Kenneth Leong
(603) 7890 8888 (ext 2093)
kenneth.leong@apexsecurities.com.my

FBM KLCI (current)		**1,528.16**
FBM KLCI end-2025 Target:	**↔**	**1,680.00**

FBM KLCI	2024	2025F	2026F
P/E (x)	14.6	13.9	13.0
P/B (x)	1.5	1.5	1.3

Sector	UW		N		OW
Automotive			●		
Consumer			●		
Construction					●
Power Ancillary					●
Logistics			●		
Oil & Gas			●		
Plantation			●		
Property				●	
Renewable Energy					●
Rubber Products			●		
Technology				●	
Telecommunication			●		
Utilities					●

UW = Underweight N = Neutral OW = Overweight

2H 2025 Top Picks Summary

Stock	Price (RM)	TP (RM)	Potential Upside
CBHB	0.23	0.38	65.2%
INARI	1.87	2.94	57.2%
KERJAYA	2.06	2.50	21.4%
LAGENDA	1.19	1.53	28.6%
QES	0.36	0.42	16.7%
SAMAIDEN	1.02	1.60	56.9%
SLVEST	1.84	2.61	41.8%
TENAGA	14.22	16.04	12.8%
UUE	0.78	1.09	39.7%

Price as of 20 Jun 2025
Source: Apex Securities

2H 2025 Market Strategy

Steering Through A Patchy Recovery

Executive Summary

- Stability could return to the fore with hopes pinned on greater clarity surrounding global trade deals, particularly between the US and its major partners, including Malaysia. While a recovery may be on the horizon, it is expected to be uneven as investors continue to assess the impact of reciprocal tariffs, which could further dampen economic growth outlook and corporate earnings growth prospects.

- The FBM KLCI may attempt defend the 1,500 level over the interim before attempting to re-test the 1,600 level once further clarity on global trade developments have surfaced. Upon a successful breakthrough, that could signal further upside, driven by several domestic leads. However, market sentiment remains cautious, with foreign fund outflows unabated along with the lacklustre trading activities may continue to weigh onto the overall recovery momentum.

- Looking ahead, we advocate investors to adopt a selective accumulation strategy, focusing on fundamentally strong, oversold equities that are less susceptible by the impact of reciprocal tariffs. With limited domestic catalysts, investor focus remains on US trade policies and Federal Reserve interest rate decisions, both of which continue to play a significant role in shaping the direction of the domestic market. Amidst ongoing global uncertainties revolving geopolitical tensions and currency volatility, we opine a domestically focused, selective investment approach is recommended, targeting sectors with minimal exposure to external risks.

- Malaysian stocks are still touted to be undervalued with FBM KLCI trading at PERs of 13.9x and 13.0x for 2025F and 2026F respectively. The PERs are still below historical five-year average of 15.1x, suggesting room for potential upside. At the same time, the FBM KLCI is trading at forward P/B of 1.49x and 1.28x for 2025F and 2026F respectively, which is below the five-year historical average of 1.50x.

- **We maintain our 2025F year-end target for the FBM KLCI at 1,680.** The assigned P/E multiple of 14.5x aligns with -1.0 SD of the index's historical average of 15.1x, after factoring in uncertainties posed by US trade policies, which may weigh on corporate earnings growth prospects. Future upside potential will be driven by corporate earnings growth, primarily within banking, consumer, and construction heavyweights, which may present investment and trading opportunities from a longer-term perspective.

- Sector wise, a steady stream of data centre-related tenders and a record-high outstanding orderbook are driving earnings growth for **construction** sector. Meanwhile, the **property** sector is supported by resilience in property sales and rising optimism, particularly in 2H 2025, which underscores steady demand.

- Elsewhere, the recent correction in the **technology** sector has dragged valuations to a level that warrants renewed investor interest. Greater clarity on tariff developments would enhance policy certainty and help restore investor confidence in the sector.

- Malaysia's **renewable energy** sector is poised for expansion with upcoming LSS5 awards and long-term targets under the National Energy Transition Roadmap. **Utilities** and **power ancillary** players may thrive from grid infrastructure upgrades and a growing push toward a low-carbon economy, backed by significant private and public sector financing commitments.

- Our top picks for 2H 2025 are **CBHB, INARI, KERJAYA, LAGENDA, QES, SAMAIDEN, SLVEST, TENAGA** and **UUE**.

APEX SECURITIES 鼎峰证券有限公司

Table of Contents

Sector Update

Kenneth Leong
(603) 7890 8888 (ext 2093)
kenneth.leong@apexsecurities.com.my

Global Market Review

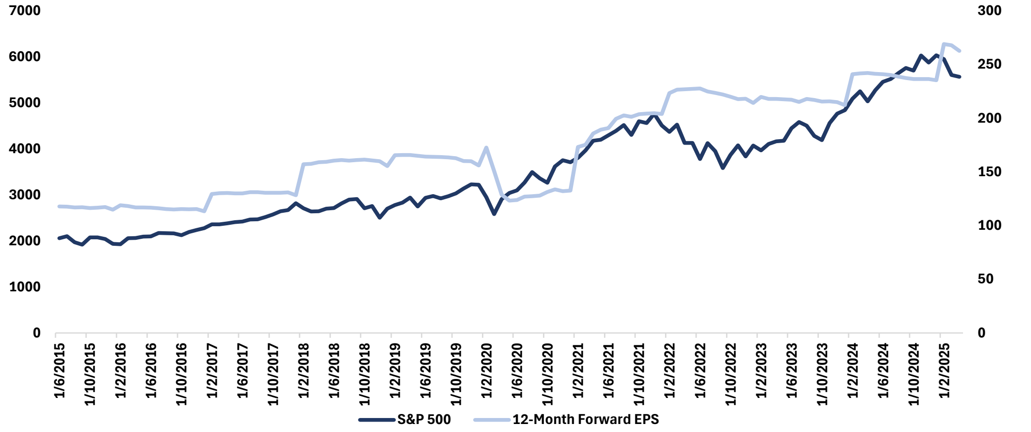
Global markets review. Global markets endured a wild ride, with turbulence becoming particularly noticeable following the inauguration of Donald Trump as the 47th President of the United States on 20 Jan 2025. Markets were shaken by a series of tariff announcements, with volatility escalating notably after the reciprocal tariff announcement on 2 Apr 2025. Nevertheless, global equities staged a swift rebound, supported by: (i) easing trade tensions between the US and some of its major trading partners, (ii) attractive valuations prompting bargain hunting, (iii) strong first-quarter earnings from corporate America, and (iv) rising expectations of interest rate cuts by the US Federal Reserve.

Subsiding volatility may still keep investors on toes following recent swings. Volatility has spiked before easing back towards longer-term historical average. With gold prices enjoying a great run (+24.9% ytd) to charge above USD3,000/oz since late-March 2025, riskier assets such as cryptocurrency also powered sharply higher with Bitcoin notching fresh all time high at USD111,000 before easing slightly to close +15.9% ytd. Despite that, lingering uncertainties surrounding trade policies and economic outlook may keep investors on the edge over the longer run.

Wall Street performance. After a solid performance in 2024 (+12.9% yoy), the Dow started off the year on a buoyant manner to challenge the 45,000 historic level again before volatility took control and recorded 2.7% ytd increase. Similarly, the S&P 500 advanced to fresh record high of 6,173 level in late June 2025 to rose 4.6% ytd. Post unfolding of Q1 2025 reporting period whereby blended earnings reported growth rate of 13.3% yoy underlines that valuations are still slightly attractive, trading at prospective forward P/E of 23.1x/20.5x for 2025F/2026F respectively; which is below the historical five-year average of 24.0x.

S&P 500 is treading near the 12-month forward EPS

S&P 500 vs 12 Month Forward EPS (US$ cent)



Source: Bloomberg

Regional markets 1H 2025 performance recap. Asia Pacific regional stockmarkets (apart from ASEAN members) fared on a mixed note after a wild ride. Leading the pack was the South Korea's KOSPI (+28.3% ytd) after (i) MSCI upgraded its short-selling accessibility rating, bolstering foreign investor confidence (>USD8bn of foreign fund net inflow recorded in May 2025 - the largest monthly **inflow** since 1998), (ii) technology giants such as **Samsung Electronics** and **SK Hynix** rallied on global tailwinds on the back of strong AI and memory chip demand and (iii) stability in political landscape following the appointment of Lee Jae-myung as the 14th President of South Korea on 4 Jun 2025 whom introduced capital market reforms, including tax incentives for dividends. Meanwhile, Japanese equities that enjoyed strong run in 2024 staged a pullback with the Nikkei 225 was nudged marginally higher by 0.6% ytd as gains were capped by stronger Japanese Yen as well as concerns related to US tariff policies.

Across the founding members of ASEAN – Indonesia, Malaysia, Philippines, Singapore and Thailand, performances were largely lacklustre with the **Stock Exchange of Thailand (-22.7% ytd)** taking the biggest hit on the back of foreign fund exodus amounting to c.USD10.0bn in the first five months of 2025. Consequently, three entities were removed under the MSCI Global Index while eight entities were moved under the MSCI Small Cap Index in the MSCI May 2025 Index Review. Elsewhere, the both the **Jakarta Composite Index (-2.6%)** and **Philippines Stock Exchange (-1.8% ytd)** edged mildly lower. The **Straits Times Index** which recorded blistering 16.9% yoy gains in 2024 managed to build onto its momentum by rising **4.7% ytd**, riding onto robust GDP growth (though has eased from 4.4% yoy in 2024 to 3.9% yoy in Q1 2025) that was supported by strong E&E upcycle as well as frontloading activities which contributed to strong export numbers.

No respite. Back home, Malaysian equities were not spared by the global rout stemmed by trade uncertainties from the US. The **FBM KLCI (-7.0% ytd)** pared some of its gains from last year as profit taking activities turned rampant, while AI-driven rally in 2024 began to fade. Much of the weakness was also stemmed by the selling activities from foreign funds amounting to -RM12.2bn ytd.

Regional equities mostly underperformed since the start of the year

Selected Global & Regional Markets Performances

	2025 (YTD) YoY	2024 YoY	2023 YoY	2022 YoY	2021 YoY
MSCI World Index	**8.7%**	**15.7%**	**20.1%**	**-19.8%**	**16.8%**
Dow Jones	3.0%	12.9%	13.7%	-8.8%	18.7%
FTSE	7.7%	5.7%	3.8%	0.9%	14.3%
DAX	20.7%	18.8%	20.3%	-12.3%	15.8%
CAC	4.2%	-2.2%	16.5%	-9.5%	28.9%
Nikkei	0.6%	19.2%	28.2%	-9.4%	4.9%
Hang Seng	21.1%	17.7%	-13.8%	-15.5%	-14.1%
ASX All Ordinaries	3.8%	7.5%	8.4%	-7.2%	13.6%
Shanghai Composite	2.2%	12.7%	-3.7%	-15.1%	4.8%
FBM KLCI	-7.0%	12.9%	-2.7%	-4.6%	-3.7%
Jakarta Composite Index	-2.6%	-2.7%	6.2%	4.1%	10.1%
FTSE STI	4.7%	16.9%	-0.3%	4.1%	9.8%
Stock Exchange of Thailand	-22.7%	-1.1%	-15.2%	0.7%	14.4%
Philippines Stock Exchange	-1.8%	1.2%	-1.8%	-7.8%	-0.2%

** Data as of 26 Jun 2025*
Source: Apex Securities, Bloomberg

Global Market Outlook

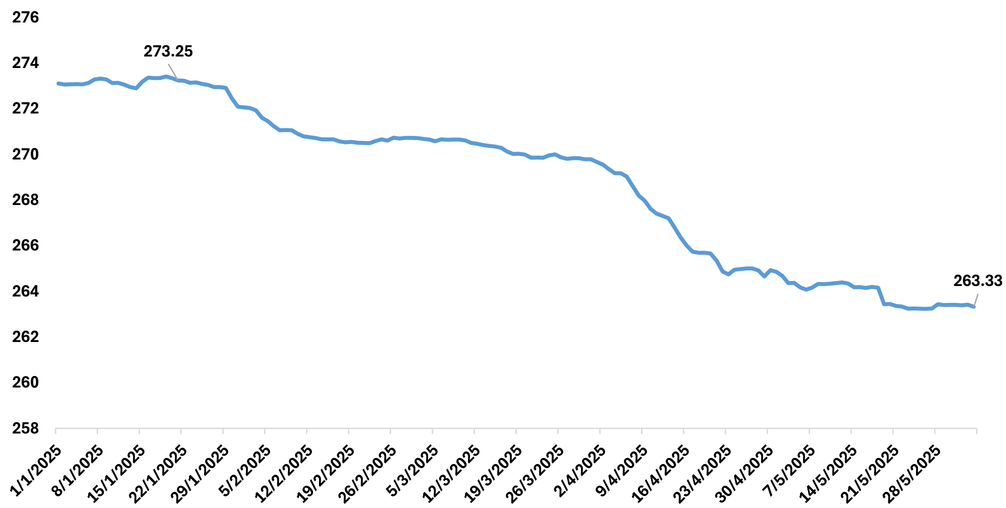
Navigating path of recovery. Global markets are bound for an extended recovery phase, though we do not discount mild volatility may resurface should trade developments turn unfavourable. Markets are increasingly hopeful on potential trade deals between US and rest of its trading partners as evident on the quick rebound as of late.

S&P 500 earnings growth prospects slashed from an initial projection of 9.4% yoy to **5.5% yoy for 2025F**. Earnings downgrade were mainly accounted for;

(i) Revision from an overly optimistic tone over global markets set out at end-2024
(ii) Weaker global macroeconomic environment taking into account of tariffs implications
(iii) Slower consumption and investments as businesses adopt the "wait and see" approach amidst uncertainties surrounding trade developments
(iv) Persistently sticky inflation which erodes consumers purchasing powers and increase raw material costs

S&P 500 earnings downgrade was prevalent since the start of the year

S&P 500 12 Month Projected Forward EPS (cent)



Source: Bloomberg

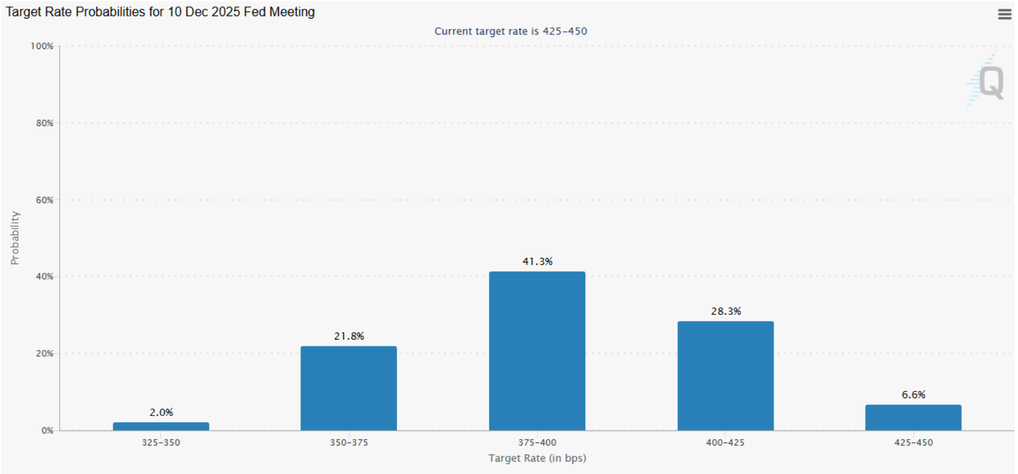
Trump still holds the wild card. Although volatility from Trump's tariff tantrum has tapered, we reckon that any further developments could play an integral role in shaping up markets' directions, moving forward. A favourable trade deal between US and its major trading partners may provide fresh impetus. Conversely, any delay in trade negotiations may prolong uncertainty, keeping volatility elevated in the near term.

Impact on reciprocal tariffs to be felt in 2H2025. Given that the reciprocal tariffs will only take effect tentatively from 8 Jul 2025, we believe the impact will only be felt sometime in 2H 2025. With final tariff rates yet to be confirmed, the ongoing uncertainty may keep investors on edge. This unpredictability is contributing to a volatile market environment, as companies reassess cost structures and supply chain strategies. In response, many businesses have adopted a more cautious approach, holding back on investment decisions until clearer guidance emerges, which is a trend that could inevitably lead to slower economic activity.

Rate cut expectations remains the table for 2025. Following the latest FOMC meeting in May 2025, the Fed is now expected to cut interest rates twice in 2025 (down from three times since the start of 2025), implying financing costs may stay elevated for longer. We expect **two rate cuts in 2H 2025** to materialise as the Fed attempts to balance the need to support growth with the imperative to control inflation which should be stubbornly high from the impact of reciprocal tariffs. Again, we maintain our view that the pace and timing of interest rate cuts will be very much data dependent revolving around inflation trends and trade policy developments.

Consensus are pointing towards c.40% of 50bps of rate cuts by end-2025

US Probabilities of Interest Rate By end-2025



Source: CME Group

Forward valuations are fair following recent recovery. Global corporate earnings growth projections were slashed to only +2.4% yoy for 2025F vis-à-vis initial projection of +10.3% yoy at the start of 2025. As such, MSCI All World Index forward valuations are now trading at P/E multiples of 19.6x and 17.5x for 2025F and 2026F – which are tethering close to five-year forward average of 20.3x.

Regional markets weathering through. We believe the worst could be over following the announcement of reciprocal tariffs. However, recovery prospects remain dim amid the lack of progress over trade negotiations between US and its major trading partners. Protectionist shift in the US is likely to disrupt supply chains, reduce export demand, and increase production costs across regional markets. Countries such as China, Vietnam, South Korea, Japan, and India, which have substantial trade deficits with the US, remains particularly vulnerable. That said, certain Asian markets may benefit from shifting global dynamics. Growing adoption of the "China+1" strategy, where companies diversify production beyond China, is expected to drive increased foreign direct investment (FDI) into ASEAN countries. Additionally, the strengthening of intra-ASEAN bilateral ties may unlock new investment opportunities and enhance regional economic resilience.

Selected ASEAN Indices Performance (YTD)

Indices	Performance (ytd)	Remarks
Jakarta Composite Index	-2.6%	Flattish as gains in banking heavyweights were offset by concerns over fiscal deficits, declining consumer confidence, and political uncertainties
Stock Exchange of Thailand	-22.7%	Ravaged by an exodus of foreign funds amounting to US$4.2bn in Q1 2025 on concerns over economic growth, domestic issues, and the impact of US tariffs
Philippines Stock Exchange Index	-1.8%	Bogged by concerns over global trade war and disappointing GDP data
Straits Times Index	+4.7%	Lifted by resiliency in favour of a defensive position against global trade uncertainties and stronger-than-expected economic data
FBM KLCI	-7.0%	Pared some of last year's gains amid profit taking along with return of foreign fund outflow and downgrade in corporate earnings growth prospects

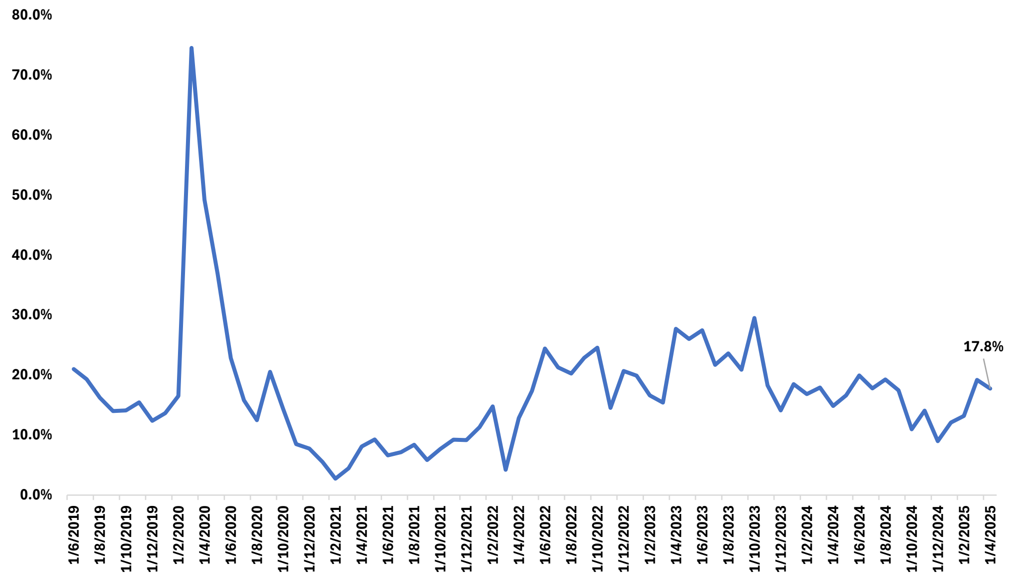
Source: Bloomberg, Apex Securities

Looking ahead, the downward revision of GDP growth outlook, persisting global trade tensions may keep markets choppy across Asian markets.

