.2%	224.7	06/2026	14.8	15.9	6.9%	7.5%	2.5	2.3	0.2	0.0	0.0%
WASCO	OP	0.720	1.32	83.3%	557.5	12/2026	1.4	1.7	-37.5%	23.1%	52.7	42.8	4.5	5.0	6.9%
SLVEST	OP	2.85	3.36	17.9%	2,729.8	03/2027	13.8	15.4	29.1%	11.6%	20.6	18.5	2.8	0.0	0.0%
SAMAIDEN	OP	1.33	1.94	45.9%	743.5	06/2026	6.3	7.5	21.3%	18.8%	21.0	17.7	3.3	1.1	0.8%
PARAMON	OP	0.995	1.47	47.7%	619.7	12/2026	19.1	21.8	66.6%	14.2%	5.2	4.6	0.4	7.5	7.5%
KEEMING	OP	1.65	1.80	9.1%	536.3	03/2027	8.6	10.2	21.7%	17.9%	19.2	16.3	5.2	0.0	0.0%
TSH	OP	1.17	1.60	36.8%	1,453.1	12/2026	12.4	14.0	-11.5%	13.2%	9.4	8.3	0.7	5.0	4.3%

Source: Kenanga Research

Table of Contents

Automotive

Protected Local Space

NEUTRAL

↔

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, new OMV regulation (delayed to Jan 2027 or beyond), a flood of localized Chinese vehicles, and attractive new launches leaning towards value-for-money offerings. Fuel prices (which have started to ease following the US-Iran peace deal discussion) are still subject to the on-going Middle East uncertainties but expected to have minimal impact to the vehicles sales volume as the Malaysian market is still protected by the subsidized fuel and replacement cycles towards EV (new EV policy to foster localisation), hybrids as well as motorcycles. In the transition period following stricter EV CBU policy, we expect insignificant earnings impact to automakers, as EV sales contribution is only c.6% of the total TIV units. Our sector top picks are BAUTO (OP; TP: RM1.22) for its niche-market premium offerings driving its strong earnings growth and SIME (OP; TP: RM2.75) for its industrials segment double-digit growth for both sales and margin (while its industrials activities are expected to be boosted by the sharp downturn in global oil price). The two picks offer attractive dividend yield of 9% and 6%, respectively.

Protected Local Space. We project a TIV of 790k units in CY26 (-4% YoY) which matches the forecast by Malaysian Automotive Association (MAA). Fuel prices (which have started to ease gradually following the US-Iran peace deal discussion) are still subject to the on-going Middle East uncertainties and reduced traffic in the Straits of Hormuz. However, this has minimal impact on domestic vehicles sales volume as the Malaysian market remains 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 the reduced quota to 200 litres per month (from 300 litres per month, previously). 90% of Malaysian used less than 200 litres per month, according to the government. We also foresee that new replacement cycles leaning towards electrification (EV) which has significantly increased over the years to 6% of total TIV from below 1% of TIV (5-years ago), and looking to reach 10% of TIV by 2027 as automakers ramping up local production, 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), hinging on the potential removal of subsidies.

For the Malaysian citizen, government announced that starting 1st July 2026, the subsidised diesel price for eligible Malaysians nationwide will drop to a flat RM2.10 per litre and the mechanism will be the same and shared eligibility with BUDI MADANI program, which is positive to the commercial vehicles (CV) segment, specifically the lifestyle pick-up truck sub-segment which was significantly impacted after targeted diesel subsidies in June 2024 implementation. Nevertheless, CV market share is still small accounted for 6% of total TIV (5-years ago at 11%).

Protected Domestic Sandbox. By cutting off cheap imports, the government is deliberately creating a protected domestic sandbox to pressure global automakers into building local supply chains. EV CBU restrictions on July 1st, 2026 with a pre-tax CIF floor price of RM200k and EV CKD plant restrictions with floor price of RM100k as well as 80% production volume must be exported (latest new policy) which were created to foster phased transition from an import-reliant EV marketplace to a localized EV manufacturing ecosystem.

Beneficiaries of ready EV local production would be Perodua from its own smart mobility plant, Proton and Zeeker under Proton's Tanjung Malim Plant (under **DBRHICOM** (UP: TP:RM0.77), TQ Wuling Bingo under **TCHONG**'s (UP;TP:RM0.36) Segambut plant and Xpeng, GWM, BAIC & SAIC brands' under **EPMB** (not rated)'s Melaka plant. Existing third-party contract car manufacturer such as Inokom Corporation Sdn Bhd under **SIME** (OP: TP:RM2.75) will also benefit from the MITI policy as it has ready infrastructure to CKD any car models.

Our thesis for CY26 TIV encompasses:

(i) a 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 its better-margin industrials division (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 (delayed to Jan 2027 and potentially beyond) and a pre-tax CIF floor price of RM200,000 for imported EVs implemented in July 2026. The policy to limit the vehicles price hike is still being developed, which we expect to be further delayed to beyond the coming general election period,

(iii) a rising market share of Chinese 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, BYD brand which could potentially be assembled at SIME's Inokom Corporation Sdn Bhd. at Kulim, Kedah, and Zeeker at Proton's Tanjung Malim plant,

(iv) sustained demand in the affordable segment with national marques remaining as the market leader at estimated market share of 67% for CY26 TIV versus non-nationals marques' 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 lower unemployment rate of 2.9%, vs 3% in CY25); and

(vii) attractive new launches (leaning towards value-for-money offerings) i.e. Proton e.Mas 7 PHEV & EV Premium plus, Perodua Myvi (new DNGA), 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 162k units as at end-May 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. On the other hand, the EV sales will still be higher than 2025 sales (albeit slowing down growth to double-digit growth from triple-digit growth) as global automakers clear existing CBU inventories while transitioning towards localised CKD assembly. We believe Proton, which is already rolling-out its eMas7 EV and eMas5 EV from its Tanjung Malim plant would sustain its EV sales market share at 40%-50% of total EV sales.

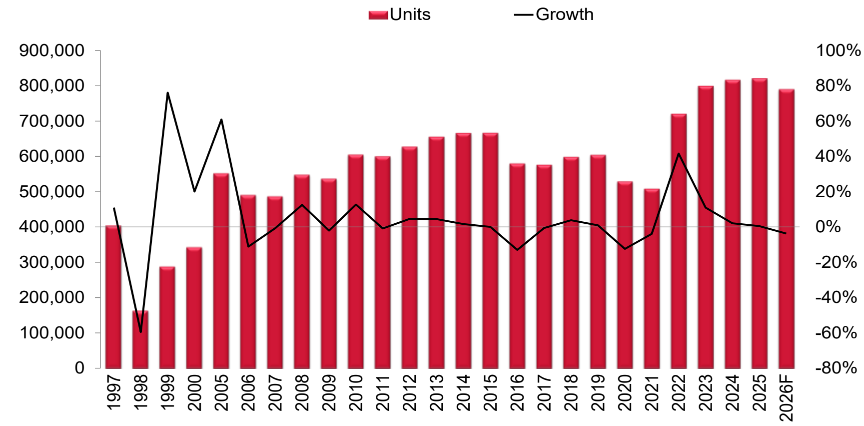
A slow transition to BEVs. We expect gradual transition to battery electric vehicles (BEVs) which currently benefits from tax exemption until 2027 for locally assembled CKDs. Looking further, we also have a balanced view of EV adoption eventually picking up and demand for gasoline vehicles will eventually peak, but not within the next five years due to infrastructure challenges. The domestic market is still protected by the subsidized fuel pricing mechanism which offers lesser incentives for middle-and lower income-groups to switch from ICEs to EVs. Recall that new registration for BEVs leapt from 270 units in CY21 to 2,600 units in CY22, 10,000 units in CY23, 21,789 units in CY24 and 44,813 units in CY25, or 5.5% of TIV. YTD-April 2026 EV sales are already at 20,254 units. 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). The government is currently focused on building out the EV ecosystem, including establishing 10,000 public charging points (no updated target for now) and providing tax incentives to stimulate adoption and local production. Despite the current build-to-date lagging with just 57% of the target which stood at 5,719 units (no real-time update for now as it temporarily disables the website), no updated timeline target has been provided.

Our sector top picks are: -

BAUTO (OP; TP: RM1.22) for: (i) its strong near-term earnings visibility backed by a total order backlog of 3.5k units (which is at a higher level vs. a year ago at 1.5k units), (ii) its premium mid-market Mazda brand that offers superior margins, and (iii) its attractive dividend yield of about 9%. We expect 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). Models such as its CX-60, CX-80 and Mazda 3 have garnered strong demand from the market especially for its all-new Mazda 3 which offers an attractive price point compared to previous launches (RM118,900 for the 1.5L High Plus model). Note that CBU models are unaffected by the new OMV excise duty regulation.

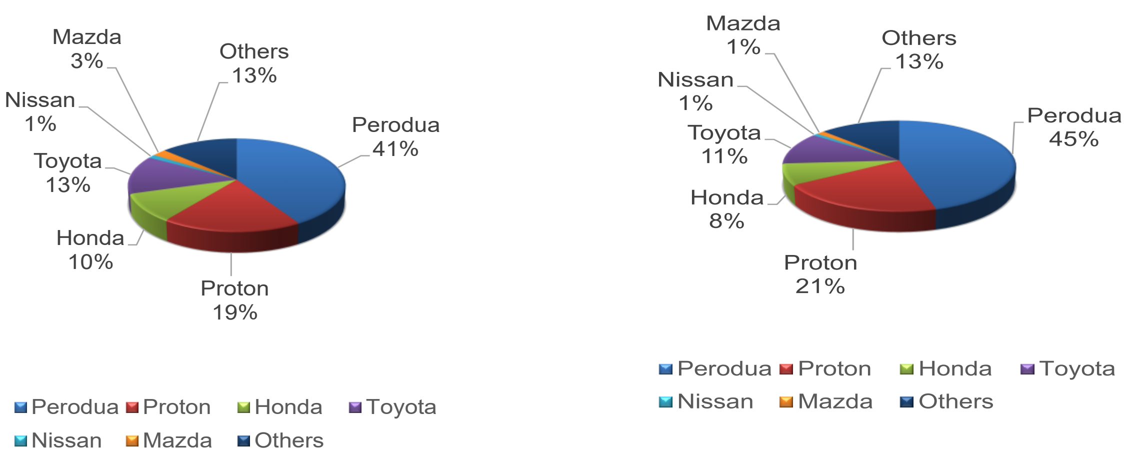
SIME (OP; TP: RM2.75) for: (i) its unique position as being the automotive leader in Malaysia (60% market share) and EV leader in Singapore, Thailand and the Philippines while balancing out cyclical demand in other regions, and (ii) the strong sales and margin at its industrials segment acting as a proxy to the Australian mining sector (for its rare high-quality met coal and other high-demand sustainable-related metals). It also offers an attractive dividend yield of 6%. We expect significant investment by its industrial's clients for the next five years translating into a potential industrials segment double-digit growth for both sales and margin.

Exhibit 1: TIV Volume 1997–2026F



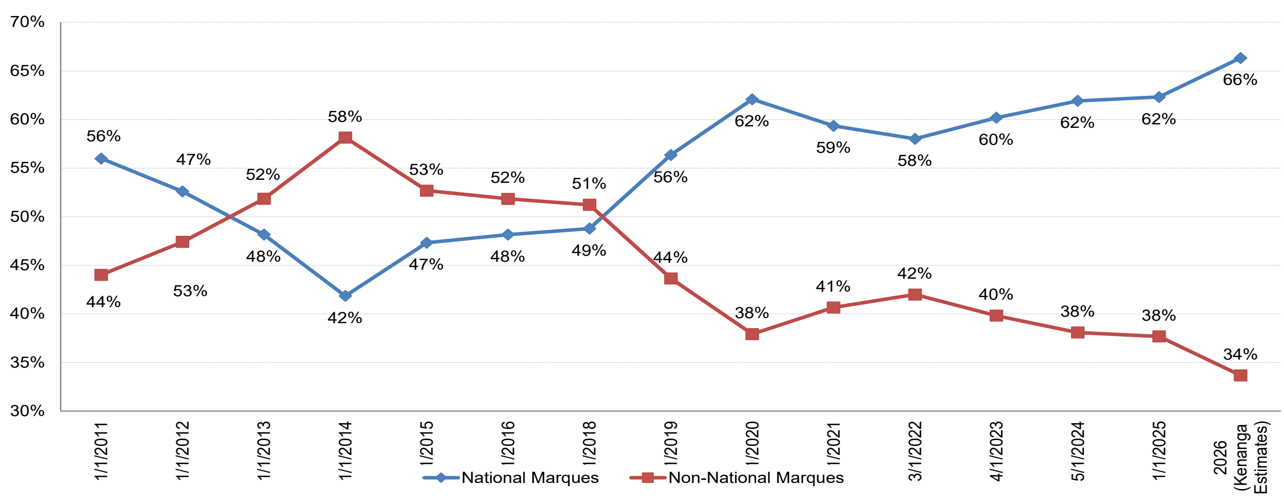
Source: MAA, Kenanga Research

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 19.06.26	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																	
BERMAZ AUTO BHD	OP	1.05	1.22	16.2%	1,219.1	Y	04/2026	11.5	14.5	27.7%	25.9%	9.1	7.2	1.7	18.4%	9.2	8.8%
DRB-HICOM BHD	UP	1.06	0.770	-27.4%	2,049.0	Y	12/2026	7.2	7.7	119.9%	6.0%	14.7	13.8	0.2	1.3%	3.0	2.8%
HIL INDUSTRIES BHD	OP	0.690	0.850	23.2%	229.0	Y	12/2026	11.2	11.4	2.8%	2.3%	6.2	6.0	0.4	7.2%	2.0	2.9%
HONG LEONG INDUSTRIES BHD	OP	19.18	21.00	9.5%	6,289.1	Y	06/2026	171.0	174.4	11.6%	2.0%	11.2	11.0	2.5	23.3%	100.0	5.2%
MBM RESOURCES BHD	MP	4.91	4.90	-0.2%	1,919.3	Y	12/2026	81.6	82.2	-5.9%	0.7%	6.0	6.0	0.7	11.5%	45.0	9.2%
SIME DARBY BHD	OP	2.25	2.75	22.2%	15,302.3	Y	06/2026	19.8	21.5	15.6%	8.1%	11.3	10.5	0.8	7.0%	14.0	6.2%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.500	0.360	-28.0%	336.0	Y	12/2026	(19.7)	(17.2)	-164.4%	-187.7%	N.A.	N.A.	0.1	-5.2%	1.0	2.0%
SECTOR AGGREGATE					**27,343.7**					**19.9%**	**7.6%**	**11.4**	**10.6**	**0.7**	**6.1%**		**5.3%**

Source: Kenanga Research

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Banking

In Strong Favour As Dust Clears

OVERWEIGHT

↔

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

We maintain our OVERWEIGHT call on the banking sector. The quicker-than-expected pullback in crude oil prices, coupled with the government's new diesel subsidy initiative should help ease inflationary concerns for the remainder of the year. This improves the credit outlook for the sector, where we had previously favoured banks with stronger provisioning buffers as a defensive strategy against potential repayment risks. Following our reassessment of industry LLCs; ABMB, PBBANK, CIMB and MAYBANK appear better positioned to gradually normalise provisioning, based on our assessment that their (i) LLC ratios remain meaningfully above pre-pandemic levels, and (ii) Stage 2 provisions continue to account for a sizeable share of total reserves despite significant improvements in their respective GIL ratios. We continue to expect OPR to remain unchanged at 2.75% throughout CY26.

For 3QCY26, our top pick remains PBBANK (OP; TP: RM5.95), given its compelling combination of an attractive dividend yield (>6%), the sector's lowest GIL ratio and the most conservative provisioning profile, all of which provide downside resilience while offering potential upside from future provision normalisation and capital returns. We also like CIMB (OP; TP: RM8.45), where its regional exposure is more than compensated by the sector's highest prospective dividend yield of approximately 7%, with additional upside should the group distribute surplus capital. AMBANK (OP; TP: RM7.45) is well placed to benefit from a rotation back into growth-oriented banks. Despite its relatively higher SME exposure, the group has consistently demonstrated resilient asset quality and disciplined credit underwriting.

Within the NBFI space, we highlight TAKAFUL (OP; TP: RM4.40), supported by continued growth in its credit-related products and the renewal of its key bancatakaful partnerships.

Conflict wages on, but inflation may see relief. Despite the Middle East conflict still being unresolved, Brent crude oil prices have corrected to USD80-85/bbl from a peak of USD112/bbl, bringing us closer to our full-year average expectations of USD80/bbl. Meanwhile, concerns over inflation have also moderated following the government's decision to reintroduce a subsidised diesel price of RM2.10/litre effective July 2026 from the latest unsubsidised price of RM4.37/litre in Peninsular Malaysia.

Accordingly, though we maintain our CY26 CPI forecast of 2.1%, reflecting expectations for firmer inflationary pressures in 2HCY26, this remains below Malaysia's pre-pandemic average inflation rate of 2.2% (CY10-CY19). Labour market conditions also remain supportive, with the 1QCY26 unemployment rate reporting at 2.9% which is an 11-year low.

Flipping the script on our previous LLC trend analysis, picks remain the same

We anticipate investor sentiment to gradually revert towards banks that were previously avoided due to their exposure to perceived higher-risk segments, particularly SMEs. This could benefit **AMBANK (OP; TP: RM7.45)** and **ABMB (MP; TP: RM4.80)**, while banks with relatively higher GIL ratios such as **CIMB (OP; TP: RM8.45)** may also see stronger recoveries and lower provisioning requirements in the coming quarters. Conversely, **MAYBANK (OP; TP: RM12.30)** had previously expressed caution by increasing preemptive provisions during its 1QCY26 earnings call and may not be likely to top up on its buffers further.

In light of a less cautious operating environment, banks with higher LLCs could be viewed from being highly defensive to now having a higher possibility of writeback or releasing provisions. That said, to identify which banks are likely to do this, we gathered their LLC levels and GIL readings between 4QCY19 (as a gauge for pre-pandemic levels) to 1QCY26 *(refer to exhibit 1 and 2)* to see which banks are likely overproviding relative to their asset quality. Additionally, we took a glance at their respective composition of stage 2 impairments *(refer to exhibit 3)* where management overlays and preemptive provisions are typically recognised.

Reviewing up to 1QCY26 reported figures, **ABMB, AFFIN, CIMB, MAYBANK** and **PBBANK** continued to maintain LLC ratios meaningfully above their respective pre-pandemic levels despite credit quality having largely normalised. **PBBANK** remains the standout, with the industry's highest LLC ratio of approximately 147%, suggesting substantial provisioning buffers remain in place. This represents a potential upside catalyst to its recently announced RM3.5b capital return programme, which we already expect to translate into annual special dividends of c.5.9 sen/share over FY26-FY28. Asset quality trends also appear encouraging for the likes of **ABMB, AFFIN, CIMB, MAYBANK** and **RHBBANK** which reported GIL ratios that are at, or close to, their lowest levels since 4QCY19, reflecting continued improvements in underlying asset quality.

Lastly, our review of Stage 2 provisions once again highlights **PBBANK** as the standout, with 53.7% of its total while being well above its pre-pandemic level of 32.6% in 4QCY19, suggesting that the group's highly conservative provisioning stance could have meaningful room for easing. **MAYBANK** also appears well positioned, with its Stage 2 provision mix rising to a historical high of 44.3% following pre-emptive provisioning in 1QCY26, compared with just 18.5% in 4QCY19. Similarly, **BIMB's** Stage 2 provision mix remains elevated at 36.3%, more than double its historical trough of 16.3% in 4QCY20, indicating that meaningful precautionary buffers are still being maintained.

Exhibit 1: Historical LLC Readings

LLC (excluding Reg. Reserves)	4QCY19	4QCY20	4QCY21	4QCY22	4QCY23	4QCY24	4QCY25	1QCY26
ABMB	72.7%	87.2%	121.7%	125.0%	96.3%	103.6%	109.0%	113.1%
AFFIN	41.6%	47.9%	68.1%	120.5%	113.6%	82.4%	74.1%	70.1%
AMBANK	63.8%	97.1%	153.0%	95.3%	102.0%	85.3%	72.9%	68.4%
BIMB	173.5%	248.6%	187.2%	124.5%	127.0%	99.3%	100.4%	100.2%
CIMB	80.7%	91.6%	100.2%	93.1%	97.0%	105.3%	103.2%	101.8%
HLBANK	103.0%	192.7%	250.6%	210.1%	163.4%	139.0%	83.7%	81.1%
MAYBANK	72.6%	98.6%	107.8%	127.5%	120.1%	122.4%	98.3%	96.8%
MBSB	102.6%	103.7%	100.7%	62.4%	50.8%	37.0%	28.1%	28.2%
PBBANK	124.1%	227.7%	360.7%	272.0%	181.8%	166.2%	149.9%	147.0%
RHBBANK	85.7%	119.6%	122.4%	112.8%	71.7%	78.6%	76.6%	73.2%

Notes:
- Green refers to the lowest LLC reading (i.e. lowest provisions) between 4QCY19 to 1QCY26
- Red refers to the highest LLC reading (i.e. highest provisions) between 4QCY19 to 1QCY26
- Blue refers to banks whereby 1QCY26's LLC reading is notably distant from their lowest respective reading, indicating higher potential appetite to writeback on provisions relative to historical levels

Source: Companies, Kenanga Research

Exhibit 2: Historical Closing GIL

GIL	4QCY19	4QCY20	4QCY21	4QCY22	4QCY23	4QCY24	4QCY25	1QCY26
ABMB	1.9%	2.5%	2.0%	1.9%	2.3%	2.0%	1.9%	1.7%
AFFIN	3.0%	3.3%	2.5%	2.0%	1.9%	1.9%	1.6%	1.7%
AMBANK	1.7%	1.7%	1.3%	1.6%	1.6%	1.7%	1.8%	1.6%
BIMB	0.9%	0.7%	1.0%	1.3%	0.9%	1.1%	1.0%	1.0%
CIMB	3.1%	3.6%	3.5%	3.3%	2.7%	2.1%	1.7%	1.7%
HLBANK	0.8%	0.5%	0.5%	0.5%	0.6%	0.5%	0.6%	0.6%
MAYBANK	2.6%	2.2%	2.0%	1.6%	1.3%	1.2%	1.3%	1.3%
MBSB	5.2%	5.3%	4.6%	6.8%	7.3%	6.7%	6.3%	6.1%
PBBANK	0.5%	0.4%	0.3%	0.4%	0.6%	0.5%	0.5%	0.5%
RHBBANK	2.0%	1.7%	1.5%	1.5%	1.7%	1.5%	1.4%	1.5%

Notes:
- Green refers to the lowest GIL between 4QCY19 to 1QCY26
- Red refers to the highest GIL composition between 4QCY19 to 1QCY26

Source: Companies, Kenanga Research

Exhibit 3: Proportion of Allowance for Credit Loss in Stage 2

% of Provisions in Stage 2	4QCY19	4QCY20	4QCY21	4QCY22	4QCY23	4QCY24	4QCY25	1QCY26
ABMB	40.3%	42.8%	47.0%	51.9%	41.1%	40.2%	38.7%	40.6%
AFFIN	16.4%	19.4%	35.3%	55.2%	49.0%	43.8%	32.5%	28.2%
AMBANK	42.5%	56.5%	62.1%	58.4%	58.5%	51.2%	50.9%	44.2%
BIMB	19.7%	16.3%	28.6%	21.6%	36.2%	28.9%	37.8%	36.3%
CIMB	19.8%	23.4%	30.5%	29.3%	17.4%	17.8%	22.5%	20.8%
HLBANK	39.5%	27.8%	31.4%	21.6%	22.9%	22.0%	27.4%	26.6%
MAYBANK	18.5%	29.3%	31.1%	28.4%	31.8%	33.8%	45.0%	44.3%
MBSB	22.7%	33.0%	35.6%	20.8%	5.2%	25.5%	14.8%	15.1%
PBBANK	32.6%	36.8%	40.8%	43.1%	58.8%	54.8%	55.0%	53.7%
RHBBANK	29.0%	36.4%	32.9%	28.5%	25.4%	26.3%	25.3%	23.5%

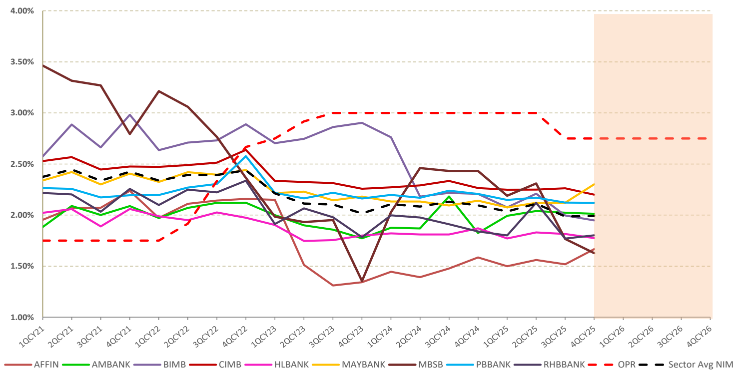
Notes:
- Green refers to the lowest Stage 2 composition between 4QCY19 to 1QCY26
- Red refers to the highest Stage 2 composition between 4QCY19 to 1QCY26
- Blue refers to banks whereby 1QCY26's Stage 2 composition appears relatively high as compared to the lowest point within the range, indicating potential writebacks from relaxation of buffers

Source: Companies, Kenanga Research

Overall, **PBBANK** appears to be in the strongest position for potential provision writebacks or overlay releases, underpinned by its industry-leading LLC, lowest GIL ratio and highest proportion of Stage 2 provisions. **MAYBANK** and **ABMB** also appear relatively well positioned, combining above pre-pandemic coverage levels with improving asset quality and sizeable precautionary buffers that could be normalised should the benign credit environment persist. While **CIMB** may also see easing provisioning needs in the medium-term, its ongoing RM2b capital return plan is not dependent on it, with the group able to generate 6%-7% yields, not yet accounting for additional returns to arise from its ongoing disposal of CIMB Thai's auto business.

NIMs uplift still a struggle. Amid continued deposit competition into 1QCY26, industry funding costs remain elevated while asset yields face pressure from moderating loan growth. With most banks guiding for stable to slightly weaker NIMs in CY26, earnings growth is likely to be increasingly supported by non-interest income, particularly fee-based income and investment gains. The latter could receive a near-term boost from heightened market volatility and stronger foreign exchange trading activity as the Ringgit softens following its appreciation earlier in the year.

Exhibit 4: Estimated Annualised NIMs



Source: Kenanga Research

We anticipate most banks to deliver mid-single-digit to mid-teen growth in total income, supported by continued fee-based NOII growth despite forex income normalising from a stronger MYR. Operating expenses are also expected to rise, reflecting higher personnel costs and continued IT investments, although tighter cost discipline should allow average CIRs to improve modestly.

Consequently, PPOP is expected to expand across most banks, with the exception of **MAYBANK**, where heavier investments under its ROAR30 strategy are likely to weigh on PPOP. Among the standouts, **AMBANK** is forecast to record 11% PPOP growth, driven by a more measured increase in operating expenses. **AFFIN** is also expected to deliver a strong 17% PPOP growth, although we remain cautious of using this as a basis of recommendation given their higher projected credit costs which would offset net earnings growth.

We maintain our OVERWEIGHT stance on the banking sector. While we had previously adopted a more selective positioning amid heightened inflationary concerns and elevated oil prices, favouring higher-yielding and more defensive names, we grow more constructive on banks that were previously discounted for their perceived exposure to higher-risk lending segments. As asset quality continues to improve and provisioning concerns ease, we believe broader sector sentiment could increase.

For 3QCY26, our Top Picks are **(i) PBBANK** which offers a dividend yield exceeding 6%, compared with its historical yield range of just 3%-4%. In addition to its recently announced RM3.5b capital return plan over three years (at c.5.9 sen per share annually), our above study does indicate potential for higher shareholder distributions should the group decide to cut back on its LLC close to pre-pandemic levels.

We also continue to favour **(ii) CIMB** which currently offers the highest dividend yield in the sector at c.7%, inclusive of its previously announced RM2.0b capital return plan (CY25-CY27). More recently, the disposal of CIMB Thai's loss-making automotive financing portfolio should unlock additional capital and support ROE expansion, helping offset regional headwinds. While the group's preference remains in reinvesting excess capital into growth opportunities, they appear willing to consider further shareholder distributions should there be excess capital, providing additional upside to yield expectations.

Lastly, we believe **(iii) AMBANK** could return to investors' radar screens. AMBANK has consistently demonstrated discipline in balancing growth and asset quality despite a relatively high SME exposure (c.20% of total loans). It is among the few banks expecting better credit costs this year alongside RHBBANK, although we remain slightly more cautious on the latter. AMBANK also remains committed to growing its absolute dividend payout annually, which should gradually lift its yield profile closer to 6%.

Peer Table Comparison

Name	Rating	Last Price as of 19 Jun (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	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	2.32	2.50	7.8%	6,093.2	N	12/2026	22.3	23.5	4.7%	5.1%	10.4	9.9	0.5	4.6%	9.0	3.9%
Alliance Bank Malaysia Bhd	OP	4.85	5.50	13.4%	8,391.6	N	03/2027	50.4	52.7	5.5%	4.5%	9.6	9.2	0.9	9.7%	20.0	4.1%
AMMB Holdings Bhd	OP	6.51	7.45	14.4%	21,523.1	N	03/2027	66.4	68.8	4.5%	3.6%	9.8	9.5	1.0	9.9%	38.0	5.8%
Bank Islam Malaysia Bhd	MP	2.18	2.05	-6.0%	4,940.9	Y	12/2026	24.1	26.5	-2.1%	10.3%	9.1	8.2	0.6	6.7%	14.5	6.7%
CIMB Group Holdings Bhd	OP	7.65	8.45	10.5%	82,661.3	N	12/2026	78.3	84.0	6.5%	7.3%	9.8	9.1	1.1	11.4%	50.0	6.5%
Hong Leong Bank Bhd	OP	22.16	25.80	16.4%	48,036.6	N	06/2026	220.3	234.5	-3.6%	6.4%	10.1	9.5	1.1	11.2%	105.0	4.7%
Malayan Banking Bhd	OP	11.18	12.30	10.0%	135,225.8	N	12/2026	87.3	89.7	0.1%	2.8%	12.8	12.5	1.3	10.8%	64.0	5.7%
MBSB Bhd	MP	0.650	0.600	-7.7%	5,344.5	Y	12/2026	3.7	5.8	-5.3%	57.5%	17.6	11.2	0.5	2.7%	3.0	4.6%
Public Bank Bhd	OP	4.95	5.95	20.2%	96,082.9	N	12/2026	38.7	40.1	4.0%	3.6%	12.8	12.3	1.6	12.3%	29.4	5.9%
RHB Bank Bhd	MP	8.45	8.40	-0.6%	36,858.2	N	12/2026	77.9	82.1	0.3%	5.4%	10.9	10.3	1.0	9.8%	47.0	5.6%
SECTOR AGGREGATE					**445,158**					**2.1%**	**5.2%**	**11.5**	**10.9**	**1.2**	**10.2%**		**5.4%**

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	5.50	OP	+5% ESG Premium
AMMB Holdings Bhd	3.00	10.0	9.4	1.10	7.45	OP	
Bank Islam Malaysia Bhd	3.50	7.5	9.7	0.57	2.05	MP	
CIMB Group Holdings Bhd	3.50	11.5	10.7	1.12	8.45	OP	+5% ESG Premium
Hong Leong Bank Bhd	-	-	-	-	25.80	OP	Sum-of-Parts
Malayan Banking Bhd	3.50	11.5	9.0	1.45	12.30	OP	
MBSB Bhd	3.00	5.5	8.7	0.44	0.60	MP	
Public Bank Bhd	4.00	13.5	9.4	1.78	5.95	OP	+5% ESG Premium
RHB Bank Bhd	2.50	10.0	9.7	1.05	8.40	MP	

Source: Kenanga Research

Building Material

Prices Consolidating

NEUTRAL

↔

Tan Sue Wen, tansw@kenanga.com.my

Aluminium prices are expected to consolidate through 3QCY26, having corrected to c.USD3,122/tonne from a 1HCY26 peak of USD3,850/tonne, with further upside capped at USD3,300-3,400/tonne amid a supply wave from China and Indonesia. Meanwhile, steel rebar prices have trended lower to CNY3,060/tonne, which weighs on ENGTEX's revenue given its price-taker status. However, lower steel prices could accelerate the RM1b in water mega projects. We maintain NEUTRAL on the sector, with ENGTEX (OP; TP: RM0.51) as our top pick.

Aluminium: consolidation phase ahead. Aluminium prices are expected to continue consolidating through 3QCY26, supported by the recent de-escalation of Middle Eastern geopolitical tensions and subsequent normalisation of maritime transit through the Strait of Hormuz, which helps alleviate logistical bottlenecks and restore raw material supply. As a result, LME aluminium spot prices have corrected sharply downward to c.USD3,122/tonne from their 1HCY26 peak of USD3,850/tonne. Over the forward term, further price upside appears capped at c.USD3,300-3,400/tonne. With a massive regional supply wave from aggressive Chinese output and rapid smelting expansions in Indonesia expected to rebalance the market, 3QCY26 forward prices are likely to anchor near USD3,300/tonne. We have forecasted average aluminium price assumption for **PMETAL** at USD3,000/tonne for FY26 and USD3,100/tonne for FY27, and our sensitivity analysis shows that every USD50/tonne change in the aluminium price would affect FY26 earnings by 4.4%.

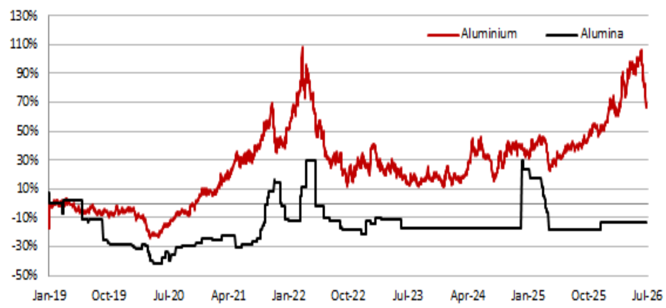
Steel price recovery continues. The recovery is supported by China's anti-involution and supply-discipline policies, enforced through strict decommission-to-new capacity swap ratios to rationalise excess supply. This effectively caps annual crude steel output at 930-944 MT, down from 961 MT in 2025. Meanwhile, ocean freight surcharges have started to unwind following the de-escalation of Middle Eastern tensions and normalisation of transit through the Strait of Hormuz. As a result, steel rebar prices have trended lower to CNY3,060/tonne from a 2026 peak of CNY3,494/tonne recorded in May. While end-users may benefit from lower prices, companies with direct selling prices linked to spot benchmarks capture lower absolute revenue per tonne sold. For **ENGTEX (OP; TP: RM0.51)**, any downward movement in steel prices translates directly into lower absolute revenue and near-term margin compression due to its price-taker status.

We maintain our NEUTRAL rating for the sector. Our sector pick is **ENGTEX** as it remains one of the few players capable of supplying large-diameter ductile iron (DI) pipes, with a historical win rate of around 60%. With lower steel prices likely to accelerate the rollout of mega projects totalling an estimated RM1b in tenders, we believe the Group is well-positioned to secure a meaningful share of these upcoming contracts.

Aluminium Prices

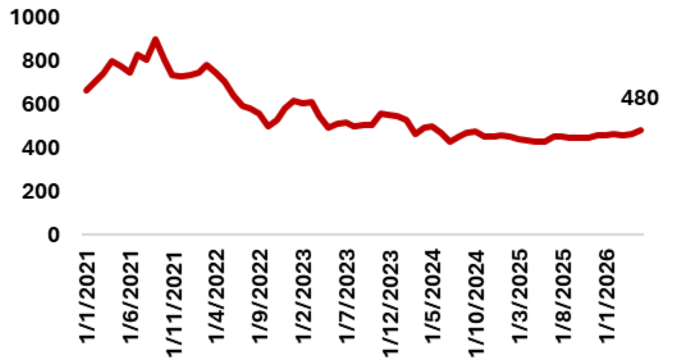
Source: Bloomberg, Kenanga Research

Aluminium vs. Alumina Prices – % Movement Since 2019



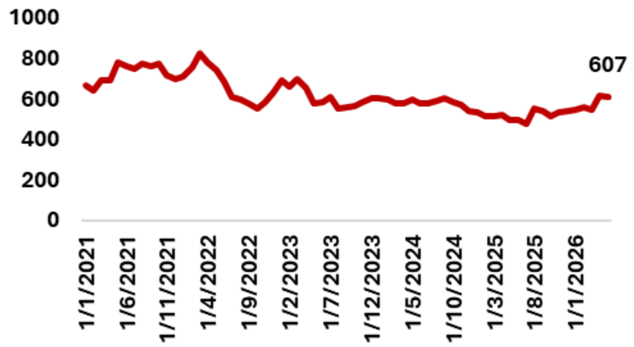
Source: Bloomberg, Kenanga Research

China Rebar Steel Prices



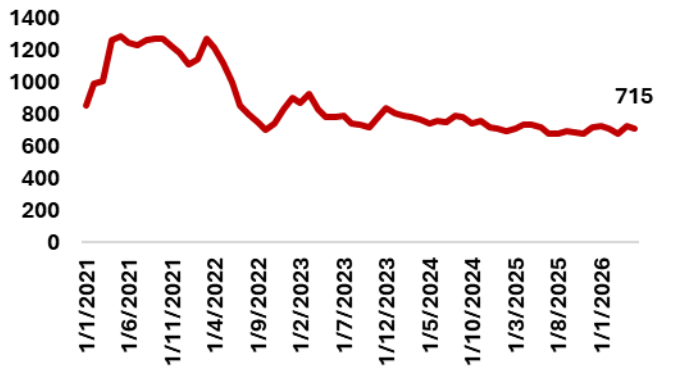
Source: Bloomberg, Kenanga Research

Malaysia Rebar Steel Prices



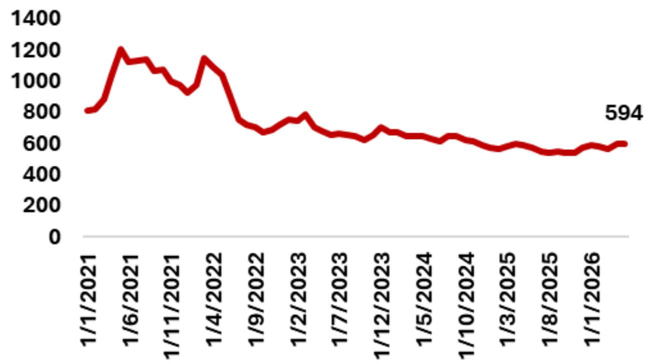
Source: Bloomberg, Kenanga Research

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 @ 19/6/26 (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																	
ENGTEX GROUP BHD	OP	0.405	0.510	25.9%	342.6	Y	12/2026	4.4	5.5	79.2%	23.3%	9.1	7.4	0.4	4.7%	8.0	0.2%
PRESS METAL ALUMINUM HOLDINGS BHD	MP	7.70	8.80	14.3%	63,445.1	Y	12/2026	37.4	42.1	44.1%	12.7%	20.6	18.3	5.7	29.9%	14.9	1.0%
UNITED U-LI CORPORATION BHD	OP	1.37	1.83	33.6%	298.4	Y	12/2026	18.7	22.9	13.3%	22.3%	7.3	6.0	0.7	10.3%	8.0	5.8%
SECTOR AGGREGATE					**64,086.1**					**44.0%**	**12.9%**	**20.3**	**17.9**	**5.1**	**25.2%**		**8.9%**

Source: Kenanga Research

Construction

OVERWEIGHT

↔

Data Centre Wave 2 to Power the Sector

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

Despite a slower-than-expected near-term rollout of public infrastructure projects, we remain bullish on the construction sector. This positive outlook is structurally underpinned by persistent demand for data centres and sustained capex commitments from global tech giants through 2026. With hyperscalers actively kickstarting construction on mega-campuses in Springhill and Serendah, coupled with a new campus layout ramping up in Johor, the second wave of the data centre boom has officially materialised. These three hubs alone represent an estimated pipeline of 17 to 21 data centre structures, with 3 to 4 project rollouts anticipated in 2HCY26 alone. This private-sector momentum will be complemented by key public infrastructure jobs entering the evaluation and rollout pipelines over the next six months, including the remaining civil and systems packages for the Penang LRT and the Kerian Water EPCC project (Perak). Consequently, we maintain our OVERWEIGHT stance on the sector. Large-cap players GAMUDA (OP; TP: RM5.30), SUNCON (OP; TP: RM8.40), and IJM (OP; TP: RM3.35) are best positioned to capture this sustained data centre activity and solid project pipeline. GAMUDA remains our Top Pick, with KERJAYA (OP; TP: RM2.85) standing as our preferred mid-to-small-cap selection.

Robust contract flows. According to the Construction Industry Development Board (CIDB), RM85.4b worth of main contractor contracts were awarded YTD as of end-May 2026, tracking well toward our full-year 2026 assumption of RM180b. Private sector projects accounted for 75% of the total value, with government projects making up the remaining 25%. That said, matching the RM238.9b recorded in 2025 remains a tall order. Contract awards hit near-record level of RM232.4b in 2024 and RM238.9b in 2025, the strongest multi-year 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 baseline assumption of RM180b per annum. However, we maintain our RM180b forecast for 2026, supported by continued 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.

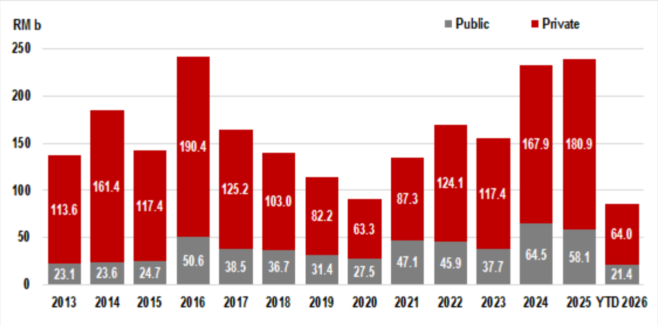
Infrastructure projects in the pipeline. While the rollout of major infrastructure works has been slower than expected, our constructive view on the sector in 2026 remains unchanged. Sector visibility continues to improve on both the public infrastructure and private development fronts. Several key public projects are poised for near-term tender outcomes and rollouts. These include the remaining civil and systems packages for the Penang LRT Mutiara Line, as well as upcoming packages for Phase 2 of the Pan Borneo Highway and the Sabah-Sarawak Link Road (SSLR). It was reported in the *Edge Weekly* that six major consortiums comprising local and Chinese/international engineering partners have submitted bids for Package CMC2 (the 6-km cross-strait viaduct section) of the Penang LRT. The bidding lineups include: (i) KERJAYA–Sinohydro–PowerChina, (ii) MRCB–China Railway Engineering Corp (CREC), (iii) MMC Engineering–Samsung Construction (and a Chinese partner), (iv) TRC Synergy–China Communications Construction Company (CCCC), (v) WCT–Lion Pacific–China State Construction Engineering Co (CSCEC), and, (vi) YTL Group (partnered with a specialized CREC subsidiary). Separately, a consortium comprising DOM Industries, MMC Engineering, BTS Group, and Nylex was issued a Letter of Intent in May 2026 by the Public-Private Partnership Unit (UKAS) for the development of the c.RM7b elevated autonomous rapid transit (e-ART) system in Johor. Meanwhile, the Kerian Water EPCC project (Perak) is still pending, with awards targeted for 2HCY26. On the other hand, the exact implementation timeline for MRT3 remains unclear despite receiving final approval from the Transport Ministry, while there are no fresh updates on the Subang Airport redevelopment. In addition, the KL–Singapore High-Speed Rail (HSR) continues to serve as a medium-term structural catalyst.

Second wave of data centre boom is here. In 2025, there were six major land transactions involving US tech giants, with Microsoft and Pearl Computing each acquiring two parcels of land 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 potential construction value. In April, Pearl Computing kickstarted the rollout of the Springhill campus by awarding a RM1.72b core, shell, and MEP contract to **GAMUDA**. Simultaneously, **SUNCON** was awarded a matching RM1.72b core, shell, and MEP contract to build a data centre at a new site in Bandar Serendah for a hyperscaler. Separately, **SUNCON** secured an RM865.6m contract in April to build two substations for a data centre campus in Johor from a US-based hyperscaler. This signals that the second wave of the data centre boom has officially materialized. The Springhill site is estimated to cater to 8-10 data centre projects, the Serendah site for 4-5 projects, and the new Johor site for 5-6 projects for the US-based hyperscaler, translating into a total pipeline of 17–21 data centre structures across these three hubs. We expect a total of 3-4 data centre project rollouts in 2HCY26.

According to **TENAGA (OP; TP: RM17.00),** three data centre projects (0.8GW) signed Energy Supply Agreements (ESAs) in 1QCY26, bringing the cumulative total to 59 projects (8.3GW), of which 36 projects (4.53GW) are already completed. We expect the data centre boom to persist for at least the next two years and maintain our sector assumption of 700MW of new annual capacity, equivalent to roughly RM21b worth of data centre construction value added each year.

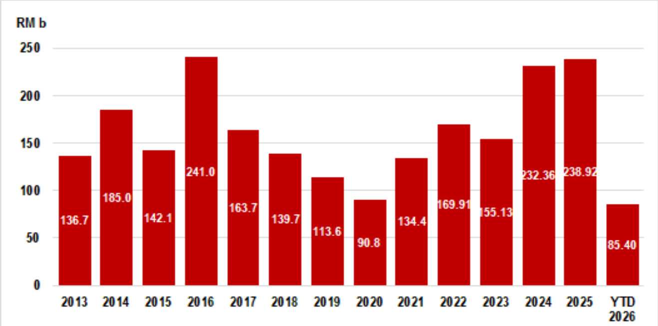
Maintain OVERWEIGHT for the sector. Despite slower-than-expected infrastructure projects roll-outs, we remain bullish on the sector, supported by persistent demand for data centres and sustained capital expenditure commitments from global technology firms. We maintain our peak PER valuation of 22x for 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 16x PER valuation for **KERJAYA (OP; TP: RM2.85)**, while small caps **KIMLUN (OP; TP: RM1.50)** and **WCT (OP; TP: RM0.95)** remain at 12x and 8x, respectively. **GAMUDA** remains our **Top Pick** for the sector, supported by: (i) strong positioning in upcoming data centre tenders, (ii) proven track record in securing overseas markets, (iii) earnings visibility backed by a record RM52.3b 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.

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
09 Apr 2026	Digital Edge	CRESNDO	Kota Tinggi, Johor	49.7	346.5

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
18 Dec 2025	US-based MNC	SUNCON	Klang Valley	570	Dec 2026
25 Feb 2026	US-based MNC	SUNCON	Klang Valley	1,146	May 2027
17 Apr 2026	Pear Computing	GAMUDA	Springhill	1,750	1Q 2028
17 Apr 2026	US-based MNC	SUNCON	Serendah	1,750	3Q 2028

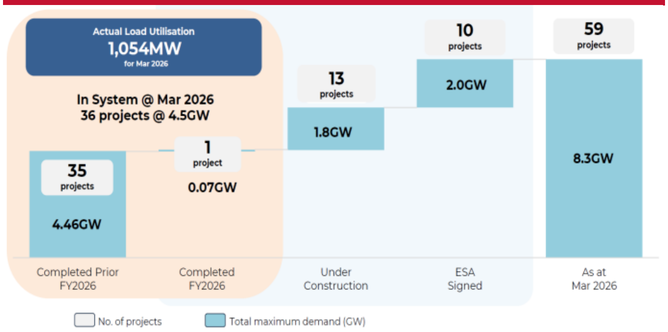
Source: Bursa

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	7.0	√	
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

Peer Table Comparison

Name	Rating	Last Price @ 19/6/26 (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																	
GAMUDA BHD	OP	4.43	5.30	19.6%	26,421.9	Y	07/2026	17.8	23.4	5.3%	31.3%	24.9	18.9	2.1	8.5%	10.0	2.3%
IJM CORP BHD	OP	2.37	3.35	41.4%	8,307.2	Y	03/2027	13.5	14.3	53.9%	5.3%	17.5	16.6	0.8	4.7%	8.0	3.4%
KERJAYA PROSPEK GROUP BHD	OP	2.35	2.85	21.3%	2,947.3	Y	12/2026	20.3	21.3	12.1%	5.2%	11.6	11.0	2.2	20.1%	12.0	5.1%
KIMLUN CORP BHD	OP	1.00	1.50	50.0%	388.7	Y	12/2026	21.8	20.3	70.1%	-6.8%	4.6	4.9	0.4	10.3%	2.0	2.0%
SUNWAY CONSTRUCTION GROUP	OP	7.50	8.40	12.0%	9,983.0	Y	12/2026	32.0	36.4	0.3%	13.9%	23.5	20.6	11.2	42.9%	47.2	6.3%
WCT HOLDINGS BHD	OP	0.425	0.950	123.5%	662.5	Y	12/2026	3.5	4.1	2.9%	16.3%	12.0	10.3	0.2	1.6%	0.0	0.0%
SECTOR AGGREGATE					**48,710.6**					**14.1%**	**18.3%**	**20.6**	**17.4**	**1.6**	**7.9%**		**3.2%**

Source: Kenanga Research

Consumer

Trading Down, Looking Up

OVERWEIGHT

↑

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

We upgrade the consumer sector to OVERWEIGHT from NEUTRAL, as we believe the sector is increasingly well-positioned to benefit from a combination of resilient domestic consumption, ongoing downtrading trends, manageable inflationary pressures and potential election-related positioning over the coming quarters. While near-term spending remains selective amid elevated living costs, demand for essential and value-for-money products continues to hold up, favouring defensive consumer names and value-oriented retailers with strong market positioning, operational scale, and the ability to maintain affordable pricing. We also believe consumer sector valuations could see further support from pre-election expectations of further expansion of cash aids and domestic consumption stimulus measures, alongside potential sector rotational play into the consumer sector, particularly given attractive valuations across selected names. Accordingly, we continue to favour high-quality, defensive and value-oriented names, with MRDIY (OP; TP: RM1.95) and QL (OP; TP: RM4.05) as our top picks. We also upgrade NESTLE (OP; TP: RM106.00) to OP from MP, following its recent share price correction.

Consumers continue to hunt for value amid rising living costs. In today's environment of elevated living costs, consumers are becoming increasingly discerning in their spending behaviour. While discretionary demand remains subdued, spending on essentials and lower-ticket items has continued to hold up, broadly in line with our observations across the sector, including higher private-label adoption, resilient demand for essentials and smaller basket sizes in certain retail formats. These trends point to ongoing downtrading behaviour, with affordability and perceived value likely to remain key themes shaping consumer spending in the near term. Beyond simply seeking lower prices, consumers are also becoming more promotion-driven and selective in their purchasing decisions. This should continue to favour consumer companies with strong market positioning, operational efficiencies and the ability to maintain affordability despite ongoing cost pressures. Retailers are likewise strengthening their value propositions through targeted pricing and promotional strategies, such as **MRDIY**'s recent "Harga Tetap Sama" campaign, while value-oriented grocery retailers such as our recently initiated stock coverage **99SMART (MP; TP: RM3.80)** are also well-positioned to capture spending from increasingly price-conscious consumers.

Middle East cost pressures appear manageable, with pricing responses varying. Importantly, concerns over Middle East-related cost pressures have moderated following the US-Iran ceasefire, as easing pressure on global energy markets has alleviated concerns over higher fuel, logistics and packaging costs, although some normalisation in costs may still take time. Nevertheless, we believe the impact remains manageable for most consumer companies. We observe that the ability to pass through costs varies possibly depending on demand elasticity. Companies such as **MRDIY** and **PADINI (OP; TP: RM1.75)** have opted to maintain stable pricing to preserve affordability, while **NESTLE** has indicated that any price adjustments could be deferred until at least 4Q. Meanwhile, **F&N (OP; TP: RM37.40)** and **FFB (MP; TP: RM2.25)** have implemented selective price hikes or reduced promotional intensity, particularly to offset higher packaging costs.

Potential election-related positioning and sector rotation could support valuations. Beyond resilient fundamentals, we believe the consumer sector could increasingly benefit from election-related positioning and sector rotational play over the coming quarters. Historically, consumer stocks experienced valuation expansion ahead of general elections, driven by expectations of increased operating expenditure, cash assistance measures and stronger domestic consumption sentiment. Over the past four election cycles, the Bursa Malaysia Consumer Product Index (KLCSU Index) recorded forward PER expansion in three instances (see Exhibit 1), with average forward PER increasing by c.0.6x during the six months preceding elections. With Budget 2027 set to be tabled in Oct 2026 and potentially representing, in our view, the last federal budget before the next general election (which must be held by Feb 2028), we believe consumer sector valuations could see additional upside as investors increasingly position for domestic consumption-related themes. In addition, we believe the consumer sector could benefit from sector rotational play, particularly as investors rebalance exposure following the strong YTD performance in other sectors.

Retail sales growth remains supported despite softer momentum. According to Retail Group Malaysia (RGM), retail sales grew 3.7% YoY in 1QCY26, below its earlier forecast of 4.4% but improving from 2.5% in 4QCY25. The softer-than-expected performance came despite the seasonally supportive timing of Chinese New Year and Hari Raya celebrations, as well as RM4.6b in government cash handouts under the Sumbangan Tunai Rahmah (STR) and Sumbangan Asas Rahmah (SARA) during the quarter. Sales performance across retail sub-sectors remained uneven, with strong growth in furniture, home improvement and electrical goods (+9%) likely reflecting a low-base effect, in contrast to weakness in discretionary and experiential segments such as cafes and restaurants (-5%) and specialty stores (-17%), including photo shops and gift stores. Looking ahead, RGM has revised down its CY26 retail sales growth forecast to 3.8% (from 4.0%) citing concerns over expected increases in retail prices as higher fuel costs continue to feed through to consumer goods and services. Nevertheless, the revised forecast still implies an improvement from the 2.4% growth recorded in CY25, supported by continued fiscal assistance measures under STR and SARA, alongside tourism-related spending under Visit Malaysia Year 2026. RGM expects retail sales growth to accelerate to 4.8% in 2QCY26, mainly due to a favourable base effect (2QCY25: -3.0%), before moderating to 2.9% in 3Q and 3.9% in 4Q.

Price swings in commodities (see Exhibit 2). Coffee bean prices rebounded slightly in 2QCY26 (+4%) following earlier weakness, likely reflecting weather-related supply concerns and tight inventories. Meanwhile, cocoa bean prices surged during the quarter (+52%), driven by adverse weather conditions and concerns over lower output in key producing regions (like West Africa), despite remaining lower on a YTD basis (-17%). On the packaging front, aluminium prices declined in 2QCY26 (-13%), providing some relief to packaging-intensive consumer companies. However, freight costs remained a key concern, with the Baltic Dry Index (+45% YTD) and Shanghai Shipping Index (+58% YTD) rising sharply amid recent geopolitical tensions and supply chain disruptions, which could increase logistics costs for import-dependent players. Elsewhere, wheat and soybean prices remained relatively higher on a YTD basis, which may continue to sustain input costs for food producers and poultry players. That said, a stronger Ringgit should help partially mitigate these headwinds, with our house view expecting USDMYR to appreciate gradually towards 3.95 by end-2026.

Valuation update: Our earnings forecasts, valuation methodology, target prices, and ratings remain unchanged for the consumer sector portfolio, except for **NESTLE**. While we maintain the earnings forecasts and TP for **NESTLE**, we upgrade the stock to OP (from MP) following the recent share price correction, with risk-reward turning more favourable.

Prioritise defensive and value-oriented consumer names. From a macro perspective, our in-house inflation forecast remains unchanged at 2.1% for CY26, reflecting our view that inflationary pressures should remain broadly manageable despite elevated transport and logistics costs in the near term. Ongoing fuel subsidies, targeted government support measures and potential fiscal initiatives ahead of Budget 2027 are expected to continue supporting household purchasing power and underpin domestic consumption. With much of the current spending weakness likely already reflected in sector valuations, and some companies trading at multi-year low valuations, we believe investors are likely to increasingly look beyond the near-term soft patch and position for a broader domestic consumption theme over the coming quarters.

Taken together, we believe resilient domestic consumption trends, manageable inflationary pressures and the prospect of election-related positioning could support a gradual re-rating of the consumer sector. Accordingly, we upgrade the consumer sector to **OVERWEIGHT** from **NEUTRAL**, while we continue to favour defensive consumer names and value-oriented retailers that are well-positioned to benefit from ongoing downtrading trends and resilient demand for essential goods.

Our top picks for the sector are:

- **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.
- **QL** for: (i) the strong and consistent export demand for its marine products, (ii) the continued expansion of its *FamilyMart* convenience store franchise, supported by early signs of improving store sales from new product launches, and its *FamilyMart Mini* outlets targeting petrol stations and highways, and (iii) its growing poultry business in Indonesia and Vietnam, driven by rising protein consumption as living standards improve.

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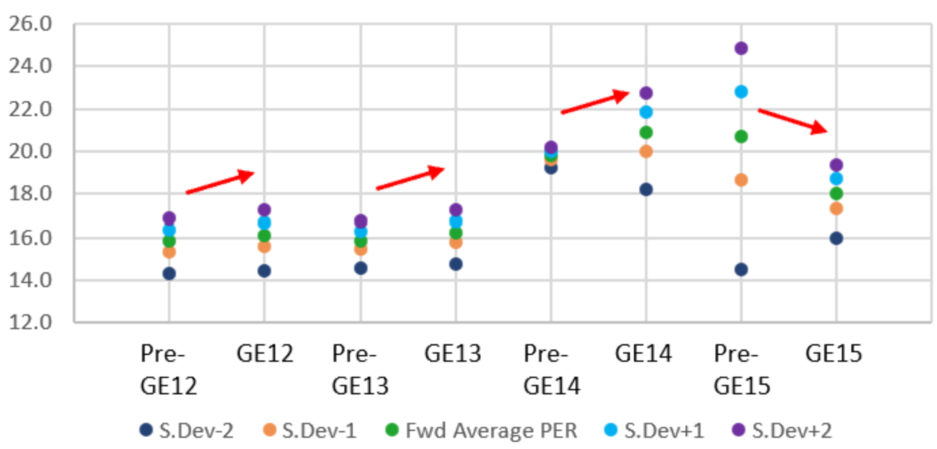
Exhibit 1: KLCSU Index Forward PER Trends Around General Elections



Note: (i) **Pre-GE:** the period 12 to 6 months prior to polling day
(ii) **GE:** the period from 6 months prior to polling day until polling day

Source: Bloomberg, Kenanga Research

Exhibit 2: Raw Material / Commodities Price Trend

	03/07/2026	1M	QTD	2QCY26	YTD	vs. 2025 average price	vs. 2024 average price	vs. 2023 average price	Future Price Trend*
Sugar (USD/lb)	14.9	3.3	3.6	-7.6	-1.1	-12.4	-28.4	-38.3	↑
Coffee (USD/lb)	301.2	16.2	-3.2	4.3	-13.6	-17.5	28.4	75.6	↑
Cocoa (USD/MT)	5,036.0	22.6	0.7	51.6	-17.0	-38.3	-37.7	52.7	↓
Milk (USD/MT)	3,589.0	-4.1	0.0	-3.2	13.5	-8.0	4.4	16.5	
Wheat (USD/MT)	407.0	3.0	1.8	-4.4	18.3	11.2	3.5	-8.1	↑
Corn (USD/Bushel)	349.2	0.9	1.5	-9.0	-3.9	-4.4	-1.6	-24.0	↑
Soybean (USD/Bushel)	1,136.3	-2.5	1.7	-4.6	10.3	9.1	3.1	-19.4	↑
CPO (RM/MT)	4,458.0	-3.9	-0.4	-5.4	11.5	4.5	6.2	16.9	↓
Cotton (USD/lb)	75.3	-2.2	4.3	3.2	17.2	14.9	-1.8	-9.2	↓
Aluminium (USD/MT)	3,091.3	-17.2	0.5	-12.6	3.8	17.2	26.9	36.4	↑
Baltic Dry Index	2,717.0	-8.9	8.6	25.4	44.8	61.6	54.8	97.1	
WTI Crude Oil (USD/Barrel)	68.8	-24.0	-1.0	-31.4	19.8	6.3	-9.2	-11.4	
Volatility Index	15.8	-26.5	-3.9	-34.9	5.8	-16.5	1.7	-6.2	
Dollar Index	1,219.0	0.6	-0.3	0.6	1.3	-1.0	-2.6	-1.6	
USDMYR	4.1	-1.8	0.3	0.9	0.3	-4.9	-11.0	-10.8	
Shanghai Shipping Index	1,811.2	32.5	5.9	50.2	57.9	51.2	16.8	93.2	

*Source: Bloomberg, Kenanga Research, *World Bank Commodity Price Forecasts (28 April 2026)*

Peer Table Comparison

Name	Rating	Last Price @ 26/6/26 (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																	
99 SPEED MART RETAIL HOLDINGS	MP	3.55	3.80	7.0%	29,820.0	N	12/2026	8.5	9.5	17.2%	12.5%	41.9	37.2	15.1	39.0%	5.0	1.4%
AEON CO. (M) BHD	OP	1.06	1.40	32.1%	1,488.2	Y	12/2026	11.0	11.8	15.3%	7.6%	9.6	9.0	0.7	7.5%	5.0	4.7%
FARM FRESH BHD	MP	2.29	2.25	-1.7%	4,316.1	Y	03/2027	8.0	9.4	17.6%	16.8%	28.6	24.5	4.7	17.2%	3.0	1.3%
FRASER & NEAVE HOLDINGS BHD	OP	27.70	37.40	35.0%	10,159.8	Y	09/2026	118.0	144.6	-15.2%	22.5%	23.5	19.2	2.5	11.0%	70.0	2.5%
MR D.I.Y. GROUP (M) BHD	OP	1.63	1.95	19.6%	15,448.3	Y	12/2026	7.5	8.2	11.6%	9.0%	21.7	19.9	7.6	35.3%	8.0	4.9%
NESTLE (MALAYSIA) BHD	OP	95.84	106.00	10.6%	22,474.5	Y	12/2026	256.9	284.7	20.2%	10.8%	37.3	33.7	38.7	104.1%	255.0	2.7%
PADINI HOLDINGS BHD	OP	1.44	1.75	21.5%	1,421.1	Y	06/2026	14.0	15.9	-15.0%	13.5%	10.3	9.1	1.1	11.1%	9.2	6.4%
POWER ROOT BHD	MP	1.07	1.08	0.9%	440.9	Y	03/2027	5.6	7.2	-21.5%	28.3%	19.1	14.9	1.5	7.5%	5.0	4.7%
QL RESOURCES BHD	OP	3.72	4.05	8.9%	13,546.3	Y	03/2027	13.0	13.7	5.6%	5.3%	28.5	27.1	3.7	14.8%	5.0	1.3%
KAREX BHD	MP	0.490	0.530	8.2%	516.2	Y	06/2026	0.1	2.1	250.0%	3085.7%	737.1	23.1	1.1	0.2%	1.5	3.1%
SECTOR AGGREGATE					**99,631.3**					**7.6%**	**12.5%**	**29.3**	**26.0**	**5.8**	**19.6%**		**3.3%**

Source: Bloomberg, Kenanga Research

Glove

NEUTRAL

↓

Glove Pricing Normalising in 3QCY26

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

We downgrade our rating from OVERWEIGHT to NEUTRAL in the sector. Our downgrade was premise on neutral weightage on the sector given that we have MP on both HARTA and TOPGLOV. We downgraded both stocks in the just concluded 1QCY26 result season following a 40% rise in its stock price since Mar 2026. Moving into 3QCY26, average selling prices (ASPs) are expected to trend lower in the coming months after peaking in May, as glove pricing normalises in line with softer raw material costs which mean earnings could have peaked in 2QCY26. Over the longer term, the glovemakers under our coverage earnings recovery is becoming increasingly visible fueled by margins improvement from efforts undertaking to further streamlined operations into a less labour intensive via enhanced automation. Our Top Pick is KOSSAN (OP↔; TP: RM1.50↔).

Expect a strong 2QFY26 and earnings to taper-off from 3Q26 onwards. Tell-tale signs Anecdotal evidence suggest that glovemakers 2QFY26 (Mar-June CY26) will be stronger than 1QFY26. As an indication, TOPGLOV's 3QFY26 (Mar to May CY26) result jumped > 100% QoQ due to margin expansion from a sudden surge in ASPs to counter the effect of higher input raw material cost. Recall, due to the high oil price amidst geopolitics tension in the Middle East, correspondingly, input raw material nitrile has risen >50% in 2QFY26, where a hypothetical 50% spike in input nitrile would reduce the bottom line by 20% assuming zero cost pass-through, average selling prices (ASPs) rose between USD26 and USD 29 per 1,000 pieces. However, the input raw material cost has since subsided and trend lower in tandem with falling crude oil price. Note that input nitrile rose to >USD1,000 per tonne at the start of the Middle East tension and has since taper-off to USD700-900 per tonne.