Recession risk remained well contained. We gather that economists' consensus view over the risk of recession for the next 12 months has spiked since the start of the year before tapering towards 17.8% lately. The spike was mainly driven by (i) expected slowdown in global economic growth, (ii) escalating global trade tensions and (iii) uncertainties surrounding Trump's economic policies. While risk of recession has risen, we believe it will be contained by the impending trade deals along with central bank(s) monetary policy easing measures to cushion the impact of softer economic growth outlook.

Risk of recession (US) briefly spiked before tapering

US Risk of Recession (Probability)



Source: Bloomberg

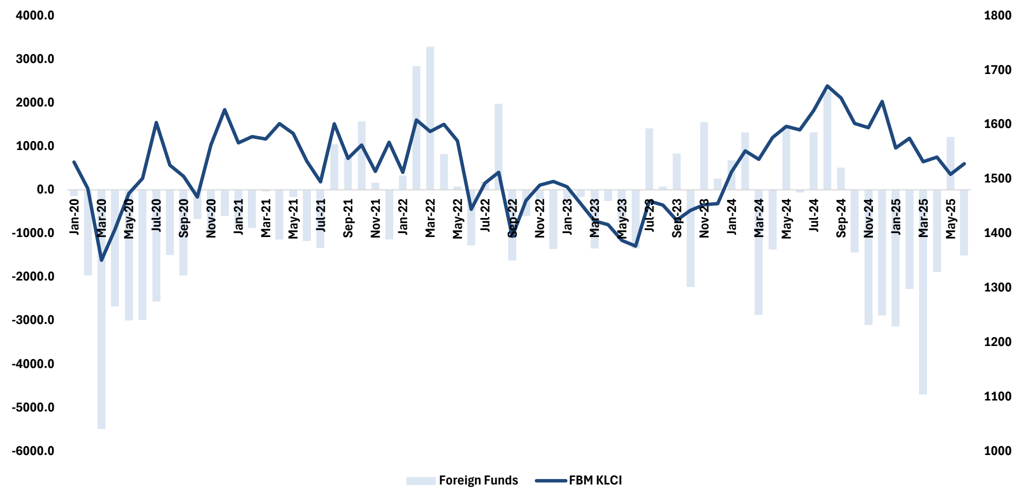
Malaysia Market Review

Echoing global volatility. After raking a solid performance in 2024 (+12.9% yoy), the FBM KLCI was rattled by renewed volatility mirroring broader global equity market swings. The sharp downturn which sent the local bourse hitting the lowest level since Jul 2023 was mainly triggered by fresh tariff threats, particularly the reciprocal tariff announcement in early April. While a rebound took place in recent months, the FBM KLCI still remain in red year-to-date at -7.0%. On the local bourse, PCHEM (-36.6% ytd) was battered on the back of a sluggish Q1FY25 results hampered by lower sales margins, supply problems at Pengerang Petrochemicals Company Sdn Bhd (PPC), foreign exchange losses and rising costs, while outlook remains murky owing to persistent industry headwinds, supply glut, and muted downstream demand. YTL-related entities which raked in sharp gains also staged a dip, while only a handful of companies advanced across the board ytd, namely PETDAG (+10.8%), CDB (+7.2%) and PMETAL (+2.0%), MISC (+0.7%) and Maxis (+0.2%).

Foreign funds outflow remains unabated. Malaysian equities on track for another year of foreign fund outflow with ytd net outflow of foreign funds amounting to RM12.2bn. Foreign funds continue to pare down Malaysia equities along with most emerging markets as investors unwind their position amid uncertainties poised by US flip-flop trade policies. Likewise, the lower liners also took a dive with the FBM Small Cap Index recorded 15.1% ytd decline.

Foreign funds net selling remains prevalent since the start of 2025

Bursa Malaysia Foreign Fund Participants vs FBM KLCI



Source: Apex Securities

Muted performance. Crude oil prices (Brent oil) remain downbeat after briefly hitting USD80/bbl at the start of the year before oscillating mostly between US$58-68 in recent months, which is below Malaysia's Budget 2025 forecast average of US75-80/bbl. Much of the weakness stemmed by build-up in stockpile and expectations of weakening demand. Also, OPEC and its allies are accelerating plan to unwind output cuts. Meanwhile, CPO prices (3 months futures) touched a high of RM4,700/MT before retreating to hover at a rangebound level between RM3,700-4,000/MT in recent months amid concerns over rising production, growing stockpiles, and persistently low crude oil prices, which are undermining the economic viability of biodiesel mandates.

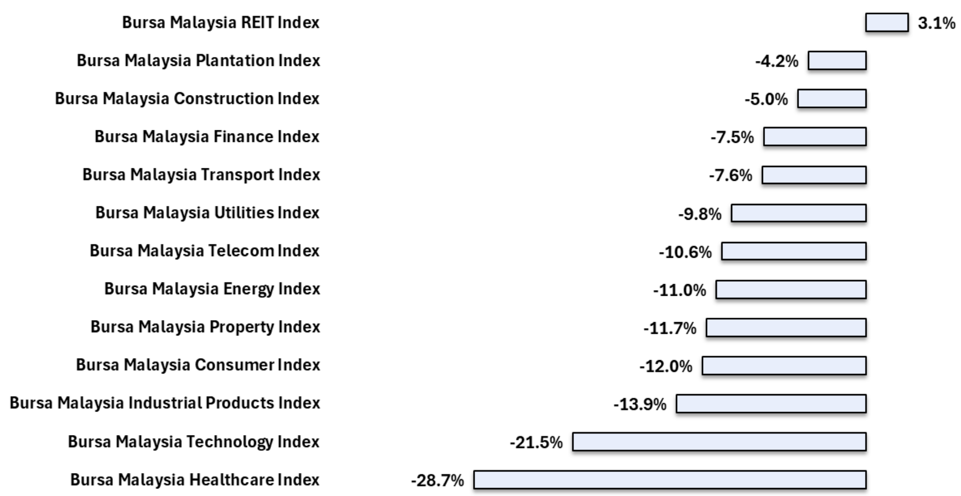
Simmering trading activities as investors adopt "wait-and-see" approach. After recording a total 55 initial public offerings (IPO) in 2024, a total of 32 IPOs (excluding LEAP market listing) were launched ytd which is largely on track to meet Bursa Malaysia's target of 60 IPOs in 2025. With market sentiment turning less favourable, average daily traded volumes slipped to 3.00bn shares vs. 4.00bn shares recorded in 2024. During the period, average transacted value also tapered to RM2.47bn, from an average of RM3.15bn recorded in the same period last year. As market sentiment remains cautious owing to the flip-flop economic policies laid out under US President Donald Trump, we reckon investors may continue to adopt a more defensive mode.

Retail market also took a back seat. Over at the retail participants segment, average daily transacted valued ytd slipped to RM447.6m vs. RM664.5m recorded in 2024 as performance across small and mid captalisation stocks turned dour. The weak financial performance in Q1CY25, coupled with the underwhelming debut of the recent batch of IPOs, has further dampened retail investor sentiment and discouraged larger position-taking.

A sea of red. It was a period to forget with 12 of 13 major sectors across Bursa Malaysia performed negatively. The **REIT** sector (+3.1% ytd) that is defensive in nature demonstrated resiliency in a period of volatility. On the flipside, **Healthcare** sector (-28.7% ytd) was the biggest laggard, owing to the weakness in gloves players as recovery prospects stalled following the front-loading purchases from US customers on Chinese glove makers ahead of tariffs implementation. The **Technology** sector (-21.5% ytd) was also not spared, dragged by the announcement of AI Diffusion Framework by the Biden administration on 13 Jan 2025 and was rescinded by the Trump administration on 13 May 2025.

__REIT__ sector was the sole outperformer, demonstrating resiliency against market volatility, while __Healthcare__ sector was hampered by the front-loading purchases from US customers on Chinese glove makers ahead of tariffs implementation

Bursa Malaysia 2025 (YTD) Sector Performances



Source: Apex Securities

Malaysia Market Outlook

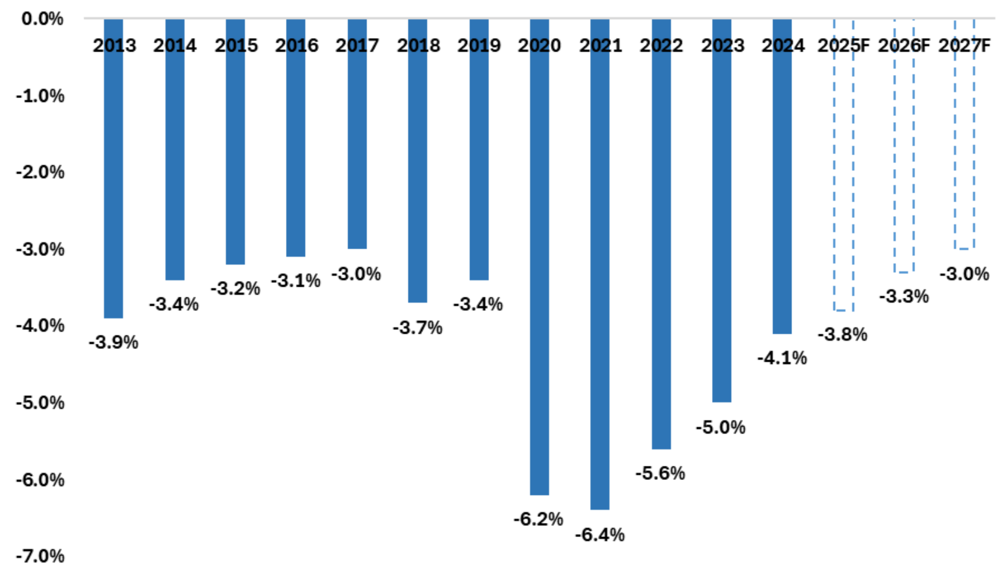
Calm after the storm, but choppiness may prevail. After a turbulent first half of the year, we believe recovery could be on the cards, riding onto further clarity over the trade deals between US and its major trading partners, including Malaysia. However, the prospects of recovery trend could choppy as markets continue to digest the impact of reciprocal tariffs that would weigh onto economic growth prospects. The local bourse may attempt to defend the 1,500 level over the foreseeable future before taking another jab towards the 1,600 level and should the aforementioned level cleared and continue to hold, further upsides are likely on the cards. With markets still reeling from the volatile period, we reckon the prospects of recovery will be measured as cautiousness prevail.

Reciprocal tariff development. US and its major trading partners including Malaysia are expected to reach an agreement in regards to reciprocal tariff rates sometime in 2H 2025. With the 90-day pause on "reciprocal" tariffs deadline on 9 Jul 2025 drawing close and markets offer little signs of progress (only UK has managed to strike a trade deal) – we do not discount for a potential extension of the reciprocal tariff pause which will eventually result in an extended period of uncertainty. Our in-house view suggests a base case of **10% reciprocal tariff to hit Malaysia export to US**, with certain products could be exempted.

RON95 fuel subsidy rationalisation to proceed in 2H 2025. As the planned removal of the blanket subsidy for RON95 likely to take place in 2H 2025, we anticipate a mildly negative reaction from the Malaysian equity markets, despite the measure primarily affects the top 15% income earners in the nation. This un-populist move is expected to save the government approximately RM8.0bn annually and aligns with Malaysia's efforts to reduce its fiscal deficit of -3.0% by end-2027. With the unprecedented reciprocal tariff disrupting global trade activities, we do not discount for a potential revision of Budget deficit targets under the Thirteenth Malaysia Plan (13MP).

Gradual structural reformation efforts to trim annual Budget deficit vs. Malaysia annual GDP is in progress

Budget Deficit (%) of Malaysia Annual GDP



Source: Malaysia Public Finance and Fiscal Responsibility Act

Foreign funds outflow keeping recovery momentum in check. While the narrowing US-Malaysia interest rate gap (in-house expectation of **two** rate cuts from US Fed, while Bank Negara Malaysia may stay pat onto OPR rate in remainder of 2025) may attract foreign investors, uncertainties surrounding global trade policies that may derail the prospects of economic growth could eventually result in further foreign fund flight from Malaysia equities. Net outflow from foreign funds amounted to RM12.2bn ytd and this has trimmed foreign holdings in Malaysia equities to c.RM365bn (c.19% of Malaysian market capitalisation).

Tabling of Thirteenth Malaysia Plan to focus onto further structural reformation. The 13th Malaysia Plan (13MP) which is slated to be tabled in July 2025 in the Parliament. The development blueprint for the 2026–2030 period is expected to place greater emphasis onto key structural reforms aimed at enhancing the country's efficiency, competitiveness, and long-term sustainability, while also providing fresh impetus to domestic-led growth.

Key Focus Areas	Remarks	Key Watchlist
(i) Renewable Energy (RE)	Targets 40% renewable energy (RE) capacity in its power mix by 2035 and aims reduce carbon emissions by 50% by 2050 under Malaysia renewable energy roadmap (MyRER)	**SLVEST, SAMAIDEN, PEKAT, CYPARK**
(ii) Public Welfare	Improve public welfare by ensuring access to affordable housing, universal healthcare, and social protection as well as reduce income gap inequality	**-**
(iii) Talent Development	Talent development reforms to meet workforce needs in the high-income economic sector to reach high-income nation status by 2028, according to World Bank projection	**-**
(iv) Public Transport Revamp	To achieve 80% railway track utilisation in Peninsula Malaysia by 2030. This includes increasing passenger train services and enhancing first-mile-last-mile connectivity	**GAMUDA, IJM, SUNCON, MRCB, WCT**
(v) Bolster Affordable Housing	To address housing affordability issue, 220,000 affordable homes will be built by 2030 under "Penang2030" vision and 20,000 affordable houses in Sarawak by 2030 aligning with National Housing Policy to build one million affordable homes	**LAGENDA, LBS, SKYWLD, MAHSING**

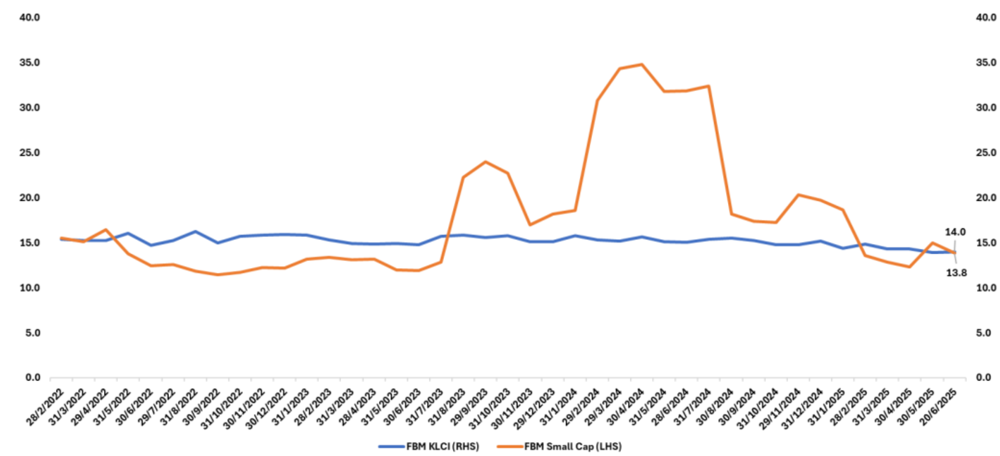
Source: Various, Apex Securities

Still attractive amid cautious undertone prevails. While recovery progress has stalled recently, we opine that the recent mild pullback offers a slightly more attractive entry point for accumulation traction. We remain selective towards a handful of sectors (refer to Market Strategy below) that focus onto domestic-led growth drivers, potentially demonstrate resiliency in earnings performance as well sectors riding onto selected thematic plays. Valuations appears to be fairly decent with the FBM KLCI trading at prospective P/E multiples of 13.9x/13.0x for 2025F/2026F vis-à-vis its five-year historical average of 15.1x implying potential upside in our view.

Lower liners require a boost after a wild ride. After a volatile period, we believe the FBM Small Cap recovery trend may take precedence, particularly post further clarity on trade developments in later part of the year. The steeper correction against FBM KLCI ytd offers a time of opportune to nibble onto undervalued opportunities, but we gather that the FBM Small Cap trading at 13.8x at present is currently trading at below 10-year historical median valuation spread to the FBM KLCI – highlighting more attractive risk-reward profile for alpha returns within the space. However, we reckon fresh impetus/catalyst may be much needed to reinvigorate the lower liners.

FBM Small Cap currently trading at a more attractive valuation spread to the FBM KLCI, highlighting more attractive risk-reward profile for alpha returns

FBM KLCI vs FBM Small Cap Historical P/E Multiples



Source: Bloomberg, Apex Securities

OPR to remain stable at 3.0%. Bank Negara Malaysia kept OPR unchanged at 3.0% in 1H 2025, but cut the Statutory Reserve Requirement (SRR) by 100bps to 1.0% effective 16 May 2025 which is estimated to inject RM19.0bn of liquidity into the banking system. At the same time, BNM has shifted to a more dovish tone that signals the central bank's readiness to ease monetary policy given the rising downside risk to economic growth outlook. With the next meeting on 8-9 Jul 2025 coincides with the end of 90-day reciprocal tariff pause, we BNM may stay pat towards OPR rate at **3.0%** as well as remainder of 2025. This is premised to the stability of inflation rate, solid jobs market as well as decent in-house project GDP growth rate of **4.2%** for 2025 that continues to ride onto domestic structural reformations.

Kenneth Leong
(603) 7890 8888 (ext 2093)
kenneth.leong@apexsecurities.com.my

Market Strategy

A period for accumulation and patience. As market volatility begins to ease, we expect greater stability to emerge 2H 2025. Under the prevailing environment, we advocate for a selective accumulation strategy, focusing on fundamentally sound equities that have been oversold and are relatively insulated from the impact of reciprocal tariffs. While there are few domestic catalysts over the foreseeable future, investors' attention is likely to stay anchored towards key developments in US trade policy and the Federal Reserve's stance on future interest rate direction.

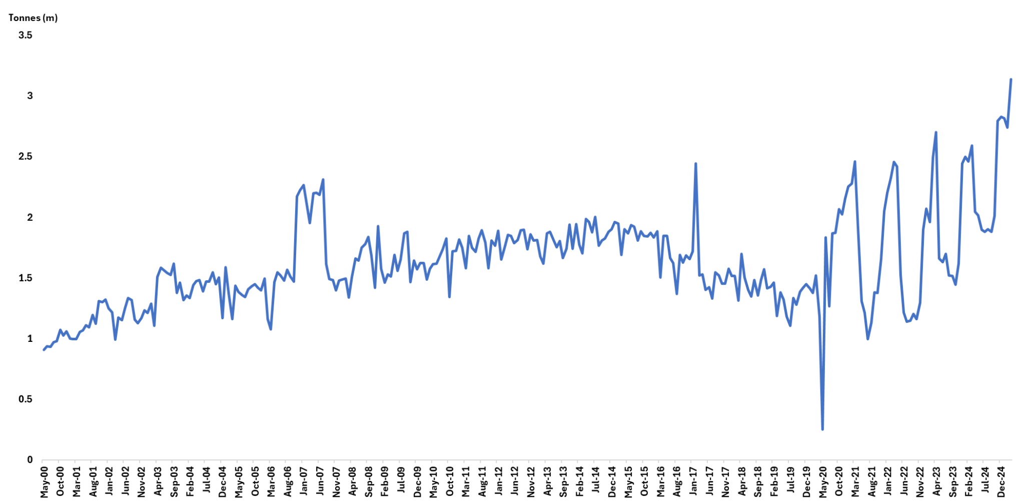
Adopting a more selective stance with focus on domestic centric plays. Amidst current global uncertainties and potential external headwinds such as geopolitical tensions, shifting trade policies, and currency volatility, we believe a more domestically focused investment approach is prudent. We are in view that markets may grapple with reciprocal tariff impacts in 2H 2025, and thus, we advocate investors take a more selective approach, concentrating on sectors and stocks with limited exposure to external developments.

We remain focus onto several thematic plays as below;

Backed by execution of sizable orderbook. Sustain orderbook replenishment were noticeable since the start of the year, extending the positive upswing from an exceptional 2024 bodes well for the **construction** sector. Healthy pipeline of data-centre related tenders remains in place, sustaining orderbook replenishment prospects. Earnings growth prospects remain on track, driven by the execution of a record-high outstanding order book, particularly from construction giants. We believe this could eventually lead to spillover effects benefiting smaller construction players over time. Notably, Malaysia cement production jumped to a monthly record high of 3.1m tonnes in March 2025 – underscoring solid demand for local consumption.

Record high monthly cement production in March 2025 underscores strong demand of construction activities

Historical Monthly Cement Production (Malaysia)



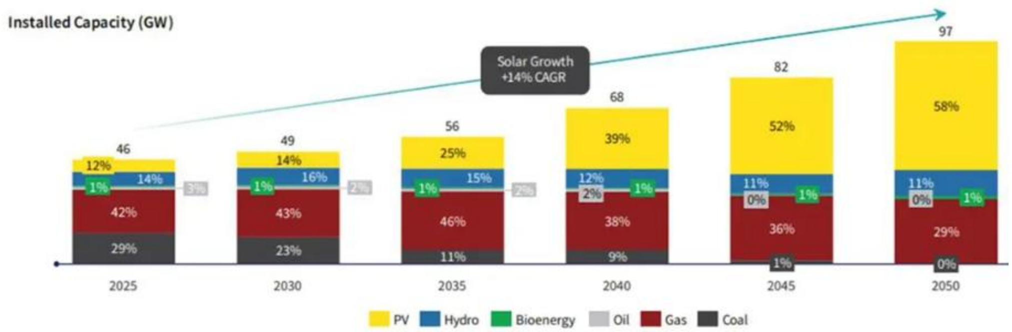
Source: DOSM

Taking a backseat to gather renewed strength. After reaching a decade-high transaction value in 2024, the **property** sector is expected to remain relatively resilient despite subtle signs of a slowdown in transactions during Q1 2025. Most property developers hold a more optimistic outlook for 2H 2025, anticipating a sales pickup following festive celebrations and economic stimulus initiatives. We believe the property development sector stands to benefit significantly from ongoing infrastructure improvements, especially enhanced transportation networks that boost accessibility and connectivity. Consequently, we favour companies with strong exposure to township developments in their portfolios, as these are likely to provide steady income recognition over the longer term.

Shifting towards sustainable power. The **renewable energy** (RE) sector is expected to remain busy with the impending roll-out of second batch of LSS5 awards with a total capacity of 2GW along with EPCC contracts 2H 2025. The move aligns with key economic blueprints such as National Energy Transition Roadmap (NETR) which targets for 31% renewable energy capacity by 2025, subsequently rising to 40% by 2035, and ultimately 70% by 2050 in Malaysia. All in, supportive policy measures and incentives and enhanced infrastructure supported by Tenaga Nasional Bhd's pledge to invest USD10bn to upgrade the national grid underpins Malaysia commitment towards long-term trajectory towards a cleaner energy future.

Long term RE growth well supported by Government-led initiatives and commitment to invest multi-billions of Ringgit under key economic blueprints

Projected Power System Installed Capacity Mix 2050



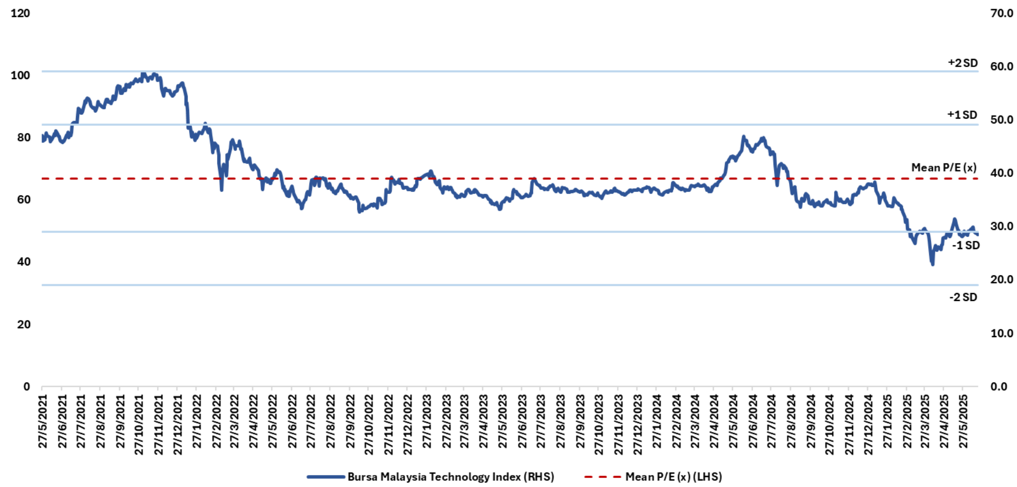
Source: National Energy Transition Roadmap (2023)

Strong energy demand drives growth across power ancillary segment. Rapid industrialisation, data centre expansion, and the accelerating shift toward renewable energy—continues to fuel growth across the **utilities** and the **power ancillary** segment. As the nation gears up to upgrade its grid infrastructure and expands energy generation capacity to meet rising electricity needs, companies operating in power ancillary players are well-positioned to benefit from sustained infrastructure investments and growing energy consumption. This is further supported by financial institutions commitment on RM200bn in financing to encourage industries to transition towards a low-carbon economy.

Garnering interest on compelling valuations. Recent correction the **Technology** sector dragged off the sector P/E multiple valuation to 29.5x which is near -1 SD – warranting renewed investors' attention. Global semiconductor sales continue to gain traction, rising 2.5% mom in April 2025, and are projected to grow 11.2% yoy to USD700.9bn for the full year. Future growth will be underpinned by the logic and memory chip segments, which are essential for data processing and storage in accelerating demand of AI, cloud infrastructure, and advanced consumer electronics.

Valuations have turned more appealing within Bursa Malaysia Technology Index that is trading near historical -1 SD

Bursa Malaysia Technology Sector Historical P/E



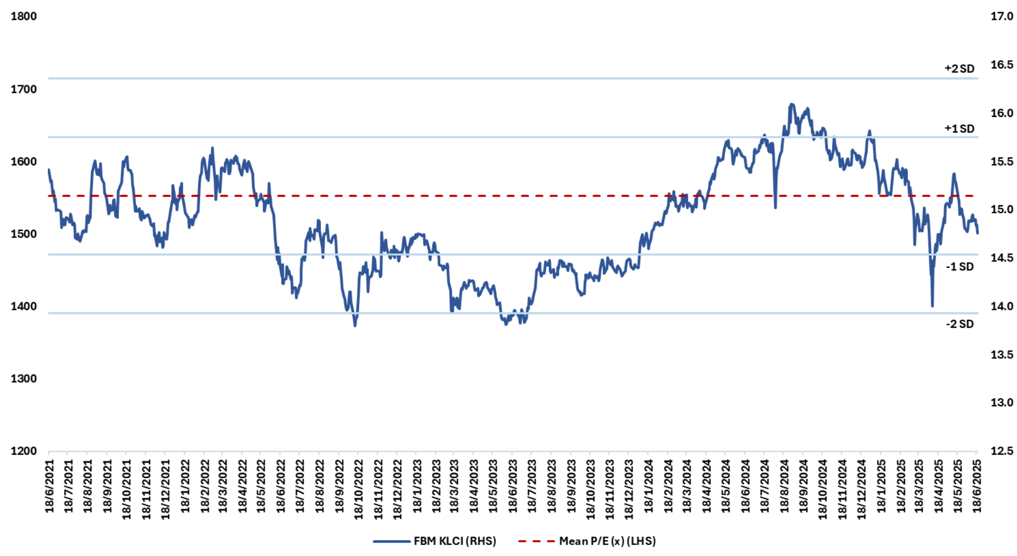
Source: Bloomberg, Apex Securities

Key index continues to offer value proposition. We believe Malaysian stocks are still undervalued with FBM KLCI trading at PERs of 13.9x and 13.0x for 2025F and 2026F respectively. The PERs are still below historical five-year average of 15.1x, suggesting room for potential upside. At the same time, the FBM KLCI is trading at forward P/B of 1.49x and 1.28x for 2025F and 2026F respectively, which is below the five-year historical average of 1.50x.

In-house targets. We are keeping our 2025F year-end target for FBM KLCI at **1,680**. The assigned P/E multiple of 14.5x aligns with -1.0 SD of the key index's historical average at 15.1x, after taking into account onto uncertainties poised by US trade policies that may weigh onto corporate earnings growth prospects. We reckon potential upside will be driven by corporate earnings (projected growth in 2025F EPS at +3.0% yoy, mainly anchored by banking, consumer and construction heavyweights) which may present some investment/trading opportunities over the longer-term perspective.

FBM KLCI valuations remains attractive, but there were lack of domestic-led push factors

Historical FBM KLCI PE Band



Source: Apex Securities

Key Risks

Lingering trade uncertainties. Further extension of uncertainties surrounding trade policies may dampen economic growth projections.

Further strengthening in USD/MYR. A weaker Ringgit against the Greenback may deter foreign investments should the prospects of interest rates cut dials back.

Geopolitical tensions. Unease geopolitical tension in the Middle East, Ukraine-Russia, political instability in Europe may impact investor confidence and market stability.

Inflationary risk. Impending removal of RON95 blanket subsidy may poses risk of higher goods and services, in general which may erode consumer purchasing power.

Elevated debt. Growing national debt which stood at USD279.1bn as at end-2024 limits Malaysia government's ability to fund new projects aimed at stimulating economic growth.

Further economic softening. While global economic growth is still on the table, projection of growth forecasts continues to taper and any further downward revision may temper sentiment.

2H 2025 Recommendation

	Sector	Sector Top Picks	Investment Highlights / Rationales
OVERWEIGHT	Construction	KERJAYA	Backed by sizable unbilled orderbooks with earnings growth momentum remain steadfast on execution of DC-related projects
	Power Ancillary	CBHB, UUE	Rising electricity demand, upcoming data-centre ESAs, and higher RP4 CAPEX to spur sector growth prospects
	Property	LAGENDA	Developers targeting growth areas, balancing affordable and premium units, supported by resilient demand and government incentives
	Renewable Energy	SAMAIDEN, SLVEST	Strong execution and substantial contract opportunities from clear and comprehensive government-led policies
	Utilities	TENAGA	Leveraging onto surging electricity demand that is well supported by Malaysia's energy transition initiatives
	Technology	INARI, QES	Clarity on tariff policy developments will provide greater certainty, while recent correction in share prices present an attractive entry point on valuation grounds
NEUTRAL	Automotive	MBMR	RON95 subsidy rationalisation might dampen demand, but a string of new model launches in 2H 2025 may provide a boost towards the final sprint
	Consumer	PADINI	Cautiousness in spending prevails amid declining real wages (-1.9%) from 2020 to 2025 Q1 as well as potential softer spending from electricity tariff hike, RON95 subsidy rationalisation and SST expansion
	Logistics	WPRTS	Tighter competition may erode margins, while valuations are treading near fair levels
	Oil & Gas	ARMADA	Currently in a cyclical downcycle, dragged by oversupply and weak demand, while local O&G outlook clouded by Petronas-Petros dispute which put a hold onto any greenfield projects in Sarawak
	Plantation	SDG, HSPLNT	Prospects remain unexciting on potential price correction due to seasonally higher palm oil production and sluggish demand recovery amid ample alternative oil supplies like soybean and sunflower oil
	Rubber Products	HARTA	Bogged by intense competition from Chinese players in Indonesia and Vietnam (gloves) and continue to navigate through rising cost pressure from higher electricity, labour and raw materials
	Telecommunication	REDTONE, TM, MAXIS	Remain underpressured by declining APRU, but fixed broadband operators are supported by acceleration in data center developments. Potential re-rating from Jendela Phase 2 (P2) rollout

Source: Apex Securities

2H 2025 Top Recommendations

Company	FYE	Price (RM) as at 20Jun25	P/E (x) CY25	P/E (x) CY26	P/B (x) CY25	P/B (x) CY26	Dividend Yield (%)	Target Price (RM)	Potential Upside	ESG Rating
CBH Engineering Holding Bhd	Dec	0.23	11.8	9.1	1.7	1.4	0.0	0.38	65.2%	★★★
Inari Amertron Bhd	June	1.87	26.3	19.1	2.5	2.4	5.9	2.94	57.2%	★★★
Kerjaya Prospek Group Bhd	Dec	2.06	13.1	12.4	2.2	2.1	5.6	2.50	21.4%	★★★
Lagenda Properties Bhd	Dec	1.19	5.2	4.1	0.8	0.7	5.6	1.53	28.6%	★★★
QES Group Bhd	Dec	0.36	20.9	13.1	1.5	1.4	1.7	0.42	16.7%	★★★
Samaiden Group Bhd	Jun	1.02	27.2	19.7	3.0	2.5	0.0	1.60	56.9%	★★★
Solarvest Holdings Bhd	Mar	1.84	19.4	14.9	3.1	2.5	0.0	2.61	41.8%	★★★
Tenaga Nasional Bhd	Dec	14.22	19.7	19.3	1.3	1.3	3.3	16.04	12.8%	★★★
UUE Holdings Bhd	Feb	0.78	15.7	11.2	3.3	2.6	0.0	1.09	39.7%	★★★

Source: Apex Securities

Team Coverage
(603) 7890 8888
research.dept@apexsecurities.com.my

Construction

(Overweight ↔)

Maintaining Upward Momentum

Summary. Early this year, AI diffusion rule imposed by the Biden administration and global trade uncertainties triggered a short-lived dip in construction stocks. However, the quick rebound supports our conviction that the sector's uptrend will persist into 2H 2025. With residential, public infrastructure, and data centre projects taking centre stage, key players are well-positioned to capitalise on the growing project pipeline into 2H 2025. Backed by this promising outlook and strong fundamentals, we maintain our **Overweight** stance on the construction sector.

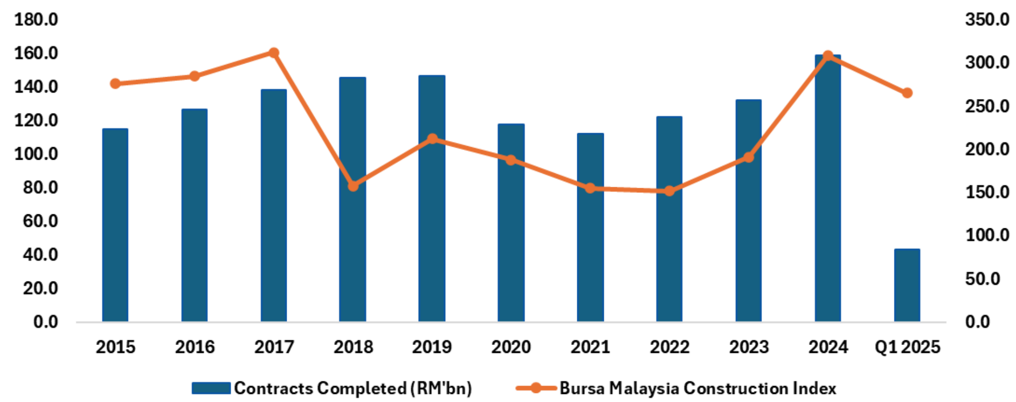
Presently, the construction sector is trading at forward P/E multiples of 17.7x/15.1x for 2025F/2026F which is above its five-year historical average of 17.0x. In our view, the premium is justified by positive industry dynamics that are expected to support sustained orderbook replenishment and drive earnings growth. Under our coverage universe, we favour **Kerjaya Prospek Group Bhd (BUY; TP: RM 2.50)** supported by a robust project pipeline through sister companies KPPROP and E&O, and their tender participation in DC-related projects in Johor to be entered into a JV with Samsung C&T. We also favour **Central Global Bhd (BUY; TP: RM 1.00)** for its strength in large infrastructure projects in the East Malaysia region.

Review. The construction sector has achieved a significant milestone in 2024, with the value of construction work done reaching RM158.8bn, reflecting a robust growth of 20.2% yoy, contributed to the Bursa Construction Index 59.1% return. In Q1 2025, the sector charted another remarkable growth (+16.6% yoy) with value completed totalling a single quarter record high of RM42.9bn, anchored by special trade activities (+35.5% yoy), followed residential buildings (+27% yoy), non-residential buildings (+21% yoy) and civil engineering (+3.7% yoy) sub-sectors. Meanwhile, the private sector makes up to 62.9% or RM27bn of the total market share, while the remainder (37.1% or RM15.9bn) contributed from the public sector.

We expect this momentum to sustain, underpinned by rising demand for residential properties, a growing infrastructure pipeline, and increasing inflows of foreign direct investments (FDIs), particularly into industrial and data centre developments.

Construction activities remain steadfast in Q1 2025

Contracts Activities Completed vs Construction Sector Index



Source: DOSM, Apex Securities

Resiliency in Property Market. Due to cautious consumer sentiment, the property market recorded an 8.9% yoy decline in transaction value to RM51.4bn in Q1 2025. Nonetheless, underlying fundamentals remain resilient, supported by a notable pickup in construction activity. The number of properties that commenced construction rose to 28,344 units in Q1 2025, a 32.5% increase from 21,391 units in the same period last year. Meanwhile, residential launches more than doubled to 12,498 units, compared to 5,585 units a year ago, signalling renewed confidence among developers. Demand for residential properties is expected to be supported by tax relief on housing loan interest, aimed at encouraging first-time homebuyers to enter the market. In addition, Bank Negara Malaysia has kept the OPR unchanged since May 2023, and with expectations for the rate to remain steady this year, financing conditions are likely to stay supportive.

The Data Centre Boom Isn't Over. Malaysia's emergence as a regional DC hub is underpinned by its strategic location within ASEAN, robust fibre connectivity, affordable land prices compared to Singapore, and favourable government policies. Since 2021, the country has secured approximately RM90bn in DC-related investments from global hyperscalers such as Amazon, Microsoft, and Google, with Johor benefiting the most due to its ample land supply and close proximity to Singapore.

While construction companies are set to benefit directly from the surge in DC infrastructure demand, market sentiment weakened following the implementation of U.S. export restrictions on advanced computing integrated circuits in January 2025. The rule, which placed Malaysia under Tier 2 and capped annual chip imports at 50,000 units, led to short-term volatility and weighed on construction counters. Although these restrictions have since been rescinded, the initial reaction highlighted market sensitivity to regulatory uncertainty. That said, we believe concerns are largely overstated. Most DCs in Malaysia are designed for cloud storage and enterprise workloads rather than AI training, which require significantly higher GPU capacity. As such, the direct impact from the chip cap is expected to be limited.

Looking ahead, the structural growth narrative remains intact. With a growing pipeline of DC developments and continued interest from global tech players, we see sustained opportunities for construction players with exposure to this theme.

Data Centre Contract Awards

Date	Developer	Contractor	Location	Value (RM'm)	Completion
5 Oct 2023	K2	SUNCON	Sedenak Tech Park, Johor	190.0	4Q24
21 Mar 2024	US-based MNC	SUNCON	Cyberjaya	747.8	2Q27
26 Apr 2024	TM Technology	GADANG	Klang Valley DC Block 2, Cyberjaya	280.0	Apr 2026
30 Apr 2024	US-based MNC	PASUKGB	Selangor	57.0	Jun 2025
24 May 2024	Google	GAMUDA	Elmina Business Park, Selangor	1743.6	Sep 2026
29 May 2024	NEXTDC	MITRA	Petaling Jaya, Selangor	86.6	Dec 2025
10 Jun 2024	Yondr	SUNCON	Sedenak Tech Park, Johor	1500.0	Feb 2026
26 Jun 2024	TM Technology	IJM	Iskandar Puteri DC, Johor	331.7	3Q25
19 Aug 2024	EXISM Jalil Link	BINASTRA	EXSIM Hyperscale DC @ Bukit Jalil	574.0	Jan 2026
19 Aug 2024	International DC developer	IJM	Gelang Patah, Johor	254.0	1Q26
6 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
1 Nov 2024	BCEI	GAMUDA	Cyberjaya	451.4	1Q26
17 Jan 2025	NEXTDC	MITRA	Kuala Lumpur	375.5	Mar 2026
12 Feb 2025	AIMS Group	BINASTRA	Cyberjaya	250.0	Dec 2025
12 May 2025	Google	GAMUDA	Port Dickson	1000.0	4Q28
20 May 2025	K2 Strategic Infrastructure Malaysia	SUNCON	Johor	260.0	Mar 2026
22 May 2025	Mujur Minat Sdn Bhd	ADVCON	Port Dickson	47.5	Aug 2025
29 May 2025	US-based MNC	SUNCON	N/A	1160.0	Feb 2027

Source: Bursa Malaysia, Apex Securities

Bright Prospects for Infrastructure. Malaysia's infrastructure outlook remains upbeat, backed by a solid pipeline of major projects and stronger policy support for regional development. Construction activity is expected to accelerate in 2H 2025, with progress gaining pace across both Peninsular and East Malaysia.