Looking into 3QFY26, the average selling price (ASP) is expected to trend lower in the coming months after peaking in May, as glove pricing normalises in line with softer raw material costs. Moving into 3QFY26, based on channel checks, nitrile ASP will taper off from USD25 to USD20-23 per 1,000 pieces. Specifically, ASP has retreated from USD28 in May to USD21-22 per 1,000 pieces in July and could go lower to USD18-19 per 1,000 pieces in August. Some customers will wait and see since prices are coming off. On the contrary, customers that held back purchases during the ASP surge are looking to place their orders.

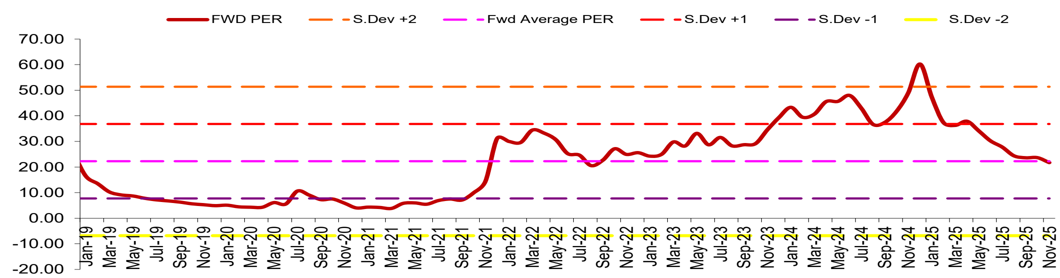
Visible earnings recovery driven by margin improvement. In the recent 1QCY26 quarterly results, glove makers have continued to show positive gradual improvement in their cost structure leading to higher margins. For HARTA, its latest 4QFY26 quarterly result marks its 3rd consecutive quarterly margin improvement. Specifically, EBITDA margin in 4QFY26 came in at 16% vs 13% in 3QFY26. Looking ahead, HARTA's margins improvement that will continue to drive earnings in subsequent quarters spurred by its major revamp in production lines via enhanced automation. In order to enhance operational efficiencies and reduce cost, measures included revamping its auto stripping machine, installing AI-vision system to detect defects and digitalisation initiatives across its operations. As part of its plant revamp strategy, Plant 9 has gone live, and we expect full-quarter impact from cost optimisation to be felt in upcoming 1QFY26. Recall Plant 9 is equipped with automation capable of detecting glove defects with a 0.3% reject rate with a stripping machine which is 5x faster and use less energy and chemicals. Typically, energy and chemical account for 19% and 8% of total costs, respectively. As a result, manufacturing cost and workforce requirement has been reduced by 16% and 8%, respectively. The group expects cost optimisation efforts will continue to drive down cost in subsequent quarters.

For TOPGLOV's past four quarterly results (4QFY25, 1Q2FY6, 2QFY26 and 3QFY26), EBITDA margins have expanded from 10% in 4QFY25 to 17% and 14% in 3QFY26 and 2QFY26, respectively. KOSSAN's past quarters EBITDA margin was between 11%-15% (4QFY24 to 4QFY25). We believe the gradual margin improvement is expected to dispel earlier concerns of Malaysian glove makers' less-than-robust cost structure leading to margins being crimped which stymied overall profitability. 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.

Top pick is KOSSAN. KOSSAN's strategic pivot toward specialty and cleanroom gloves is a step in the right direction, mitigating its exposure to ongoing price wars within the commoditized, low-margin generic nitrile segment. According to our estimates, specialty glove ASPs are 60% to 80% higher than generic medical gloves, while cleanroom gloves command a 3x premium. Backed by a "sticky" customer base—due to the mission critical nature of cleanroom applications where switching costs outweigh potential savings—the group is expanding its cleanroom capacity from 300–400m pieces per year to 800m pieces by FY27. This segment serves both the semiconductor (50%) and pharmaceutical (50%) industries. In FY25, cleanroom gloves generated RM100m in revenue and RM12m in pre-tax profit. Extrapolating this baseline against the upcoming capacity expansion suggests that on a full-year basis, cleanroom revenue and pre-tax profit could double to RM200m and RM24m, respectively. Currently, the group's overall volume mix stands at 30% specialty gloves versus 70% generic gloves. 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.

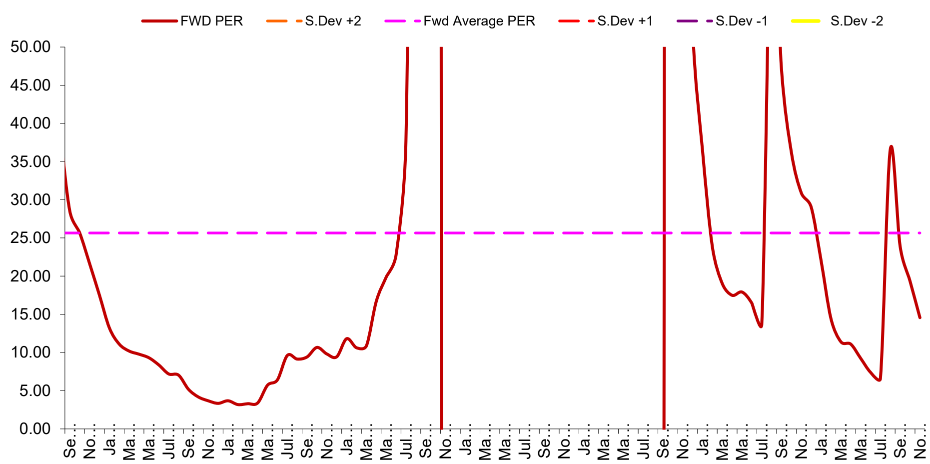
In terms of valuation, the sector is trading at trading at 22.6x and 21.7x FY26 and FY27 EPS, respectively which is -0.5SD below its 5-year historical average 1-year forward PER. KOSSAN is trading at 16x and 15x FY26 and FY27 EPS, respectively. HART is trading at 23x and 21x FY27 and FY28 EPS, respectively. TOPGLOV is trading at 29x each in FY26 and FY27 EPS, respectively.

Kossan : PER Band



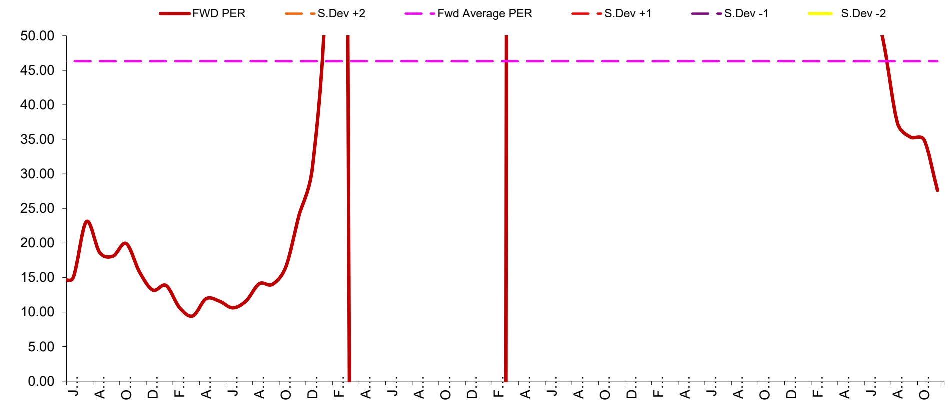
Source: Bloomberg, Kenanga

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	MP	1.08	1.18	9.3%	3,680	Y	03/2027	4.8	5.2	100%	8%	22.7	20.9	0.8	3.6%	2.0	1.9%
KOSSAN RUBBER INDUSTRIES	OP	1.06	1.50	41.5%	2,673	Y	12/2026	6.8	7.3	14%	7%	15.7	14.6	0.7	4.6%	4.0	3.8%
SUPERMAX CORP BHD	UP	0.280	0.240	-14.3%	856	Y	06/2026	(3.6)	0.6	-173%	-84%	N.A.	50.5	0.2	-2.9%	0.0	0.0%
TOP GLOVE CORP BHD	MP	0.720	0.710	-1.4%	5,773	Y	12/2026	2.5	2.4	266%	-1%	29.3	29.5	1.2	4.2%	1.2	1.7%

Source: Company, Bloomberg, Kenanga Research

Healthcare

NEUTRAL

↔

Private Hospitals Resilient but Growth Pedestrian

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

We reiterate our NEUTRAL call on the healthcare sector. Generally, the private healthcare players' valuations appear rich compared to their pedestrian earnings growth. Meanwhile, we expect near-term impact to be muted or neutral to private healthcare operators, during the pilot phase of MHIT, to start in end-July 2026. The base MHIT plan is an integral part for a gradual transition from the traditional fee-for-service charge to diagnosis-related group (DRG). 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, SUNMED and KPJ, which could have less upside currently, 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, respectively. The valuation appears rich over the past 12 months, where the EV/EBITDA multiple of the stock rose 20% compared to its negative EPS growth averaging -1.4%. (pls refer to chart in page 2). For **KPJ (MP; TP: RM3.05)**, it is trading at 14x/13x EV/EBITDA with forecasted net profit growth of 9%/10% for FY26/FY27. ASEAN peers are trading at 14x EV/EBITDA multiple against an average net profit growth of 10% in FY27 compared to IHH (16x) and KPJ (14x) (please refer to tables in page 4). On the other hand, **SUNMED (MP; TP: RM1.75)** is trading at 24x FY27F EV/EBITDA multiple. This valuation reflects a 15% discount to the average of its Indian peers (27x), consistent with the lower-end of historical valuation gaps between ASEAN and Indian healthcare operators. SUNMED is poised for a projected net profit growth of 12% in FY26 and a significant jump by 43% in FY27. This growth trajectory comfortably outpaces its Indian counterparts, justifying its premium positioning within the Malaysian market.

The Joint Ministerial Committee on Private Healthcare Costs said on Friday the base medical insurance and takaful pilot will begin by the end of July CY26 *(https://theedgemalaysia.com/node/808479)*. 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. 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.

The base MHIT plan is an integral part for a gradual transition from the traditional fee-for-service charge to diagnosis-related 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. However, we are concerned for 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).

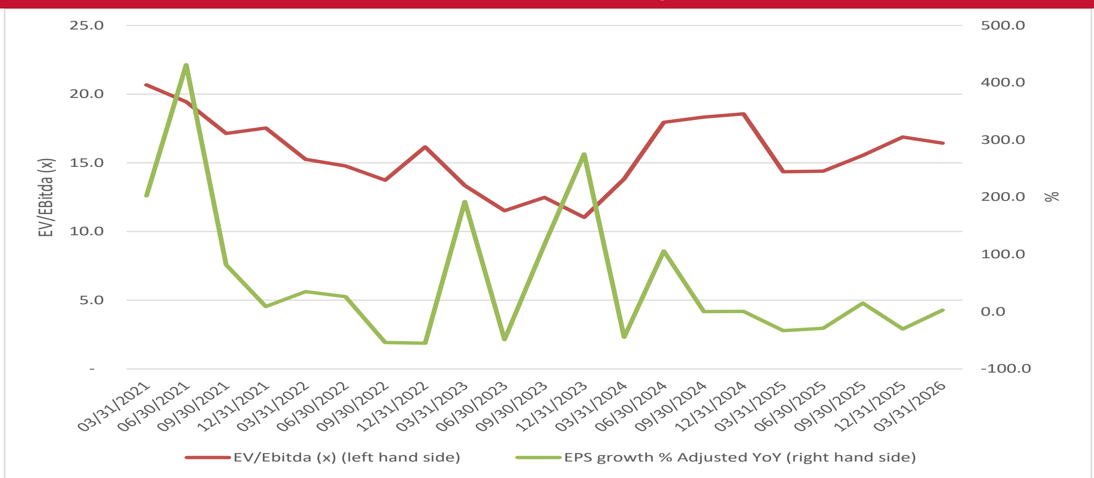
Based on channel checks, insurance panels or payors are tightening measures such as stricter approval for hospital stays due to medical inflation, which may deter patients from using private healthcare providers. The challenge here is that private healthcare operators could be exposed to periodic negotiations 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 2030. The extension was probably due to the pivot towards day-care model which in turn frees up inpatient bed capacity. Looking ahead in Singapore, while it expects recovery in 2HFY26, we believe challenges remain impacted by structural shift towards public healthcare. The higher utilisation of public healthcare and payor pressure from insurers, corporates and regulators continue to shape reimbursement dynamics and exert pressure on pricing and volumes. The weaker performance was further exacerbated by slower medical travel from Indonesia due to higher airfares and depreciating Rupiah. In an effort to alleviate payor pressures, the group is proactively engaging key stakeholders, and has introduced package-based pricing to improve transparency and predictability for both patients and payors. It has responded to persistent payor pressure and a structural shift towards outpatient care by implementing a "tactical change" centered on an "out of hospital" strategy including growing its network of ambulatory care centers, and shifting lower acuity (less severe) cases, which previously required hospital admission, to new ambulatory care centers.

In Malaysia, the expansion focuses on hospitals with occupancy rates greater than 80% with emphasis on secondary hospitals. The group's structural shift from its healthcare model that increasingly focused on day-care and skewed towards more surgical cases, while moving away from medical cases will continue to gain momentum. 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 entails lower 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 18% and 20% of the group's topline and bottomline, respectively, based on 1QFY26 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 2023 till Mar 2026. The valuation appears richer in over the past 12 months, which saw the stock's EV/EBITDA multiple rising 19% compared to its YoY core EPS growth averaging -1%.

IHH - EV/EBITDA Multiple Rose 19% but YoY EPS Growth Averaged -1% from Mar CY24 to Mar CY26

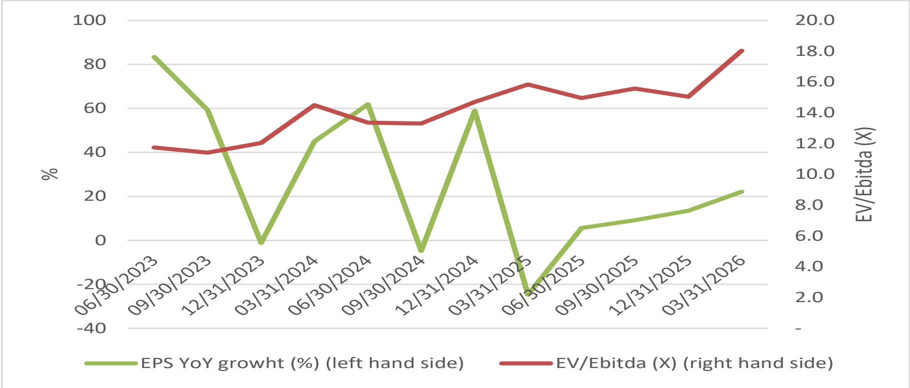


Source: Bloomberg, Company, Kenanga Research

We expect **SUNMED (MP; TP: RM1.75)** to derive cost synergies from its size, scale and network that will help mitigate adverse margin impact from gestation of its ongoing expansion. The ability to shorten the gestation period means capital is recycled faster, allowing the group to expand without the multi-year earnings drag, typical of the industry. Any potential upgrade in our call hinges on stronger-than-expected performance from new hospitals. Growth visibility continues to be supported by the Group's capacity expansion programme. In addition, a further 177 beds have been completed and are pending licensing approval. The upcoming brownfield expansions include the completion of Tower F at SMC Sunway City and phased expansion works at SMC Ipoh, which are expected to support incremental revenue growth as utilisation increases. In the northern region, following the acquisition of Sunway Hotel Seberang Jaya, it is planning the Phase 3 expansion of SMC Penang to accommodate additional wards across five floors, further enhancing its capacity to serve medical tourism demand.

KPJ (MP; TP: RM3.05) is hopeful that at least one of the hospitals under gestation is expected to turn from a pre-tax loss to a pre-tax profit. In terms of bottom-line profitability, we expect earnings to gain momentum moving into 2HFY26 on better operational efficiencies from its cost optimisation effort and overhead absorption rate on gradual ramp-up in the opening of new beds (+5%). With incremental revenue from higher patient throughput, Bandar Dato Onn have already turned bottom-line profitable. It expects another hospital to turn bottom-line profitable by end-FY26. Damansara Specialist Hospital 2 (DSH2), KPJ Perlis, KPJ Batu Pahat and Miri are still EBITDA-positive. The group has successfully launched its first Neuroscience and Stroke Centre of Excellence (COE) at Damansara Specialist Hospital 2 (DSH2), the second COE established under the group. It is targeting to launch two new COEs by end-2026. KPJ has identified five areas of subspecialities or coined as COE, in the discipline of heart and lung, neurology and stroke, oncology, orthopaedics as well as robotics for advanced surgery. The group's is targeting to establish 11 of the 30 COEs within its existing hospitals under its five-year strategic roadmap (2026–2030). The COEs are expected to amplify revenue intensity and forms an integral part of its hub-and-spoke model. Specifically, it integrates its 30 hospitals, Ambulatory Care Centres (ACCs), and community clinics. It designates flagship "hubs" for complex sub-specialties like cardiology, while "spokes" and clinics handle routine care and diagnostics. This system captures referrals locally, improves operational efficiency, and elevates patient-centric care.

KPJ - EV/Ebitda Multiple Rose 24% vs. Average 11% YoY EPS Growth since Mar CY24 to Mar CY26

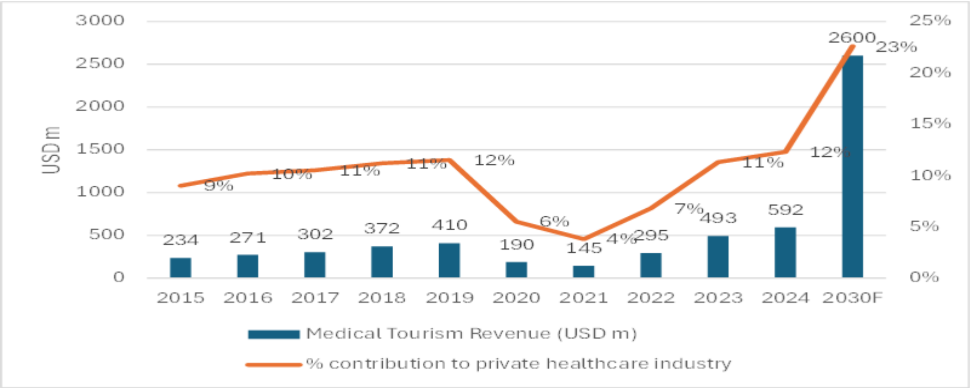


Source: Bloomberg, Company, Kenanga Research

MHTC medical tourism forecast augurs 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, the Malaysia Healthcare Travel Council (MHTC) has projected 2026 growth of 13% to RM3.45b. Specifically, health tourism revenue for **IHH** 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 12% and 15% in CY24 and 1QFY26, 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.

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: RM1.72) DPHARMA remains optimistic that its earnings in subsequent quarters of FY26 will be underpinned by pent-up demand within the Approved Product Purchase List (APPL) segment. It expects the current APPL contract slated to expire on 31 Dec 2026 to be extended by an additional six to twelve months due to typical tender timeline lags which is not a surprise based on past precedent. It is awaiting the formalization of a new insulin supply contract from the MOH, with final documentation still pending.

KOTRA (MP; TP: RM3.88). Looking ahead, the group is faced with potential higher input costs (which we have factored into our forecasts) including energy-related price pressures, which have impacted its export sales, supply chain efficiency and operating costs. Despite lack of near-term catalyst and intense competition in the local and exports market, we like KOTRA for: (i) the bright prospects of the over-the-counter (OTC) drug market, (ii) its integrated business model encompassing the entire spectrum of the pharmaceutical value chain from R&D, product conceptualisation to manufacturing and sales, and (iii) the superior margins of its original brand manufacturing (OBM) business model (vs. low-margin contract manufacturing) with established household brands such as Appeton.

Meanwhile, **NOVA (MP; TP: RM0.38)** is faced with intense competition in the consumer market for healthcare and supplement products. We expect likelihood of players offering price discounting and promotional bundles potentially putting downwards pressure on margins.

We like **SCOMNET (OP; RM0.85)** It has guided that key customer AMBU (specialises in endoscopy solutions) including ECG and video cable products are expected to grow by 15% in FY26, in line with our forecasts. As an indication, AMBU endoscopy solutions in its latest quarterly results guided for 15% revenue growth in FY26. The medical segment remains its key anchor driver accounting for over 80% of revenue. Specifically, ECG and smart cables make up about 50% of medical segment revenue. In the meantime, Magnetar EEG Electrode Cable 2,000 sets have been supplied to Customer A. It expects mass production targeted for end-3QCY26. Similarly, smart cable for critical care monitoring production has grown consistently over the past few months. For the intravenous (IV) controller, this product is targeting Customer I. However, due to technical issues, SCOMNET is presently targeting the European market in small batches. In terms of Magnetar EEG Electrode Cable for Customer A, 2,000 sets have been supplied to customer A for an exhibition which are sellable. Customer A is also setting up a new plant in Mexico to serve the South American market. It currently controls around 5% of the global endoscope market. Major examples include the soft-launch of AI smart cables for existing Customer E and new Customer G, the electroencephalogram (EEG) cable for Customer A as well as the syringe infusion system for Customer I. Its new business opportunities have broadened following Customer E's sale of its critical care division to new Customer B. Given Customer E's longstanding relationship with Scomnet, it is looking to retain Scomnet as its supplier.

Private Healthcare Peers Table

Name	Market Cap	Revenue Growth		Core Earnings Growth		PER (x)		EV/EBITDA (x)		CNP Margin (%)		EBITDA Margin (%)	
	(USD m)	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.
Thailand													
BUMRUNGRAD HOSPITAL	4372	5%	6%	4%	3%	18	17.5	12.1	11.5	29%	28%	40%	39%
BANGKOK DUSIT MED SERVICE	9822	5%	5%	7%	6%	18	17	11.2	10.7	15%	15%	25%	24%
RAMKHAMHAENG HOSPITAL PUB CO	700	-18%	6%	-50%	11%	15.8	14.2	23	21	12%	12%	20%	20%
THONBURI HEALTHCARE GROUP	1796	3%	11%	2%	13%	23.2	20.5	14.4	12.6	25%	25%	38%	38%
MITRA KELUARGA KARYASEHAT	1704	-72%	330%	7%	15%	36.4	31.9	14.4	12.9	124%	33%	23%	23%
India													
MAX HEALTHCARE	11,306	24%	21%	14%	24%	61	49	39.4	31.6	16%	17%	26%	27%
APOLLO HOSPITALS	12,176	4%	19%	5%	25%	58.7	46.7	31.5	26	8%	8%	15%	15%
FORTIS HEALTHCARE	6668	4.5%	17%	16%	34%	58.3	43.6	30.4	24.7	11.7%	13.3%	23.1	24.2
Average				12%	28%			33.8	27.4				
Singapore													
RAFFLES MEDICAL GROUP	1472	2%	1%	-3%	7%	27	25.6	12.2	11.7	9%	12%	17%	18%
Average exclude India				6%	9%			14.6	13.4				
Malaysia													
IHH HEALTHCARE	19,976	10%	8.5%	19%	14%	35.2	30.8	15.1	13.7	7.9%	8.3%	23%	23%
KPJ HEALTHCARE	3827	5%	6%	13%	11%	36.0	32.8	16.3	15.2	8.8%	9.2%	24%	24%
Simple average exclude India				0%	10%			15.1	13.9				

Source: Company, Bloomberg, Kenanga Research

EV / EBITDA – Malaysian Listed Private Healthcare Operators Historically Trades At 20%-40% Discount To ASEAN And Indian Players

EV / EBITDA	CY18	CY19	CY20	CY21	CY22	CY23	CY24	CY25
IHH HEALTHCARE BHD	23.4	19.4	23.2	16.6	16.4	11.3	14.2	16.5
KPJ HEALTHCARE BERHAD	12.8	11.2	13.6	15.2	11.5	11.9	14.8	15.4
BUMRUNGRAD HOSPITAL PCL	20.9	17.7	37.5	41.0	23.4	18.1	15.2	11.6
BANGKOK DUSIT MED SERVICE	24.8	17.1	19.5	21.5	20.7	18.4	15.2	11.9
RAMKHAMHAENG HOSPITAL PUB CO	15.6	44.0	23.2	14.0	32.2	29.8	22.5	12.3
RAFFLES MEDICAL GROUP LTD	19.5	17.9	15.2	15.7	10.5	11.7	10.8	12.1
APOLLO HOSPITALS ENTERPRISE	22.6	19.3	13.3	39.0	31.1	32.0	39.9	33.3
MAX HEALTHCARE INSTITUTE LTD	NA	NA	NA	49.9	36.0	33.9	NA	NA
FORTIS HEALTHCARE LTD	33.2	52.6	18.7	39.9	22.1	19.1	26.2	34.6
HEALTHCARE GLOBAL ENTERPRISE	25.0	20.6	11.5	27.1	19.1	14.6	17.3	23.5
NARAYANA HRUDAYALAYA LTD	29.9	17.2	13.5	48.2	23.7	16.5	22.9	27.5
KOVAI MEDICAL CENTER AND HOS	11.1	8.5	6.9	8.7	8.2	8.5	12.3	15.2
ASTER DM HEALTHCARE LTD	17.7	12.2	8.5	11.1	10.3	11.6	16.8	33.0
Simple average								
Malaysia	18.1	15.3	18.4	15.9	14.0	11.6	14.5	16.0
Asia pac + Asean	22.0	22.7	16.8	28.7	21.6	19.5	19.9	21.5
Discount	-18%	-33%	10%	-45%	-35%	-41%	-27%	-26%

Source: Company, Bloomberg, Kenanga Research

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	1.22	1.72	41.0%	1,174	Y	12/2026	11.5	12.1	14%	5%	10.6	10.1	1.4	14.0%	4.6	3.8%
IHH HEALTHCARE BHD	MP	8.80	8.50	-3.4%	77,758	Y	12/2026	23.8	25.9	15%	9%	36.9	34.0	2.5	6.8%	10.0	1.1%
KOTRA INDUSTRIES BHD	MP	3.75	3.88	3.5%	556	Y	06/2026	28.7	25.8	-5%	-10%	13.1	14.5	2.0	15.3%	24.5	6.5%
KPJ HEALTHCARE BHD	MP	3.21	3.05	-5.0%	14,208	Y	12/2026	8.0	8.7	14%	8%	40.1	37.1	5.2	13.8%	4.2	1.3%
NOVA WELLNESS GROUP BHD	MP	0.330	0.380	15.2%	105	Y	06/2026	2.9	3.0	19%	4%	11.4	10.9	0.9	8.2%	1.6	4.8%
PHARMANIAGA BHD	MP	1.19	1.15	-3.4%	1,561	Y	12/2026	5.1	6.2	38%	21%	23.4	19.2	3.3	14.6%	0.4	0.3%
SCOMNET BHD	OP	0.510	0.850	66.7%	432	Y	12/2026	3.7	4.3	21%	18%	13.9	11.8	1.0	7.3%	2.3	4.5%
SUNWAY HEALTHCARE HOLDINGS BHD	MP	1.80	1.75	-2.8%	20,700	Y	12/2026	2.5	3.5	12%	43%	73.5	51.3	6.3	9.7%	0.6	0.3%

Source: Company, Bloomberg, Kenanga Research

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Media

UNDERWEIGHT

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World Cup Washout; IP Monetization Needs Time

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

ASTRO's (MP; TP: RM0.06), loss of FIFA World Cup (WC) 2026 broadcast rights ended its more than two-decade run as Malaysia's default WC broadcaster. In its place, RTM and Unifi TV have stepped in as official broadcasters. For ASTRO, this translates into the loss of advertising revenues associated with WC and raises subscriber attrition risk (given that sports package subscribers account for ~30% of its total base). While the removal of WC content costs offers partial offset, we believe the loss of a key subscriber acquisition and retention tool is the bigger concern. At the industry level, Nielsen-tracked adex will also likely be subdued, as Unifi TV's subscription-led monetisation model sits largely outside the adex measurement framework. Against this backdrop of structural adex decline, Astro Shaw's growing IP engine under the Astro Shaw Cinematic Universe (ASCU) remains the sector's most credible long-term earnings diversification avenue. However, IP monetisation remains nascent, with Pay-TV subscriptions still accounting for ~90% of ASTRO's FY26 revenue. We retain our FY26F adex of RM4.24b (-9.5% YoY) and maintain UNDERWEIGHT on the sector. We do not have any stock picks.

FIFA World Cup 2026 — a decisive structural shift for Pay-TV. ASTRO's loss of the FIFA World Cup 2026 broadcast rights brings an end to its more than two-decade run as Malaysia's default World Cup broadcaster. In its place, RTM and Unifi TV have emerged as the official broadcasters for all 104 matches. While RTM will air the majority of matches either live or on a delayed basis, Unifi TV will provide comprehensive live coverage across the full fixture list. ASTRO cited rising rights costs, rampant piracy, and weakening commercial viability as the key reasons for opting not to carry the tournament on any of its platforms.

We expect this major development to have notable impact for Malaysia's advertising expenditure (adex) landscape in 2026, particularly for ASTRO. Key implications include: (i) ASTRO will forgo the advertising revenue uplift associated with World Cup in 2QFY27; and (ii) industry adex (as tracked by Nielsen) will likely be deflated, given that Unifi TV's monetisation strategy leans heavily toward subscription-based models rather than advertising. Recall that Unifi TV packaged its World Cup offering through paid passes (full season: RM60; subscriber rate: RM50; daily pass: RM20).

World Cup cost savings partly offset by subscriber headwinds. Following the loss of the World Cup broadcasting rights, we excluded an estimated RM163m of related content costs from our ASTRO forecasts. While this results in meaningful cost savings, we believe the more significant impact stems from the loss of a key subscriber acquisition and retention tool. Premium sports content plays an outsized role in driving customer loyalty, with sports package subscribers currently accounting for c. 30% of ASTRO's total base. As such, we anticipate some degree of subscriber attrition over the coming quarters, as the absence of the World Cup broadcasts erodes the appeal of ASTRO's sports offering.

Malaysia's first cinematic universe unfolding. Amid persistent structural adex pressure, ASTRO's most credible long-term earnings diversification lever lies in its intellectual property (IP) strategy, anchored by the Astro Shaw Cinematic Universe (ASCU). To recap, the ASCU is Malaysia's first shared cinematic universe, modelled after the Marvel Cinematic Universe. It is designed to link established franchises, including *Polis Evo*, *Projek: High Council*, and *Keluang Man*—through a series of interconnected films that progressively build toward an "ultimate convergence" by 2028. ASCU's upcoming slate includes the *Polis Evo* spin-off *REZA* (2026), *Polis Evo 4*, the *Keluang Man* franchise (six films planned), and *Baling*, (new mythological action film).

Astro Shaw is the bright spot with encouraging YTD traction. Astro Shaw has produced 5 of Malaysia's 10 highest-grossing local films of all time. In FY26, its productions accounted for 6 of the country's 10 highest-grossing local films, generating a combined gross box office (GBO) of RM111m. Sponsorship income from its films tripled YoY in FY26, supported by multi-year brand partnerships under the ASCU framework. Meanwhile, ASTRO's FY27 YTD box office momentum has been encouraging. Key highlights include: (i) *Malaikat Malam* (released: Mar 2026; GBO: RM14m), which outperformed the international release *Project Hail Mary* during its opening week; and (ii) *Tarung: Unforgiven* (released: May 2026; GBO: RM23m), which topped the Malaysian box office for two consecutive weeks.