While MRT3 remains on hold, several key projects are moving ahead — including Segments 2 and 3 of the Penang Mutiara LRT Line, the Penang Airport expansion, the Subang Airport redevelopment, Phase 2 of the Pan Borneo Highway, Sabah–Sarawak Link Road, and the Johor ART. The KL–Singapore High-Speed Rail remains a medium-term catalyst and, if revived, could offer significant political mileage for the government ahead of the next general election.

East Malaysia will likely stay in focus in 2025, supported by higher federal allocations of RM5.9bn for Sarawak and RM6.7bn for Sabah under Budget 2025. At the national level, the government's cluster-based strategy aims to unlock state-level strengths to drive the next phase of growth. Sarawak continues to attract high-tech investment in energy transition, leveraging its hydropower capacity and resource base.

Key Infrastructure Projects

Project	Value (RM'bn)	Status
MRT3	45.0	Pending
Penang Mutiara LRT Line	10.0	Ongoing
Penang Airport Expansion	1.5	Pending
Subang Airport Redevlopment Plan	3.7	Pending
KL-Singapore High Speed Rail	N/A	Pending
Johor ART	N/A	Pending
Johor-Singapore RTS Link	4.3	Ongoing
Pan Borneo Sarawak Phase 1	16.0	Ongoing
Pan Borneo Sarawak Phase 2	4.6	Pending
Pan Borneo Sabah Phase 1	15.3	Ongoing
Pan Borneo Sabah Phase 1B	15.7	Pending
Sabah Sarawak Link Road Phase 1	5.2	Ongoing
Sabah Sarawak Link Road Phase 2	7.2	Pending

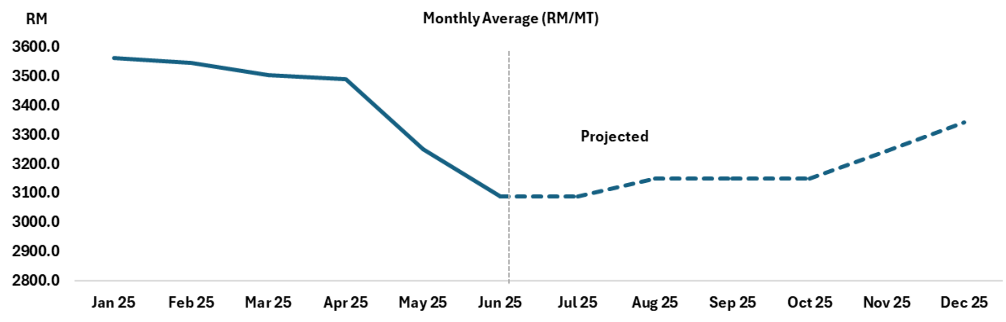
Source: Media reports, Apex Securities

Steel Prices Ease While Cement Holds Steady at Lows. The average price of steel bars in Malaysia fell for the fifth consecutive month in May 2025 to RM3,250/MT, dragged by elevated steel exports from China and the reintroduction of US tariffs on steel and aluminium imports which increased to 50% in June 2025. In contrast, cement prices held steady at RM23.80/50 kg bag, having remained flat ytd.

Despite global pressures weighing on steel prices, the domestic construction sector has benefitted from stable cement prices and sustained demand from residential, infrastructure, and data centre projects. The more predictable cost environment bodes well for contractors, especially amid a robust project pipeline expected to underpin demand going forward.

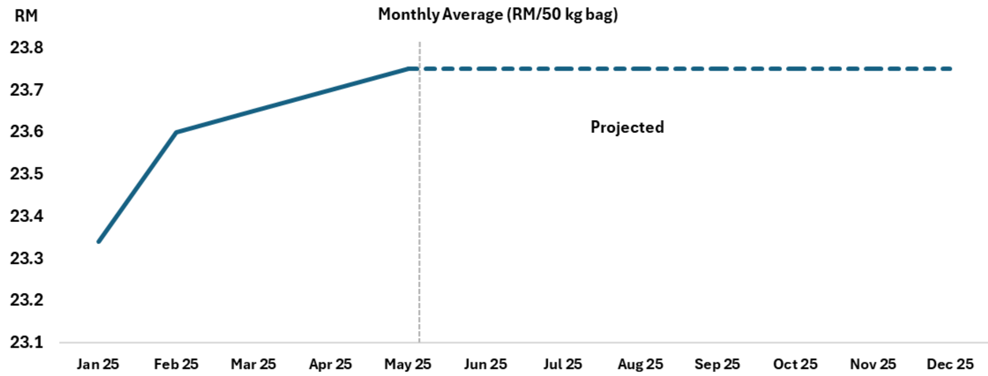
While strong demand may lead to modest upward pressure on material costs in the coming quarters, we believe the impact on construction sector margins will be limited. Construction players such as **KERJAYA** and **CGB**, backed by robust order books and strong pricing power, are poised to mitigate cost pressures through effective project management and selective cost pass-through. As such, any increase in input costs is expected to be manageable, with minimal impact on overall sector profitability.

Average Steel Bar Prices



Source: DOSM, Apex Securities

Average Cement Prices



Source: DOSM, Apex Securities

Assessing the Impact of Recent Policy Changes. The construction sector is exposed to policy changes due to its labour-intensive nature and reliance on foreign labour. In Budget 2025, it was announced that minimum wage will be hiked to RM1,700. However, the median wage in the construction sector has risen above RM2,500, suggesting that the impact on large construction companies is minimal. Both **KERJAYA** and **CGB** are already compensating their construction workers above RM1,700, thus the impact of the wage hike on them is limited. For smaller construction players who have been paying their construction workers below RM1,700, they might face cost pressures and suppressed margins.

Another key policy introduced in Budget 2025 is the mandatory 2% EPF contribution for foreign workers. Although the contribution rate is relatively modest, it is expected to exert mild cost pressure on the construction sector. Given the sector's labour-intensive nature and reliance on fixed-price contracts, the additional costs may compress margins for ongoing projects and influence pricing strategies for future tenders. Nonetheless, the impact is likely to remain manageable in the near term.

Key Risk. Increasing labour costs, elevated material costs, delay in project completion, and slower pace of infrastructure rollout.

Peer Comparison

Company	FYE	Price (RM)	P/E (x)		P/B (x)		Dividend Yield	Target Price	Potential	ESG Rating
		as at 20Jun25	CY25	CY26	CY25	CY26	(%)	(RM)	Upside	
Kerjaya Prospek Group Bhd	Dec	2.06	13.1	12.4	2.2	2.1	5.6	2.50	21.4%	★★★
Central Global Bhd	Jun	0.86	91.7	23.7	7.3	5.6	0.0	1.00	17.0%	★★★
Gamuda Bhd*	Jul	4.72	23.3	18.2	2.2	2.0	2.1	5.39	14.2%	N/A
Sunway Construction Group Bhd*	Dec	5.95	25.2	24.2	7.6	6.7	0.8	5.81	-2.4%	N/A
Average			**38.3**	**19.6**	**4.8**	**4.1**	**2.1**			

**Based on Bloomberg consensus estimates*

Source: Bloomberg, Apex Securities

Tan Sue Wen
(603) 7890 8888 (ext 2095)
suewen.tan@apexsecurities.com.my

Power Ancillary

(Overweight ↔)

Positioned for Growth Amid Infrastructure Push

Summary. We maintain an **Overweight** rating on the power ancillary sector that is expected to remain robust in 2H2025. A constructive outlook is supported by (i) sustained electricity demand growth (May 2025 peak demand reached 20.8GW), (ii) anticipated signing of 10 additional ESAs for data centre projects by year-end, and (iii) 108% increase in CAPEX under RP4 (2025–2027). With 70% of the RM16.3bn contingent capex (RM11.4bn) expected to be triggered throughout the RP, this is set to unlock significant opportunities across the power infrastructure supply chain and support constructive growth for the sector.

Valuation & Recommendation. Our top picks for the Power Ancillary sector are

i. **CBHB (BUY, TP:RM0.38).** We favour CBHB for its (i) strategic role as a proxy for Malaysia's rising power demand, (ii) established track record in delivering HV substations tailored for DC operators, and (iii) well-established customer relationships that support more cost-effective procurement strategies.

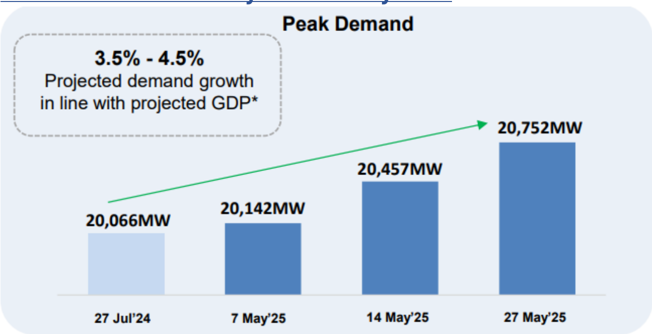
ii. **UUE (BUY, TP:RM1.09)** due to its: (i) expertise in HDD solutions, which cater to a high-margin niche segment, (ii) strong positioning as a key beneficiary of TNB's grid upgrade plans, supported by its established relationship with major customers, and (iii) strategic expansion into subsea development, which is anticipated to improve future margin.

Review. According to MIDA, total approved investments in 1Q2025 dropped 27.5% qoq, driven by uncertainty from the US-China trade war and expectations of 24% US tariffs announced for July 2025. While these external risks may have eroded overall business confidence, potentially prompting some firms to delay investment decisions, the power infrastructure supply chain remained robust throughout 1H2025. During this period, electrical contractors were actively engaged in delivering committed projects, while ancillary suppliers and manufacturers maintained operational stability, supported by robust order flows primarily from the national utility. Overall, TNB's grid expansion efforts, propelled by the NETR for RE integration and grid modernisation, sustained the sector's resilience and growth throughout 1H2025.

Outlook. We maintain a constructive outlook for the power ancillary sector, with robust momentum projected for 2H 2025. This positive view is supported by (i) Malaysia's electricity demand, particularly from Commercial segment, which continues to expand (peak demand hit a record high of 20.8GW in May 2025, up 3.4% yoy), (ii) signing of five ESAs for data centre projects in 1Q2025, with an additional ten ESAs expected by year-end, and (iii) a 108% increase in capex under RP4 (2025-2027) from RP3.

The nation has registered record level of peak electricity demand several occasions in May 2025. Electricity demand is expected to grow steadily over time, highlighting the need for continuous infrastructure spending to meet the long-term requirements of power ancillary services.

Peak Demand from July 2024 to May 2025



Source: TNB, Apex Securities

According to TNB's latest analyst briefing, the five ESAs for data centre projects, representing a combined capacity of 666MW, were signed in 1Q2025. An additional ten ESAs, each averaging 150–200MW, are anticipated by year-end. This underscores the persistent and rising demand for data centre infrastructure, which is expected to continue fuelling strong demand for electrical substation construction, underground utility solutions, and electricity distribution equipment over the near to medium term.

During RP4, the allowed capital expenditure has surged by 108% to RM42.8bn, comprising RM26.6bn in base capex and RM16.3bn in contingent capex. Notably, base capex only includes data centre projects with signed ESAs, while a considerable pipeline of projects has yet to secure ESAs. TNB anticipates that 70% of the contingent capex will ultimately be triggered as more ESAs are secured. The activation of this additional contingent capex is poised to create substantial opportunities across the power infrastructure supply chain. Key beneficiaries under our coverage include **SCGBHD (BUY, TP: RM1.72)** for cables and wires, **PEKAT (BUY, TP: RM1.87)** for MV switchgear, **CBHB (BUY, TP: RM0.38)** for electrical contracting, and **UUE (BUY, TP: RM1.09)** for underground utilities engineering.

Increased demand for HV substations. Based on the 15 ESAs signed, we estimate this will require at least 15 additional HV substations (one for each ESA), not accounting for the redundancy requirements of DCs. DC operators typically prefer to retain existing contractors or experienced firms due to the critical nature of their facilities. In this regard, **CBHB (BUY, TP: RM0.38)** stands out, as it has extensive experience delivering specialised HV substations tailored specifically to DC needs, positioning it well to capitalise on this sustained demand and ensuring its growth prospects remain intact.

Growth in Underground Utility Solutions. Rising substation projects will drive demand for horizontal directional drilling (HDD) solutions, including cable laying, jointing, milling, and paving. In this space, **UUE (BUY, TP:RM1.09)** stands out by leveraging its exclusive subcontractor relationships with two of the top utility contractors in the domestic market. This strategic positioning significantly enhances UUE's ability to secure TNB project flows, which are expected to continue contributing meaningfully to the Group's order book going forward.

Higher demand for switchgear components. Increased substation construction will boost demand for switchgear and switchboards, critical for power distribution and safety. We see **PEKAT (BUY, TP: RM 1.87)** as a clear beneficiary, through its acquisition of EPE, a specialist in MV switchgear with a 30% TNB market share and 70% revenue from national utility companies, well-positioned to benefit.

Higher Demand for Power Cables and Wires. The activation of contingent capex is expected to offer significant upside to SCGBHD's order book. With its expertise in producing cables for transmission and distribution networks, an expansion in capacity to 51,980 km/year (+10.6% yoy) by the end of 2025, a consistent 20% share of TNB's market under the 1 + 1 contract cycle, and gains from industry consolidation following competitors' exits, **SCGBHD (BUY, TP: RM 1.72)** is well positioned to benefit.

Risks. Heavy reliance on power industry. Intense market competition. Orderbook replenishment.

Peer Comparison

Company	FYE	Price (RM) as at 20Jun25	P/E (x) CY25	P/E (x) CY26	P/B (x) CY25	P/B (x) CY26	Dividend Yield (%)	Target Price (RM)	Potential Upside	ESG Rating
Electrical contractors										
CBH Engineering Holding Bhd	Dec	0.23	11.8	9.1	1.7	1.4	0.0	0.38	65.2%	★★★
MN Holdings Bhd*	Jun	1.30	13.5	11.7	4.2	4.0	0.1	1.76	35.6%	N/A
HE Group Bhd*	Dec	0.29	10.7	7.8	2.0	1.8	2.4	0.45	55.2%	N/A
Average			**12.0**	**9.6**	**2.6**	**2.4**	**0.8**			
M&E										
CBH Engineering Holding Bhd	Dec	0.23	11.8	9.1	1.7	1.4	0.0	0.38	65.2%	★★★
Critical Holdings Bhd*	Jun	0.87	10.1	9.2	3.9	3.8	2.8	1.62	86.2%	N/A
HE Group Bhd*	Dec	0.29	10.7	7.8	2.0	1.8	2.4	0.45	55.2%	N/A
Average			**10.9**	**8.7**	**2.5**	**2.3**	**1.7**			
Underground Utilities										
UUE Holdings Bhd	Feb	0.78	15.7	11.2	3.3	2.6	0.0	1.09	39.7%	★★★
MN Holdings Bhd*	Jun	1.30	13.5	11.7	4.2	4.0	0.1	1.76	35.6%	N/A
Average			**14.6**	**11.5**	**3.7**	**3.3**	**0.0**			
Cables and Wires										
Southern Cable Group Bhd	Dec	1.36	13.5	12.4	3.1	2.5	1.3	1.72	26.5%	★★★
OSK Group Bhd*	Dec	1.16	4.1	4.0	0.5	0.5	7.8	2.00	72.4%	N/A
Average			**8.8**	**8.2**	**1.8**	**1.5**	**4.5**			

**Based on Bloomberg consensus estimates*

Source: Bloomberg, Apex Securities

Team Coverage
(603) 7890 8888
research.dept@apexsecurities.com.my

Property

(Overweight ↔)

Slowing Momentum, Selective Opportunities into 2H 2025

Summary. We maintain our **Overweight** stance on the property sector, underpinned by:

(i) A strategic shift among developers toward emerging high-potential areas, tapping into underserved locations with stronger long-term growth prospects;
(ii) Property developers adopting a more balanced approach with a mixture of affordable and premium units in their portfolio tailored to market dynamics;
(iii) Resilient demand in the affordable and mid-high to premium market segments subject to locations;
(iv) Supportive government incentives, including tax relief, loan guarantees, and allocations for affordable housing.

We continue to favour property developers with strategic positioning and strong execution capabilities. **LAGENDA (BUY, TP: RM1.53)** remains our top pick, as the Group expanded beyond its traditional stronghold in Perak. The Group has identified affordability fatigue in the state and is actively tapping into other states with stronger housing demand and visible development catalysts, thereby diversifying its earnings base from other states.

Following the correction in share prices across the majority of property players, we note that the sector's forward price-to-book (P/B) valuations have moderated to 0.59x for FY2025F and 0.58x for FY2026F. We believe the discount is reasonable given the still-cautious sentiment surrounding the sector and subdued market confidence. Nonetheless, we anticipate earnings to remain resilient in 2H 2025 supported by:

(i) Improved sentiment as recent market expectations on a stable inflation despite slower economic momentum. The stability is expected to keep mortgage affordability and provide stable housing demand; and
(ii) Additional growth from new launches in better-performing states and industrial-focused projects.

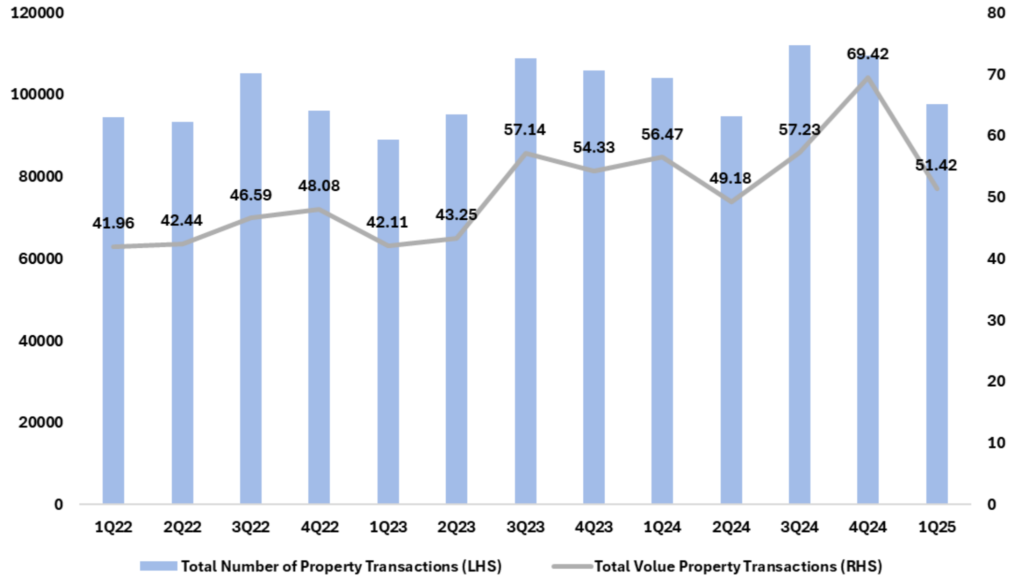
As such, we remain constructive on developers with lean balance sheets, adaptability to market trends, and the agility to seize opportunities in today's competitive environment.

Review. The property sector delivered weaker performance with total property transaction value declined 8.9% yoy and 25.9% qoq to RM51.4bn in 1Q 2025. Total volume transacted also declined 6.2% yoy and 10.7% qoq to 97,772 units. The residential property recorded 59,306 transactions during the quarter, a slight decrease from 62,809 in 1Q 2024 despite seeing increase in construction activities. This is due to a **mismatch between new supply and actual market demand**, as many of the new launches were not aligned with local affordability levels nor buyer preferences. While developers ramped up construction based on earlier optimistic projections in 2024, buyers grew more cautious amid economic uncertainties, and a persisting oversupply in segments like serviced apartments and high-rise units. Additionally, seasonal factors and the timing of new launches further contributed to the softer transaction volume in 1Q 2025 compare to 4Q 2024.

During 1Q 2025, residential sub-sector's transacted value accounted for 60.7% of total transactions, followed by agriculture (19.5%), commercial (11%), development of land (6.8%) and industrial (2.0%). During the quarter, new residential launches stood at 12,498 while sales of new launches stood at 1,351 units, representing 10.8% sales conversion. At the same time, average property price to transaction in 1Q 2025 also reduced to RM525,917/unit vs. RM541,970/unit recorded in 1Q 2024.

Historical Quarterly Property Transactions

Property transactions softened slightly after peaking in 4Q 2024



Source: NAPIC, Apex Securities

On the overhang or unsold completed houses, we observed continued improvement, with the volume of unsold completed houses declining by 2.9% yoy and the corresponding value falling by 9.0% yoy. The sharper drop in value suggests stronger absorption of higher-priced units, likely supported by improved affordability. This trend indicates a more sustainable and responsive property market, underpinned by stable financing conditions as evidenced by a healthy loan approval rate averaging around 40.0% in 1Q 2025, in line with the long-term average.

Despite units priced below RM300k accounting for the highest number of overhang units, this is not necessarily alarming. Low-cost homes are typically constructed in higher volumes to meet policy targets, and overhang in this segment can often reflect location-related factors rather than demand shortfall. States like Perak, for instance, affordability challenges persist due to limited economic catalysts and slower income growth, making even low-priced units less accessible or desirable.

Demand & Supply-Pull Drivers For 2025

Multiple drivers to steer growth prospects across selected states

Concentration of improved transportation and rapid development across selected states such.

Johor	Klang Valley	Penang
(i) Rapid Transit System (RTS) link – on track for completion by end-2026 (ii) Forest City Special Financial Zone (SFZ) (iii) Johor-Singapore Special Economic Zone (JS-SEZ) (iv) Johor Bahru Autonomous Rapid Transit (ART) – Phase 1 commenced	(i) Rapid urbanisation (ii) Revival of KL-SG High Speed Rail (iii) Klang Valley MRT 3 – construction work commenced in 2023 to connect underserved suburbs by 2030. (iv) LRT 3 extension – expected to complete around 2027	(i) Penang Mutiara Line LRT – construction to begin in Aug 2025. (ii) Silicon Island development – Phase 1 reclamation began (iii) Penang International Financial Centre (iv) Penang Special Financial Zone.

Source: Apex Securities

(i) **Johor.** Following the signing of the **JS-SEZ** agreement in Jan 2025, bilateral momentum has strengthened, with incentives for 16 strategic sectors and improved cross-border mobility. While Johor's property overhang rose in 1Q 2025, it is too early to assess the JS-SEZ's full impact. Over time, the initiative is expected to drive structural growth, boost investor confidence, and support demand recovery in the coming quarters. In this context, strategically located and competitively priced developments should see resilient take-up over time.

(ii) **Klang Valley.** The **rapid urbanisation** of Kuala Lumpur is evident through its strong and sustained population growth. As of 2025, the city's population is estimated at 9.0m, according to the UN World Urbanisation Prospects. This marks a yoy increase of 184,650 population, or a 2.1% annual growth rate. This highlights the on-going urban expansion will continue to support demand for housing.

(iii) **Penang.** The **Penang Mutiara Line LRT**, the state's first LRT system, is set to improve island-wide connectivity, reduce congestion, and drive transit-oriented development (TOD). By enhancing access to key areas, the project is expected to boost property values, demand, and rental yields near station nodes. It also complements major state initiatives, reinforcing long-term growth prospects for the property market.

Expectations for Budget 2026. Budget 2026 is expected to sustain a range of housing incentives to enhance affordability and promote homeownership. Anticipated measures include tax reliefs for residential property purchases, increased allocations for affordable housing projects, support for developments on wakaf land, extended financing options for civil servants, and continued assistance for first-time and low-income buyers through stamp duty exemptions and housing loan guarantees.

Outlook across three segments remains promising

Property Segment Outlook

Residential (+)	Office (+)	Commercial (-)	Industrial (+)
(i) Residential development is expected to slowdown in the short term but is likely to stabilise as market catalysts begin to take effect (ii) Developments of township remain sustainable (iii) Focus onto launches of low cost landed properties and premium segment	(i) Overall, a modest recovery in occupancy rates has been observed. (ii) Some recovery seen in Grade A buildings with ESG certifications, but broad sector weakness persists.	(i) The implementation of the 8% SST on leasing and rental services is expected to exert upward pressure on operating costs, particularly for commercial property owners **(a)** (ii) Rapid urbanisation supportive towards new retail developments	(i) Riding onto implementation of NIMP 2030 (ii) Rising FDI in data centre investment (iii) Expansion of warehouse & logistics facilities to capitalise onto trade diversion (iv) The 6% SST on construction contracts exceeding RM1.5m, applicable specifically to industrial properties **(b)**

Source: Apex Securities

(a) The implementation of the 8% SST on leasing and rental services is expected to impact operating costs, with the burden likely passed from landlords to tenants and, ultimately, to consumers. While exemptions are granted to micro and small service providers with annual turnover below RM500k, this may soften leasing activity, particularly for cost-sensitive businesses. In less prime areas, landlords may need to offer rebates or flexible lease terms to maintain occupancy. While near-term income remains stable due to non-reviewable contracts that are exempted from tax for one year (until 30 Jun 2026), the full financial impact will emerge gradually as leases move beyond the exemption period.

(b) The 6% SST on construction contracts exceeding RM1.5m, applicable specifically to industrial properties such as factories, warehouses, and data centres, is expected to raise overall development costs. This cost pressure is likely to be distributed along the value chain, from contractors to developers, and eventually to buyers or tenants through higher selling prices or rental rates. While larger developers may partially absorb the impact, cost-sensitive industrial clients, especially SMEs, could face greater financial strain, potentially affecting project feasibility or investment appetite in the near term.

We foresee a recovery in property sales in the medium term, following a temporary dip in 1Q 2025 as demand remains resilient across the affordable, mid-high, and premium segments. This trend is particularly evident in high-growth areas, where take-up for low-cost housing is strong, while sustained interest from upgraders and high-income buyers continues to drive demand in their respective segments.

Stability in OPR in 2H 2025 could allow planned purchases to proceed accordingly, while a potential OPR cut (should economic growth continues to soften) will serve as a potential catalyst to drive affordability. Amid a shift toward high-potential locations and more balanced portfolios, developers focused on township and mixed-segment strategies are expected to remain well-positioned, supported by infrastructure-driven tailwinds.

Key Risks. Increased cost burden from expanded SST, highly competitive market environment and persistent affordability challenges limiting pricing flexibility.

Peer Comparison

Company	FYE	Price (RM) as at 20Jun25	P/E (x) CY25	P/E (x) CY26	P/B (x) CY25	P/B (x) CY26	Dividend Yield (%)	Target Price (RM)	Potential Upside	ESG Rating
Lagenda Properties Bhd	Dec	1.19	5.2	4.1	0.8	0.7	5.6	1.53	28.6%	★★★
Matrix Concepts Holdings Bhd	Mar	1.36	12.8	10.7	1.2	1.1	4.7	1.53	12.5%	★★★
SkyWorld Development Bhd	Jun	0.42	9.4	7.9	0.5	0.5	1.9	0.52	23.8%	★★★
Average			**9.1**	**7.6**	**0.8**	**0.8**	**4.1**			

Source: Apex Securities

Tan Sue Wen
(603) 7890 8888 (ext 2095)
suewen.tan@apexsecurities.com.my

Renewable Energy (Overweight ↔)

Powered by Policy, Poised for Growth

Summary. We maintain an **Overweight** stance on the Renewable Energy (RE) sector, supported by the clear and comprehensive policy direction set out in the NETR. For 2H 2025, we expect sector earnings to be primarily driven by project revenues from the 800MWac of CGPP and 2GWac of the LSS5 initiative. CGPP continues to exhibit strong execution momentum as developers accelerate project delivery, with most projects targeting their COD by the end of 2025. This is further complemented by the roll-out of LSS5, where we estimate c.50% of contracts remain to be allocated, offering ample new contract opportunities in the coming quarters.

Valuation & Recommendation. Our RE sector top picks are

i. **Samaiden (BUY, TP:RM1.60)**, in favour of its (i) expertise in ground-mounted solar PV projects, (ii) industry-leading low gearing with a net cash position as of 3QFY25, and (iii) strategic focus on bioenergy solutions, which sets it apart from other solar EPCC players.
ii. **Solarvest (BUY, TP:RM2.61)**, for its (i) solid track record, having completed >1.2GW of projects, the highest among peers, (ii) strategic efforts in building a diversified solar empire, (iii) unique in-house solar financing program, Powervest, which promotes solar PV adoption in the C&I sectors, and (iv) ability to consistently capture an average 20% market share of EPCC jobs from LSS1, LSS2, and LSS4.

Review. In 1H 2025, Malaysia's solar sector experienced significant expansion, propelled by a range of RE initiatives undertaken in line with the NETR objective to achieve 70% RE power installed capacity by 2050. Utility-scale solar-focused contractors have commenced construction on CGPP projects, marking a transition from the tail-end of LSS4 initiatives. Rooftop solar developers continued to gain significant traction supported by favourable governmental policies. Key initiatives launched during this period include:

(i) Allocation of an additional 100MW for Net Energy Metering Rakyat (NEM Rakyat) following the full subscription of the initial 600MW.
(ii) Opening of submissions for Request for Proposals (RFP) by the Energy Commission under the 100MW/400MWh Battery Energy Storage System (BESS) programme.
(iii) Introduction of the Community Renewable Energy Aggregation Mechanism (CREAM) framework, which liberalises residential rooftop solar deployment.
(iv) Issuance of a call for proposals for LSS5+, with a closing date of 28 February 2025.
(v) Launch of the Solar MADANI programme, specifically aimed at boosting rooftop solar adoption within the Sabah region.
(vi) Signing of the Tri-Nation Offshore Wind Energy Agreement between Malaysia, Singapore, and Vietnam in 1H2025 to facilitate the exploration of offshore wind energy for cross-border electricity exports.
(vii) Continuation and enhancement of the Green Electricity Tariff (GET) programme in 2025, which features a 6,600GWh quota and the introduction of long-term subscription options.

Outlook. In 2H 2025, earnings growth in Malaysia's RE sector are expected to be driven by execution of the 800MWac CGPP and the 2GWac LSS5 programme. Solar EPCC contractors have accelerated CGPP project execution with most projects targeting Commercial Operation Dates (COD) by end-2025 to avoid penalties in delay. Meanwhile, the LSS5 programme which began shortlisting successful bidders in December 2024, is anticipated to generate substantial job flows throughout 2H 2025. Typically, utility-scale solar projects' awards are finalised within six months following developers' appointments. Our channel checks indicate c.50% of LSS5 EPCC contracts remain unallocated, suggesting ongoing opportunities for new contract awards in the near term. Beyond utility-scale developments, the rooftop solar segment is poised for further expansion, supported by the extension of NEM3.0 quotas, adding 100MW for residential and 300MW for C&I users through 30 June 2025. The scheduled tariff hike and the liberalisation introduced by the

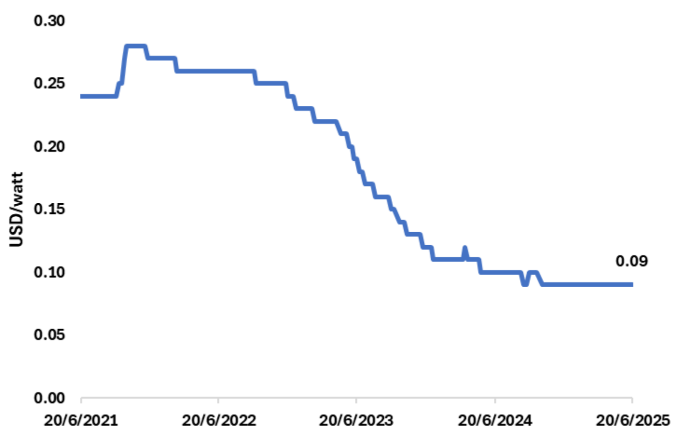
CREAM framework are also likely to boost rooftop solar adoption. These supportive policies, continued decline in solar module prices and a scheduled electricity tariff increase, are expected to sustain robust order books for RE EPCC contractors over the next two years, providing a solid foundation for continued sector growth.

Tariff hike in July. The recently announced electricity tariff hike for Peninsular Malaysia, with the base rate set at 45.40sen/kWh (+13.6% from RP3) effective from 1 Jul 2025, marks a significant shift in the nation's energy landscape. We expect this development to catalyse further uptake of CRESS agreements across the sector, particularly from the data centre industry seeking to hedge against the additional tariff hike and to meet their ESG agenda. Notably, major players such as DAYONE Data Centres have responded proactively by entering into long-term CRESS agreements with TNB, securing up to 500MWac of RE supply for their Malaysian operations.

Solar module price. Based on our channel checks, Chinese solar module manufacturers are experiencing a sustained 7% decline in demand in 2Q 2025, with production declining to 48GW in May 2025 and expected to fall further to 45GW in coming month. Under the prevailing subdued market, module enterprises are adopting just-in-time procurement, reflecting ongoing negative sentiment and price reductions across the photovoltaic supply chain. The persistent weakness in module demand and pricing is expected to benefit local EPCC solar contractors, as lower module prices reduce project costs and improve project viability, potentially driving increased solar adoption and installation activity.

Persistently low solar module price accelerates RE (solar) adoption

Solar Module Price Trend



Source: Bloomberg, Apex Securities

Key Risk. Increase in solar module costs, heavy reliance on government initiatives and intense market competition.

Peer Comparison

Company	FYE	Price (RM) as at 20Jun25	P/E (x) CY25	P/E (x) CY26	P/B (x) CY25	P/B (x) CY26	Dividend Yield (%)	Target Price (RM)	Potential Upside	ESG Rating
Solarvest Holdings Bhd	Mar	1.84	19.4	14.9	3.1	2.5	0.0	2.61	41.8%	★★★
Samaiden Group Bhd	Jun	1.02	27.2	19.7	3.0	2.5	0.0	1.60	56.9%	★★★
Sunview Group Bhd*	Mar	0.395	10.7	7.8	3.9	3.1	1.7	0.46	16.5%	N/A
Pekat Group Bhd	Dec	1.34	14.3	13.3	3.5	2.8	2.1	1.87	39.6%	★★★
Average			**17.9**	**13.9**	**3.4**	**2.7**	**1.0**			

**Based on Bloomberg consensus estimates*

Source: Bloomberg, Apex Securities

Ong Tze Hern
(603) 7890 8888 (ext 2113)
tzehern.ong@apexsecurities.com.my

Utilities

(Overweight ↔)

Structural Tailwinds Drive Multi-Year Growth

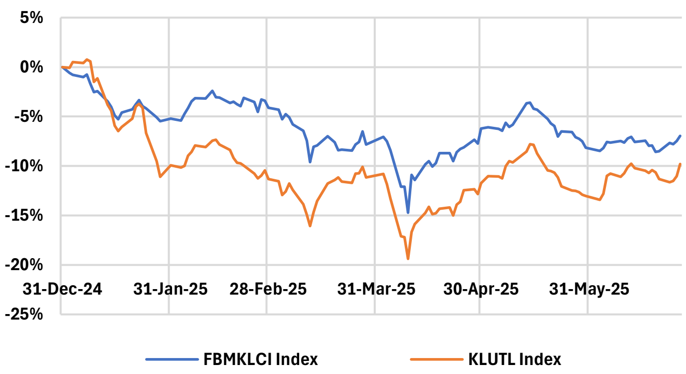
Summary. We reiterate our **Overweight** stance on the Utilities sector, underpinned by structural tailwinds from the ongoing energy transition and surging electricity demand, driven by data centre proliferation and increasing electric vehicle adoption. Key catalysts for 2H2025 include: (i) the award of up to 8GW in new gas-fired capacity, (ii) earnings uplift potential from contingent Capex utilisation, and (iii) the development of a third regasification terminal in Peninsular Malaysia.

Valuation & Recommendation. Our top pick for the sector is **TENAGA (BUY, TP: RM16.04)**. We favour **TENAGA** for the followings reasons: (i) sustained electricity demand growth and the ongoing energy transition, which requires significant grid investments and modernisation, supporting expansion of its regulated asset base and earnings; (ii) potential earnings uplift from the utilisation of contingent Capex; and (iii) its defensive profile amid rising geopolitical and policy uncertainties, underpinned by its predominantly domestic operations and alignment with national priorities.

1H2025 Review. The first half of 2025 proved challenging for the Utilities sector, with the KL Utilities (KLUTL) Index falling 9.8%, significantly underperforming the FBM KLCI's 7.0% decline (Figure 1). The sector's weakness began early in the year, triggered by two major developments:
(i) The now-shelved AI Diffusion Framework, introduced by the Biden administration in January to restrict exports of advanced semiconductors;
(ii) The rollout of Deepseek-R1, which raised concerns over the trajectory of AI infrastructure investments by demonstrating exceptional performance using low-cost chips and substantially lower computing power.

KLUTL underperformed the broader market in 1H2025

Figure 1: KLUTL vs FBM KLCI in 1H 2025



Source: Bloomberg, Apex Securities

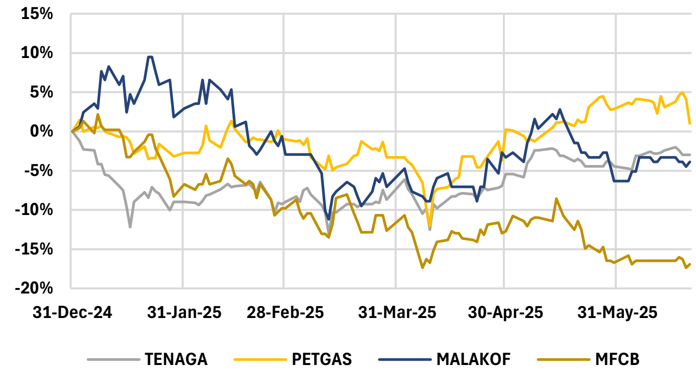
Within the sector, **MFCB (BUY, TP: RM5.43)** was among the top laggards, declining 18.5% YTD, alongside heavyweight **YTLPOWR (NR)**, which fell 10.8% (Figure 2). **MFCB** faced softer earnings in 1QFY25, compounded by the anticipated weakening of USD against MYR. Meanwhile, **YTLPOWR's (NR)** underperformance was primarily due to weak quarterly results and shareholding dilution concerns from unlisted warrant issuance. Among the stocks under our coverage, **PETGAS (Hold, TP: RM17.80)** was the only gainer in 1H2025, posting a modest 2.6% return YTD (Figure 2).

Other key sector developments in 1H2025 included:
(i) A 15.8% YTD decline in coal prices on global demand concerns, though prices have stabilised since April 2025. This weighed on the earnings for both **TENAGA** and **MALAKOF (BUY, TP: RM0.88)** through negative fuel margins and increased coal provision to NRV based on the ACP;
(ii) The commencement of Regulatory Period (RP4), which drove notable improvement in **TENAGA's** 1QFY25 earnings; and

(iii) The Energy Commission's (EC) issuance of a Request for Proposal (RFP) for up to 8GW of new gas-fired capacity, setting the stage for longer-term sector growth.

PETGAS is the only stock under our coverage registering gains in 1H2025

Figure 2: YTD Performance of Stocks under Coverage



Source: Bloomberg, Apex Securities

Outlook. We identify three key drivers for the sector in 2H2025:
(i) The award of up to 8GW in new gas-fired capacity;
(ii) Earnings uplift potential from contingent Capex utilisation;
(iii) The development of a third regasification terminal in Peninsular Malaysia.