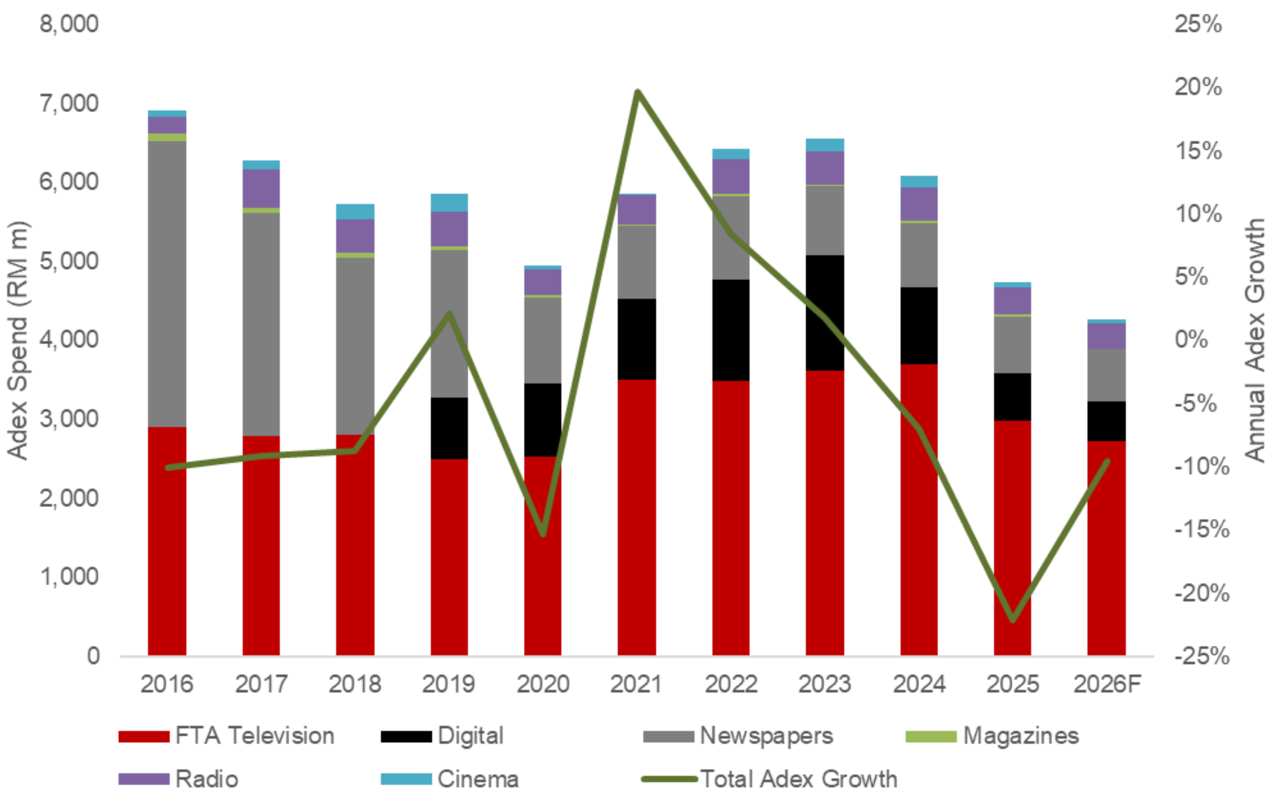
Looking ahead to 2HCY26, we anticipate greater clarity and increased news flow regarding Astro Shaw's regional collaboration efforts with studios and investors in Indonesia and Thailand. These partnerships could potentially broaden its distribution footprint and enhance the commercial scalability of its intellectual property (IP) portfolio.

IP monetization remains at the nascent stage. The revenue-sharing economics for IP monetization remain nuanced. For titles where ASTRO primarily serves as distributor and marketing partner (e.g. *Papa Zola* and *Malaikat Malam*), it typically retains only c.15% of GBO receipts. In contrast, revenue capture improves materially for projects where ASTRO holds primary IP ownership (e.g. Polis Evo franchise: up to 90% of GBO).

As the ASCU expands deeper into fully owned IP franchises, the share of higher-margin, IP-owned productions is expected to increase. That said, meaningful earnings contribution from IP remains a longer-term proposition and is still very much work in progress. At this juncture, Pay-TV subscription revenue continues to dominate ASTRO's earnings, accounting for c.90% of FY26 revenue.

Headwinds linger, IP catalyst takes time. We retain our FY26 adex forecast of RM4.24b (-9.5% YoY) and maintain **UNDERWEIGHT** on the sector. Key structural headwinds weighing on traditional media players include: (i) ongoing migration of advertising budgets toward digital-native platforms, (ii) the loss of World Cup broadcasting rights, which removes a key subscriber retention tool, and (iii) persistent fixed cost burdens tied to legacy broadcast infrastructure (eg. satellite transponder leases, transmission towers, printing and distribution networks). While IP monetisation via ASCU represents a credible strategic pivot, we expect its near-term earnings contribution to remain immaterial. We do not have any stock picks for the sector.

Annual Adex



Source: Nielsen, Kenanga Research

Peer Comparison – Media

Name	Rating	Last Price (19 Jun) (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.
MEDIA																	
ASTRO MALAYSIA HOLDINGS BHD	MP	0.060	0.080	33.3%	313.6	N	01/2027	0.5	0.5	24.0%	5.9%	13.2	12.4	0.2	1.8%	0.0	0.0%
MEDIA CHINESE INTERNATIONAL	UP	0.075	0.085	13.3%	121.6	Y	03/2027	(2.7)	(2.3)	-63.6%	12.2%	N.A.	N.A.	0.3	-8.8%	0.0	0.0%
MEDIA PRIMA BHD	MP	0.275	0.370	34.5%	305.0	N	06/2026	1.2	1.8	-39.4%	53.0%	22.8	14.9	0.4	2.0%	1.5	5.5%
STAR MEDIA GROUP BHD	UP	0.285	0.330	15.8%	206.6	N	12/2026	(0.8)	0.8	-153.5%	198.4%	N.A.	34.4	0.3	-0.9%	0.0	0.0%
SECTOR AGGREGATE					**946.8**					**-155.2%**	**-187.8%**	**-68.1**	**77.6**	**0.3**	**-0.4%**		**1.4%**

Source: Bloomberg, Kenanga Research

Oil & Gas

Long-term Conviction, Short-term Caution

OVERWEIGHT

↔

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

Brent crude prices have pulled back significantly after US and Iran appear to have a framework to eventually fully reopen the Straits of Hormuz and come to a peace agreement in the coming months while maintaining the ceasefire. We keep our 2026 and 2027 average targets for Brent at USD80/bbl and USD74/bbl, respectively, as events are playing out like we had earlier expected. We still find some parallels in the current Brent price cycle with the previous Russia-Ukraine war whereby oil prices trended lower after a major spike in 2Q of the year but still settled at higher levels compared to pre-war levels. We believe that there will still be more demand for crude oil as more countries would be looking to bolster their energy reserves in the foreseeable future amid the increasing awareness for energy security.

In terms of sector play, we believe that the oil price direct beneficiary play has played out in 2QCY26. We think that PCHEM's (OP; TP: 4.24) (after we decided to do away with a two-stage valuation as war risks are declining) share price has peaked albeit we are cognizant of the fact that if Petronas group decides to acquire PPC from PCHEM post the intended exit of strategic partner, Saudi Aramco (https://theedgemalaysia.com/node/804922) (Saudi Aramco has sold its stake in PREFCHEM (the refining part) to Petronas group), a potential rerating could be in the cards as the discount from losses could be lifted. For big cap, we now prefer PETDAG (OP; TP: RM21.20) as we believe that the market has overly punished the stock on the potential impact of subsidy rationalisation by government of which recently the concern had proven to be overdone with diesel subsidy back on.

In the longer term (2027 and 2028), we think that the energy security theme will anchor the potential upcycle in upstream capex as long as crude prices stay around the current ranges. However, we also caution that near-term earnings in FY26 would still be under pressure as capex ramp up typically lag crude price movements by one year. We like UZMA (OP; TP: RM.0.70) for high beta exposure to the potential upstream capex upcycle and for a lower risk pick, we still have DAYANG (OP; TP: RM2.45) due to its track record in project execution and increased willingness to pay higher dividends (FY26F yield: 8%). We maintain OVERWEIGHT on the sector.

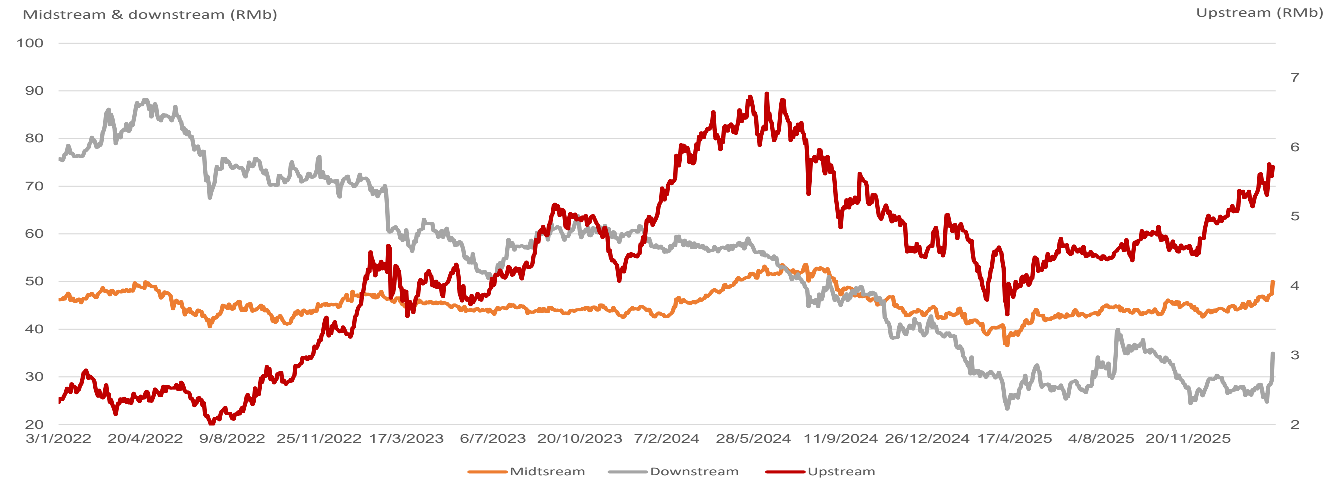
Upstream

Conflict appears to has passed peak intensity. The US-Iran conflict has remained firmly on investors' radar since March 2026. However, prospects for a negotiated settlement now appear to be improving. According to ABC News, President Trump indicated that the US and Iran had reached a "great deal", while delegations from both countries arrived in Switzerland on 21 June 2026 for further discussions. Although a full reopening of the Straits of Hormuz may still take time, we believe both sides may have moved beyond the peak phase of confrontation and are increasingly inclined to pursue de-escalation through diplomatic channels. That said, the path forward is unlikely to be entirely smooth, particularly given Israel's continued involvement in Lebanon. Overall, we expect an agreement to be reached over the coming months, a scenario that appears to have been partly reflected in the recent pullback in Brent crude prices from USD113/bbl in May to around USD81/bbl at time of writing.

Brent crude: weakening in 2HCY26 expected, but still higher than pre-war levels. We maintain our average Brent crude price assumptions at USD80/bbl for 2026 and USD74/bbl for 2027. This view is broadly consistent with our expectation of a gradual de-escalation in the US-Iran conflict. However, we also believe Brent crude prices are unlikely to fall below USD70/bbl, supported by a higher geopolitical risk premium. This reflects potentially lasting damage to Iran's production capabilities, particularly at the South Pars gas field, which accounts for around 70% of the country's gas output, as well as structurally higher oil demand as energy security becomes an increasingly important global priority. In our view, some countries may increase crude purchases in the coming months to rebuild strategic reserves and be better prepared for a more volatile geopolitical environment.

Damages will take time to recover. That aside, the production shutdown by Gulf countries (c. 14m bbls per day) due to the closure of the straits have also resulted in some damage in the oil & gas fields and more work need to be done on the wells to bring them back up for optimal production. IEA and EIA, for instance, have stated that recoveries of 70% of lost production will take three months and 88% will be six months, with the remaining taking considerably longer (maybe 0.5-1m bbls per day (1% of global capacity). Hence, we still expect the global oil market to be slightly tighter post US-Iran conflict at least until end 2027. Therefore, our average forecast still assume a Brent price of USD74/bbl, still higher than USD70/bbl previously (if oil prices go below that, typically upstream capex will slow down).

Exhibit 1: Downstream Peak First Before Upstream, Midstream Flattish (Market Cap RM b)



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

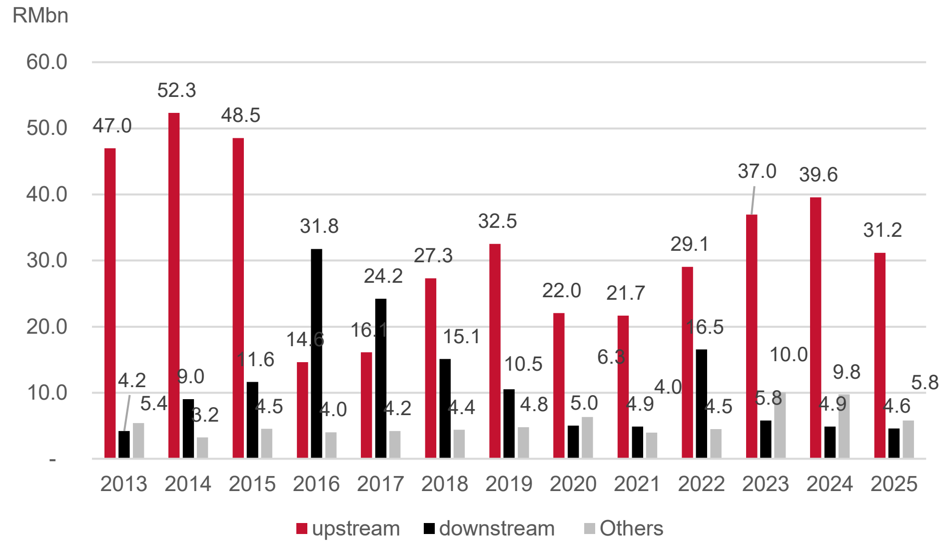
Oil price beneficiary play has largely played out. While Brent crude prices are expected to remain elevated, we do not expect them to reach new highs this year or next, given that the US-Iran conflict appears to be gradually moving toward de-escalation. Referring to Exhibit 1, PCHEM's share price has historically tended to peak either alongside, or shortly after, oil prices, as observed during the 2022 cycle. We believe a similar pattern is likely to unfold in 2026. As such, we believe PCHEM's share price may have already reached its cyclical high in 2QCY26, with earnings expected to peak in FY26 before normalising lower in FY27. Although supply disruptions in petrochemicals and fertilisers remain in place, we expect the eventual reopening of the Straits to gradually normalise supply conditions. In addition, capacity expansions in China, particularly in petrochemicals, are likely to exert downward pressure on prices.

Exhibit 2: Brent Crude Prices are Still Tracking 2022 Cycle

Source: Company

Oil prices repeating eerily similar trends. While not like for like, we believe that the current oil price cycle has parallels to draw from the 2022 Russia-Ukraine crisis. The Russia-Ukraine crisis is still ongoing until today but the peak concern happens during 2022. Subsequently, the world oil supply chain has since adjusted to the crisis with Russian oil still going to China (through the shadow fleet) and the war not expanding to a bigger area. By Jun 2026, Brent crude prices have corrected down significantly from a peak of USD120/bbl and stayed range bound between USD73/bbl to USD93/bbl in 2023 and 2024. Hence, if history repeats, we might not see crude oil prices reaching its recent high of USD113/bbl in 2027 and 2028 but will likely be range bound at a higher ranges compared to the levels seen in 2025 and early months of 2026. In our view, the current crisis (US-Iran) will result in higher awareness on energy security and therefore might result in slightly higher demand for crude (for building higher storage) but we believe that this is sufficient to only give short to medium term boost in demand and not long term structural demand hike.

Exhibit 3: Upstream Cycles Show Cyclicality



Source: Petronas

Upstream capex shows cyclical trend as well. We have also noticed cyclical trends in upstream capex by Petronas since 2013 and it tends to move in 4-year cadences as well. The last significant boom was back in 2013-2014 but oil prices were structurally higher (reaching USD108/bbl multiple times in the cycle) since 2011 until 2014. Since 2015, capex declined significantly due to the global oversupply of crude resulting in weak crude prices. In 2019 (after four years of downcycle), upstream capex went into a new high since 2016 despite Brent crude prices being YoY weaker compared to 2018. Similar trends are also seen in the 2022 cycle where the Russia-Ukraine war caused oil prices to spike to above USD100/bbl but capex remained largely subdued. Subsequently, the upstream capex continue to ramp up in 2023 and C2024, which resulted in a major rerating in the upstream services sector. Hence, we believe that similar trends might play out in 2027 and 2028 for upstream service providers where Petronas ramp up its upstream capex spending (albeit more focus could be directed to regions outside of Sarawak) and a potential rerating in service providers might play out. On the Middle East rebuilding post war, WASCO (OP; TP: RM1.32) could be a beneficiary due to its presence in the Middle East. Nevertheless, the path there is not straight forward as the subsector would still have to deal with weak near-term earnings outlook as in 2026, the local upstream spending activity remains unexciting.

Conclusion

Value play for big cap, small-to-mid cap longer term play. For big cap, we choose **PETDAG** as our top pick in the near to medium term as we believe that the 24% drop in recent months were unjustified given that now the chances of further cut in petrol subsidy is lower after the recent move by the government to reintroduce diesel subsidies after being on floating prices since 2024. The commercial segment might also benefit from the long-term structural demand growth trend for aviation fuel due to growth in air traffic, The upstream services play, in our view, will take a longer time to play out and we caution investors to have more patience weathering through the near-term earnings uncertainty in the remaining of 2026. We still like **UZMA** as a under-appreciated high beta play to the potential upstream capex upcycle in 2027/2028 as its valuations are unbelievably low at 4x FY26F PER. The next play we like is **DAYANG** as it is a lower risk play to upstream capex due to its more robust balance sheet and track record for upstream maintenance. Dividend yield is also very attractive even during FY26 downcycle earnings base with expected yield of 8% as the group has shifted to paying out more of its earnings as dividends since FY25 to reward shareholders more.

We are of the view that PCHEM's peak share price this cycle could be behind us. The US-Iran conflict may not be completely resolved but it appears that its moving gradually into a peaceful solution. Hence, we downgrade PCHEM's TP to RM4.24 after we peg 0.9x to FY27F PBV and do away from our previous 2-stage valuation. Nevertheless, the PCHEM valuation could be rerated in the future if Petronas decides to take over PCHEM's stake in PPC (RM500-700m loss) after it announced its acquisition of PREFCHEM. We maintain our **OVERWEIGHT** call on a sector but caution that the upstream capex view will take a longer time frame to play out.

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	MP	0.330	0.360	9.1%	1,956.2	Y	12/2026	4.0	3.6	-27.0%	-10.6%	8.3	9.3	0.4	5.2%	1.0	3.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.62	2.45	51.2%	1,875.6	Y	12/2026	16.1	18.8	7.8%	17.0%	10.1	8.6	1.0	9.8%	11.0	6.8%
DIALOG GROUP BHD	OP	1.85	2.63	42.2%	10,439.0	Y	06/2026	10.4	11.8	31.4%	12.8%	17.8	15.7	1.7	9.9%	5.0	2.7%
LIANSON FLEET GROUP BHG	OP	1.65	1.91	15.8%	1,908.6	Y	12/2026	20.6	27.3	142.4%	32.3%	8.0	6.0	1.0	13.2%	4.0	2.4%
KEYFIELD INTERNATIONAL	OP	1.55	2.00	29.0%	1,251.9	Y	12/2026	10.2	18.0	-25.6%	76.1%	15.2	8.6	1.6	10.5%	6.0	3.9%
MISC BHD	OP	7.89	9.00	14.1%	35,219.0	Y	12/2026	51.1	53.4	7.6%	4.5%	15.4	14.8	1.0	6.6%	36.0	4.6%
PETRONAS CHEMICALS GROUP	OP	4.02	5.40	34.3%	32,160.0	Y	12/2026	29.5	13.2	275.0%	-55.4%	13.6	30.5	0.9	6.5%	15.0	3.7%
PETRONAS DAGANGAN BHD	OP	18.60	21.20	14.0%	18,478.2	Y	12/2026	116.9	116.5	5.7%	-0.4%	15.9	16.0	3.0	19.1%	94.0	5.1%
UZMA BHD	OP	0.370	0.700	89.2%	224.7	Y	06/2026	14.8	15.9	6.9%	7.5%	2.5	2.3	0.2	8.5%	0.0	0.0%
VELESTO ENERGY BHD	MP	0.275	0.320	16.4%	2,272.6	Y	12/2026	1.7	2.1	-18.7%	19.3%	15.9	13.4	1.0	6.0%	3.0	10.9%
WASCO BHD	OP	0.710	1.32	85.9%	549.8	Y	12/2026	1.4	1.7	-37.5%	23.1%	52.0	42.2	4.5	9.0%	5.0	7.0%
YINSON HOLDINGS BHD	OP	1.94	2.76	42.3%	5,669.4	N	01/2027	20.9	22.3	17.1%	6.6%	9.3	8.7	1.2	12.7%	6.0	3.1%
SECTOR AGGREGATE					**112,005.0**					**69.9%**	**-11.7%**	**13.9**	**15.8**	**1.4**	**9.8%**		**4.4%**

Source: Kenanga Research

Plantation

OVERWEIGHT

↔

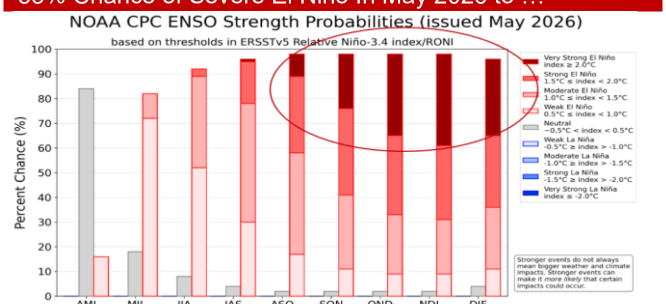
A Hot Outlook Ahead

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

Stay OVERWEIGHT as rising El Nino risk looks set to keep CPO prices elevated instead of geo-politics. The US-based National Oceanic and Atmospheric Administration (NOAA) declared El Nino is present and believe there is a 63% chance of a severe or "very strong" El Nino later this year. As edible oil supply was already looking tight with resilient demand from food and bio-fuel and still decent valuations. Our sector picks are: (i) IOI (OP; TP:RM4.65) for its sector leading ROE (ii) KLK (OP; TP: RM25.20) for earnings sensitivity to CPO prices and stronger push into property (ii) PPB (OP; TP: RM14.85) for long term recovery amidst low valuation, (iii) UMCCA (OP; TP: RM7.00) for attractive ratings and still maturing estates and (iv) TSH (OP: TP: RM1.60) upstream CPO price sensitivity with ongoing 40% expansion in new planting.

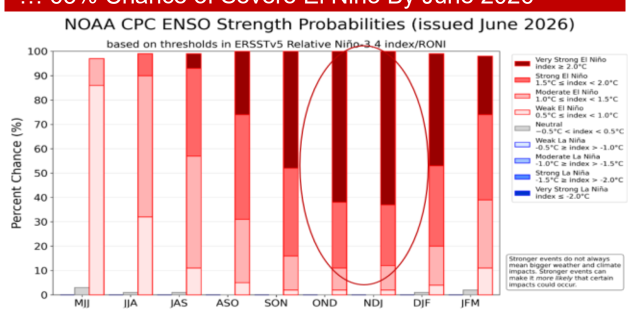
Palm oil supply at risk from severe El Nino. Although global edible oil opening inventory was 4% higher-than-expected, tight supply conditions were expected to prevail in CY26. When the Gulf conflict started, higher bio-diesel requirement further lift edible oil demand including higher admixture quota in Indonesia and Malaysia hance demand can continue beyond being driven by elevated hydrocarbon oil / energy prices.

33% Chance of Severe El Nino In May 2026 to …



Source: NOAA, Kenanga Research

… 63% Chance of Severe El Nino By June 2026



Source: NOAA, Kenanga Research

El Nino impact on the oil palm industry. In the past, very strong El Nino can dampen global palm oil production by 2-5% YoY. However, CPO prices can strengthen even with moderate level of El Nino. On 12 June, we raised average CPO price expectations, from RM4,250 per MT to RM4,400 in CY26 and from RM4,200 per MT to RM4,450 for CY27. Essentially, instead of CPO prices moderating in 2HCY26 after a strong 2QCY26, we now expect CPO price to stay elevated in 2HCY26 and peak around 1HCY27 on the back of a very strong El Nino hitting SE Asia in the latter half of this calendar year.

Impact of Past El Nino On Global Palm Oil Supply & Prices

		Very Strong El Nino				Moderate El Nino				Moderate El Nino				Very Strong El Nino				Strong El Nino		
	CY96	CY97	CY98	CY99	CY01	CY02	CY03	CY04	CY08	CY09	CY10	CY11	CY14	CY15	CY16	CY17	CY22	CY23	CY24	CY25
Global Supply																				
Palm Oil (m MT)	16.1	17.5	17.0	19.3	23.8	25.0	27.7	29.6	42.9	44.6	46.5	49.5	60.2	62.3	59.2	67.6	77.5	81.8	80.3	83.3
YoY	*+7%*	*+8%*	*-3%*	*+13%*	*+12%*	*+5%*	*+11%*	*+7%*	*+13%*	*+4%*	*+4%*	*+6%*	*+7%*	*+3%*	*-5%*	*+14%*	*+2%*	*+6%*	*-2%*	*+4%*
Palm Kernel Oil (m MT)	2.1	2.2	2.2	2.4	2.9	3.0	3.3	3.5	4.9	5.0	5.2	5.4	6.5	6.8	6.4	7.1	8.1	8.4	8.3	8.5
YoY	*+7%*	*+6%*	*+0%*	*+10%*	*+10%*	*+3%*	*+10%*	*+5%*	*+13%*	*+1%*	*+3%*	*+5%*	*+5%*	*+5%*	*-6%*	*+11%*	*+2%*	*+4%*	*-1%*	*+3%*
Average Prices																				
Palm Oil Price (USD/MT)	531	546	671	436	286	390	443	471	949	683	807	1,146	867	659	655	727	1,425	996	1,020	1,211
YoY	*-15%*	*+3%*	*+23%*	*-35%*	*-8%*	*+36%*	*+14%*	*+6%*	*+22%*	*-28%*	*+18%*	*+42%*	*+4%*	*-24%*	*-1%*	*+11%*	*+33%*	*-30%*	*+2%*	*+19%*
Palm Kernel Oil Price (USD/MT)	729	680	653	708	313	379	439	619	1,248	662	972	1,741	1,146	941	1,126	1,307	1,809	1,007	1,233	1,874
YoY	*+7%*	*-7%*	*-4%*	*+8%*	*-41%*	*+21%*	*+16%*	*+41%*	*+63%*	*-47%*	*+47%*	*+79%*	*+37%*	*-18%*	*+20%*	*+16%*	*+39%*	*-44%*	*+22%*	*+52%*

Source: Oilworld, FAO, Kenanga Research

KL Plantation Index (KLPLN) has done better than KLCI recently. The broader KLPLN PER and PBV have been trading below the broader KLCI for much of CY26. However, from about a month back, the PER and PBV of KLPLN have started to outdo the KLCI as planters held out better against some recent softness in the broader market. PER wise, KLPLNand Kenanga plantation sector coverage companies saw recent uptick, notably among the larger integrated planters. Our estimates suggest the larger integrated players are currently at a 6-month or essentially the year's high but remains below or comparable to the past 3-10-year PER.

Compared to a month or three months ago, the current KLPLN PBV ratio, which is the more stable hence our preferred valuation indicator over PER, saw a dip. Meanwhile, Kenanga plantation sector PBV rose from 1.26x PBV a month back to 1.28x PBV which is comparable to the average three months back. This is probably due to a bias towards larger planters in our plantation universe and, as seen with PER above, larger players notably the integrated saw a more pronounce PBV uptick, rising from 1.90x last month to 1.93x while PBV for non-integrated players saw more modest increment, from 0.88x a month ago to 0.89x.

All in, stay OVERWEIGHT as we believe plantation sector valuations are still not demanding considering the defensive demand for edible oil, asset rich balance sheet with palm oil prices staying elevated (or rising higher) thanks to the following factors:

a) Global edible oil supply is still looking tight despite better-than-expected opening inventory for CY26 as edible oil consumption is still on the rise.

b) Bio-diesel admixture and demand has also risen spurred on by the Gulf conflict.

c) An El Nino has already been declared by NOAA and the likelihood of a very strong El Nino risen to 63% hence palm oil supply may be affected in CY27 which gives limited room to accommodate poor harvest of other oil crops.

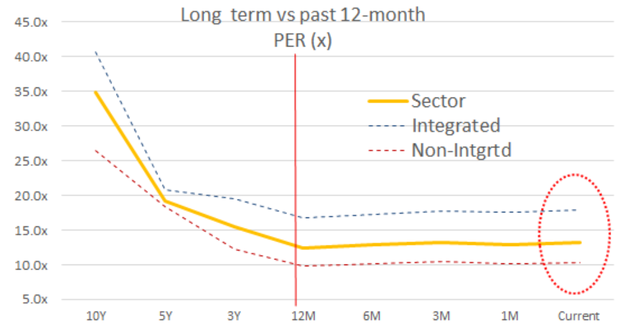
d) Cost is rising due to higher fertiliser and transport costs but PK prices are still elevated, fertiliser prices have slipped with many planters already locked in for their entire CY26 supply.

KLCI & KLPI PERs Are Starting To Inch Up

PER (x)	--------------- Integrated	Kenanga Non-Intgrtd	Kenanga Sector	Bursa Plnt Sctr	Bursa KLCI
10Y	40.6x	26.4x	34.8x	28.5x	16.9x
5Y	20.8x	18.4x	19.2x	14.8x	15.4x
3Y	19.5x	12.3x	15.5x	16.6x	15.1x
12M	16.7x	9.8x	12.4x	14.2x	15.6x
6M	17.3x	10.2x	12.9x	15.5x	16.4x
3M	17.7x	10.4x	13.1x	16.2x	16.7x
1M	17.6x	10.2x	12.9x	15.0x	14.5x
Current	**17.9x**	**10.3x**	**13.1x**	**15.4x**	**14.8x**

Source: Bloomberg, Kenanga Research

Kenanga Plantation Sector PER Is Rising



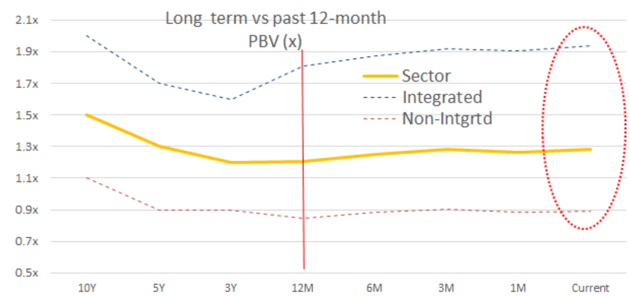
Source: Bloomberg, Kenanga Research

KLCI & KL Plantation Index PBV Dipped Slightly

PBV (x)	--------------- 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	1.40x
3Y	1.60x	0.90x	1.20x	1.40x	1.50x
12M	1.81x	0.84x	1.20x	1.51x	1.52x
6M	1.87x	0.88x	1.25x	1.61x	1.58x
3M	1.92x	0.90x	1.28x	1.67x	1.58x
1M	1.90x	0.88x	1.26x	1.64x	1.59x
Current	**1.93x**	**0.89x**	**1.28x**	**1.61x**	**1.53x**

Source: Bloomberg, Kenanga Research

But Kenanga Plantation Sector PBV Inched Up



Source: Bloomberg, Kenanga Research

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	5.30	5.70	7.5%	4,754.6	Y	12/2026	46.7	49.3	18.2%	5.6%	11.4	10.8	0.9	8.3%	30.0	5.7%
HAP SENG PLANTATIONS HLDGS	MP	2.27	2.00	-11.9%	1,815.3	Y	12/2026	18.5	18.5	6.2%	0.3%	12.3	12.2	0.8	5.7%	8.0	3.5%
IOI CORP BHD	OP	4.24	4.65	9.7%	26,649.2	Y	06/2026	24.0	25.1	19.5%	5.1%	17.6	16.9	2.0	12.6%	11.0	2.6%
KUALA LUMPUR KEPONG BHD	OP	20.96	25.20	20.2%	23,342.3	Y	09/2026	134.0	154.7	23.6%	15.4%	15.6	13.6	1.5	10.4%	60.0	2.9%
PPB GROUP BHD	OP	9.33	13.00	39.3%	13,259.8	Y	12/2026	109.2	114.4	14.7%	4.8%	8.5	8.2	0.6	6.7%	42.0	4.5%
SD GUTHRIE BHD	MP	6.04	5.90	-2.3%	41,770.9	Y	12/2026	30.2	30.6	4.9%	1.4%	20.0	19.7	2.1	13.6%	15.0	2.5%
TA ANN HOLDINGS BHD	UP	5.41	4.55	-15.9%	2,382.8	Y	12/2026	49.9	52.2	2.9%	4.7%	10.8	10.4	1.2	11.8%	40.0	7.4%
TSH RESOURCES BHD	OP	1.14	1.60	40.4%	1,415.0	Y	12/2026	12.4	14.0	-11.5%	13.2%	9.2	8.1	0.7	7.7%	5.0	4.4%
UNITED MALACCA BHD	OP	6.05	7.00	15.7%	1,269.1	Y	04/2027	88.5	67.3	18.7%	-24.0%	6.8	9.0	0.7	11.1%	30.0	5.0%

Source: Bloomberg, Kenanga Research

Plastic Packaging

Eyes on 2QCY26 Results

OVERWEIGHT

↔

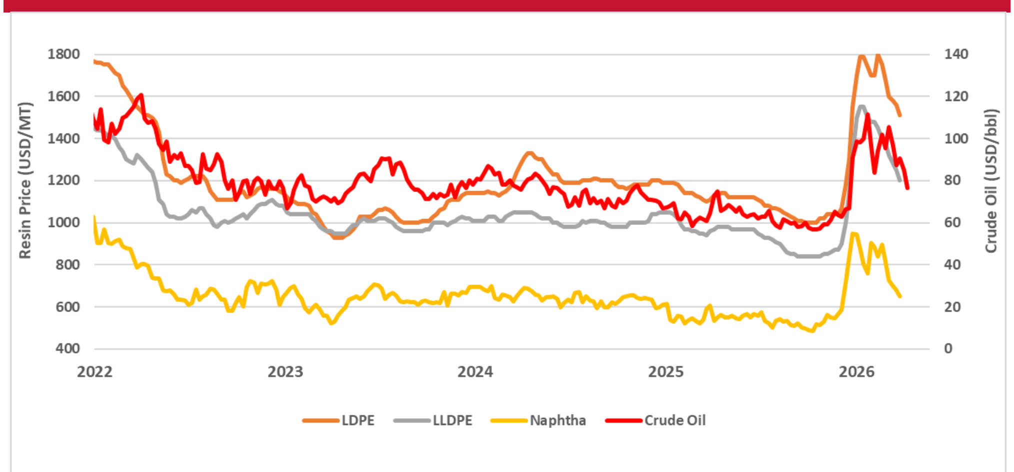
By Chris Tong I christong@kenanga.com.my

We keep our OVERWEIGHT call on the plastic packaging sector. Elevated oil prices in 2QCY26 arising from Middle East conflicts since Feb 2026 have resulted in resin prices rising by about 80% or more on average. Historically, higher resin prices would translate to better operating profit for the plastic packaging sector given a cost-plus business model. Kenanga is expecting Brent oil prices to average at USD80 in CY26, and USD74 for CY27, with the view that oil prices are unlikely to fall to its pre-conflict level even if the Middle East conflicts de-escalate.