Award of up to 8GW in New Gas-fired Capacity

Despite a 1.2% YoY decline electricity consumption in 1Q2025 (Figure 3), Peninsular Malaysia recorded a new peak demand of 21,049MW on 28 May 2025 (Figure 4). **TENAGA's** management attributed the 1Q slowdown to weaker electricity usage from the electronics manufacturing subsector in the Industrial segment and lower weather-driven demand in the Domestic segment. We view the decline as temporary, with the May peak confirming the continued structural growth in demand. Notably, data centre continues to drive the overall electricity demand growth, as evidenced by the 5.1% YoY growth in the Commercial segment.

Temporary drop in electricity demand in 1Q2025

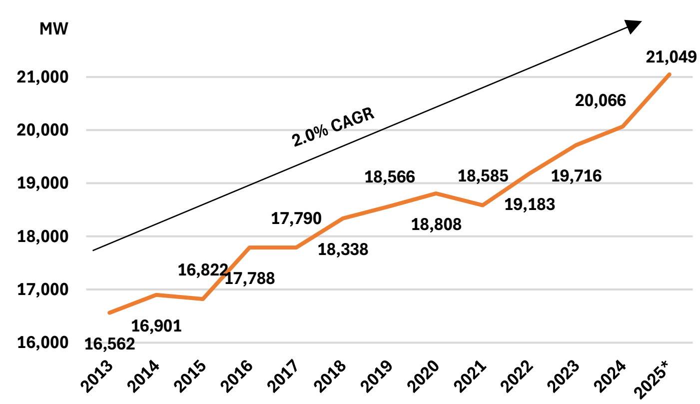
Figure 3: Electricity Demand Declined in 1Q2025

Sector (GWh)	1QFY25	1QFY24	yoy (%)	4QFY24	qoq (%)
Industrial	10,592.0	11,210.0	*(5.5)*	11,162.0	*(5.1)*
Commercial	11,672.0	11,102.0	*5.1*	11,967.0	*(2.5)*
Domestic	8,575.0	8,932.0	*(4.0)*	8,650.0	*(0.9)*
Others	670.0	655.0	*2.3*	690.0	*(2.9)*
Total	**31,509.0**	**31,899.0**	***(1.2)***	**32,469.0**	***(3.0)***

Source: TENAGA, Apex Securities

New peak demand of 21,049MW on 28 May 2025

Figure 4: New Peak Demand in May 2025



***Up to latest available data in 2025**

Source: Single Buyer, TENAGA, Apex Securities

In response to this robust outlook, the EC issued RFP for up to 8GW of gas-fired capacity by 2030. Importantly, the RFP will not affect existing initial Letter of Notifications (iLONs) already awarded to **TENAGA** and **MALAKOF**.

By 2030, expiring PPAs/SLAs include: (i) 5.3GW of gas-fired plants, (ii) 3.5GW of coal plants, and (iii) 1.3GW of hydroelectric plants (Figure 5). The hydropower plants will be extended under the Life Extension Programmes, leaving 8.8GW of fossil fuel capacity requiring replacement. This aligns closely with the EC's 8GW RFP capacity. Under Category 1 of the RFP (extensions or expansions of existing capacity), **TENAGA's** Putrajaya Plant, **MALAKOF's** Prai Power Plant, and Edra's Panglima Plant are well positioned for PPA/SLA extensions by end-2025, coinciding with their scheduled expiries. This will help maintain the IEA-recommended reserve margin range of 20%-35%, currently at 31.5%. Under Category 2 (new capacity), we view **TENAGA** and **MALAKOF** as strong contenders for new PPAs, given their strong operational track records in Peninsular Malaysia.

We are positive on this RFP. Category 1 ensures cash flow visibility by extending the income-generating life of existing plants. Meanwhile, Category 2 supports the transitioning from coal to gas-fired power plants, enhancing operational reliability due to simpler mechanical systems and lower maintenance intensity. Unlike coal plants, gas-fired plants generally require fewer shutdowns and experience less forced outages, translating into higher availability and steadier capacity payments. That said, meaningful earnings impact is only expected from 2029 onwards, assuming contract awards are finalised by end-2025, given the typical 3-year development timeline for gas-fired plants.

8.8GW of fossil fuel capacity will expire by 2030

Figure 5: Upcoming PPA/SLA Expiries by 2030

PPA/SLA expiry	Power Plant	Fuel	Type	Capacity (MW)
2025 August	S.J Putrajaya	Gas	OCGT	249
2025 August	S.J Sultan Mahmud, Kenyir	Water	Hydro	400
2025 August	Prai Power Sdn Bhd	Gas	CCGT	350
2025 September	Panglima Power Sdn Bhd	Gas	CCGT	710
2026 February	Kuala Langat Power Plant Sdn Bhd	Gas	CCGT	675
2027 June	Segari Energy Ventures Sdn Bhd	Gas	CCGT	1,303
2027 August	S.J Cameron Highlands	Water	Hydro	250
2027 August	S.J Sungai Perak	Water	Hydro	649
2028 August	S.J Tuanku Jaafar, Port Dickson	Gas	CCGT PD1	703
2029 July	Kapar Energy Ventures Sdn Bhd	Gas	Conventional Thermal	578
2029 July	Kapar Energy Ventures Sdn Bhd	Coal	Thermal (U3-U6)	1,474
2030 January	S.J Tuanku Jaafar, Port Dickson	Gas	CCGT PD2	708
2030 August	TNB Janamanjung Sdn Bhd (M123)	Coal	Thermal	2,070

Source: Grid System Operator, TENAGA, Apex Securities

Earnings Uplift Potential from Contingent Capex Utilisation

TENAGA has committed RM128m for contingent Capex in 1QFY25. A formal recovery mechanism is expected to be finalised in 2H2025. We expect this to take the form of an automated revenue-cap adjustment, allowing TENAGA to recover approved Capex without affecting end-user tariffs.

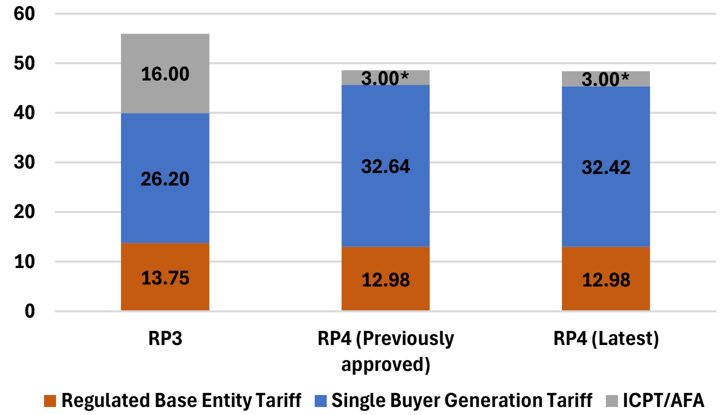
The utilisation of RM11.4bn contingent Capex translates into additional earnings of c.RM467m

In the latest analyst briefing, TENAGA's management has reaffirmed its confidence in securing 70% of the RM16.3bn in contingent Capex, equivalent to RM11.4bn across RP4 (2025-2027). Assuming 80% debt financing at 4% interest rate, we estimate this translates into c.RM467m in additional annual earnings, equivalent to c.11% to the our FY25F earnings forecasts. However, the full earnings contribution is only expected from FY28F onwards, when all of the contingent Capex is fully utilised. We have not yet reflected this into our forecasts, implying further upside potential.

Concerns over a potential reduction in TENAGA's allowed return under the revised electricity tariff framework effective 1 Jul 2025 have also been largely allayed. The EC's recent announcement confirmed that the base tariff for RP4 will be reduced marginally to 45.40sen/kWh (+13.6% vs RP3), slightly below the previously approved 45.62sen/kWh (+14.2% vs RP3) (Figure 6). Importantly, this reduction is limited to pass-through generation tariffs, leaving the regulated return unaffected.

Meanwhile, the shift from the existing biannual ICPT mechanism to a monthly Automatic Fuel Adjustment (AFA) mechanism enhances cost reflectivity and improves cash flow stability.

Figure 6: Base Tariff Breakdown (sen/kWh)



** ICPT is replaced with AFA in RP4. The monthly adjustment is capped at 3sen/kWh. Any adjustment greater than 3sen/kWh requires government approval.*
Sources: Energy Commission, Apex Securities

Development of a Third Regasification Terminal
Petronas has recently confirmed ongoing work toward the development of Malaysia's third regasification terminal. **PETGAS**, which operates the country's two existing regasification terminals (Sungai Udang and Pengerang), is the most likely candidate to develop the project. Reports suggest the new facility will be located in Lumut, Perak, in northern Peninsular Malaysia, an area currently lacking such infrastructure.

Third regasification terminal could add c.RM2.00 per share to PETGAS' valuation

Should **PETGAS** secure the right to develop, own, and operate the terminal, this would expand the Group's regulated asset base under the IBR framework, driving higher allowed return. Assuming a terminal capacity of 500mmscfd (3.8mtpa), we estimate the asset could add c.RM2.00 per share to **PETGAS'** valuation. This has yet to be factored into our target price.

We anticipate the contract to be awarded by end-2025, with COD expected by 2028, in line with the typical 2-3 year development timeline for regasification terminals in Malaysia.

Key Risks. Unplanned plant shutdowns, policy uncertainties, and a rapid plunge in coal prices.

Peer Comparison

Company	FYE	Price (RM) as at 20Jun25	P/E (x) CY25	P/E (x) CY26	P/B (x) CY25	P/B (x) CY26	Dividend Yield (%)	Target Price (RM)	Potential Upside	ESG Rating
Power Generation & Utilities										
Tenaga Nasional Bhd	Dec	14.22	19.7	19.3	1.3	1.3	3.3	16.04	12.8%	★★★
YTL Power International Bhd*	Jun	3.64	11.6	11.0	1.3	1.2	2.0	4.48	23.1%	N/A
Malakoff Corporation Bhd	Dec	0.79	11.8	10.6	0.9	0.9	7.0	0.88	11.4%	★★★
Mega First Corporation Bhd	Dec	3.77	7.4	7.3	0.9	0.8	2.8	5.43	44.0%	★★★
Average			**12.6**	**12.1**	**1.1**	**1.0**	**3.8**			
Gas Value Chain										
Petronas Gas Bhd	Dec	17.40	18.5	17.8	2.4	2.4	4.3	17.80	2.3%	★★★
Gas Malaysia Bhd*	Dec	4.28	13.4	13.1	3.4	3.2	5.6	4.29	0.2%	N/A
Average			**16.0**	**15.5**	**2.9**	**2.8**	**5.0**			

**Based on Bloomberg consensus estimates*
Source: Bloomberg, Apex Securities

Jayden Tan
(603) 7890 8888 (ext 2069)
kdtan@apexsecurities.com.my

Technology

(Overweight ↑)

Valuation floors set, Waiting for clarity to re-rate

Summary. Malaysia's technology sector grapples with a challenging yet potentially promising 2H 2025. Mixed fundamentals persist amid global trade uncertainties and currency headwinds. While earnings recovery visibility remains cautious as evidenced by muted guidance and subdued factory utilisation, a shift in sentiment may materialise as greater clarity emerges on US–China trade tensions and the potential Fed rate cuts. Attractive valuations (-1 SD below the 5-year forward P/E mean) may support a gradual sector re-rating in the coming months. As such, we maintain our **Overweight** stance on the sector.

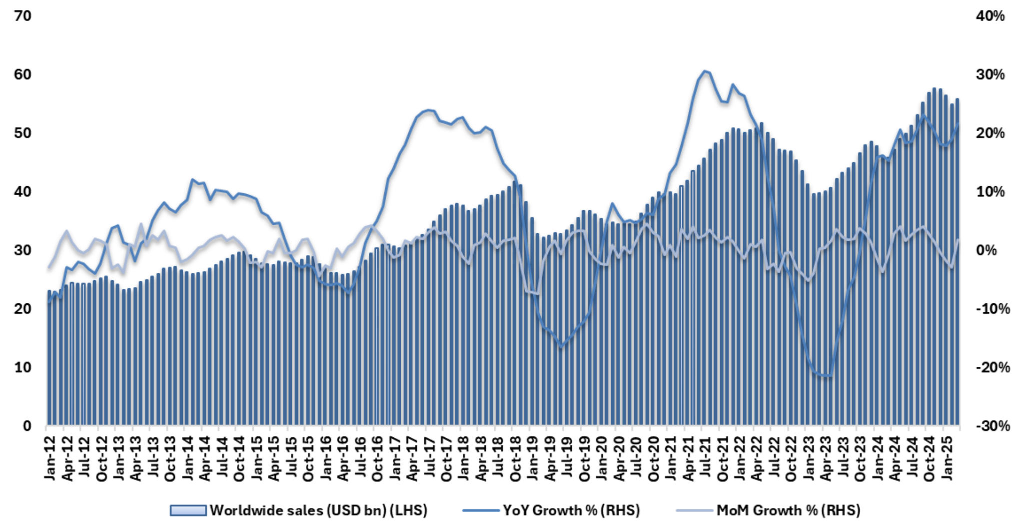
Valuation & Recommendation. The Malaysian technology sector is currently trading at 1-year forward P/E of 21x, which is approximately -1 SD below its 5-year historical mean of 30x. We believe this has largely priced in on-going headwinds, including tariff concerns, forex volatility, and soft end-demand. We recommend selective exposure to export-oriented names with deep integration into global supply chains, particularly **INARI (BUY; FV: RM2.94), ATECH (BUY; FV: RM1.39),** and **FRONTKN (BUY; FV: RM4.42)**, which we believe are well-positioned to benefit from eventual demand normalisation, easing macro risks, and long-term structural growth drivers.

Our top pick is **INARI (BUY; FV: RM 3.76)** which is well positioned as the beta play being the largest market-cap and highest-liquidity tech stock in Malaysia, INARI stands out for its exposure to the AI market and rising investments in data centres from its value-chain initiatives, onboarding new customers and products, positioning as a compelling beta play. Meanwhile, **QES Group Bhd (BUY; FV: RM 0.77)** will benefit from increased contributions from the semiconductor segment, which we expect to drive growth in 2025F, supported by renewed customer CAPEX confidence.

Review. The Malaysian tech sector struggled in 1H 2025, weighed down by tariff threats, weak consumer electronics demand, cautious capex, and forex headwinds. Semiconductor companies and EMS providers reported muted earnings, hindered by sluggish consumer and legacy automotive segments and order delays due to trade policy uncertainty. The strong Ringgit against the Greenback continued to squeeze margins despite milder qoq impact, while persistent volatility posed ongoing risk. After a brief rally in mid-2024 driven by NSS optimism, trade tensions resurfaced, undermining earnings expectations. By mid-2025, the Bursa Malaysia Technology Index plunged 24.9% ytd, underperforming global peers as local firms lacked exposure to high-growth AI and HPC chip segments.

Semiconductor sales remains resilient

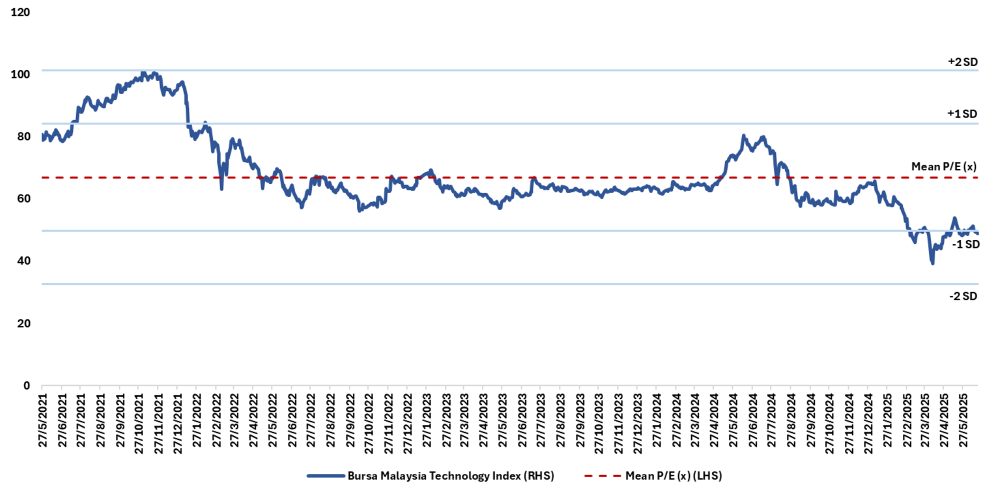
Worldwide Global Chip Sales



Source: Bloomberg, Apex Securities

Bursa Technology Index 5 year forward P/E

Valuations have turned more appealing within Bursa Malaysia Technology Index that is trading near historical -1 SD



Source: Bloomberg, Apex Securities

Outlook. We remain cautious on the earnings recovery outlook for Malaysian semiconductor companies in 2H 2025. While global chip sales are projected to grow, underpinned by strong demand for AI infrastructure and a rebound in the memory market. Malaysian players, particularly those in OSAT and ATE segments, remain heavily dependent on legacy consumer electronics and automotive markets, where demand remains tepid. Utilisation rates are expected to remain subdued, and limited exposure to high-growth AI and HPC chips continues to constrain earnings potential. That said, sentiment could improve in 2H 2025 as more clarity emerges on U.S. tariff policy and the Federal Reserve's interest rate direction. The expiry of the 90-day tariff truce in July marks a key inflection point and any potential resolution could restore procurement confidence and improve demand visibility. Furthermore, potential interest rate cuts in 2H 2025 may support global consumer spending and boost risk appetite. These catalysts could help trigger a re-rating of Malaysian tech stocks, which are currently trading at depressed valuations.

Key Risk. Potential escalation of trade tensions, particularly if the ongoing Section 232 semiconductor tariff investigation leads to unfavourable outcomes, continued strengthening of the Ringgit against the USD and Inflationary pressures, particularly in major end-markets, may curb discretionary spending and weigh on demand outlook for consumer-driven semiconductor and EMS products.

Peer Comparison

Company	FYE	Price (RM)	P/E (x)		P/B (x)		Dividend Yield	Target Price	Potential	ESG Rating
		as at 20Jun25	CY25	CY26	CY25	CY26	(%)	(RM)	Upside	
Inari Amertron Bhd	June	1.87	26.3	19.1	2.5	2.4	5.9	2.94	57.2%	★★★
QES Group Bhd	Dec	0.36	20.9	13.1	1.5	1.4	1.7	0.42	16.7%	★★★
Frontken Corp Bhd	Dec	3.86	34.4	30.6	7.3	6.3	1.2	4.42	14.5%	★★★
Aurelius Technologies Bhd	Dec	1.08	19.4	17.7	2.5	2.2	2.6	1.39	28.7%	★★★
Infoline Tec Group Bhd	Mar	0.58	13.8	11.7	3.1	2.7	6.0	0.65	12.1%	★★★
Ramssol Group Bhd	Dec	0.92	18.5	15.6	2.9	2.5	0.8	0.93	1.1%	★★★
Average			**22.2**	**18.0**	**3.3**	**2.9**	**3.0**			

Source: Apex Securities

Amir Hamdan
(603) 7890 8888 (ext 2022)
amir.hamdan@apexsecurities.com.my

Automotive

(Neutral ↔)

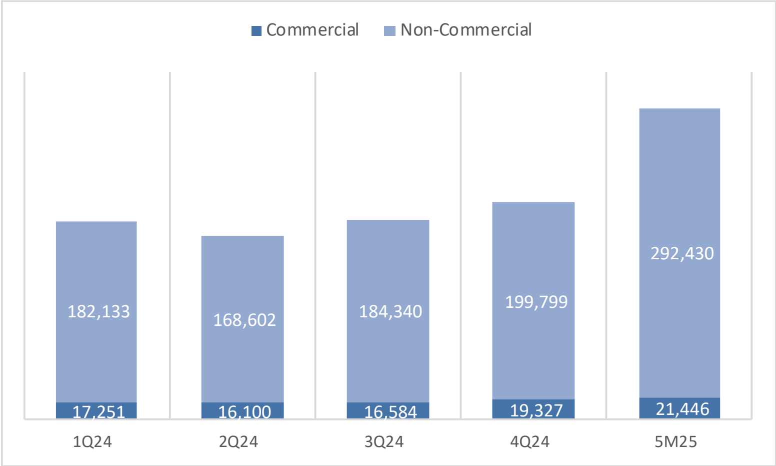
Cautious Drive Ahead

Summary. While the outlook for the automotive sector is expected to remain stable in the near term, growth prospects appear muted due to post-festive season slowdowns and the upcoming RON95 fuel subsidy rationalisation, which may weigh on consumer demand. Potential upsides could stem from the upcoming recalibration of OMV-based excise duties and forward buying ahead of the deferred excise duty implementation at year-end. As such, we maintain a **Neutral** stance on the sector, reflecting a cautious view amid prevailing headwinds and policy uncertainties.