Since our previous sector report, concerns on supply shortages have emerged that had not only stoked increased orders from existing customers, but some of the plastic packaging producers have also started to receive enquiries from new customers given "force majeure" from their existing suppliers. Players could thus gain market share.

Typically, there will be about one-to-two months' time lag between purchase orders and revenue recognition upon orders delivery. Hence, the inventory gains and the potential margin expansions from higher average selling prices will mostly be reflected in the upcoming 2QCY26 results. We maintain TGUAN (OP, TP: RM1.73) and BPPLAS (OP, TP: RM0.87) as our sector picks of which we have sole coverage. Meanwhile, we take this opportunity to downgrade SCIENTX (MP, TP: RM3.91) from OUTPERFORM to MARKET PERFORM following share price action.

Exhibit 1: Resin and Crude Oil Prices Chart



Source: Bloomberg, Kenanga Research

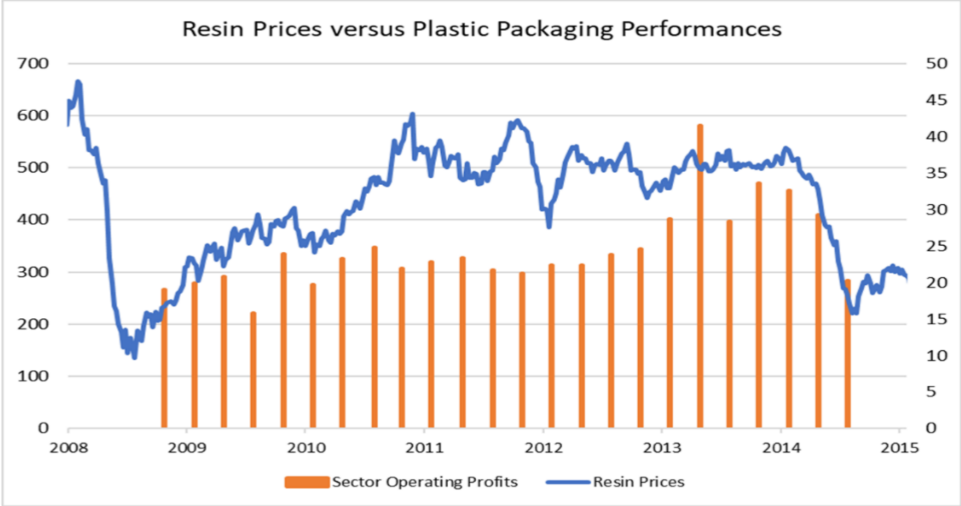
Earnings drivers:

1. **Higher resin prices, higher profits.** The surge in oil prices led by the Middle East conflicts since Feb 2026 have resulted in a sharp rise in resin prices of about 80% or more on average in 2QCY26, though we are cognizant of the gradual normalization since late May 2026 (refer to Exhibit 1). Historically, plastic packaging producers tend to enjoy higher profits on higher resin price levels underpinned by a cost-plus business model. This is shown in Exhibit 2 - the sector aggregate operating profits were higher by more than 40% on average in 2013-2014 compared to 2009-2010 where the resin prices were lower (refer to Exhibit 2), these earlier years were selected given the relative stability of the exchange rate versus latter years where we believe forex fluctuation would have exerted a more pronounced impact on financial performance that distorted readings. The resin prices were also at high levels in the period of 2011-2012; however, the sector did not see significant increase in operating profits, weighed down by the European debt crisis at that point in time that hurt the global

economy. Kenanga is forecasting Brent oil to average at USD80 and USD74 per barrel for CY26 and CY27, respectively, where oil prices are unlikely to fall to its pre-conflict level even if the Middle East conflicts de-escalate.

2. **More orders, more customers.** Following war damage in certain oil production facilities in the Middle East compounded by the blockade surrounding it that constrain crude oil delivery, the market has experienced a shortage of resin and plastic packaging supplies. This has created demand spike on stockpiling among business owners which spurred increased customer orders since Mar 2026. In addition to that, some of the plastic packaging producers also have started to see new customers approaching them for orders after facing "force majeure" from their existing suppliers. On that note, the energy crisis afore-mentioned has offered a major turning point for the few established plastic packaging manufacturers who are financially strong in Malaysia.

Exhibit 2: Resin Prices vs Sector Profits



Source: Bloomberg, Kenanga Research

Many plastic packaging players are estimated to have between 2 months to 3 months of inventories, so the sector may likely 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) order volumes should also be good as customers rush to buy, in the anticipation of further price increase. We gathered that the plastic packaging players under our coverage did not face any major supply interruptions, thanks to well-diversified sources across US, Asia and Middle East, supported by long standing relationships and a healthy cash position. The MYR has marginally weakened from an average of RM3.97 per USD in 1QCY26 to an average of RM4.00 in 2QCY26. As this is broadly in-line with Kenanga CY26 forecast of RM3.95, the impact on our forecast is more contained (refer to Exhibit 3).

As a result, we expect a turnaround in the sector in CY26 attributable to: (i) higher profits from higher ASP, (ii) increased orders from panic buying on supply shortage, and (iii) new customer acquisition arising from some suppliers declaring "force majeure". As our sensitivity analysis suggests that a one percentage point rise in resin prices should improve the plastic packaging sector's profitability by an estimated 0.3%, we are valuing the companies based on their FY27F normalized earnings on a base case assumption of USD74 per barrel of Brent oil on a blended basis for FY27. We have pegged our TP for coverage companies at an unchanged 8x PER with the exception of BPPLAS, which we have earlier upgraded from 8x to 10x to reflect its latest breakthrough in its bread bag development after it secures several reputable bread brands in Malaysia as clients. The 10-year historical average PER for TGUAN, BPPLAS, SLP and SCIENTX were at respective 9.5x/12x/19x/13.3x.

Having said that, the headwinds flagged earlier faced by the plastic packaging sector remained as the following:

1. **Disruptions from global trade tensions**: 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 businesses, and a significant portion of plastic packaging films is used in B2B trades including inter-country trade to ease shipping and logistics. However, we believe that the impacts from this have been largely reflected in CY25 numbers.

2. **Heightened 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. 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.

Our Top Picks for the quarter remain **TGUAN (OP, TP: RM1.73)** and **BPPLAS (OP, TP: RM0.87)**. We also take this opportunity to downgrade **SCIENTX (MP, TP: RM3.91)** from OUTPERFORM to MARKET PERFORM following share price action.

We like **TGUAN (OP; TP: RM1.73)** given (i) its growth momentum in the F&B segment, and (ii) its aggressive push into overseas markets with environmentally friendly, high-performing products. At the current valuation, TGUAN is trading at a discount of close to 20% to its 10-year historical forward price to earnings ratio of ~9x. We like **BPPLAS (OP; TP: RM0.87)** for: (i) its success in securing several reputable bread brands in Malaysia as clients, and (ii) its ability to pass through higher resin costs underpinned by its quality stretch films centric business model. Meanwhile, we remain cautiously optimistic on **SLP (OP; TP: RM0.90)** on the potential impacts from the recent reduced tourist arrivals in Japan alongside weak trading liquidity.

Exhibit 3: USD/MYR Chart

Source: Bloomberg, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price as at 19/06/2026 (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																	
BP PLASTICS HOLDINGS BHD	OP	0.700	0.870	24.3%	197.0	Y	12/2026	9.1	8.7	100.2%	-4.5%	7.7	8.0	0.7	9.2%	4.3	6.1%
SCIENTEX BHD	MP	3.75	3.91	4.3%	5,836.0	Y	07/2026	39.5	39.4	17.0%	-0.4%	9.5	9.5	1.2	13.4%	13.0	3.5%
SLP RESOURCES BHD	OP	0.780	0.900	15.4%	247.2	Y	12/2026	6.0	6.5	11.7%	8.4%	12.9	11.9	1.0	9.1%	1.3	1.6%
THONG GUAN INDUSTRIES BHD	OP	1.50	1.73	15.3%	585.6	Y	12/2026	26.1	22.9	45.9%	-12.3%	5.7	6.5	0.6	10.8%	6.0	4.0%
SECTOR AGGREGATE					**6,865.9**					**22.0%**	**-2.0%**	**9.0**	**9.1**	**1.1**	**12.1%**		**3.8%**

Source: Kenanga Research

Property

OVERWEIGHT

↔

Residentials Improving, Mindful of Higher Cost

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

We maintain our OVERWEIGHT call on the property sector. With Brent crude oil prices normalising and the implementation of subsidised diesel prices from 1 July 2026, we believe concerns over construction cost inflation should gradually moderate. Although developers continue to guide for construction cost increases of up to 15%, these are likely to be manageable for the developers within our coverage which command stronger pricing power and diversified product offerings. We continue to favour industrial-focused developers, where robust demand, low inventory levels and faster project turnaround should continue to support earnings resilience and margin preservation.

Our Top Picks for 3QCY26 remain SIMEPROP (OP; TP: RM2.00) and SPSETIA (OP; TP: RM1.43), with the addition of ECOWLD (OP; TP: RM2.35) which is on track to exceed its FY26 sales target, supported by robust industrial demand, with recurring income from its data centre leasing project expected to commence from FY28. Among the small-cap developers, we continue to favour PARAMON (OP; TP: RM1.47), thanks to its increasing focus on higher-end residential developments, stronger associate contributions from its 28%-stake in Envictus, and an attractive dividend yield of 7%–8%.

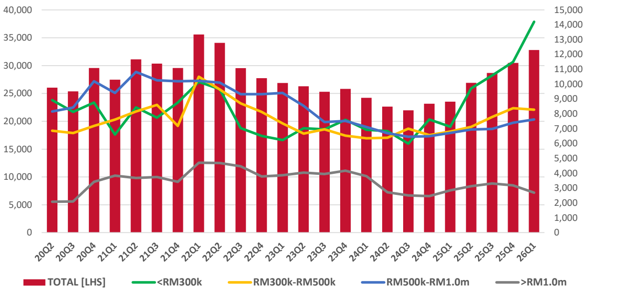
Construction costs on close watch, potentially pinching lower margin players. From our channel checks, developers have guided for construction cost increases of up to 15% arising from higher fuel prices in the earlier part of the year. While the recent implementation of subsidised diesel prices from 1 July 2026 should provide some near-term relief by easing transportation and logistics costs, developers relying on subcontractors may experience a delayed impact as existing contracts are largely fixed-price, as newer projects are likely to bear the full brunt of rising input costs.

This is expected to weigh more heavily on lower-margin affordable housing projects, where passing on higher costs to buyers is more challenging given greater price sensitivity. Although the government's recent diesel subsidy should help moderate cost pressures over the medium term, its sustainability remains uncertain should the Middle East conflict persist longer than expected. Within our coverage, we are relatively more cautious on **LBS** and **MAHSING** given their greater exposure to affordable residential developments. In contrast, developers with larger industrial portfolios and higher-priced township offerings, such as **ECOWLD** and **SIMEPROP** should demonstrate greater resilience.

Low-cost house supply spiked, mid-priced offerings stablising. NAPIC's 1QCY26 data indicated a continued spike in the supply of affordable houses (<RM300k), potentially from the completion of government-backed housing projects. While this improves housing accessibility, it is also likely to intensify competition for private affordable housing developments and place downward pressure on rental markets within this segment.

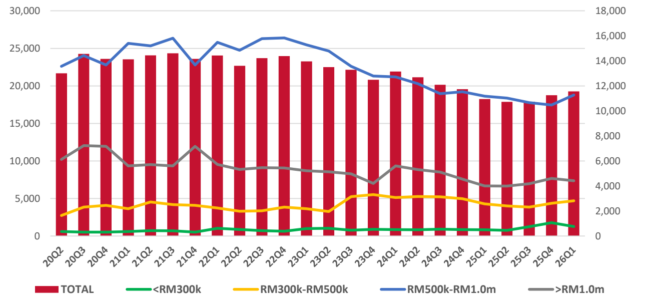
Meanwhile, the RM300k–RM500k segment continues to exhibit healthy absorption, suggesting demand remains relatively resilient. Supply in the RM500k–RM1.0m segment continued to edge higher, although this could partly reflect slower take-up during the festive season in 1QCY26 rather than a structural weakening in demand. That said, we view market conditions as stabilising, as NAPIC data also showed a meaningful QoQ reduction in unsold units under construction, with total residential and serviced apartment inventories declining to 109,962 units in 1QCY26 from 122,713 units in 4QCY25 (-10% QoQ), indicating that demand could be leaning towards newer developments as opposed to unsold supply.

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

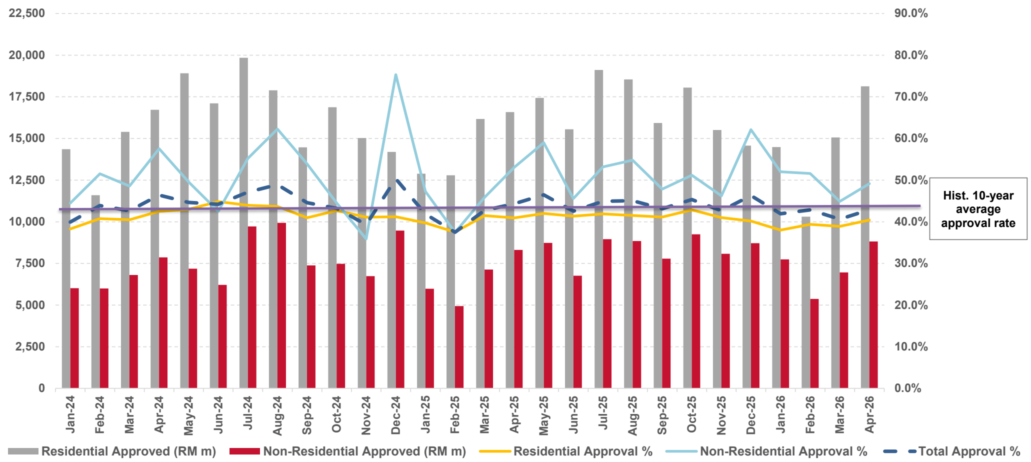
Region	1QCY26			4QCY25		
	Residential	Serviced Apartment	Total	Residential	Serviced Apartment	Total
W.P. Kuala Lumpur	3,057	11,754	14,811	5,516	9,619	15,135
W.P. Putrajaya	1,034	125	1,159	18	125	143
W.P. Labuan	36	0	36	36	0	36
Selangor	13,758	18,730	32,488	14,832	18,379	33,211
Johor	5,655	8,491	14,146	8,108	8,189	16,297
Pulau Pinang	7,180	3,818	10,998	7,826	3,784	11,610
Perak	7,384	202	7,586	9,219	204	9,423
Negeri Sembilan	2,688	308	2,996	4,111	469	4,580
Melaka	3,483	1,013	4,496	3,530	1,043	4,573
Kedah	1,636	0	1,636	3,191	0	3,191
Pahang	2,115	2,720	4,835	3,408	2,923	6,331
Terengganu	476	330	806	1,163	389	1,552
Kelantan	2,134	409	2,543	1,262	486	1,748
Perlis	61	0	61	186	0	186
Sabah	2,497	2,012	4,509	4,147	2,104	6,251
Sarawak	3,536	3,320	6,856	5,831	2,615	8,446
TOTAL	**56,730**	**53,232**	**109,962**	**72,384**	**50,329**	**122,713**

Source: NAPIC, Kenanga Research

Residential mortgage approvals continue to show encouraging signs of recovery. Approval rates improved to 40.4% in Apr 2026 (Mar 2026: 38.9%; Apr 2025: 40.9%) after bottoming at 38.0% in Jan 2026. This suggests improving demand for new residential developments alongside a greater willingness by banks to extend housing loans.

That said, residential approvals remain below the 49.2% approval rate for non-residential financing, reflecting developers' continued preference for industrial developments, particularly in growth corridors such as Johor and Penang. We believe industrial projects will remain a key focus given their stronger pricing power, faster turnaround, and ability to better absorb rising construction costs while demand continues to outpace supply. Notably, even **IOIPG** which is a predominantly residential developer had expanded its industrial developments in IOI Industrial Park, Iskandar Malaysia, alongside land sales for data centre developments.

Exhibit 4: Residential, Non-Residential Approval Rates



Source: BNM, Kenanga Research

We maintain our OVERWEIGHT call on the sector. While improving residential mortgage approval rates and absorption of newer residential developments are encouraging for the sector, we are mindful that the impact from higher input costs have not been fully reflected into industry pricing as well as corporate earnings. As such, we continue to favour developers with diversified earnings streams through industrial developments and investment properties, which should provide greater resilience against a potentially softer residential market. Our Top Picks remain **SIMEPROP (OP; TP: RM2.00)** and **SPSETIA (OP; TP: RM1.43)**. **SIMEPROP** continues to pivot towards industrial developments, with industrial launches now accounting for c.35% of its pipeline (from c.25% previously), while its ongoing data centre developments should provide sustainable recurring income in FY26. Meanwhile, SPSETIA's industrial expansion, particularly at Setia Fontaines, should further underpin earnings growth. We also include **ECOWLD (OP; TP: RM2.35)** among our Top Picks, having achieved YTD-May 2026 sales of RM3.28b, representing 82% of its FY26 sales target of RM4.0b and exceeding YTD-May 2025 sales of RM2.99b. Meanwhile, its build-to-lease data centre project for Pearl Computing is on track for completion by end-FY27, with revenue contributions expected to begin in FY28.

Peer Table Comparison

Name	Rating	Last Price as of 19 Jun 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	2.16	2.35	8.8%	6,962.6	Y	10/2026	17.9	18.1	28.9%	1.4%	12.1	11.9	1.0	8.6%	8.0	3.7%
IOI Properties Group Bhd	MP	4.15	4.01	-3.4%	22,850.5	Y	06/2026	13.5	15.1	154.5%	12.3%	30.8	27.5	0.9	5.0%	6.0	1.4%
LBS Bina Bhd	OP	0.420	0.510	21.4%	647.4	Y	12/2026	6.9	7.7	-1.7%	10.7%	6.0	5.5	0.3	6.0%	3.3	7.9%
Mah Sing Group Bhd	OP	0.975	1.82	86.7%	2,496.1	Y	12/2026	10.9	11.7	7.0%	7.3%	9.0	8.4	0.6	6.7%	5.5	5.6%
Malaysian Resources Corp Bhd*	MP	0.350	0.560	60.0%	1,563.6	Y	12/2026	1.8	1.4	19.2%	-18.9%	49.3	26.5	0.3	1.7%	1.0	2.9%
Paramount Corporation Bhd	OP	1.00	1.47	47.0%	622.8	Y	12/2026	19.1	21.8	66.6%	14.2%	5.2	4.6	0.4	7.8%	7.5	7.5%
S P Setia Bhd	OP	1.02	1.43	40.2%	5,152.6	Y	12/2026	6.6	9.7	-47.5%	46.3%	15.5	10.6	0.3	2.4%	2.5	2.5%
Sime Darby Property Bhd	OP	1.46	2.00	37.0%	9,929.2	Y	12/2026	8.2	9.2	8.0%	11.4%	17.8	16.0	0.9	5.1%	3.3	2.3%
Sunway Bhd	MP	5.33	5.66	6.2%	36,033.0	Y	12/2026	21.6	21.6	19.9%	0.3%	24.7	24.7	2.0	8.3%	6.5	1.2%
UOA Development Bhd	MP	1.80	1.82	1.1%	4,779.0	Y	12/2026	12.3	13.9	7.2%	13.0%	14.6	12.9	0.8	5.3%	11.1	6.2%
SECTOR AGGREGATE					**91,036.9**					**20.0%**	**9.7%**	**22.7**	**20.7**	**0.7**	**5.4%**		**4.2%**

** Under Review*

Source: Kenanga Research

REIT

Swing in Fed's Rate Outlook

NEUTRAL

↔

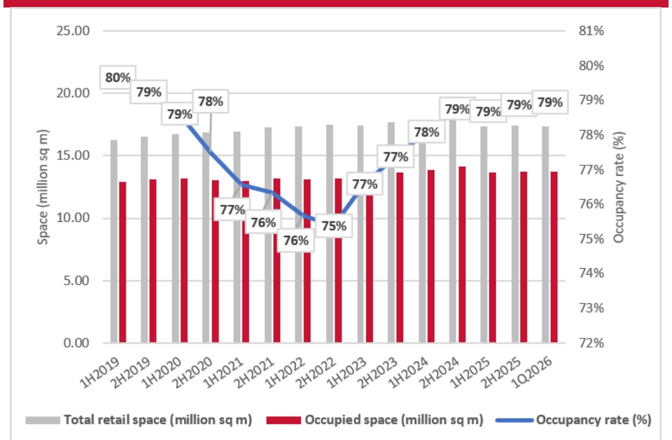
By Chris Tong I christong@kenanga.com.my

We maintain our NEUTRAL stance on M-REITs. 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 that the impact of the new ruling has been priced in. Following channel checks, we do not observe any substantial sell-down by foreign REIT investors despite the new tax regime being most punitive to foreign investors. The recent normalization in crude oil prices could also provide some relief to business owners and the broader economy. Within the sector, we expect stable performance for office and industrial assets while prime retail and hospitality assets in tourist hotspots may see some support from the government's increased allocation in promoting inbound tourism with potential key proxies including PAVREIT (OP, TP: RM1.80), KLCC (MP, TP: RM9.22), and IGBREIT (MP, TP: RM2.81). Meanwhile, we take this opportunity to upgrade both SUNREIT (OP, TP: RM2.45) and PAVREIT from MARKET PERFORM to OUTPERFORM following recent share price corrections. SUNREIT is our preferred sector pick for this quarter. All in, although there is a swing in Fed's rate outlook in CY26, we continue to view M-REITs remain a safe haven in the near-term amid the ongoing geopolitical tensions in the Middle East.

Removal of withholding tax for REIT met with muted reaction. Post the removal of the preferential 10% withholding tax treatment for REIT for the assessment year 2026 onwards, we had anticipated for REIT counters to see less favour within the affected resident non-corporate investors (i.e. foreign institutional and retail investors). However, we had not observed any substantial sell-down by foreign REIT investors in a meaningful way. Provident and retirement funds will likely continue to accumulate REITs for their yield-seeking portfolios given their continued tax-exempt on income generated including dividends.

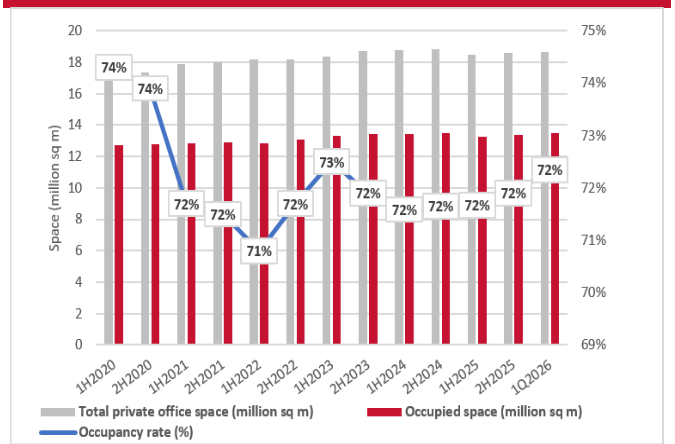
Segmental Review

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. 1QCY26 retail occupancy rates in shopping complexes held steady at 79.0% versus 4QCY25 from a total retail space of 17.4m sqm (refer to Exhibit 1).

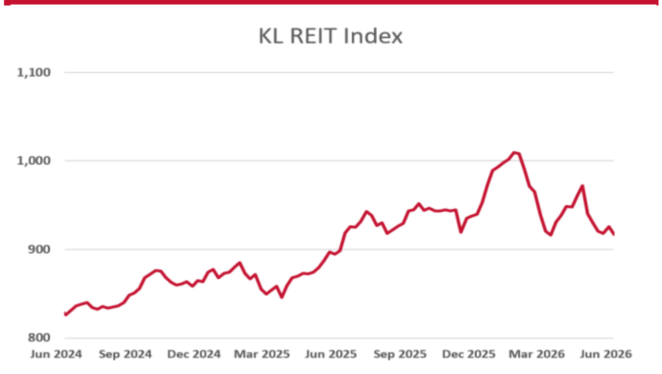
Office - Office occupancy climbs. 1QCY26 occupancy rate inched up to 72.3% from 71.9% in 4QCY25 with a total private office space of 18.6m sqm (refer to Exhibit 2).

Hospitality – The hotel operators under our coverage experienced a rather soft 1QCY25, largely due to the surge in air ticket prices and the onset of the Middle East war since late Feb 2026. Having said that, we foresee improvements for the hotel segment in 2HCY26 following the recent normalization in crude oil prices while being supported by the increased allocation for tourism in the national budget in conjunction with Visit Malaysia Year 2026 and our in-house CY26 projection of 30m tourist arrivals in Malaysia (+11% increase from 2025). The key REIT proxies for hospitality and tourism exposures include **PAVREIT**, **KLCC,** and **IGBREIT**.

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 withholding tax removal appeared to have been adequately priced in by the market after the KL REIT index falling by c.5% as of 19 Jun 2026 since the announcement made on 18 Mar 2026 (refer to Exhibit 4). At the same time, the market has recalibrated its expectations towards a more hawkish U.S. Fed rate decisions in CY26, suggesting limited valuation upsides for REIT in the near term, while the 10-year MGS yield has remained broadly stable at around 3.6%, in line with 1QCY26.

We take this opportunity to upgrade both **SUNREIT (OP, TP: RM2.45)** and **PAVREIT (OP, TP: RM1.80)** from MARKET PERFORM to OUTPERFORM following share price corrections. SUNREIT is also our preferred sector pick for this quarter.

Exhibit 5 - Target Yield at a Glance

REIT	Stock Call	Target Price (RM)	Target Yield (%)
ALAQAR	OP	1.25	6.00
AMEREIT	MP	1.58	5.50
AXREIT	MP	2.02	5.75
CLMT	MP	0.65	8.00
IGBREIT	MP	2.81	5.50
KLCC	MP	9.22	5.50
PAVREIT	OP	1.80	6.25
SUNREIT	OP	2.45	5.10

^ Derived from yield spread above our 10-year MGS yield assumption of 3.5%.

Source: Kenanga Research

Peer Table Comparison

Name	Rating	Last Price as at 19 Jun (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Gross Div. (sen)	Gro
								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 F
REITS																	
AL-AQAR REIT	OP	1.17	1.25	6.8%	982.3	Y	12/2026	8.1	8.3	5.8%	2.4%	14.5	14.1	0.9	6.4%	8.0	6
AME REIT	MP	1.55	1.58	1.9%	824.6	Y	03/2027	8.1	8.5	8.3%	5.5%	19.1	18.2	1.2	6.5%	9.0	5
AXIS REIT	MP	2.01	2.01	0.0%	4,070.0	Y	12/2026	10.6	11.1	6.2%	5.1%	19.0	18.1	1.2	6.3%	10.1	5
CAPITALAND MALAYSIA TRUST	MP	0.620	0.650	4.8%	2,086.4	N	12/2026	5.2	5.4	10.1%	4.2%	11.9	11.4	0.6	5.4%	4.8	7
IGB REIT	MP	2.74	2.81	2.6%	11,860.7	N	12/2026	14.4	15.4	42.6%	7.0%	19.1	17.8	2.6	9.9%	15.4	5
KLCCP STAPLED GROUP	MP	9.52	9.22	-3.2%	17,186.8	Y	12/2026	47.8	49.2	5.8%	2.9%	19.9	19.3	1.3	6.1%	46.9	4
PAVILION REIT	OP	1.71	1.80	5.3%	6,716.8	N	12/2026	10.5	11.0	15.1%	4.1%	16.2	15.6	1.3	7.6%	11.3	6
SUNWAY REIT	OP	2.20	2.45	11.4%	7,534.6	N	12/2026	12.7	13.3	1.7%	5.3%	17.4	16.5	1.5	7.8%	12.5	5
SECTOR AGGREGATE					**51,262.2**					**13.4%**	**4.7%**	**18.6**	**17.7**	**1.3**	**7.0%**		**6**

Source: Bloomberg, Kenanga Research

Renewable Energy

Sun Still Shines

OVERWEIGHT

↔

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

We expect near-term solar order book replenishment to remain robust, supported by module prices stabilizing at 11 cents/W. Sector earnings visibility is anchored by an estimated RM2-3b unallocated LSS5+ market and RM1b in residual LSS5 contracts. The upcoming project which we project to be launched by 3QCY26, namely the 2GW LSS6 program serves as the next major catalyst, projected to unlock c.RM8b in BESS-integrated EPCC opportunities. We view the CRESS framework positively, as it marks one of the most viable ways to address critical energy security concerns. This is mainly because a scaling 8.3GW data center pipeline under signed ESAs risks compressing grid reserve margins from 24% well below the mandatory 25% regulatory minimum, which is further compounded by 5.9GW of scheduled coal plant retirements by 2030. Assuming utility-scale solar paired with a standard four-hour BESS configuration, developers could absorb the 20 sen/kWh SAC, generating c.RM12b in annual wheeling revenue for the local utility company to fund critical grid upgrades. We view this as a win-win situation for both the state and corporate off-takers, remaining the key catalyst to fundamentally transform the growth trajectory of the utility sector over the long term. We maintain our OVERWEIGHT stance on the sector, with SAMAIDEN (OP; TP: RM1.94) remaining our top pick.

Near-term order book replenishment. The EPCC rollouts for LSS5+ are expected to drive near-term order book replenishment for local solar players, given that these utility-scale projects are scheduled for Commercial Operations Date (COD) starting in 2027. Our channel checks suggest that after excluding internal EPCC execution by asset owners, the estimated unallocated EPCC addressable market stands at c.RM2-3b, which should continue to provide robust earnings visibility for pure-play EPCC providers through to 2028. While public contract conversions have been noticeably slow, with only about 2% of total EPCC value announced so far, we expect job momentum from utility-scale solar to remain strong over the near term. Additionally, this will also be supported by the preceding LSS5 cycle, where an estimated RM1b in EPCC contracts remain unallocated, mostly from Package 1 and 2, representing near-term opportunities. These unawarded pipelines present highly visible contract opportunities for players like **SLVEST (OP; TP: RM3.45)** and **SAMAIDEN (OP; TP: RM1.94)**, given their dominant market shares and proven execution track records in the utility-scale solar space.