We remain Neutral with the automotive sector for 2H2025. Within our coverage universe, we re-iterate **BUY** recommendations for **MBMR (BUY; FV: RM6.66)** and **BAUTO (BUY; FV: RM0.93)**. While the automotive sector is currently trading at forward PERs of 6.4x/5.3x for 2025F/2026F which is below the 3-year historical average of approximately **7x**, we deemed the discount to be fair, premised to the muted outlook.

Review. According to the Malaysian Automotive Association (MAA), Total Industry Volume (TIV) in May 2025 rose 12.4% mom to 68,007 units, bringing cumulative TIV for January to May 2025 to 316,737 units (-5.9% yoy). Meanwhile, vehicle production for the first five months of 2025 also fell 12.4% yoy to 299,886. The weakness was mainly dragged by dwindling order backlogs and weaker new order intakes as purchasers opt to wait-and-see ahead of a string of new model launches in 2H 2025.

Total Industry Volume



Source: MAA, Apex Securities

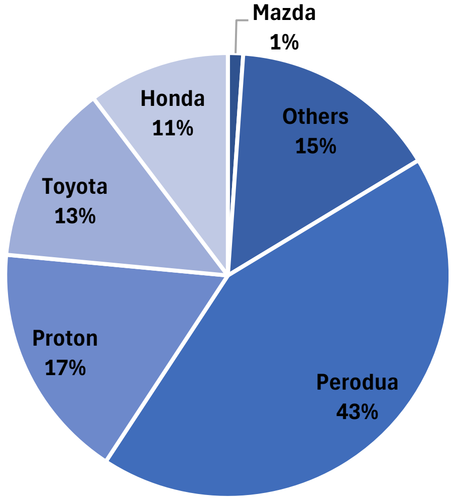
Outlook. We maintain our CY25 TIV forecast at 770,000 units, reflecting a -4% yoy decline after three consecutive years of record sales. Key assumption is supported by:

- High base effect from 2024's 800k units
- Forward buying interest on the deferment of new excise duty regulations to end-2025 and
- Upcoming OMV-based excise duty recalibration (January 2026)

These dynamics are expected to trigger front-loaded buying in 2H2025, especially in price-sensitive segments. The planned High-Value Goods Tax (HVGT) may further weigh on premium vehicle demand, though implications for EVs remain ambiguous.

Market share by car brand – Q1 2025

Perodua still lead the pack, while Proton's market share is inching up



Source: MAA, Apex Securities

We believe Perodua remains structurally well-positioned to benefit under current dynamics, underpinned by its high localisation rate shielding it from OMV-based price escalation (estimated at +10–30% for non-national CKD units). Perodua's 2025F volume is projected at 282,000 units (-5% yoy), on the back of stable product mix (Alza, Axia, Bezza, Myvi, Ativa), a sizeable backlog of 90k orders, and three strategic launches: the Perodua Hybrid, Perodua EV, and all-new Myvi.

Elsewhere, Mazda registered a +31% mom recovery in April 2025, though sales remain approximately 39% yoy lower, primarily weighed by its ageing CKD offerings (CX-5, CX-8). Bermaz Auto's strategic stance of maintaining price levels while supportive of brand value in the resale market has likely come at the cost of domestic market share, which has declined to 1.1% ytd (from 2.4% in 2024). In contrast, Chinese OEMs have collectively gained traction, securing 3.7% market share. The upcoming launch of the CX-60 and CX-90 in 2H2025 is expected to support a recovery in sales volume.

Tentative planned EV launches (2H 2025

Tentative Planned EV Launches in 2H 2025

Models	Tentative Launch
Perodua EM-O	4Q2025
Kia EV3	3Q2025
Jaecoo J6	3Q2025
Mercedes-Benz G-Class EV	3Q2025
iCaur 03 iWD	3Q2025
GWM Wey 80 PHEV	3Q2025
Proton Emas 5	4Q2025

Source: Paultan, Apex securities

On the EV front, market penetration remains modest at 3% ytd of total industry volume (TIV), constrained by limited CKD availability and underdeveloped infrastructure with only 4,161 public charging bays have been installed to date, against the government's target of 10,000 units by end-2025. However, demand is expected to pick up in 2H 2025 as consumers front-load purchases ahead of the expiry of CBU EV tax exemptions. Vehicle sales should remain supported by the ongoing SST exemptions that is extended through 2025 for CBUs and 2027 for CKDs as well as other targeted EV incentives. EV registrations have seen meaningful growth, rising from 274 units in 2021 to 21,789 units in 2024, now accounting for 3% of TIV. Malaysia government aims to achieve a 20% EV/hybrid mix by 2030, rising to 38% by 2040, with fast-tracked approvals for charging stations expected to accelerate infrastructure development.

We believe automakers offering competitively priced CKD EVs particularly those below the RM100k threshold are well-positioned to capitalise on early adoption, provided policy continuity and infrastructure rollout remain on track. Domestic OEMs also stand to benefit from targeted fiscal measures, including potential cash transfers, which could help mitigate affordability concerns in light of the broader subsidy rationalisation.

Key Risk. Weak consumer sentiment, delayed or underwhelming model launches, and the removal of tax incentives may pressure volumes and margins in the motors division.

Peer Comparison

Company	FYE	Price (RM) as at 20Jun25	P/E (x) CY25	P/E (x) CY26	P/B (x) CY25	P/B (x) CY26	Dividend Yield (%)	Target Price (RM)	Potential Upside	ESG Rating
Bermaz Auto Bhd	Apr	0.755	6.3	6.2	1.2	1.3	19.7	0.93	23.2%	★★★
MBM Resources Bhd	Dec	4.55	5.7	5.7	0.6	0.6	10.8	5.89	29.5%	★★★
Sime Darby Bhd*	Jun	1.65	5.8	6.7	0.5	0.5	12.0	2.06	24.9%	N/A
DRB-Hicom Bhd*	Dec	0.745	7.7	5.1	0.2	0.2	3.4	0.79	6.0%	N/A
Average			**6.4**	**5.9**	**0.6**	**0.6**	**11.5**			

**Based on Bloomberg consensus estimates*

Source: Bloomberg, Apex Securities

Chelsea Chew
(603) 7890 8888 (ext 2070)
chelsea.chew@apexsecurities.com.my

Consumer

(Neutral ↔)

Cautious Optimism Amidst Policy Shifts

Summary. We maintain a **Neutral** stance on the consumer sector, anticipating slower spending in the coming quarters. This outlook is driven by (i) the post-festivity lull, (ii) the impact of the SST expansion, (iii) economic headwinds, and (iv) expected cost increases.

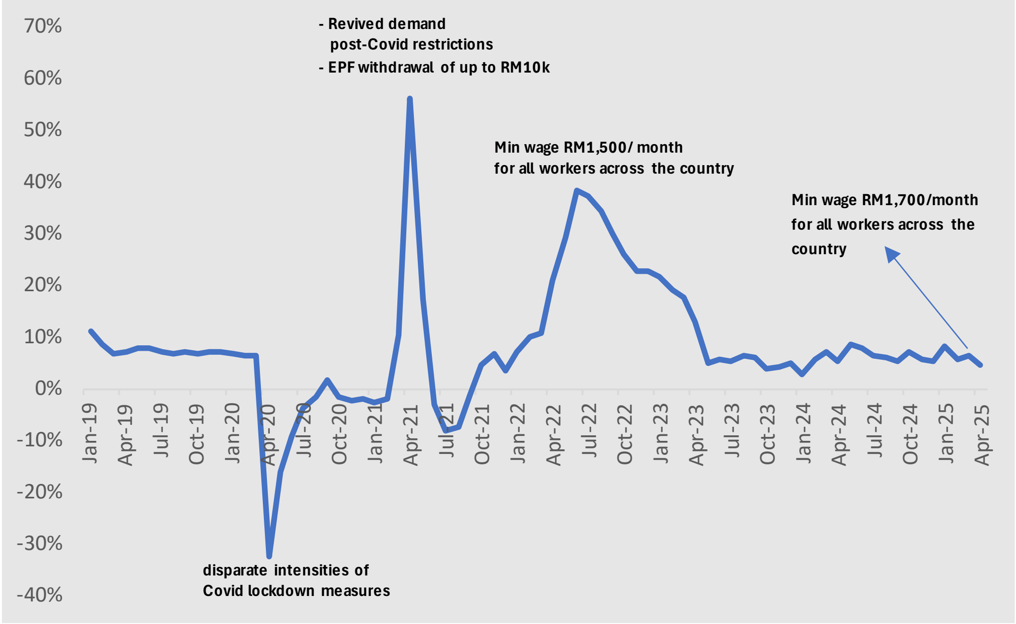
Valuation & Recommendation. Our top pick in the consumer sector is **PADINI (BUY; TP: RM2.37)**. We favour PADINI for: (i) its affordable apparel and footwear offerings, which are resilient despite domestic spending constraints; (ii) potential cost savings from a weaker Chinese Yuan (CNY) against a stronger RM, and (iii) ongoing efforts to improve its product mix, which should support margin expansion. Conversely, **CCK (HOLD; TP: RM1.26)** and **KOPI (HOLD; TP: RM0.81)** are expected to experience weaker sales due to reduced discretionary spending.

Review. The consumer sector experienced a relatively weaker 1H 2025 compared to the previous year's corresponding period, with the KL Consumer Index (KLCSU) declining by 0.6-pts yoy. This variance aligns with the overall weaker FBM KLCI, which decreased by 0.4-pts yoy. The sector's overall decline was broadly observed, with notable contributions from: (i) the ongoing boycott impacting Nestle's domestic sales (marginally negative despite higher revenue); (ii) news flow indicating heightened costs, leading to margin contractions; and (iii) CCK's strategic price adjustments to maintain competitiveness, also resulting in margin contractions. PAD's performance remained unchanged, while **NESTLE (NR)**, **AEON (NR)**, and **MR DIY (NR)** each saw a 1-pts yoy reduction, and **CCK (HOLD, TP: RM1.26)** experienced a 3-pts reduction.

For Jan-Apr, the Malaysia retail sales showed modest, stable yoy growth of 5-8%, reflecting a moderation from earlier peaks.

Post Chinese New Year festivities, retail sales started to stabilise and soften particularly after trade tension escalation in April 2025

Malaysia Historical Retail Sales Growth (% yoy)



Source: DOSM, Apex Securities

Outlook. Looking ahead, the impending SST expansion, particularly the 8% tax on commercial rental, is expected to dampen consumer sentiment and pose challenges for retailers, especially those with significant exposure to mall-based operations. Major business associations have called for a delay, describing the tax as "gravely misguided" and cautioning that it could fuel inflation, strain SMEs, deter investment, and undermine consumer confidence. These pressures may ultimately reduce purchasing power, trigger business closures, and result in job losses as increased costs are passed on to consumers.

Our view. For 2H 2025, we anticipate softening consumer sector earnings due to (i) fading festive fuelled spending, (ii) SST expansion-driven price sensitivity, and (iii) electricity tariff hikes. On a brighter note, Prime Minister Anwar's assurance against RON95 petrol price hikes is crucial; despite subsidy rationalisation, 85% of Malaysians remain unaffected, bolstering mass-market confidence. While the expanded SST may pressure discretionary margins and flatten sales, consumer staples should remain stable. Our overall stance for 2H 2025 remains **Neutral**, as inflationary pressures may temper spending despite a generally higher spending environment.

Key Risk. i) Increasing raw materials, ii) weak consumer sentiment, iii) changes in government policies.

Peer Comparison

Company	FYE	Price (RM) as at 20Jun25	P/E (x) CY25	P/E (x) CY26	P/B (x) CY25	P/B (x) CY26	Dividend Yield (%)	Target Price (RM)	Potential Upside	ESG Rating
Apparels and Footwear										
Padini Holdings Bhd	Jun	2.02	10.6	10.5	1.7	1.5	4.7	2.36	16.8%	★★★
Bonia Corporation Bhd*	Jun	1.05	7.6	6.5	0.6	0.5	5.9	1.23	17.1%	N/A
Aeon Co (M) Bhd*	Dec	1.37	11.6	10.9	1.0	0.9	3.6	1.76	28.5%	N/A
Average			**9.9**	**9.3**	**1.1**	**1.0**	**4.7**			
Retail										
Padini Holdings Bhd	Jun	2.02	10.6	10.5	1.7	1.5	4.7	2.36	16.8%	★★★
99 Speed Mart Retail Holdings Bhd*	Dec	2.07	30.0	25.9	10.4	9.7	2.0	2.60	25.6%	N/A
Mr DIY Group (M) Bhd*	Dec	1.63	24.3	22.3	8.0	7.8	3.1	1.92	17.8%	N/A
Average			**21.6**	**19.6**	**6.7**	**6.3**	**3.3**			
Poultry										
CCK Consolidation Holdings Bhd	Dec	1.30	11.4	10.7	1.5	1.2	3.1	1.26	-3.1%	★★★
Leong Hup International Bhd*	Dec	0.605	5.8	5.2	0.8	0.7	3.3	0.86	42.1%	N/A
QL Resources Bhd*	Mar	4.63	35.0	32.3	5.3	5.1	1.1	4.77	3.0%	N/A
Average			**17.4**	**16.1**	**2.5**	**2.3**	**2.5**			
Cables and Wires										
Oriental Kopi Group Bhd	Sep	0.825	27.0	19.6	16.3	10.3	1.4	0.81	-1.8%	★★★
Berjaya Food Bhd*	Jun	0.28	N/A	N/A	2.2	4.0	0.0	0.23	-17.9%	N/A
Average			**27.0**	**19.6**	**9.2**	**7.1**	**0.7**			

**Based on Bloomberg consensus estimates*

Source: Bloomberg, Apex Securities

Jayden Tan
(603) 7890 8888 (ext 2069)
kdtan@apexsecurities.com.my

Logistics

(Overweight ↔)

Navigating Cautiously Through Trade and Cost Pressures

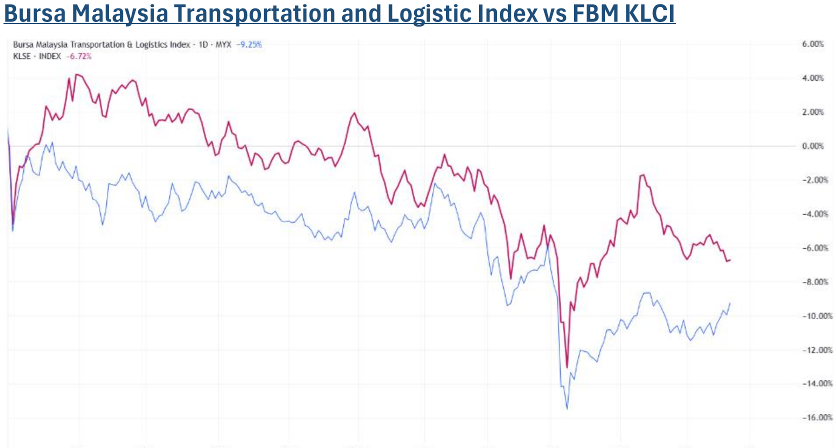
Summary. We remain cautiously optimistic on Malaysia's logistics sector heading into 2H 2025. Growth is expected to be modest, supported by resilient intra-Asia trade, steady domestic activity, and continued warehouse expansion driven by e-commerce and ongoing FDI flows. However, cost pressures from rising labour and operating expenses, coupled with geopolitical tensions and tariff uncertainties, present key challenges. Freight rate volatility and potential trade disruptions may squeeze margins, while rental growth in the warehousing segment remains capped due to intense competition and cost inflation. A stronger Ringgit and subdued global trade sentiment could further weigh on sector earnings. Hence, we maintain a **Neutral** stance on the sector.

Valuation & Recommendation. The transportation and logistics sector is currently trading at 15x 1-year forward PER, below its 3-year historical average of 18x—reflecting investor caution amid external headwinds and persistent margin pressures that have contributed to the sector's de-rating. All stocks under our coverage are rated HOLD, indicating fair valuations and limited near-term upside. **WPRTS (HOLD; TP: RM5.08)** remains our preferred pick, supported by its operational resilience, ongoing capacity expansion, and earnings visibility from the recently approved port tariff hike. However, price has rallied sharply post-announcement, hitting our target price. We believe the tariff revision has been largely priced in, and further upside will depend on stronger-than-expected volume growth or earnings outperformance.

Review. The Bursa Transportation & Logistics Index declined 6.7% ytd in 2025, mirroring the broader weakness in the FBM KLCI. Sector performance was underwhelming, weighed down by external headwinds including tariff uncertainties and subdued global trade, while earnings remained mixed. Port operators such as WPRTS posted stable results, supported by resilient throughput and storage income. In contrast, integrated logistics providers saw earnings pressured by freight rate volatility, rising operating costs, and heightened competition. Although international ocean freight rates rebounded in 2QCY25, the recovery was largely confined to China-linked routes during the US tariff truce which has limited impact to Malaysian players with minimal Transpacific exposure. Domestically, land logistics demand remained steady, driven by manufacturing and distribution activity. However, profitability for trucking and warehouse operators continued to be squeezed by cost pressures stemming from capacity expansion and wage hikes.

Bursa Malaysia Transportation & Logistic Index underperformed the FBM KLCI performance

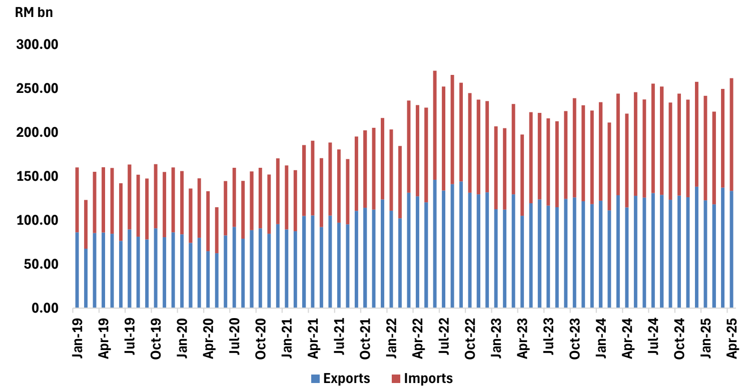
Bursa Malaysia Transportation and Logistic Index vs FBM KLCI



Source: Tradingview

Malaysia's Total External Trade (RM' bn)

Trade activities remain robust



Source: MATRADE, Apex Securities

Dewry's Ocean Freight Index

Ocean freight rates on the mend as we approach the summer season

Source: Bloomberg, Apex Securities

Outlook. The sector outlook for 2H 2025 remains cautiously optimistic amid persistent geopolitical risks and rising competitive intensity. We expect Malaysia's logistics sector to deliver modest growth, underpinned by intra-Asia trade flows, steady domestic demand, and warehouse expansion driven by e-commerce and FDI. However, several structural and cyclical challenges persist. Rising labour and energy costs will continue to erode margins, while Middle East geopolitical tensions contribute to freight rate volatility and supply chain disruption. Tariff uncertainties may delay procurement cycles and weigh on trade volume. In warehousing, strong demand, supported by e-commerce and supply chain diversification, is tempered by oversupply risks and rising OPEX. Rental growth is expected to stay flattish amid elevated competition in logistics real estate. Overall, the sector remains clouded by intense competition and external headwinds, including global trade uncertainties, a strengthening MYR/USD exchange rate, and freight yield compression, all of which could weigh on earnings.

Key Risk. Persistent global inflation that could slow interest rate cuts; and escalated competition in the fragmented logistics market, which further pressure margins.