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.	Masdar (49%) + Citaglobal Bhd (30%) + TIZA Global (21%)	200MWac	Chereh Dam, Pahang (Floating)
3.	JAKS Resources Bhd (51%) + CPECC (China) (49%)	199.98MWac (2x 99.99MW)	Setiu, Terengganu
4.	YTL Power International Bhd (100%)	100MWac	Kelantan
5.	Sunview Group Bhd (51%) + Cypark Resources Bhd (49%)	99.99MWac	Port Dickson, Negeri Sembilan
6.	Samaiden Group Bhd (70%) + JBB Builders (M) Sdn Bhd (30%)	99.99MWac	Segamat, Johor
7.	Leader Energy Group Bhd (100%)	136MWp	Mukim Kuala Ketil, Baling, Kedah
8.	Equinox Solar Farm Sdn Bhd (100%)	99.99MWac	Pasir Puteh, Kelantan
9.	Wawasan Dengkil Holdings (70%) + Nestcon Bhd (30%)	70MWac	Pendang, Kedah

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

Exhibit 2: LSS5 Award List Based on Public Information

No.	Award name	Installed Capacity	Location
1.	TNB Renewables Sdn Bhd (TNB) (100%)	500MWac	Kuala Muda, Kedah
2.	Edra Power Holdings (49%) + Worldwide Holdings (40%) and Rotaka Engineering Services (11%)	300MWac	Bestari Jaya, Kuala Selangor (Floating Solar)
3.	Gentari Sdn Bhd (Petronas) (100%)	100MWac	Kuala Muda, Kedah
4.	Ditrolic Energy Holdings (100%)	100MWac	Perak
5.	Parkland Renewable Energy Sdn Bhd	99.99MWac	Johor
6.	Coral Energy (63%) + Ambang Asli (19%) + Bertam Solar Power (18%)	99.99MWac	Kampar, Perak (Floating Solar)
7.	Gadang Holdings Bhd (70%) + Other Joint Venture Partners (30%)	99.99MWac	Selangor (Floating Solar)
8.	Solarvest Holdings Bhd (100%)	60MWac	Kuala Langat, Selangor (Floating)
9.	Conextone Energy Sdn Bhd (100%)	90MWac	Melaka (Floating Solar)

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

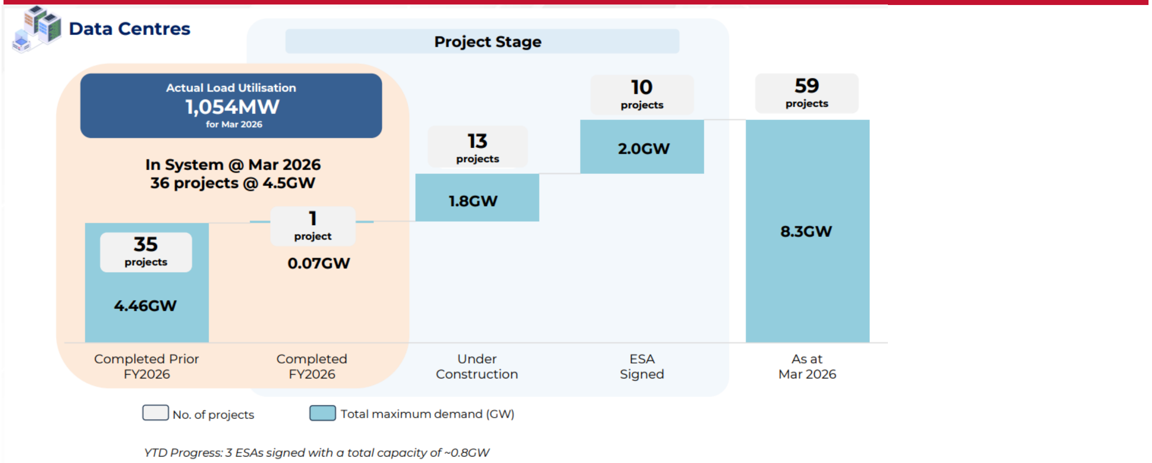
LSS6: Near-term Catalyst. LSS6 is likely to be rolled out in the near term, with this program projected to trigger a new wave of order book flow for solar EPCC providers. Assuming a 3QCY26 launch, contract awards are anticipated in early 2027 based on the historical six-month tender timeline. Channel checks indicate that the program will feature mandatory battery energy storage system (BESS) integration, encompassing 2GW of BESS capacity that we estimate will unlock c.RM8b in massive EPCC opportunities. Due to this battery integration which accounts for 40% to 50% of the additional component costs, contract values are expected to double compared to past cycles. While competition will likely intensify as new entrants vie for market share, we believe established leading players with solid capital structures are better positioned to emerge as winners. As such, we expect dominant incumbent players like **SLVEST** and **SAMAIDEN** to be key beneficiaries given their proven track records in utility-scale projects and superior balance sheet strength.

CRESS: Increasingly Essential. The Corporate Renewable Energy Supply Scheme (CRESS) remains the key to medium-term replenishment opportunities for utility-scale solar players, namely **SLVEST, SAMAIDEN and SUNVIEW.** While initial adoption has been slow following the SAC revision (20 sen/kWh firm, 40 sen/kWh non-firm), an ongoing government review of grid access charges is expected to refine cost parameters and improve commercial viability. Near-term contract conversions will be concentrated among ultra-high voltage (UHV) consumers, specifically hyperscale data centers seeking to hedge against escalating utility overheads under the revised TNB tariff structure while fulfilling corporate decarbonization mandates.

The massive pipeline of 8.3GW in signed Electricity Supply Agreements (ESAs) as of March 2026 highlights Peninsular Malaysia's continuous data center (DC) growth. Given that DCs operate on a continuous, high-load baseload profile, integrating this additional 8.3GW into the existing grid could temporarily pressure the current 24% reserve margin below the 25% regulatory minimum standard. We see CRESS standing out as one of the most effective ways to reduce grid stress, given that it is easy to scale up and is deployable within a fast timeframe. Based on our preliminary estimates using a four peak sun hour window paired with a four-hour (aligned with MyBEST) utility Battery Energy Storage System (BESS) configuration, and developers absorbing the 20 sen/kWh firm output SAC, this is projected to generate c.RM12b in recurring annual wheeling revenue for the utility company. This ensures that hyperscale data center loads are met with stabilized green power, while effectively insulating the core transmission network from localized demand shocks and overloading.

We view this framework as a mutually beneficial mechanism for both the state and enterprise off-takers, as these enhanced infrastructure cash flows will directly fund critical distribution network and grid-stabilization upgrades to mitigate localized frequency risks while simultaneously addressing systemic energy security concerns. The CRESS framework remains the key catalyst to fundamentally transform the growth trajectory of the utility sector over the long term.

Exhibit 3: Status of Data Center Electricity Supply Agreements (ESAs) and Construction Pipeline



Source: TNB

Solar ATAP: Suria Home Boosted. Rooftop solar installers are likely to see earnings improvement in 2HCY26, driven by the government's rollout of the Suria Home rebate program. Under this scheme, domestic consumers installing residential solar assets are eligible for a cash rebate of RM600 per kWac, capped at a maximum of RM3,000 per household. Channel checks indicate these cash rebates will improve residential payback periods by 0.5 to 1.0 years depending on system size, which is expected to support near-term earnings visibility for rooftop-focused players such as VERDANT, **PEKAT (OP; TP: RM1.91)**, and BMGREEN. We note that the Suria incentive cap has been reduced from RM4,000 under Solaris to RM3,000, highlighting a clear policy shift toward self-consumption aligned with active residential energization and reducing reliance on export-driven economics. With Malaysia's residential solar penetration still in the single digits, this underpenetrated market continues to offer visible opportunities for a sustained multi-year upcycle.

SELCO: Stronger Case for BESS Integration. We see demand for the SELCO framework accelerating, driven primarily by Medium Voltage MV industrial players seeking to leverage battery storage for peak shaving. For these high energy intensity users, BESS is no longer a sustainability add-on but a direct economic hedge against rising utility tariffs under the revised TNB rate structure (refer to The Sun Just Got Cheaper). The economic case is further reinforced by the ongoing softening in battery prices to c.USD95/kWh from the previous baseline of around USD100/kWh, supported by a persistent global oversupply across the raw cell supply chain. This is expected to benefit BESS providers, including **PEKAT**, given their strong exposure in on-grid industrial solar installations and energy storage integration. With industrial electrification accelerating, we expect SELCO-driven BESS adoption to compound, anchoring sustainable earnings growth over the medium to long term.

Solar Module Prices: Stabilizing at 11 Cents/W. The EPCC rollout for utility-scale projects has been sluggish to date, mainly because elevated panel prices following China’s 9% export VAT rebate removal led to temporary stockpiling by importers. Solar panel prices have recently stabilized at c.11 cents/W (FOB China), which supports resumption of the procurement process in the near-future. In the long run, we expect solar module prices to continue to trend lower, mainly because smaller Chinese solar module supply chain players who rely heavily on the Chinese government's VAT rebates are likely to deplete their working capital. With current market levels remaining below the break-even level of most solar manufacturers, this supply-side consolidation should continue to push equipment costs lower over time. Any further drop in solar module prices represents additional upside for EPCC contractors that have yet to lock in panel procurement under fixed-price contracts.

BESS: Mandatory for Grid Stabilization. Battery integration is no longer an option but a critical grid requirement. Based on industry channel checks, every 1GW of rolled-out solar capacity now requires 0.5GW of BESS to support the national grid structure. Given that current solar installed capacity stands at c.4.5GW, the upcoming additions from the LSS5 and LSS5+ cycles are expected to push total capacity to 8.5GW over the medium term. Technical assessments indicate that once solar penetration exceeds the 6.0GW threshold, a minimum of 3.0GW of cumulative BESS becomes mandatory to stabilize the grid infrastructure. Considering that the current network is supported only by the 400MW/1,600MWh MyBEST competitive bidding program and TNB's 100MW pilot project, the system faces an immediate deficit of 2.5GW in required storage capacity to support current solar installation numbers. Hence, we expect MyBEST tenders to be rolled out more aggressively over the medium term to fast-track grid-scale battery deployment, providing visible contract momentum for players such as **ANNJOO**, **GAMUDA (OP; TP:RM5.30)**, and **Leader Energy**, given their proven execution track records and dominant early exposure in the utility-scale energy storage space.

Top pick:

- **SAMAIDEN (OP; TP:RM1.94).** We continue to favour **SAMAIDEN** as our top pick within the solar infrastructure space. While we previously noted that a drop below the 10 cents/W level could tilt our preference to **SLVEST**, recent data points confirm that solar panel prices have instead stabilized at 11 cents/W after retreating from their post-VAT peak of 13 cents/W. We favour SAMAIDEN because its strategic pre-procurement of c.500MW out of an 800MW total panel pipeline, which has been successfully delivered in Malaysia and is currently undergoing progressive site installation, effectively insulates its margins from the initial China VAT export shock. Beyond this, backed by the Group's established 10% to 15% historical utility-scale market share and RM980m in unutilized sukuk facilities, SAMAIDEN remains well positioned to scale its LSS5+ market share from the current c.5% closer to its c.12% historical share achieved under the previous LSS5 cycle. Backed by a strong balance sheet, the Group also remains well positioned to capture a meaningful share of the upcoming CRESS multi-gigawatt rollout, placing these upcoming contract wins well within their near-term execution capabilities.

Exhibit 4: Solar Module Prices

Module Type (TOPCon Bifacial)	USD/w					
	Week21	Week22	Week23	Week24	Week25	YTD (%)
182mm, 72 cells (580-590w)	0.11	0.11	0.11	0.11	0.11	7%
210mm, 60 cells (630-655w)	0.11	0.11	0.11	0.11	0.11	9%
210mm, 60 cells (700-725w)	0.11	0.11	0.11	0.11	0.11	10%
210R, 60 cells (610-635w)	0.11	0.11	0.11	0.11	0.11	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) 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																	
CHEEDING HOLDINGS BHD	OP	0.655	0.790	20.6%	522.2	Y	03/2027	5.1	5.6	1.2%	8.8%	12.8	11.8	2.9	25.8%	1.3	1.9%
KEEMING GROUP BHD	OP	1.70	1.80	5.9%	552.5	Y	03/2027	8.6	10.2	21.7%	17.9%	19.7	16.7	5.3	33.9%	0.0	0.0%
KAWAN RENERGY BHD	OP	0.490	0.730	49.0%	269.5	Y	10/2026	4.8	6.1	11.9%	27.8%	10.2	8.0	1.9	20.7%	1.4	2.9%
KJTS GROUP BHD	OP	0.720	1.34	86.1%	497.3	Y	12/2026	3.1	3.9	18.7%	25.9%	23.4	18.5	2.1	11.8%	61.7	0.9%
PEKAT GROUP BHD	OP	1.69	1.91	13.0%	1,197.3	Y	12/2026	8.7	10.0	24.4%	14.4%	19.4	17.0	2.9	18.6%	0.0	0.0%
SAMAIDEN GROUP BHD	OP	1.37	1.94	41.6%	766.1	Y	06/2026	6.3	7.5	21.3%	18.8%	21.7	18.2	3.4	17.4%	1.1	0.8%
SOLARVEST HOLDINGS BHD	OP	2.99	3.36	12.4%	2,864.3	Y	03/2027	13.8	15.4	29.1%	11.6%	21.6	19.4	2.9	14.8%	0.0	0.0%
SWIFT ENERGY TECHNOLOGY BHD	OP	0.190	0.470	147.4%	190.2	Y	09/2026	1.3	2.0	-29.3%	53.8%	14.6	9.5	2.4	19.1%	0.0	0.0%
SECTOR AGGREGATE					**171,557.6**					**-3.1%**	**2.6%**	**17.5**	**17.0**	**2.6**	**17.1%**		**0.8%**

Source: Kenanga Research

**Note that Sunview numbers based on Bloomberg consensus*

Seaport & Logistics

Bracing the Wave

NEUTRAL

↔

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

We maintain our NEUTRAL stance on the sector. The WTO since March 2026 has maintained its projection for CY26 global merchandise trade volume growth at 1.9% and 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 to remain as the key growth drivers, pending a clearer and long-lasting peace deal and recovery from the Middle East conflicts. Note that, the high energy price scenario (if US-Iran peace deal discussion is prolonged) would see the world merchandise trade volume growth slowing to 1.4% from 1.9%. Fuel prices (which have started to ease following the US-Iran peace deal discussion) are still subject to the on-going Middle East uncertainties but expected to exert minimal impact to the sector. Logistics players are insulated by the high diesel price by using subsidy fleet card to pump at a fixed price of RM2.15 per litre, while seaport operators managed the use of unsubsidized diesel through electrification of fleet and solar-powered green initiatives. 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. Our newly-upgraded sector top pick is BIPORT (OP; TP: RM7.00, which was upgraded from MP; TP: RM5.30) for the expected significant step-up in earnings following the finalisation of longer-term Bintulu Port concession with the first port tariff hike expected to start in 2027 (no hike implemented since 1993).

Bracing the wave. The WTO since March 2026 maintained its projection for CY26 global merchandise trade volume growth at 1.9% and 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 to remain as the key growth drivers. However, this baseline forecast is under pressure from the conflict in the Middle East and high energy prices (if US-Iran peace deal discussion is prolonged) 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 slowing to 1.4% from 1.9%, shaving 0.5 percentage points off.

The brent crude oil prices has since early-June 2026 been experiencing a sharp reversal following the peace deal of US-Iran discussion. While it has successfully triggered a steep drop in global oil prices, the process is considered highly volatile due to disputes and conflicting terms between Washington and Tehran. Thus, there is no changes in the global merchandise trade volume growth estimate by WTO for now pending a clearer and long-lasting peace deal and recovery from Middle East wars.

The shipping diversion from the Red Sea is continuing to weigh down on global trade, but shippers managed to increase and sustain massive trade volume around the Cape of Good Hope by overhauling fleet logistics, restructuring fuel supply networks, and passing elevated costs directly onto the supply chain. Driven by intensifying security crises in the Red Sea and the Strait of Hormuz, maritime carriers transformed what was a temporary detour into a permanent, highly structured trade corridor**.** On the other hand**, WPRTS** indicated that the Asia-Europe trade route only covers 17% of TEUs and its largely focused on intra-Asia trade (at 62% of TEUs).

Raising BIPORT to OUTPERFORM with a higher DCF-derived TP by 32% to RM7.00 (from RM5.30), and as our new top pick for the sector. We raised BIPORT to OUTPERFORM (from MARKET PERFORM) with a higher DCF-derived TP by 32% of RM7.00 (from RM5.30) as we include the assumption of 30% ceiling increase in port tariff hike into our DCF-model, staggered over three years with the first port charges hike expected to start in 2027. This is by assuming the mechanism to be the same as the 30% cumulative container tariff increase at Port Klang (includes **WPRTS (MP; TP:RM6.20)**), three-stage hike approved by the Ministry of Transport. There are no no changes in our earnings forecasts as we expect 2027 to be the year of transition as BIPORT need to discuss terms with its biggest customer, Petronas (LNG constitute 50% of BIPORT revenue), while, the full impact of the port charges hike starts in 2028.

Note that, a historic Federal-to-State handover of Bintulu Port Authority Sarawak (BPAS) was officially completed on June 21, 2026. Prime Minister Datuk Seri Anwar Ibrahim and Sarawak Premier Tan Sri Abang Johari Tun Openg finalized a tripartite pact (which includes handover of RM1.8b as mutual compensation for the acquisition of the strategic port's assets), shifting regulatory control from the Federal Ministry of Transport to the Sarawak State Government. Bintulu Port Sdn Bhd (BPSB) remains the state-approved operator with cargo movements, terminal operations, and contractual obligations carry on completely unaffected.

Locally, fuel prices trend (started to tone down gradually following the US-Iran peace deal discussion) has minimal impact to the sector. Logistics players are unaffected by the rising diesel price (at time of writing diesel pump price is at RM4.37 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 managed the use of unsubsidized diesel through

electrification of fleet and solar-powered green initiatives.

For the Malaysian citizen, government announced that starting 1st July 2026, the subsidised diesel price for eligible Malaysians nationwide will drop to a flat RM2.10 per litre and the mechanism will be the same and share eligibility with BUDI MADANI program.

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 roles as "connecting" economies, trading across geopolitical blocs, thereby potentially mitigating the risk of trade fragmentation. Based on the latest Malaysia's external trade in May 2026, exports to the US recorded a magnificent growth of 97.7% YoY (YTD all-time high growth) due to robust demand for E&E product. The US remained Malaysia's largest export destination since February 2026. 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 highly volatile 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** which took a dive due to its comparatively 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 a 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 (meeting will continue in October 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.

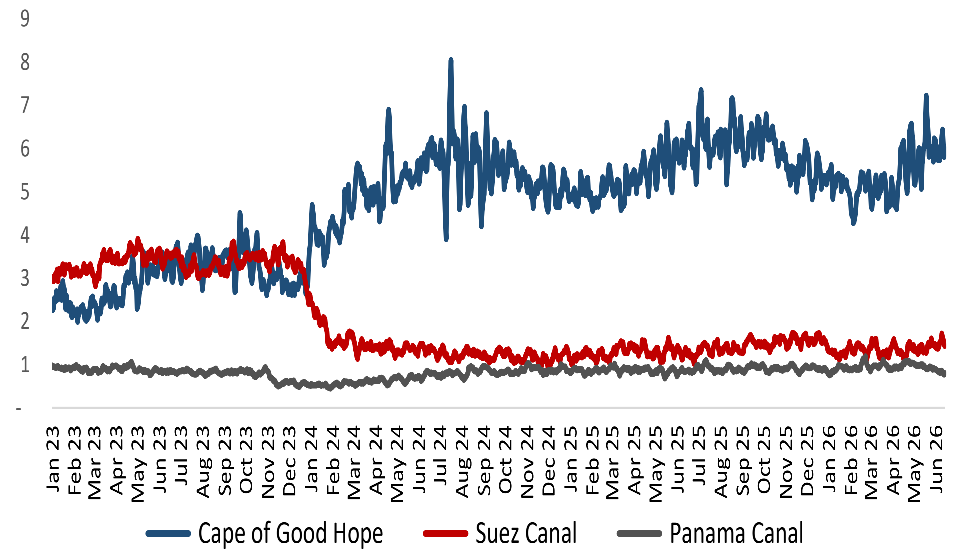
EU Carbon Border Adjustment Mechanism (EU CBAM): Separately, the **EU CBAM** entered its definitive regime on 1 January 2026. Under the CBAM framework, EU importers of selected carbon-intensive goods are required to report embedded emissions and, from 2027, surrender CBAM certificates priced in line 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

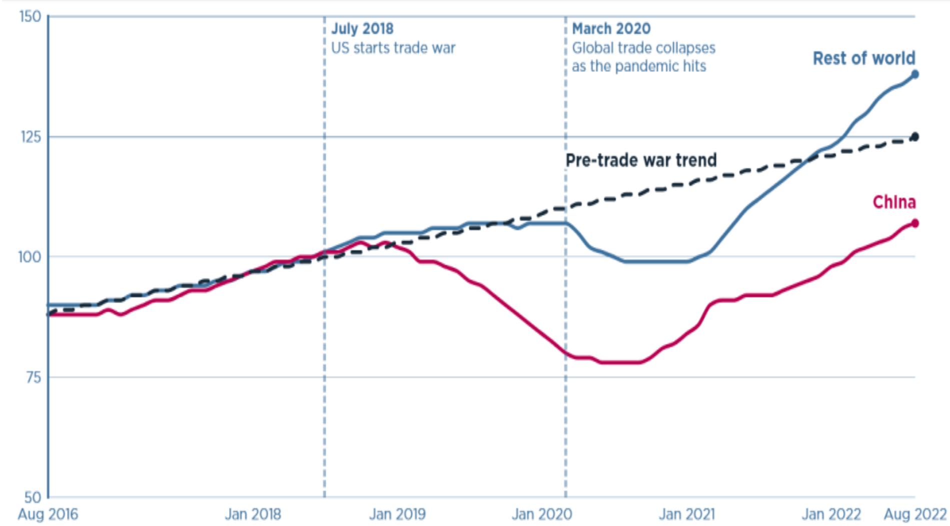
Logistics to ride on e-commerce boom. On the other hand, the domestic logistics sector still fared better as Malaysia's total trade growth moderated to 9.5% in February 2026 (Jan: 12.3%), while trade surplus narrowed to RM16.7b in the same period (Jan: RM22.2b), especially in the domestically driven 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.

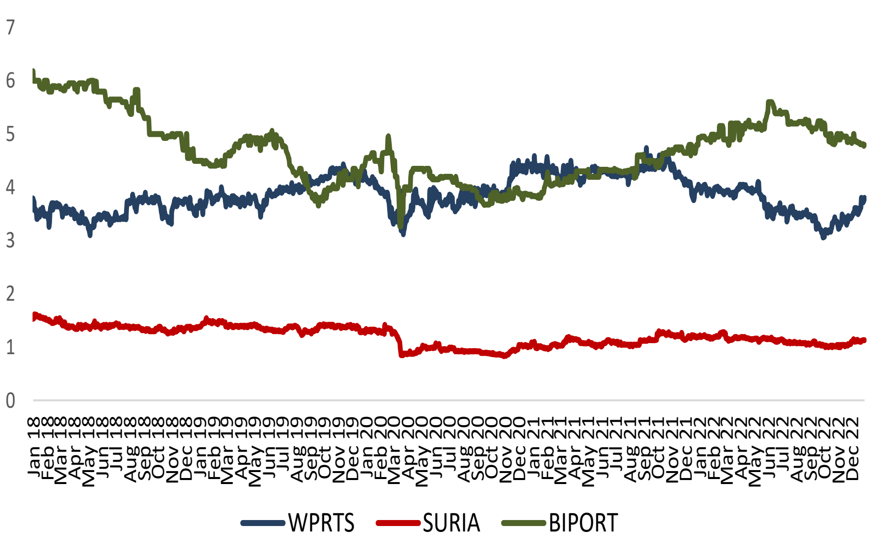
Our sector top pick is **BIPORT (OP; TP: RM7.00)** for: (i) its steady income stream from handling LNG cargoes for Malaysia LNG Sdn Bhd (that typically makes up close to 50% of its total profit), (ii) a potential step-up in earnings if Bintulu Port is granted a significant hike in its port tariffs under the new concession by CY27/28, and (iii) the tremendous growth potential of Samalaju Industrial Port backed by rising investment in heavy industries in Samalaju Industrial Park. Stock liquidity, however, is not BIPORT's strong suit, with average 90-day turnover of RM13m in value.

Exhibit 2: Trade War Impact in 2018−2022



Source: Constructed by the US 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 19.06.2026 (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	OP	5.60	7.00	25.0%	2,576.0	Y	12/2026	29.8	30.9	14.3%	3.7%	18.8	18.1	1.3	6.8%	15.0	2.7%
POS MALAYSIA BHD	UP	0.270	0.140	-48.1%	211.4	Y	12/2026	(19.8)	(17.2)	-174.4%	-187.2%	N.A.	N.A.	3.8	-223.6%	0.0	0.0%
SWIFT HAULAGE BHD	UP	0.400	0.320	-20.0%	355.9	Y	12/2026	3.2	3.4	5.4%	8.2%	12.6	11.6	0.5	3.7%	1.6	4.0%
WESTPORTS HOLDINGS BHD	MP	6.00	6.20	3.3%	20,532.0	Y	12/2026	33.0	35.4	13.2%	7.1%	18.2	17.0	4.6	26.2%	24.8	4.1%
SECTOR AGGREGATE					**5,918.8**					**-35.4%**	**-42.0%**	**16.5**	**15.6**	**2.5**	**-46.7%**		**2.7%**

Source: Kenanga Research

Technology

NEUTRAL

The AI Supercycle: Bigger, Longer, but Not Without Risks

↔

By Cheow Ming Liang I cheowml@kenanga.com.my; Tan Woon Pin / woonpin@kenanga.com.my

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 Market Enters a New Growth Phase. The global semiconductor industry is entering a markedly stronger growth phase, with WSTS forecasting market sales to surge 90% YoY to USD1.51T in 2026 before expanding a further 27% to approximately USD1.9T in 2027. Growth is expected to be led by memory, which is projected to rise by around 250% to more than USD800b, supported by robust demand for HBM, AI infrastructure and accelerated computing. Logic sales are also forecast to increase by 37%, underpinned by sustained investment in GPUs, AI accelerators and advanced processors.

AI Infrastructure Redefines the Semiconductor Upcycle. Although the current upcycle has reached the upper-end of the historical 22–30 months range, industry momentum remains intact. Unlike the previous three upcycles, which were largely driven by recoveries in PCs, smartphones, consumer electronics and pandemic-related shortages, the current cycle is anchored by the capital-intensive build-out of AI computing infrastructure. As a result, growth is being driven less by device unit volumes and more by substantially higher semiconductor content and average selling prices within AI servers.

A More Structural, Higher-Value and Capital-Intensive Cycle. The current upcycle is more structural and capital-intensive, although growth remains concentrated in leading-edge logic, HBM and AI-related equipment. Advanced packaging has become a critical bottleneck as AI performance increasingly depends on memory bandwidth, interconnect efficiency, power consumption and thermal management. Supply expansion also remains relatively disciplined due to high technical barriers, long qualification periods and concentrated leading-edge capacity.

Malaysia's Advanced Packaging Opportunity Remains Selective. Malaysia is positioned to participate in this transition as the country moves beyond conventional assembly and testing into IC design, advanced packaging, automation and supply-chain integration. The establishment of the Malaysia Advanced Packaging Consortium is a positive development, with its roadmap targeting pilot validation in 2026, C4 bumping capability in 2027 and 2.5D packaging by 2028. However, domestic exposure to higher-value technologies such as FCBGA, 2.5D and 3D integration, hybrid bonding and glass substrates remains relatively limited, suggesting that the benefits will likely accrue to a select group of companies rather than the sector broadly.

Near-Term Mean Reversion Risk Is Rising. Despite the favourable structural backdrop, the strong rally in global and Malaysian technology stocks has increased the risk of short-term mean reversion and valuation compression. Elevated bond yields, diminishing expectations for monetary easing, increasingly hawkish signals from major central banks, uncertainty surrounding the transition to a new Fed Chair and potential liquidity absorption from upcoming mega technology IPOs could trigger profit-taking and portfolio rotation. We therefore continue to advocate trimming trading positions and locking in partial gains while maintaining core exposure to fundamentally strong companies benefiting from AI infrastructure spending, fab expansion, advanced packaging and supply-chain localisation.

Recalibrating Valuations for a Different Semiconductor Cycle. Given growing evidence that the present semiconductor upcycle differs structurally from the previous three cycles, we are also recalibrating our sector valuation methodology, particularly for OSAT companies that have traditionally been benchmarked against historical cycle valuations. We have generally raised the average OSAT valuation benchmark to 31x PER (vs. 26x previously), based on the prevailing valuation range during the current upcycle. Our preferred pick within the segment is INARI (OP, TP: RM2.72). The revised framework seeks to better reflect the current cycle's stronger growth profile, and improved earnings visibility. While the structural AI investment thesis remains intact, increasingly stretched valuations warrant a more selective and disciplined investment approach.

Against this backdrop, we continue to favour front-end names due to their clearer earnings visibility, with **KGB (OP; TP: RM9.05), FRONTKN (OP; TP: RM5.10)**, and **UWC (OP; TP: RM7.00)** remaining our top sector picks. We also favour **INFOMINA (OP; TP: RM1.90)** for its ability to translate early AI adoption into a scalable and recurring earnings stream.

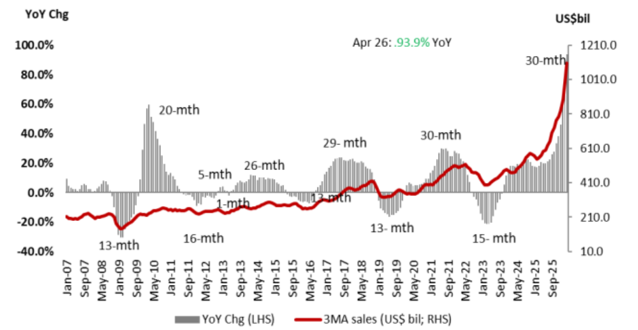
Global Chip Market Surges Beyond USD1.5t by 2026, led by AI-driven Logic and Memory upcycle

World Semiconductor Trade Statistics (WSTS) has sharply upgraded its semiconductor market forecasts, projecting global semiconductor sales to surge 90% YoY to USD1.51T in 2026, before expanding another 27% to approximately USD1.9t in 2027. Growth in 2026 will be led by memory, which is expected to rise around 250% to more than USD800b, supported by strong demand for AI infrastructure, HBM and accelerated computing. Logic sales are forecast to grow 37%, while microprocessors, analog and discrete semiconductors are projected to increase by 20%, 10% and 8%, respectively.

Geographically, the Americas are expected to lead with 112% growth in 2026, followed by Asia-Pacific (+87%), Europe (+58%) and Japan (+28%). Industry momentum is expected to remain above historical trends in 2027, driven by continued AI deployment, advanced computing investments and rising semiconductor content across end markets, with memory and logic forecast to grow 32% and 27%, respectively.

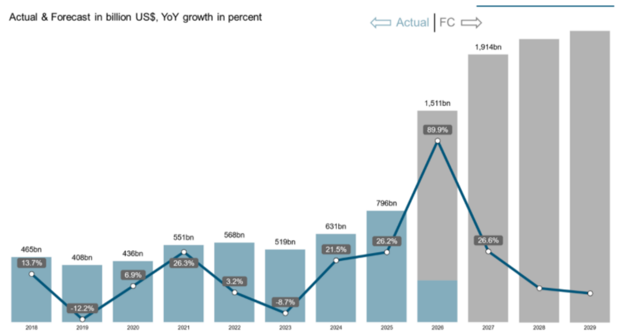
Historically, semiconductor upcycles have lasted about 22 months on average, with the longest extending to roughly 30 months. While the current upcycle has already reached the upper-end of this historical range, April 2026 data suggests momentum remains intact, indicating further room for growth. Unlike previous cycles, the current upturn is supported by stronger structural drivers, including accelerating AI adoption, high-performance computing, 5G expansion and the next wave of AI-enabled smartphones. These trends continue to underpin demand for advanced logic chips, GPUs and AI accelerators, suggesting that the current cycle could prove 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

The current semiconductor upcycle is structurally different against the previous three cycles given it is driven less by broad consumer-electronics volumes and more by a concentrated, capital-intensive build-out of AI computing infrastructure. For comparison, the prior three upcycles can broadly be characterised as follows:

Exhibit 3: What Drive the Previous Semiconductor Upcycle

Upcycle	Principal demand driver	Key characteristics	Main reason it ended
2009–2011	Post-global financial crisis recovery	Inventory restocking, fiscal stimulus and recovery in PCs, handsets and industrial demand	Macro slowdown, inventory correction and European debt crisis
2016–2018	Smartphones, cloud servers and memory	Strong DRAM/NAND pricing, Chinese handset demand and early hyperscale data-centre expansion	Memory oversupply, weaker smartphones and US–China trade tensions
2020–2022	Pandemic digitisation and shortages	Work-from-home devices, cloud adoption, automotive shortages and aggressive inventory accumulation	Post-pandemic demand normalisation, excess inventories and higher interest rates
2024–present	Generative AI and accelerated computing	AI accelerators, HBM, advanced packaging, leading-edge foundry capacity and hyperscaler infrastructure	Still unfolding; risks centre on AI monetisation, overcapacity and capex discipline

Source: Kenanga Research

What makes the current cycle different

1. **The growth engine is infrastructure rather than consumer replacement demand.** Past cycles depended heavily on unit growth in PCs, smartphones and consumer electronics. The current cycle is being driven primarily by hyperscaler investment in AI training and inference, which requires substantially more semiconductor content per system. Demand therefore extends beyond GPUs into HBM, networking chips, optical connectivity, power management, substrates, advanced packaging, cooling and data-centre infrastructure.
2. **Value growth is significantly stronger than unit growth.** Previous upcycles were generally supported by rising device shipments and broad-based chip volumes. In the current cycle, much of the growth comes from exceptionally high semiconductor content and average selling prices within AI servers. WSTS expects the 2026 market expansion to be overwhelmingly led by memory, particularly HBM, and logic used in accelerated-computing platforms.
3. **Advanced packaging has become a critical capacity constraint.** In earlier cycles, the primary bottlenecks were usually wafer capacity or conventional memory supply. Today, system performance increasingly depends on CoWoS-type 2.5D integration, HBM stacking, chiplets, high-end substrates and eventually hybrid bonding. As a result, value creation has shifted beyond wafer fabrication towards packaging integration, memory bandwidth and interconnect efficiency.
4. **The cycle is concentrated at the high-end rather than broad-based.** The strongest demand remains concentrated in leading-edge logic, HBM and AI-related equipment, while several traditional segments (such as industrial, automotive, analog and mainstream consumer semiconductors) have experienced slower and less synchronised recoveries. This creates a "two-speed" semiconductor cycle with an exceptionally strong AI-related growth alongside a more gradual recovery in conventional applications.
5. **Supply expansion is more disciplined, but capital intensity is much higher.** Leading-edge capacity is controlled by a relatively small group of manufacturers, while HBM qualification and advanced-packaging expansion require long lead times and significant technical expertise. This has limited immediate supply responses compared with previous memory-led cycles. At the same time, investment requirements are much larger, where SEMI projects global 300mm fab-equipment spending to rise 18% to USD133b in 2026 and another 14% to USD151b in 2027, driven by AI, advanced nodes and supply-chain localisation.
6. **The duration could be longer, but the cycle is not immune to correction.** The structural demand runway appears stronger because AI infrastructure is being deployed across training, inference, sovereign AI, enterprise computing and eventually edge devices. SEMI also expects AI-related memory investment to cushion traditional memory-cycle volatility. Nevertheless, the cycle may still experience short-term corrections caused by customer digestion, product transitions, export restrictions, electricity constraints, rising yields or doubts over hyperscalers' returns on AI spending.

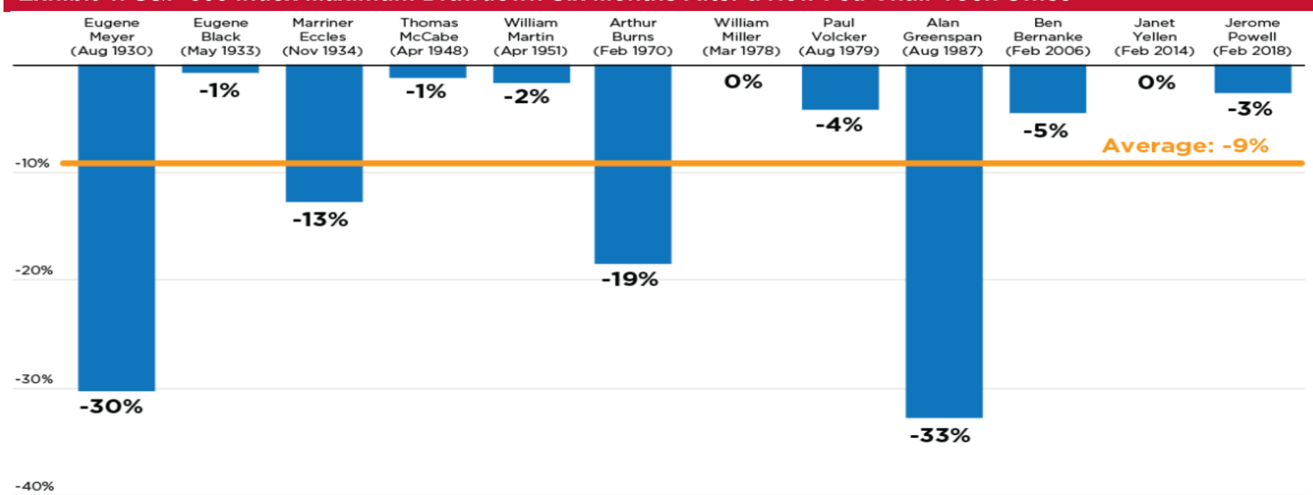
All in all, we believe the present upcycle is more structural, higher-value and more capital-intensive than the previous three, with AI infrastructure replacing smartphones, PCs and pandemic shortages as the primary growth engine. It also has a wider multiplier effect across leading-edge foundries, HBM, advanced packaging, equipment, networking, power and data-centre infrastructure.

However, it is not necessarily less cyclical. The key difference is that volatility may increasingly take the form of temporary capex pauses, product-transition delays and valuation corrections rather than a collapse in semiconductor demand. Hence, the most durable beneficiaries are likely to be companies with genuine exposure to AI bottlenecks and technology transitions, while businesses dependent on mature-node volume or broad consumer recovery may participate later and less strongly.

Rising risk of short-term mean reversion, but structural AI thesis remains intact. We remain constructive on the technology sector's medium-to-long-term outlook, underpinned by sustained AI infrastructure spending and the ongoing global fab expansion cycle. The industry is transitioning from fab construction in 2025 towards equipment installation, capacity ramp-up and production readiness in 2026, with SEMI projecting installed capacity growth of 4.7%–5.0% and record front-end equipment spending of USD133b, up 18% YoY. Meanwhile, aggregate 2026 capex commitments among the Magnificent 7 are estimated at approximately USD720b–USD750b, reinforcing demand visibility across semiconductor equipment, advanced packaging, HPC, data centres, UHP gas systems and other AI-related supply-chain beneficiaries.

Nevertheless, the sharp rally in global and Malaysian technology stocks has increased the risk of short-term mean reversion and valuation de-rating. Elevated bond yields, diminishing expectations for Fed easing, increasingly hawkish signals from the ECB and Bank of Japan, policy uncertainty under a new Fed Chair, and potential liquidity absorption from mega technology IPOs could trigger profit-taking and portfolio rotation. We therefore continue to advocate partial profit-taking or trimming of trading positions while maintaining core exposure to fundamentally strong companies benefiting from structural AI spending, fab expansion, advanced packaging and supply-chain localisation. The long-term investment thesis remains intact, although the near-term risk-reward has become less favourable following the sector's strong share-price appreciation. For further details, please refer to our technology sector report dated 8 June 2026*, titled Time to Lock In Some Gains, Not Exit the Theme.*

Exhibit 4: S&P 500 Index Maximum Drawdown Six Months After a New Fed Chair Took Office



Source: Bloomberg, Nationwide, Kenanga Research

Sharp rally reduced room for further multiple expansion. KLTEC is currently trading at a forward PER of about 25.2x, or roughly 0.5x standard deviation above its three-year mean of 22.9x, placing valuations near the upper-end of the range observed over the period. This elevated valuation follows an exceptionally strong 2QCY26 rally, during which the SOX and KLTEC surged by approximately 88% and 48%, respectively—an historically abnormal pace that suggests share prices may have moved ahead of near-term earnings fundamentals. While the structural semiconductor upcycle remains intact, the combination of stretched valuations and rapid price appreciation has reduced the scope for further multiple expansion and materially increased the risk of profit-taking, valuation mean reversion and a near-term correction should earnings growth fall short of expectations

Exhibit 5: KLTEC Forward PER Standard Deviation

Source: Bloomberg, Kenanga Research

Advanced Packaging – The Next Semiconductor Battleground. The recently concluded SEMICON Southeast Asia 2026 reinforced Malaysia's growing strategic relevance in the global semiconductor value chain, as the country gradually moves beyond traditional assembly and test into higher-value activities such as IC design, advanced packaging, intelligent manufacturing and supply-chain integration. A key takeaway from the event is that advanced packaging has emerged as a critical enabler of next-generation semiconductor performance, particularly as Moore's Law slows and AI/HPC workloads become increasingly constrained by memory bandwidth, latency, power efficiency and thermal management.

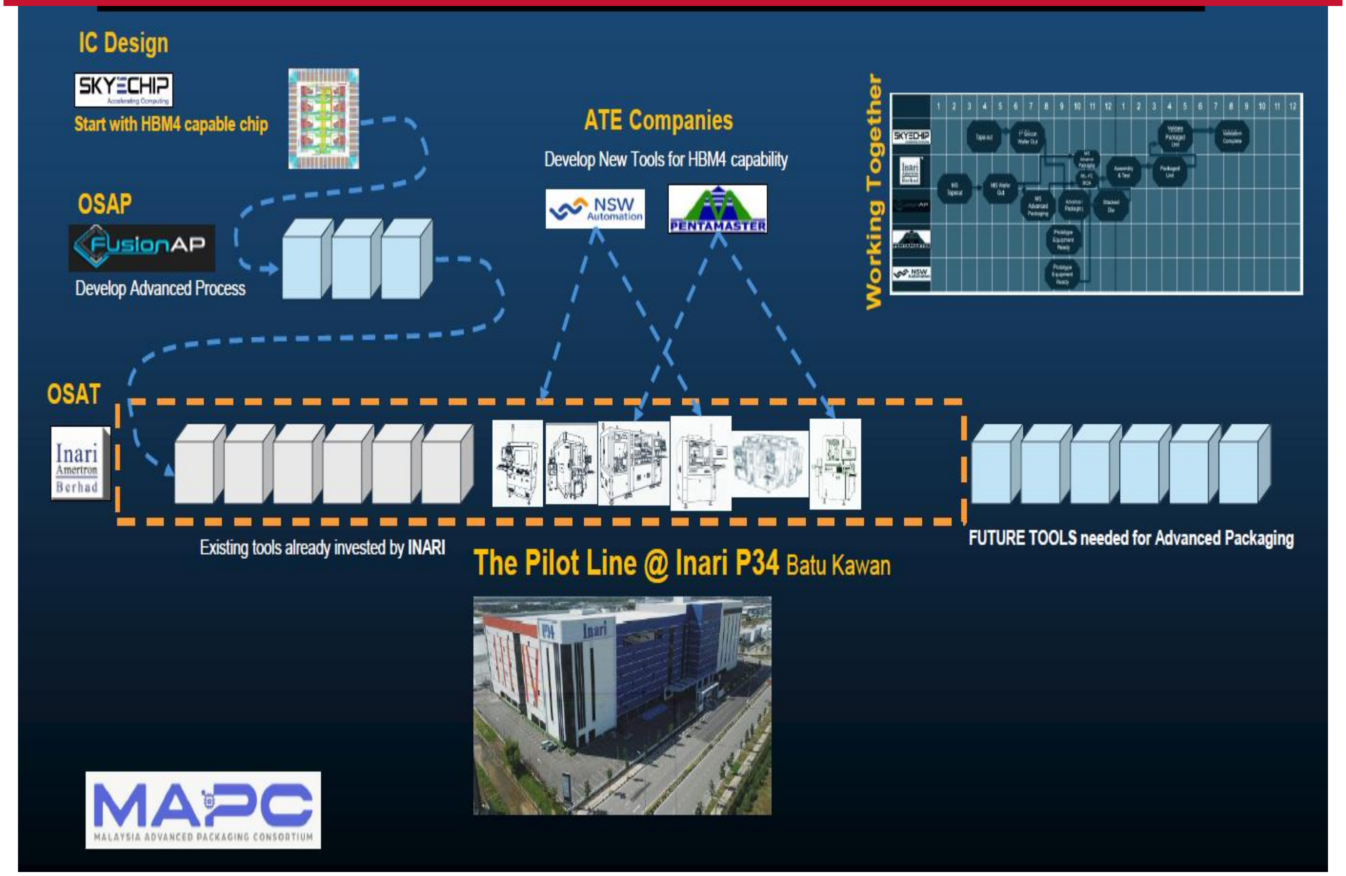
In simple terms, traditional packaging mainly protects the chip and connects it to the circuit board. Advanced packaging, however, plays a more strategic role by enabling different chips to communicate more efficiently, move data faster, consume less power, improve heat dissipation and integrate more functions into smaller form factors. This explains why advanced packaging is becoming increasingly important under the current AI-driven semiconductor cycle.

Structurally, demand for advanced packaging is being driven by two key trends: rising AI/HPC demand and the emergence of chiplet architecture. For AI workloads, the key bottleneck is no longer merely processor speed, but how efficiently data moves between processors and memory. This underpins rising demand for technologies such as FCBGA, 2.5D/3D packaging and hybrid bonding. Meanwhile, chiplet architecture allows large chips to be broken into smaller functional blocks and reconnected through advanced packaging to function as one integrated system.

From an investment perspective, mature technologies such as fan-in WLCSP (wafer-level chip scale packaging), fan-out packaging, SiP (system-in-package) and FCCSP (flip chip chip scale package) are more exposed to mobile and consumer electronics, where Malaysian players already have some presence through OSAT, testing, wafer-level packaging and SiP capabilities. In contrast, higher-growth technologies such as FCBGA (flip chip ball grid array), 2.5D/3D packaging, hybrid bonding and glass substrates are more closely tied to AI/HPC and data-centre applications, although Malaysia's current capabilities in these areas remain relatively limited.

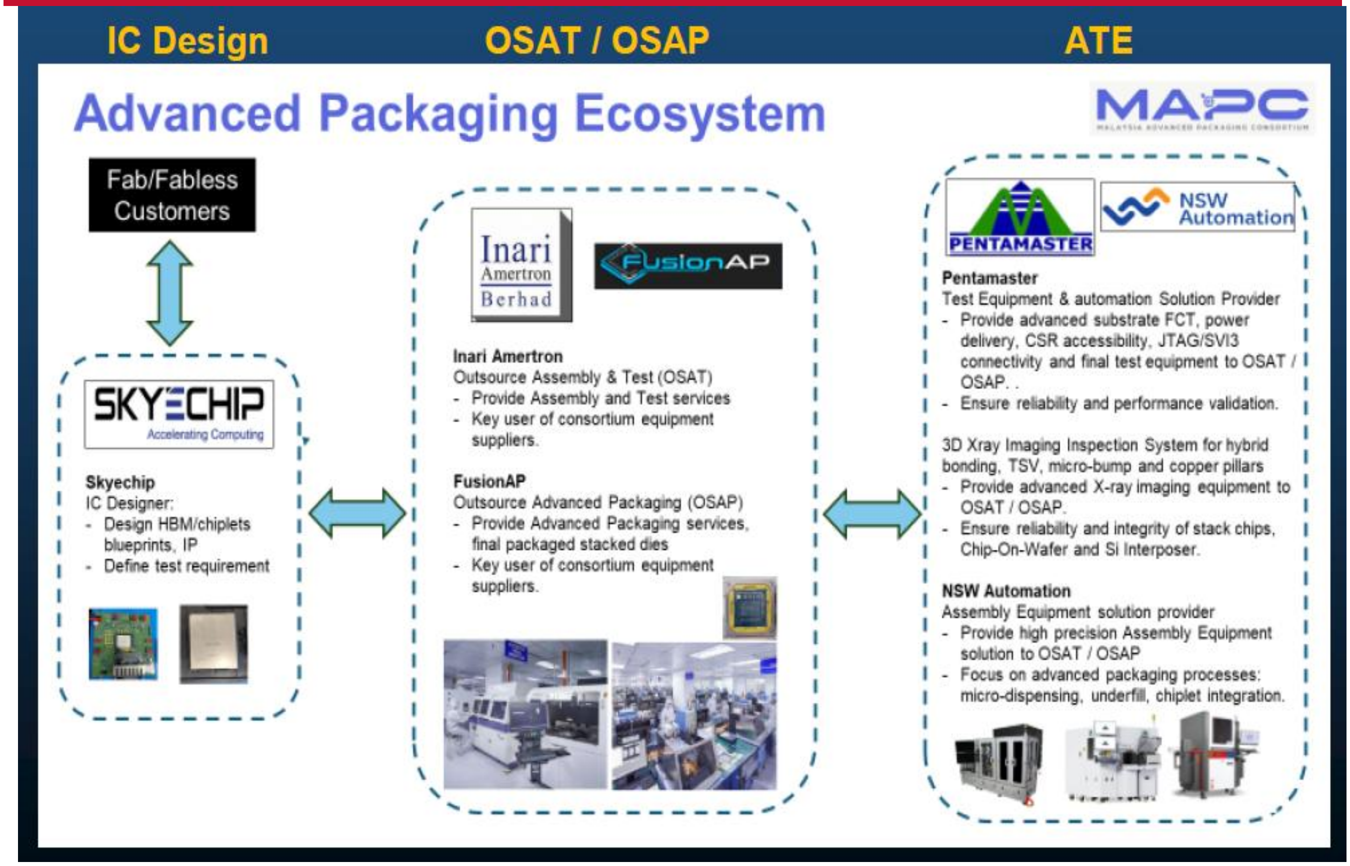
The formation of the Malaysia Advanced Packaging Consortium (MAPC) is a positive step, with a roadmap progressing from pilot validation in 2026 to C4 bumping in 2027 and 2.5D packaging capability by 2028. Overall, Malaysia's opportunity in advanced packaging remains promising but selective, centred on OSAT, automation, testing, precision engineering, photonics packaging and process infrastructure. Key names to watch include MAPC members such as **SkyeChip, Inari, Pentamaster, FusionAP and NSW Automation**. For further details, please refer to our technology sector report dated 15 June 2026, *titled Advanced Packaging – The Next Battleground in Semiconductor Value Chain*.

Exhibit 6: MAPC – Advanced Packaging is a New Capability



Source: MAPC, Kenanga Research

Exhibit 7: Roles of Each Founding Member



Source: MAPC, Kenanga Research

Recalibrating Sector Valuations

With growing evidence suggesting that the current semiconductor upcycle differs structurally from the previous three cycles, we are revisiting our sector valuation methodology, particularly for OSAT companies that are currently benchmarked against historical past three upcycle valuations. The present cycle is increasingly driven by structural AI-related demand, advanced packaging, high-performance computing and sustained semiconductor infrastructure investment, rather than a conventional consumer-led recovery.

Accordingly, we have recalibrated our valuation benchmarks to better reflect the sector's stronger growth profile, improved earnings visibility and potentially longer cycle duration. We now value INARI and MPI at 32.6x PER, up from 29x previously, in line with one standard deviation above their respective two-year mean valuations. For UNISEM, we retain our benchmark at the OSAT sector's average PER of 31x, compared with 26x previously. Similarly, we now value PENTA at 35.7x PER, in line with the average ATE valuation during the current cycle, versus the 30x average applied across the previous three upcycles.

While we have shifted our valuation framework for OSAT and ATE companies towards current-cycle benchmarks, we retain our existing methodology for EMS players. This is because the local EMS segment remains more exposed to consumer-centric end-markets, rather than the infrastructure-led demand supporting the front-end and back-end semiconductor value chain. We therefore continue to value the EMS subsector at an average 14.7x PER, equivalent to one standard deviation below its historical average forward PER across the past three downcycles. This reflects persistent sector headwinds, including cost pressures and ongoing uncertainty over end-demand recovery.

The following summarises the valuation changes arising from this review:

Exhibit 8: Revised TPs and Valuation Methodologies

	New TP	Rating	Last Price @ 26 Jun (RM)	
OPPSTAR	0.43	UP	0.61	Based on a higher FY27F PER of 35x (previously 28x), applying a 30% discount to peer Skyechip to reflect Oppstar's ongoing recovery and current lossmaking position.
INARI	2.72	OP	2.20	Based on targeted FY27 PER of 32.6x, aligned with the +1SD above its 2-year mean or current OSAT upcycle.
UNISEM	2.95	UP	4.52	Based on a targeted FY27 PER of 31x, aligned with the average PER of OSAT under the current upcycle
MPI	43.70	MP	47.00	Based on targeted FY27 PER of 32.6x, aligned with the +1SD above its 2-year mean or current OSAT upcycle.
SKP	0.27	UP	0.29	Based on a lower target PER of 11x applied to FY27F EPS. This represents an approximate 10% discount to peers' 1-year forward mean, which we believe is justified given broader sector-wide uncertainties arising from ongoing supply chain disruptions and margin pressures.
PIE	1.51	MP	1.58	Based on a higher 18x PER, reflecting progress in securing new customers, with qualification and production ramp-up currently underway.
NATGATE	0.78	MP	0.81	Based on an unchanged 15x PER, slightly below NATGATE's mean valuation since its listing in January 2023, to reflect broader sector-wide uncertainties arising from ongoing supply-chain relocation dynamics
D&O	0.44	MP	0.34	Based on unchanged FY27F PER of 22x, implied -1 SD below its 5-year mean.
LGMS	0.58	OP	0.46	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	9.05	OP	7.81	Based on FY27 PER of 37x, a 10% discount to the local semiconductor front-end peers (UWC, Frontken and Vitrox) aveage FY27 PER of 41.3x.
UWC	7.00	OP	6.30	Based on target PER to 44x FY27F EPS from 33x previously, representing 1SD above its historical forward PER.
PENTA	4.68	OP	4.78	Based on a targeted FY27 PER of 35.7x, aligned with the average ATE PER during the current upcycle trend.
FRONTKN	5.10	OP	4.83	Based on an unchanged targeted PER unchanged at 40x (1SD above its 5-year forward average)
INFOMINA	1.90	OP	1.03	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)
Skyechip	2.00	OP	2.91	Based on 50x CY27F EPS, representing 15% discount to reflect its smaller market capitalization and lower earnings base

Source: Kenanga Research

Exhibit 9: Previous TPs and Valuation Methodologies

	Old TP	Rating	
OPPSTAR	0.43	UP	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	2.42	OP	Based on FY27 PER Of 29x, equivalent to 1SD above its 5-year mean. Note that our TP also consist of 5% ESG premium
UNISEM	2.47	UP	Based on targed PER of 26x, aligned with the historical average OSAT PER across the past three upcycles.
MPI	38.90	MP	Based on targeted FY27 PER of 29x, implying 1SD above its 5-year mean.
SKP	0.30	UP	Based on an unchanged target PER of 12x applied to FY27F EPS. This represents an approximate 10% discount to peers' 1-year forward mean, which we believe is justified given broader sector-wide uncertainties arising from ongoing supply chain disruptions and margin pressures.
PIE	1.45	MP	Based on an unchanged PER of 17.2x (aligned with its 5Y average forward PE).
NATGATE	0.78	MP	Based on an unchanged 15x PER, slightly below NATGATE's mean valuation since its listing in January 2023, to reflect broader sector-wide uncertainties arising from ongoing supply-chain relocation dynamics
D&O	0.44	MP	Based on unchanged FY27F PER of 22x, implied -1 SD below its 5-year mean.
LGMS	0.58	OP	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	9.05	OP	Based on FY27 PER of 37x, a 10% discount to the local semiconductor front-end peers (UWC, Frontken and Vitrox) aveage FY27 PER of 41.3x.
UWC	4.70	OP	Based on FY27 PER of 33x (slightly below its 5Y average mean PER of 35.7x).
PENTA	3.95	MP	Based on FY27 PER of 30x, in line with the average ATE PER across the past three upcycles.
FRONTKN	5.10	OP	Based on an unchanged targeted PER unchanged at 40x (1SD above its 5-year forward average)
INFOMINA	1.90	OP	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)
Skyechip	2.00	OP	Based on 50x CY27F EPS, representing 15% discount to reflect its smaller market capitalization and lower earnings base

Source: Kenanga Research

Malaysian Technology Peers Comparison

Name	Rating	Last Price @ 1 July (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	0.325	0.440	35.4%	402.8	Y	12/2026	(2.6)	2.0	-385.8%	-0.3%	N.A.	16.3	0.7	-16.6%	1.0	3.1%
FRONTKEN BHD	OP	5.02	5.10	1.6%	9,100.9	Y	12/2026	12.8	13.9	31.9%	8.7%	39.3	36.2	7.0	19.1%	4.0	0.8%
INARI AMERTRON BHD	OP	2.32	2.72	17.2%	8,871.6	Y	06/2026	4.8	8.0	-28.1%	64.6%	48.0	29.2	3.2	5.9%	5.0	2.2%
KELINGTON GROUP BHD	OP	8.25	9.05	9.7%	7,253.6	Y	12/2026	21.4	24.5	29.1%	14.1%	38.5	33.7	9.3	27.5%	15.0	1.8%
LGMS BHD	OP	0.460	0.580	26.1%	209.8	Y	12/2026	2.9	3.6	30.4%	21.8%	15.8	12.9	1.6	10.5%	2.0	4.3%
M'SIAN PACIFIC INDUSTRIES BHD	MP	49.00	43.70	-10.8%	9,770.5	Y	06/2026	104.7	134.1	35.6%	28.0%	46.8	36.6	4.4	9.7%	40.0	0.8%
NATIONGATE HOLDINGS BHD	MP	0.875	0.780	-10.9%	1,979.8	Y	12/2026	3.5	5.2	-20.1%	49.3%	25.1	16.8	1.9	7.6%	2.0	2.3%
OPPSTAR BHD	UP	0.655	0.430	-34.4%	422.8	Y	03/2027	1.2	2.0	-50.9%	58.2%	53.1	33.6	3.3	6.3%	0.0	0.0%
P.I.E. INDUSTRIAL BHD	MP	1.60	1.51	-5.6%	614.5	Y	12/2026	5.9	8.4	0.4%	42.3%	27.1	19.0	0.9	3.5%	0.0	0.0%
SKP RESOURCES BHD	UP	0.290	0.270	-6.9%	451.8	Y	03/2027	2.5	3.5	-19.4%	42.0%	11.7	8.3	0.4	3.7%	0.0	0.0%
SKYECHIP BHD	OP	3.10	2.00	-35.5%	5,567.6	Y	03/2027	2.6	3.4	30.1%	32.1%	119.2	90.2	32.1	31.2%	70.0	22.6%
UNISEM (M) BHD	UP	4.83	2.95	-38.9%	7,791.2	Y	12/2026	5.4	9.5	39.6%	74.6%	88.7	50.8	3.6	4.1%	0.0	0.0%
UWC BHD	OP	6.56	7.00	6.7%	7,237.8	Y	07/2026	8.6	15.9	132.3%	86.3%	76.7	41.1	12.6	18.0%	0.0	0.0%
PENTAMASTER CORP BHD	MP	4.94	4.68	-5.3%	3,513.9	Y	12/2026	12.1	13.1	39.0%	8.1%	40.8	37.7	4.1	10.4%	2.0	0.4%
INFOMINA BHD	OP	1.19	1.90	59.7%	715.2	Y	05/2026	5.6	7.6	60.7%	34.8%	21.1	15.7	3.6	18.3%	1.0	0.8%
Simple Average					**63,903.8**					**14.2%**	**42.3%**	**50.1**	**35.2**	**5.9**	**10.6%**		**2.6%**

Source: Kenanga Research

Telecommunication

NEUTRAL

DNB Transition Steady, Dividends Support

↔

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

We maintain our NEUTRAL sector view, as sentiment remains weighed down by lingering uncertainties over DNB's ownership transition to MNOs—clouding the outlook for earnings, capex, and dividends. On a brighter note, DNB's privatisation could be completed soon, with cumulative shareholder advances from each MNO rising to RM552m following a recent capital call. Additionally, improving dividend prospects offer a silver lining, with TIMECOM (OP; TP: 6.60) benefitting from balance sheet optimization while MAXIS (MP; TP: RM3.63) and TM (OP; TP: RM8.86) are supported by strong FCF and subdued capex.

Having surpassed the 80% CoPA milestone, U Mobile is increasingly focused on wholesale monetisation of its 5G network. Recent MVNO partnerships with VIBE Mobile, Eastel and TM underscore this strategy. Further additions could help improve network utilisation, defray fixed costs and enhance returns on its capital-intensive rollout.

Structural migration from prepaid to postpaid continues, underpinned by upselling, converged offerings, and rising disposable incomes. Meanwhile, in the prepaid space, new MVNO entrants and U Mobile's refreshed ULTRA5G plans signal rising competitive intensity. However, we expect competition to remain concentrated at the lower end of the market and centred on data allowances.

In the fixed-line segment, competition remains largely benign. Incumbents are holding headline pricing, while relying on localised guerrilla tactics to defend market share. Meanwhile, 5G FWA is unlikely to pose a material long-term threat to fiber - given structural limitations in uptime reliability and speed consistency (particularly in dense urban environments). As 5G traffic volumes increase, we also expect MNOs to gradually moderate their FWA push to avert congestion risks.

We look forward to further disclosures on Phase 1 of TM-Nxera's 64MW hyperscale DC (commercial operations: 2HCY26) and a potential final investment decision on Phase 2 (136MW). TIMECOM also remains steadfast in its DC ambitions, with AIMS progressing on its 200MW AI-focused DC (target completion: 2027)

JENDELA Phase 2 is finally underway, with Batch 1 contract awards anticipated as early as 3QCY26. The program focuses on 4G coverage expansion, selective 5G deployment, satellite-enabled Wi-Fi in remote areas, and implementation of the Neutral Host Platform (NHP). We believe OCK (OP; TP: RM0.50) and REACHTEN (NOT RATED) are well-positioned to benefit, given their established track records in Phase 1 and prior USP projects.

1. 1. MOBILE

DNB's privatization advances with 3rd injection of shareholders' advances. Progress on the rollout of the 5G Dual Network (5GDN) framework remain ongoing, where in the latest development, in end-April 2026, the three mobile network operators (MNOs) — YTLPWR, CDB (OP; TP: RM3.35), and MAXIS have each injected an additional RM202m in shareholders' advances (SA) to Digital Nasional Berhad (DNB). The additional SA will be utilised by DNB to pay upfront spectrum fees and to meet working capital requirements. Similar to prior tranches of SA, key salient terms of the additional SA include: (i) non-interest bearing, (ii) not repayable on demand, (iii) each Ringgit of SA carries voting rights equivalent to one ordinary share in DNB, and (iv) treated as prepayments under the access agreements between the MNOs and DNB.

To recap, this is the 3rd tranche of SA granted by the MNOs to DNB, following the 1st and 2nd tranches of RM233.2m and RM116.7m, respectively, bringing cumulative SA to RM552m each. Beyond the SA, each MNO had earlier acquired U Mobile's stake in DNB for a nominal RM33,333 in May 2025, following U Mobile's exit from DNB. Additionally, each MNO has also paid RM327.9m to acquire MoF Inc.'s stake in DNB (expected completion: 2HCY26), which included the assumption of MoF Inc.'s residual shareholder loan and accrued interest of ~RM161.2m. In aggregate, at this juncture, each MNO's total cash outlay to DNB stands at approximately RM880m, excluding the nominal U Mobile acquisition cost.

Expect more clarity as MoF fully exits DNB by 2H. The exercise of the Ministry of Finance's (MoF) put option to fully divest its stake in DNB is expected to be completed by 2HCY26. Following this, each MNO is expected to begin recognising its share of DNB's contribution (or losses) as an associate under the equity accounting method. We have earlier trimmed our FY26F/FY27F earnings for CDB and MAXIS by 5%/5% and 5%/9%, respectively. This is to reflect our expectations that equity accounting for DNB will commence from 2HFY26F for both MNOs. We have also baked in our assumption that DNB's financial performance may potentially improve in the coming years (FY24 loss: RM1.2b). This is driven by its earlier restructuring exercise and ongoing initiatives from its MNO shareholders to strengthen the company's long-term sustainability. The latter includes renegotiation of supplier contracts and potential network expansion and optimization by leasing existing sites from its MNO shareholders to yield capex and opex savings. Looking ahead, we anticipate more clarity on the implications of the takeover on earnings as well as dividend and capex plans.

MNO Cash Commitments to DNB — Summary

Event	Date	Amount per MNO (RM m)	Cumulative per MNO (RM m)	Notes
Shareholder Advance (SA) — Tranche 1	Jun 2024	233.2	233.2	Converted from access agreement prepayments upon share sale completion; carries 1 vote per RM1
U Mobile stake acquisition	May 2025	~0.03	~233.3	Nominal; 33,333 DNB shares at RM1/share
Additional SA — Tranche 2	Aug 2025	116.7	350.0	For DNB working capital requirements
MoF Inc. put option exercise	Mar 2026	327.9	677.9	Includes assumption of ~RM161.2m MoF loan + accrued interest
Additional SA — Tranche 3	Apr 2026	202.0	~880.0	For spectrum fees & working capital
Total			**~RM880m**	Excl. nominal U Mobile cost

Source: Various, Company, Kenanga Research

Anticipate U Mobile's network to host more MVNOs. In May 2026, U Mobile added VIBE Mobile as its latest MVNO partner following a series of 4G and 5G wholesale agreements inked in recent months, including with Eastel (Oct 2025) and TM (Feb 2026). We believe U Mobile's growing wholesale focus enables it to monetise its substantial 5G investments, with higher network utilisation helping to improve returns and economics of its capital-intensive rollout.

Foresee postpaid will continue to propel growth. We expect postpaid service revenues to remain the primary growth engine for MNOs, underpinned by ongoing subscriber base expansion. This is supported by upselling and the strategic rollout of converged solutions. In turn, this should accelerate the ongoing structural shift in revenue mix from prepaid to postpaid services. The trend is already evident: Over FY23–25, postpaid service revenue recorded a 2-year CAGR of +3.7% (MAXIS) and +3.3% (CDB), while prepaid service revenue declined 3.4% and 4.0%, respectively, over the same period.

Upselling and converged strategies will continue to drive postpaid. This transition also reflects MNOs' strategic focus to lock-in stickier postpaid subscribers to support ARPU growth and revenue stability. It also reduces exposure to the highly competitive prepaid segment, where low entry barriers result in intense price competition. The migration towards postpaid is a natural evolution of Malaysia's maturing mobile market, supported by rising disposable incomes as the economy continues to develop. Although total industry mobile subscribers have remained broadly flat at c. 49.7–50.1m between 2023-25 (YoY: -0.9% to +0.3%), the underlying subscriber composition is shifting towards postpaid. Postpaid subscribers grew from 14.8m in 2023 to 16.9m in 2025, increasing their share of total subscribers from 29.6% to 33.8%. Over the same period, prepaid subscribers contracted by more than 2.4m.

Evolving competitive prepaid landscape. In the prepaid segment, we believe competitive intensity has heightened, driven by two key factors: (i) DNB's ownership restructure - which compels incumbents to monetise newly available 5G capacity; and (ii) U Mobile's 5G rollout surpassing the 80% CoPA (coverage of populated areas) milestone. Against this backdrop, operators face mounting pressure to expand their wholesale and retail subscriber bases in order to improve network utilisation and enhance returns on their capital-intensive 5G investments. That said, we do not expect competition to escalate into an outright price war.

Rather, competition will likely centre on richer data quotas, supported by the abundance of 5G capacity available across both networks.

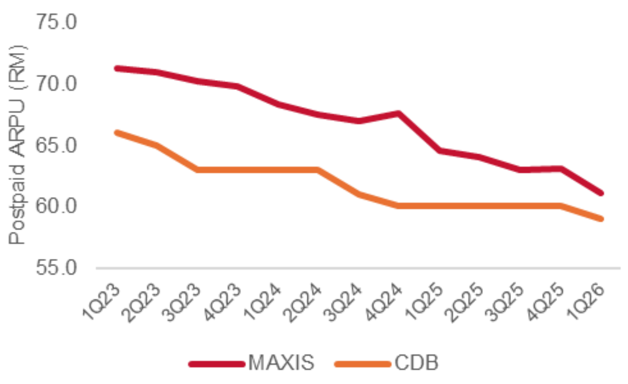
Operators may fight it out with data quotas. We expect these pressures to be most acute in the prepaid segment, where subscriber stickiness is lower and users are more sensitive to changes in price-to-quota value propositions. This segment also represents the most logical battleground for U Mobile and other MVNOs, given its fragmented market structure. Notably, CDB and MAXIS collectively account for only c.56% of prepaid subscribers, compared with a dominant ~87% of the postpaid market. Hence, this leaves limited scope for meaningful share gains by challengers in the postpaid segment.

Supporting this view, U Mobile refreshed its ULTRA5G prepaid and postpaid plans in April 2026. While the entry-level prepaid plan price edged up marginally from RM25 to RM28, the revision removed speed caps of 6–24Mbps and eliminated daily and weekend 5G restrictions. This suggests that U Mobile is competing on data quotas rather than undercutting on price—a strategy that could intensify competition around data allowances and accelerate market share shifts in the prepaid space.

More and more MVNOs could pop up. The recent emergence of new MVNO players — including CMLink (China Mobile International's MVNO brand), Eastel and VIBE Mobile could also exert ARPU pressure on the lower end of the prepaid market. We also do not discount the possibility of further entrants being hosted by U Mobile, which would help the latter defray fixed network costs while driving incremental revenue. These new players add to an already competitive MVNO landscape that includes legacy operators such as ONEXOX, BeONE Mobile, Unifi Mobile, and redONE.

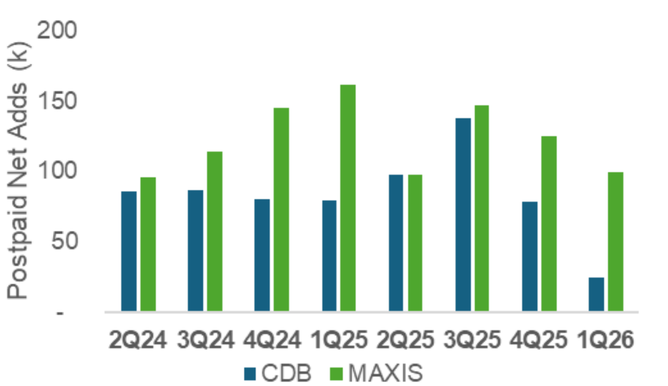
On a brighter note, MAXIS foresees limited competitive threat from MVNOs, as these players tend to target distinct niche segments rather than compete head-on with incumbent MNOs. For instance, CMLink primarily serves China-origin students and professionals travelling between China and Malaysia, on top of families residing in Malaysia under the MM2H programme. Meanwhile, BeONE (sub-brand under redONE) targets customers in the Malay heartlands through a multi-level marketing distribution model.

Postpaid ARPU



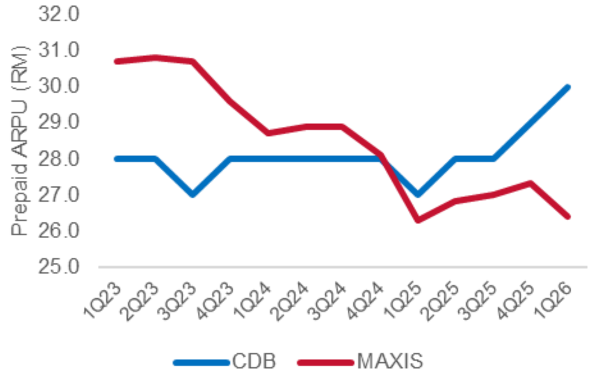
Source: Companies, Kenanga Research

Postpaid Net Adds



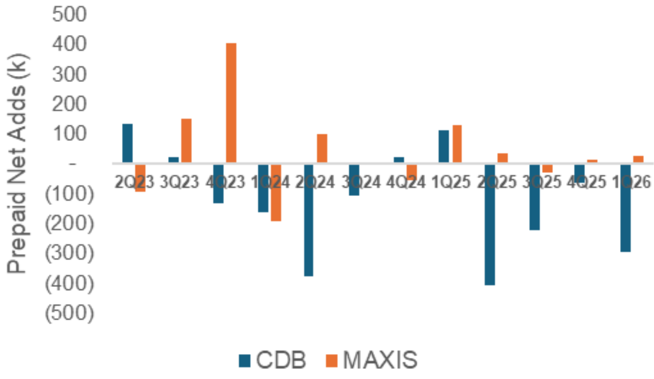
Source: Companies, Kenanga Research

Prepaid ARPU



Source: Companies, Kenanga Research

Prepaid Net Adds



Source: Companies, Kenanga Research

2. 2. FIXED

Benign competition due to market discipline. In the near term, we believe competition in the retail market will continue to remain rational, as fixed players maintain headline pricing for nationwide fixed broadband (BB) plans to preserve ARPUs. That said, to defend market share, we understand that incumbents have adopted a more targeted, "guerrilla-style" approach, focusing on localized areas where competition is heated. This includes on-the-ground tactics such as setting up pop-up booths in selected neighbourhoods to offer rebates and promotional deals. Additionally, in response to the MNOs' push for converged customer acquisition, incumbent fixed players are actively promoting their own integrated offerings, spanning mobile, IPTV, and solar services.

5G FWA targets a niche market. Despite the recent emergence of 5G fixed wireless access (FWA) offerings by the MNOs, we believe fiber connections have a theoretical advantage over 5G FWA in terms of uptime reliability and speed consistency. In particular, 5G FWA deployed in urban high-rise buildings are susceptible to: (i) physical obstructions such as walls, (ii) distance from 5G base stations, and (iii) network congestion (if capacity is not sufficiently upgraded as usage scales). Notably, 5G FWA signals tend to be weaker and less stable in buildings on higher floors or at areas where routers cannot be positioned near windows. Nevertheless, we also acknowledge that 5G FWA offers several advantages, including portability, faster deployment, and generally more affordable pricing.

FWA may not be a long-term competitive threat. In our view, MNOs may gradually moderate their push for 5G FWA as 5G traffic volumes scale up. The current emphasis on FWA is likely driven by efforts to monetise 5G investments and benefit from DNB's tiered wholesale pricing structure, whereby higher traffic volumes attract lower per-unit access charges. However, over time, rising network utilisation could raise the risk of congestion on 5G FWA connections. Hence, this may erode its service quality to justify 5G FWA as a fixed BB alternative. As such, we believe 5G FWA is primarily a near-term, temporary tool to accelerate 5G traffic growth for the MNOs.

Envision more details on AIM's data center expansion. We expect fixed-line players to remain committed to their data centre (DC) expansion plans. TIMECOM continues to support its associate, AIMS, through ongoing and future capital calls to fund growth. The group expects slightly higher capital injections into AIMS in FY26 (FY25: RM53m) as it progresses with plans to develop a USD1b, 200MW AI-focused DC in Cyberjaya by 2027. However, in the near term, we expect AIMS' earnings to remain weighed down by elevated finance costs arising from increased borrowings to fund the project.

Awaiting greenlight for Phase 2 of TM's hyperscale DC. Phase 1 of the TM-Nxera 64MW hyperscale DC in Iskandar Puteri, Johor remains on track to commence commercial operations in 2HCY25. As the launch approaches, we expect greater disclosure on key operational and commercial metrics, including leasing rates, utilisation, customer commitments and capex. We also look forward to further clarity on the feasibility and potential final investment decision for Phase 2 (136MW). We estimate Phase 1 could contribute RM122m p.a. (c.7% of FY27F PATAMI) in JV earnings to TM. In addition, should Phase 2 proceed as planned, total annual contribution could rise to c.RM475m.

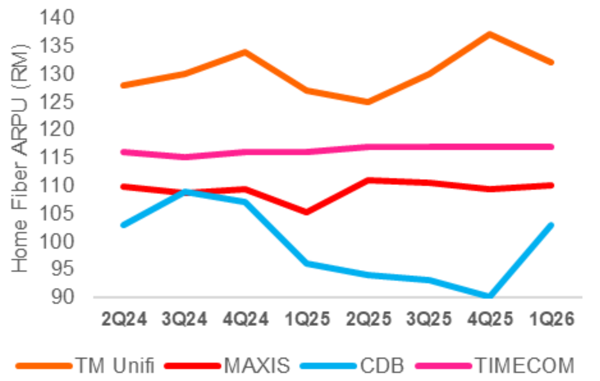
3. TELCO TOWERS

JENDELA Phase 2 finally takes-off. We look forward to further news flow on JENDELA Phase 2 (launch: Mar 2026), particularly the rollout of Batch 1 contracts, which are expected to commence as early as 3QCY26. To recap, Phase 2 adopts a fit-for-purpose connectivity approach, incorporating: (i) 4G/5G deployment (where viable), (ii) satellite-enabled Wi-Fi for underserved areas, and (iii) the inaugural implementation of the Neutral Host Platform (NHP). The NHP enables users to access Wi-Fi networks seamlessly using their existing mobile subscriptions, without requiring separate credentials or plans.

Phase 2 is East Malaysia-centric. The program targets 2,700 sites nationwide across two batches. Batch 1 comprises 1,000 sites, with a strong focus on East Malaysia (Sabah: 35%, Sarawak: 34%, Peninsular Malaysia: 31%), and is expected to benefit c.217k residents in rural and remote regions. The remaining 1,700 sites will be deployed under a subsequent phase. While the government has earmarked RM780m for Phase 2, we expect USP (Universal Service Provision) funds to also contribute towards project funding, consistent with the Phase 1 model.

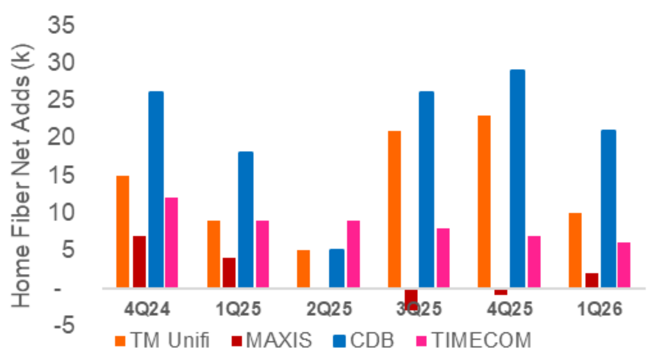
New tower sites and connectivity solutions needed at rural areas. Based on our channel checks, fixed-line operators are unlikely to participate in Batch 1. Nevertheless, we believe tower operators such as OCK and REACHTEN (NOT RATED) should benefit for contracts involving the deployment and maintenance of shared rural connectivity infrastructure under the NHP model. This includes Wi-Fi access points with satellite backhaul, compact telecom structures and edge connectivity solutions. These players have established track records from JENDELA Phase 1 and extensive experience in USP projects, positioning them favourably for upcoming awards. In particular, given REACHTEN's Sarawak heritage, we see it as a natural frontrunner for the Sarawak sites under Phase 2.

Home Fiber ARPU



Source: Companies, Kenanga Research

Home Fiber Subscriber Net Adds



Source: Companies, Kenanga Research

1. SUMMARY

Ongoing DNB transition weighs on sentiment… We maintain our **NEUTRAL** stance on the telco sector, given limited clarity on DNB's financial position and the broader implications of its transition to MNO ownership. These uncertainties continue to cloud visibility on earnings, capex, and dividend trajectories for the mobile players. In contrast, we prefer fixed-line operators, which are relatively insulated from the ongoing DNB ownership transition and its associated uncertainties.

…but better dividend prospects the bright spot. On a more positive note, improving dividend prospects could provide a supportive backdrop for sector sentiment. TM recently took a concrete step in this direction, by lifting its minimum dividend payout ratio to 75% of reported PATAMI (previous: 40%-60%). Meanwhile, TIMECOM and MAXIS still have the headroom to deliver special dividends or uplift payout levels. This is supported by strong operating cash generation and relatively subdued capex requirements,

Balance sheet optimization will unlock dividends. In particular, TIMECOM's balance sheet optimisation remains on track, as reflected from the increase in its short-term borrowings to RM281.9m in 1QFY26 (1QFY25: RM2.9m). Correspondingly, net debt/EBITDA rose to 0.1x in 1QFY26 (from net cash in 1QFY25), bringing the group closer to its target net debt/EBITDA of 1.0x–1.5x over the next 3–4 years. Incremental borrowings will primarily be deployed towards capex and working cap in contrast to prior years, where capex was largely funded internally. In effect, this optimisation unlocks debt capacity to support shareholder distributions. As leverage rises, TIMECOM's capital structure should gradually converge towards that of its Malaysian telco peers (excluding TM: net cash), which currently operate at higher net debt/EBITDA levels of 2.0–2.3x. Meanwhile, the group's intention to conduct bi-annual reviews for potential special dividends remain intact. Against this backdrop, we estimate TIMECOM's dividend yields will range 6.7% and 7.3% in FY26 and FY27 (Bloomberg consensus: 6.5%-6.7%), respectively.

Our top pick is **TIMECOM** due to: (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 optimization 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 (19 Jun) (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	NetDiv. (sen)	Net Div. Yld.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AXIATA GROUP BHD	MP	2.00	2.70	35.0%	18,376.5	Y	12/2026	5.8	5.9	-37.7%	2.8%	34.6	33.7	1.0	0.5%	11.0	5.5%
CELCOMDIGI BHD	OP	2.79	4.27	53.0%	32,730.9	Y	12/2026	13.6	13.6	6.2%	0.6%	20.6	20.4	2.1	10.1%	16.0	5.7%
MAXIS BHD	MP	3.42	3.63	6.1%	26,796.0	Y	12/2026	20.5	21.3	1.3%	3.9%	16.7	16.0	4.2	25.6%	18.0	5.3%
OCK GROUP BHD	OP	0.375	0.430	14.7%	386.7	Y	06/2026	2.5	2.8	-12.6%	10.8%	14.8	13.3	0.6	4.4%	1.0	2.7%
TELEKOM MALAYSIA BHD	OP	7.50	8.86	18.1%	28,783.0	Y	12/2026	47.7	47.9	3.1%	0.4%	15.7	15.7	2.5	16.6%	33.0	4.4%
TIME DOTCOM BHD	OP	6.05	6.60	9.1%	11,185.4	Y	12/2026	28.0	30.2	6.3%	7.8%	21.6	20.0	3.8	16.8%	42.0	6.9%
SECTOR AGGREGATE					**118,258.5**					**-2.0%**	**2.3%**	**19.5**	**19.0**	**2.4**	**12.3%**		**5.1%**

Source: Bloomberg, Kenanga Research

Utilities

OVERWEIGHT

↔

Powering the Hyperscale Era

By Teh Kian Yeong I tehky@kenanga.com.my / Tan Sue Wen I tansw@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) raised its demand growth guidance to 4.5%-5.5% (from 4.0%-5.0% previously), fuelled by the accelerating data centre momentum. As such, TENAGA remains our Top Pick, benefitting 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: RM1.00) and YTLPOWR (OP; TP: RM4.55). To meet the 6GW–8GW new capacity target by 2030, the list of contracts for NEWGEN25 was announced in Feb, with the tender submission deadline for NEWGEN26 set for Jul 2026. Furthermore, rising electricity demand will further lift gas consumption, supporting prospects for additional regasification terminals to the benefit of PETGAS (MP; TP: RM18.80) and GASMSIA (MP; TP: RM5.23). Downstream, the massive Electricity Supply Agreement (ESA) pipeline of 8.3GW (with 3.8GW under construction) expanded by 0.8GW in one quarter alone, highlighting strong M&E demand over the next 12 months. KEEMING (OP; TP: RM2.00) remains our top M&E pick for its structural growth and solar interconnection upside. The sector continues to offer earnings resilience, backed by regulated assets, stable cash flows, and decent dividend yields of up to over 4%, particularly from GASMSIA. Maintain OVERWEIGHT.

Demand growth guidance raised. In its recent 1QFY26 results briefing in May, **TENAGA** guided for a higher demand growth of 4.5%–5.5% in FY26 (up from 4.0%–5.0% previously). This momentum is primarily fuelled by the accelerating data centre segment, which saw load utilisation surge to 1,054MW in March 2026 from 485MW a year ago, now accounting for 6% of total electricity sales volume (GWh). Demand growth jumped 7.0% YoY in 1QFY26; the commercial sector remained the key driver with 13.0% growth led by data centres, retail, and business services, while industrial demand stayed weak (-2.1%) due to lower off-take from metal manufacturers and cement producers. The scaling of the data centre industry is underpinned by a robust track record, where 36 projects totalling 4,530MW were completed as of March 2026, including 17 projects commissioned in 2025 alone. With 1,800MW currently under construction and 59 Electricity Supply Agreements (ESAs) signed for a cumulative capacity of 8,300MW, the surge remains highly earnings-positive for **TENAGA.** Stronger overall 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, alongside 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 deadline. **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 6,000MW to 8,000MW pipeline provides sufficient scale for all major players to participate meaningfully. We have already factored in a new 1,400MW power plant each in our valuations for **MALAKOF** and **YTLPOWR.**

New RGTs are firming up. As coal-fired plants are phased out, gas-fired generation is set to become the key swing capacity, with its generation mix expected to rise toward 50% by 2030 (up from **TENAGA's** 33.6% in FY25). This transition is supported by rapid data centre demand, upcoming coal retirements, and a massive influx of new gas capacity. To anchor this structural shift, both the Lumut and Yan regasification terminal (RGT) projects have been confirmed with official government approvals. While neither project has reached a Final Investment Decision (FID) yet, both have firmed up their early-stage partnership frameworks and shareholding structures as of May and Jun 2026. For the Lumut RGT, **PETGAS** signed a Heads of Agreement with **TENAGA's** unit, Integrax Bhd, for the joint development of the terminal. The project targets a COD of 2QCY29, with off-take commitments completely locked in as **TENAGA's** unit, TNB Fuel Services, will underwrite 100% capacity from 2030. Meanwhile, **GASMSIA** entered into a Joint Development Agreement with Japan's Tokyo Gas Co. Ltd and Rotterdam-based VTTI B.V. to develop the Yan RGT. This project is planned for a capacity of up to 6 MTPA, with an estimated capex of RM2b–RM3b.

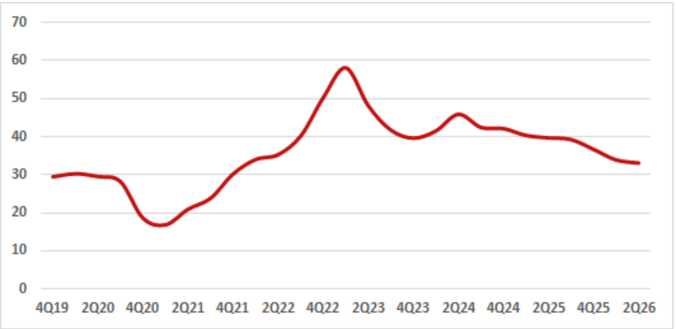
Downstream value chain to benefit. The substantial capacity backlog from ESA signed continues to signal sustained, multi-year demand for the local Mechanical and Electrical (M&E) and grid infrastructure sectors. Within our coverage universe, this pipeline translates directly into accelerating near-term order book wins for specialised downstream players: **KEEMING (OP; TP: RM2.00)** is primed to capture higher demand from data centre M&E installation contracts; **SCGBHD (OP; TP: RM2.76)** benefits as it supplies a full range of power cables for local power distribution; **PEKAT (OP; TP: RM1.91),** a key MV switchgear player, continues to supply directly to **TENAGA's** grid expansion; **CHEEDING (OP; TP: RM0.79)** is locking in accelerating underground utility engineering (UUE) solutions to complete the physical grid loop in power connectivity. Heading into the upcoming corporate reporting season, we expect these downstream beneficiaries to deliver exceptional earnings visibility and robust secured revenue growth over the coming year.

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 continue to favour **KEEMING** for its structural earnings growth profile, solar interconnection opportunity via **SLVEST**, strong data centre project positioning, and potential earnings upside from local utility contracts.

Indonesia Coal Benchmark Price (USD)

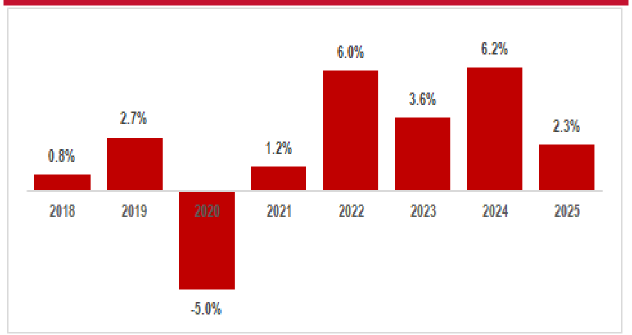
Source: Bloomberg

Natural Gas Price Movement



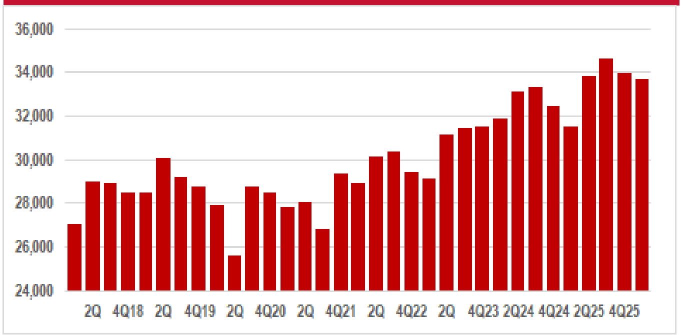
Source: GASMSIA

TENAGA: Annual Electricity Demand Growth



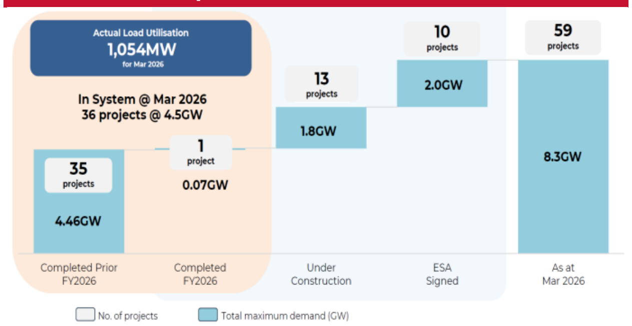
Source: Tenaga

TENAGA: Monthly Electricity Sales (GWh)



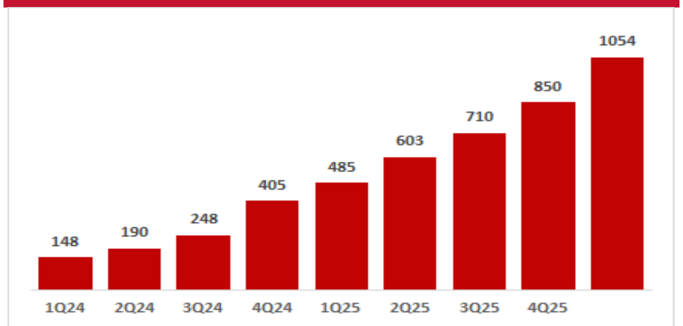
Source: Tenaga

Data Centre Updates



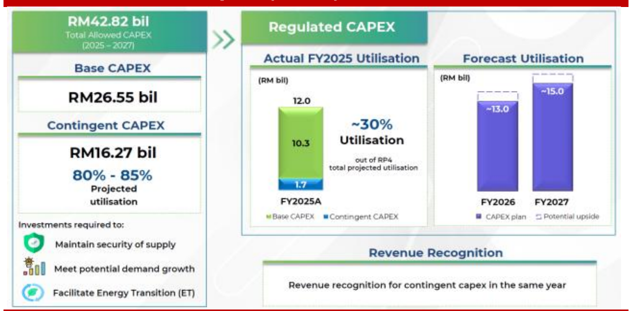
Source: Tenaga

Data Centre Actual Load Utilization



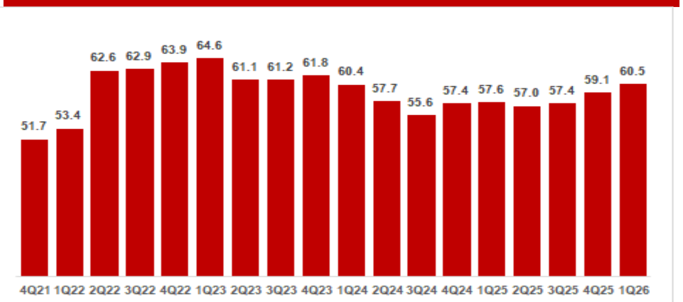
Source: Tenaga

RP4 Allowed Capex (RM b)



Source: Tenaga

TENAGA: Borrowings (RM b)



Source: Tenaga

Peer Table Comparison

Name	Rating	Last Price (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																	
CHEEDING HOLDINGS BHD	OP	0.655	0.790	20.6%	522.2	Y	03/2027	5.1	5.6	1.2%	8.8%	12.8	11.8	2.9	25.8%	1.3	1.9%
GAS MALAYSIA BHD	MP	5.32	5.23	-1.7%	6,830.9	Y	12/2026	31.7	32.1	5.6%	1.3%	16.8	16.6	4.2	25.4%	25.3	4.8%
KEEMING GROUP BHD	OP	1.70	1.80	5.9%	552.5	Y	03/2027	8.6	10.2	21.7%	17.9%	19.7	16.7	5.3	33.9%	0.0	0.0%
KAWAN RENERGY BHD	OP	0.490	0.730	49.0%	269.5	Y	10/2026	4.8	6.1	11.9%	27.8%	10.2	8.0	1.9	20.7%	1.4	2.9%
KJTS GROUP BHD	OP	0.720	1.34	86.1%	497.3	Y	12/2026	3.1	3.9	18.7%	25.9%	23.4	18.5	2.1	11.8%	61.7	0.9%
MALAKOFF CORP BHD	OP	0.830	1.00	20.5%	4,056.2	Y	12/2026	3.6	4.8	58.2%	32.9%	23.2	17.4	0.9	3.9%	2.9	3.5%
PEKAT GROUP BHD	OP	1.69	1.91	13.0%	1,197.3	Y	12/2026	8.7	10.0	24.4%	14.4%	19.4	17.0	2.9	18.6%	0.0	0.0%
PETRONAS GAS BHD	MP	17.54	18.80	7.2%	34,707.0	Y	12/2026	95.9	97.2	12.1%	1.4%	18.3	18.1	2.4	13.1%	72.0	4.1%
SAMAIDEN GROUP BHD	OP	1.37	1.94	41.6%	766.1	Y	06/2026	6.3	7.5	21.3%	18.8%	21.7	18.2	3.4	17.4%	1.1	0.8%
SOLARVEST HOLDINGS BHD	OP	2.99	3.36	12.4%	2,864.3	Y	03/2027	13.8	15.4	29.1%	11.6%	21.6	19.4	2.9	14.8%	0.0	0.0%
SWIFT ENERGY TECHNOLOGY BHD	OP	0.190	0.470	147.4%	190.2	Y	09/2026	1.3	2.0	-29.3%	53.8%	14.6	9.5	2.4	19.1%	0.0	0.0%
TENAGA NASIONAL BHD	OP	14.34	17.00	18.5%	83,589.9	Y	12/2026	85.6	88.1	2.9%	2.8%	16.7	16.3	1.3	7.8%	50.8	3.5%
YTL POWER INTERNATIONAL BHD	OP	4.10	4.55	11.0%	35,514.4	N	06/2026	24.5	24.1	-27.1%	-1.4%	16.8	17.0	1.6	9.6%	8.0	2.0%
SECTOR AGGREGATE					**171,557.6**					**-3.1%**	**2.6%**	**17.5**	**17.0**	**2.6**	**17.1%**		**1.9%**

Source: Kenanga Research

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																	
ANCOM NYLEX BHD	OP	0.860	1.50	74.4%	904.7	Y	05/2026	7.7	9.4	20.0%	22.9%	11.2	9.1	1.3	11.9%	5.0	5.8%
BM GREENTECH BHD	UP	1.68	1.72	2.4%	1,155.5	Y	03/2027	11.3	12.2	11.5%	7.5%	14.8	13.8	3.2	22.5%	1.8	1.1%
BP PLASTICS HOLDINGS BHD	OP	0.710	0.870	22.5%	199.8	Y	12/2026	9.1	8.7	100.2%	-4.5%	7.8	8.2	0.7	9.2%	4.3	6.0%
HPP HOLDINGS BHD	MP	0.300	0.300	0.0%	116.6	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	0.500	0.480	-4.0%	268.7	Y	12/2026	4.4	4.8	143.9%	8.4%	11.2	10.4	0.3	2.2%	2.0	4.0%
SCIENTEX BHD	OP	3.79	3.91	3.2%	5,898.3	Y	07/2026	39.5	39.4	17.0%	-0.4%	9.6	9.6	1.2	13.4%	13.0	3.4%
SOUTHERN CABLE GROUP BHD	OP	2.22	2.68	20.7%	2,794.6	Y	12/2026	12.4	15.0	15.3%	21.7%	18.0	14.8	3.7	20.9%	3.5	1.6%
TECHBOND GROUP BHD	OP	0.270	0.470	74.1%	204.8	N	06/2026	4.1	4.5	37.5%	9.1%	6.5	6.0	0.7	10.4%	1.0	3.7%
THONG GUAN INDUSTRIES BHD	OP	1.49	1.73	16.1%	581.4	Y	12/2026	26.1	22.9	45.9%	-12.3%	5.7	6.5	0.6	10.8%	6.0	4.0%
SECTOR AGGREGATE					**12,387.6**					**22.2%**	**4.3%**	**11.1**	**10.6**	**1.3**	**11.8%**		**4.0%**

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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