Peer Comparison

Company	FYE	Price (RM) as at 20Jun25	P/E (x) CY25	P/E (x) CY26	P/B (x) CY25	P/B (x) CY26	Dividend Yield (%)	Target Price (RM)	Potential Upside	ESG Rating
TASCO Bhd	Mar	0.50	7.6	6.4	0.5	0.5	5.6	0.51	2.0%	★★★
Swift Haulage Bhd	Dec	0.385	11.2	8.0	0.5	0.5	4.7	0.39	1.3%	★★★
Westports Holdings Bhd	Dec	5.39	20.3	19.5	4.5	4.2	3.2	5.08	-5.8%	★★★
Average			**13.0**	**11.3**	**1.8**	**1.7**	**4.5**			

Source: Apex Securities

Ong Tze Hern
(603) 7890 8888 (ext 2113)
tzehern.ong@apexsecurities.com.my

Oil & Gas

(Neutral ↔)

PETRONAS-Petros Dispute a Drag on Domestic Capex

Summary. We maintain our **Neutral** stance on the Oil and Gas sector. With only 5 months left until the Northeast monsoon season begins in November, substantial greenfield development is not expected in Sarawak in 2025, even if the PETRONAS-Petros dispute is resolved. As a result, meaningful earnings growth appears unlikely for domestic-focused OGSE players in the near term. We prefer OGSE companies with greater international exposure, as they are better positioned to benefit from any rise in oil prices and the corresponding increase in global capex.

The global oil market is currently in a cyclical downturn, driven by oversupply and weak demand. To restore equilibrium, we believe oil prices may need to fall below the breakeven levels of higher-cost producers to prompt a natural market correction. Reflecting this view, we have lowered our **2025** Brent oil assumption to **USD68.0/bbl** from USD74.0/bbl (EIA: USD66.0/bbl). We also introduce **2026** Brent oil assumption of **USD65.0/bbl** (EIA: USD59.0/bbl). These assumptions are based on the expectation that any geopolitical tensions will be short-lived and unlikely to significantly disrupt global oil supply.

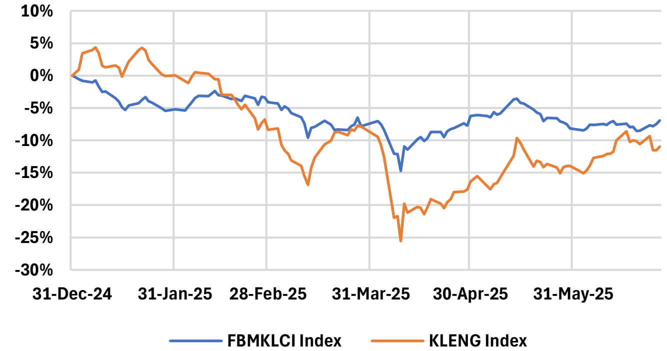
Valuation & Recommendation. Our top pick for the sector is **ARMADA (BUY, TP: RM0.67)**. We favour **ARMADA** due to its long-term earnings visibility and strong free cash flow position, with a FCFF yield of >20% and FCFE yield of >10% for FY25F-FY27F. The Group has made significant improvements to its balance sheet, reducing net gearing from 0.66x at end-FY23 to 0.34x as of 1QFY25, with a net cash position projected by FY27. The stronger balance sheet positions **ARMADA** advantageously in securing new FPSO projects. Additionally, given the Group's global exposure, **ARMADA** is better positioned to capitalise on increased Capex in response to rebound in oil prices.

1H2025 Review. The first half of 2025 proved challenging for the sector, with the KL Energy (KLENG) Index posting a decline of 11.0% YTD, substantially underperforming the FBM KLCI, which dropped by 7.0% (Figure 1). The sector began the year positively, buoyed by Brent Crude oil prices briefly rising above USD80/bbl due to concerns about tighter supply and stricter sanctions on Russian oil exports (Figure 2). However, the index experienced a sharp decline starting in April as oil prices tumbled below USD70/bbl, pressured by demand concerns stemming from trade and tariff uncertainties, as well as fears of oversupply as OPEC+ unwinds production cuts.

The situation was further compounded by the PETRONAS-Petros dispute, which disrupted greenfield development activity in Sarawak and weighed heavily on local OGSE companies. Although Brent futures saw a temporary rebound in mid-June due to a geopolitical risk premium tied to concerns over potential supply disruptions from Israel-Iran conflict, prices have since normalised following the ceasefire (Figure 2). Nonetheless, the KLENG index failed to recover, reflecting continued investor caution due to the PETRONAS-Petros impasse (Figure 1).

Figure 1: KLENG vs FBM KLCI in 1H2025

KLENG underperformed the FBM KLCI in 1H2025



Source: Bloomberg, Apex Securities

Brent crude prices traded below USD70/bbl since April, until the recent escalation in the Israel-Iran conflict, which temporarily pushed prices above USD70/bbl

Brent Crude Oil Prices

Source: Bloomberg, Apex Securities

Outlook. We expect the following factors to drive the sector in 2H2025:
(i) Ongoing dispute disrupting greenfield development in Sarawak;
(ii) OPEC+ phasing out of production cuts, impacting the supply demand dynamics;
(iii) Potential oil supply disruption from geopolitical tension in the Middle East;
(iv) A continued supply glut in the petrochemical sector.

With only 5 months until monsoon season, substantial greenfield development is not expected in Sarawak in 2025

Ongoing Dispute Disrupting Greenfield Development in Sarawak

The ongoing dispute between PETRONAS and Petros regarding gas resource distribution in Sarawak is disrupting greenfield development in the state. With 5 months left until the Northeast monsoon season begins in November, which typically slows construction and operational activities in the oil and gas sector, substantial greenfield development is not expected in 2025.

However, there is optimism for 2026, assuming the dispute is resolved. Consequently, we advise investors to avoid domestic-focused OGSE companies for now, as meaningful earnings growth in 2025 appears unlikely. These companies may see improved earnings, earliest in 2026, contingent upon the resolution of the PETRONAS-Petros dispute.

OPEC+ Phasing Out of Production Curbs to Weigh on Supply Demand Dynamics

The global oil market is currently in a cyclical downturn, driven by oversupply and weak demand. In recent years, OPEC+ has strategically reduced production to set a floor on oil prices. This approach has been aimed at preventing oil prices from falling to levels that would undermine the financial health of these oil-exporting countries.

However, this price support has inadvertently incentivised increased production from non-OPEC+ countries such as Guyana, US and Brazil. While this increased supply has helped meet global demand, it has also contributed to a supply glut. The situation is further compounded by OPEC+'s decision to unwind production cuts in a bid to regain market share and discipline non-compliant members. This move is exacerbating the oversupply just as demand growth slows, especially in light of global trade uncertainties and increasing adoption of electric vehicles.

To recap, after implementing cumulative output cuts exceeding 5m barrels per day (bpd) over several years, OPEC+ is now unwinding a 2.2m bpd output cut. The group began with a 137k bpd increase in April, followed by accelerated hikes of 411k bpd in May, June and July. In total, production increased by 1.37m bpd, or 62% of the cut being reversed. Reports suggest that OPEC+ is set for another 411k bpd increase in August as it continues efforts to regain market share.

Oil prices may need to fall below the breakeven points of higher-cost producers to trigger a natural reduction in supply

To restore equilibrium, we believe oil prices may need to fall below the breakeven levels of higher-cost producers to prompt a natural market correction. A sustained period of sub-USD60/bbl oil could force supply rationalisation, particularly for US shale oil producers whose average breakeven hovers around USD55/bbl.

Lower oil price assumption to USD68.0/bbl for 2025 while introducing 2026 Brent oil assumption of USD65.0/bbl

Reflecting this view, we have lowered our **2025** Brent oil assumption to **USD68.0/bbl** from USD74.0/bbl (Bloomberg median: USD68.3/bbl; EIA: USD66.0/bbl; 1H2025 YTD: USD70.9/bbl). We also introduce **2026** Brent oil assumption of **USD65.0/bbl** (Bloomberg median: USD65.0/bbl, EIA: USD59.0/bbl). These assumptions are based on the expectation that any geopolitical tensions will be short-lived and unlikely to significantly disrupt global oil supply.

Middle East Geopolitical Tension Remains a Risk

After nearly two weeks of traded attacks between Israel and Iran, US President Donald Trump made the controversial decision to authorise strikes on three Iranian nuclear facilities, risking prolonged US involvement in yet another unpopular war in the Middle East. In retaliation, Iran launched missiles at a US air base in Qatar, reportedly after notifying Qatari and US officials in advance. This calculated response paved the way for negotiations, culminating in Trump announcing a brokered ceasefire between Israel and Iran. As of writing, the ceasefire remains in place. Nonetheless, the risk of re-escalation persists until a comprehensive peace agreement is reached.

Iran a key player in global energy landscape

According to OPEC data, Iran produces c.3.4m bpd of crude oil. The International Energy Agency (IEA) estimates that Iran exports 1.7m bpd this year, accounting for roughly 1.7% of global supply, with China as the primary buyer. This makes Iran a key player in the global energy landscape. In the event of renewed conflict, several scenarios could unfold:

(i) Minimal impact on global oil supply;
(ii) Disruption of Iranian oil export facilities or other regional oil facilities;
(iii) Closure of the Strait of Hormuz.

Throughout the recent 12-day conflict, global oil supply remained largely unaffected. Iran's oil exports reportedly continued at 2.2m bpd, according to analytical firm Kpler. Kharg Island, which handles c.90% of Iran's oil exports, remains operational, and Iran has thus far avoided from targeting regional oil facilities. Even in the event of a disruption to Iranian exports, OPEC+ spare capacity (estimated at 4m bpd), primarily from Saudi Arabia and UAE, can help to stabilise the market.

Likelihood of the Strait of Hormuz closure remains low, given its crucial importance in Iran's oil exports

While the likelihood of the Strait of Hormuz being closed remains low, it cannot be ruled out entirely. The strait, just 33km wide at its narrowest point, is a vital chokepoint that allows the passage of c.20m bpd, or c.20% of global oil supplies (Figure 3). Any disruption here could send oil prices soaring, potentially exceeding USD100/bbl. However, we believe such an action is highly unlikely unless Iran perceives an existential threat to its regime. The US has not explicitly stated a goal of regime change in Iran. Even after the assassination of several high-ranking officials, Supreme Leader Ali Khamenei has not been targeted.

Moreover, a blockade of the strait would severely damage Iran's economy, which is heavily reliant on oil revenue, and fracture its relations with neighbouring Gulf countries that also depend on the strait for their oil and gas exports. Given its strategic importance, any closure would likely prompt intervention from the US and Gulf nations, making a prolonged blockade highly unlikely.

Figure 3: Strait of Hormuz

Source: globalnews.ca

Continued Supply Glut in the Petrochemical Sector

The petrochemical sector is expected to remain under pressure due to a persistent supply glut, worsened by significant new capacities in global markets, particularly from China and the Middle East. This oversupply, coupled with sluggish recovery in demand in key markets and ongoing trade and tariff uncertainties, continues to challenge the profitability of petrochemical players such as **PCHEM (NR)** and **LCTITAN (NR)**. As a result, the sector's earnings outlook remains challenging in the near to medium term.

Key Risks. Drop in oil prices, prolonged downtime from unplanned shutdowns, regulatory risks.

Peer Comparison

Company	FYE	Price (RM) as at 20Jun25	P/E (x)		P/B (x)		Dividend Yield (%)	Target Price (RM)	Potential Upside	ESG Rating
			CY25	CY26	CY25	CY26				
Bumi Armada Bhd	Dec	0.47	4.4	4.7	0.4	0.4	4.3	0.67	42.6%	★★★
Yinson Holdings Bhd*	Jan	2.37	15.1	9.4	1.0	0.9	1.9	3.54	49.4%	N/A
SBM Offshore NV*	Dec	22.98	9.8	9.6	1.7	1.5	3.5	26.99	17.4%	N/A
Average			**9.8**	**7.9**	**1.0**	**0.9**	**3.2**			

**Based on Bloomberg consensus estimates*

Source: Bloomberg, Apex Securities

Steven Chong
(603) 7890 8888 (ext 2068)
stevenchong@apexsecurities.com.my

Plantation

(Neutral ↔)

Bracing for Price Headwinds, Favouring Yield Plays

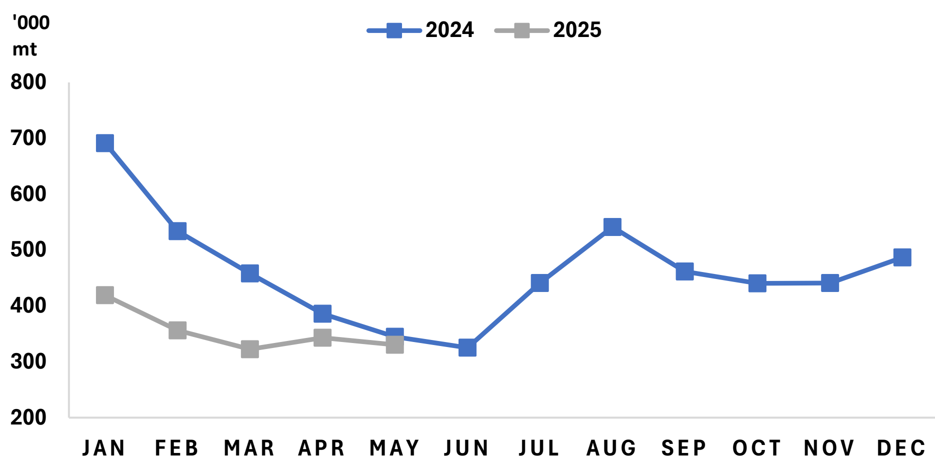
Summary. We are maintaining a more conservative view on the plantation sector at the moment as we believe a round of price correction could happen in 2H 2025 due to i) seasonally higher palm oil production, and ii) sluggish demand recovery from major importing countries such as India and China, amid ample alternative oil supplies like soybean and sunflower oil. Given the current volatile environment, we believe the key investment theme should shift toward yield-focused strategies, with a preference for names offering stable dividends and resilient cash flows.

We remain **Neutral** with the plantation sector for 2H 2025 taking cue from the anticipated downtrend in CPO prices. Under our coverage universe, we re-iterate our **HOLD** recommendation for **Kuala Lumpur Kepong (FV: RM21.60), United Plantation Bhd (FV: RM21.60)** and **Sarawak Plantation (FV: RM2.30)** as current valuations appear fair relative to near-term earnings visibility. That said, we continue to favour integrated planters like **Sime Darby Guthrie (BUY; FV: RM5.20)** as we see potential upside from value unlocking of its sizeable landbank, particularly in the Klang Valley, which could act as a re-rating catalyst should monetisation efforts accelerate. We also like **Hap Seng Plantations (BUY; FV: RM2.00)** for its compelling valuation and attractive dividend yield of c.7%, making it a preferred yield play in the current market environment.

Review. Palm oil production slumped to 3.8m mt (-22.2% qoq) in 1QCY25 (vs 4.9m mt in 4Q 2024) as harvesting yield was mainly affected by heavy rainfall and flooding, especially in Eastern and Southern Malaysia, disrupted harvesting and field operations. On a yoy basis, palm oil production also shed -5.9% yoy. due to the adverse weather. That said, we believe CPO production remains on track to exceed CY24 levels, as we observe a stronger recovery post-1QCY25 with tree yields beginning to normalise.

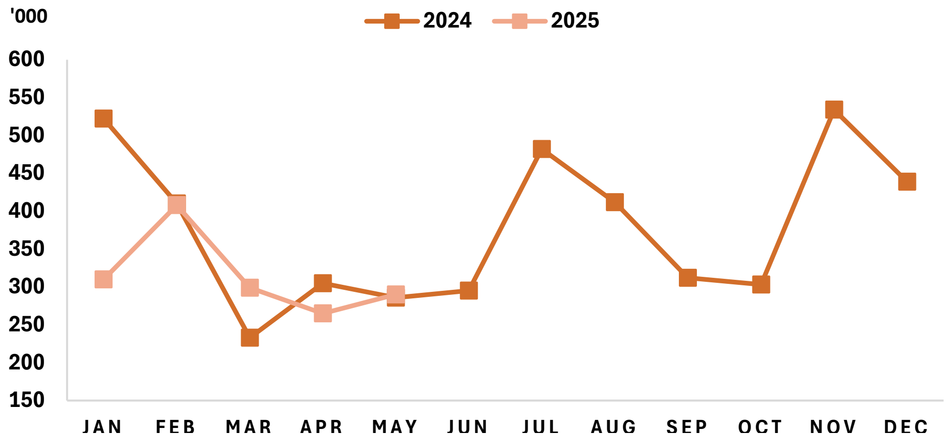
Exports in palm oil also fell sharply to 3.2m mt (-30.6% qoq, -14.2% yoy) in 1QCY25 in line with the lower palm oil production. At the same time, the price spread between palm oil and soybean oil reversed, with palm oil trading at a premium over soybean oil. This made palm oil less competitive compared to other edible oils, reducing its appeal to major importing countries and contributing to weaker export demand. We gather that palm oil stockpiles in India and China fell to critically low levels in March, prompting both countries to replenish their inventories in the subsequent months This resulted in robust export figures in Apr and May, rising +9.8% mom and +25.6% mom respectively. According to USDA, demand for palm oil is forecasted to increase by 3.6% yoy in CY25 led by growing consumption from India and China.

Monthly China stock level



Source: MPOC

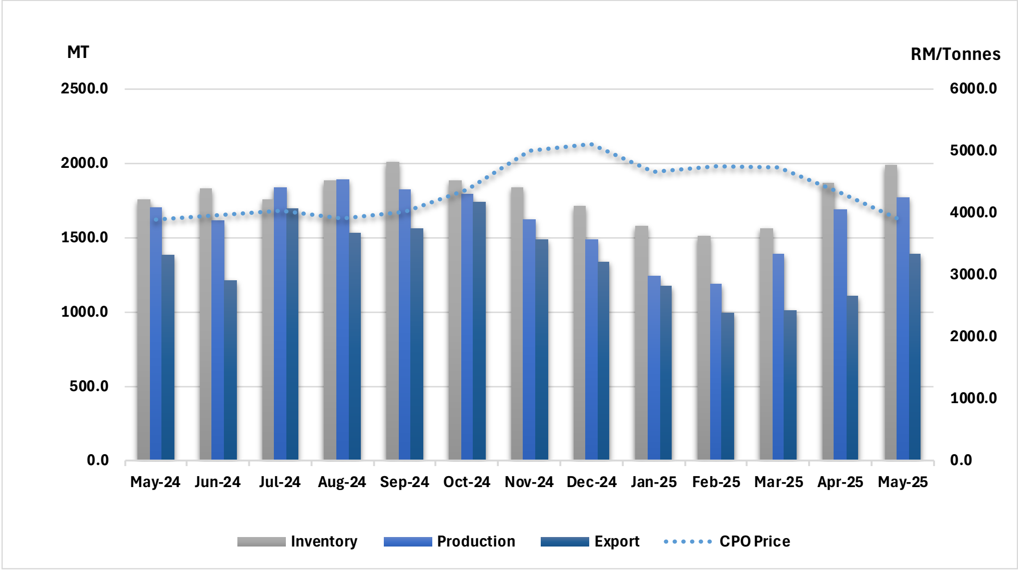
Monthly India stock level



Source: MPOC

While palm oil inventory was down to 5.7m mt (-14.3% qoq, 17.7% yoy) in 1Q 2025, inventory has since start to pile up in Apr-May inching closer to the 2.0m mt mark. This build-up is attributed to recovering production as the peak harvesting season approaches. Should this trend continue, it may exert downward pressure on CPO prices in the near term.

Monthly Inventory, Production, Export and CPO Price)



Source: MPOB, Apex Securities

The expanded 5% SST scope could be a nothing burger. While the revised SST also applies to palm kernel related by products, it is widely used in the production of essential items such as personal care, food, and pharmaceutical products. As such, manufacturers may apply for exemptions on a case-by-case basis. Our channel checks indicate that both downstream players under our coverage, namely **KLK** and **SDG**'s downstream arm, are currently engaging with the relevant authorities to seek clarification and potential exemption. At this stage, we do not foresee a material earnings impact on downstream players and are keeping our earnings forecasts unchanged.

Outlook. Moving forward, we expect CPO prices to remain under pressure in 2H 2025, primarily due to seasonal production dynamics. Historically, the latter half of the year, particularly from August to October, marks the peak harvesting season for palm oil, typically resulting in a surge in output. This seasonal uptick is likely to drive higher inventory levels both domestically and globally. As supply builds, the market may experience limited upside in prices, with fundamentals increasingly skewed toward a supply-driven environment. As such, we expect CPO prices to range between RM3,900-RM4,100 per tonne in 2H 2025, reflecting the anticipated stockpile accumulation coupled with pricing pressure from alternative edible oils such as soybean and sunflower oil.

Key Risk. Changing weather patterns affect FFB production, lower tax rate and import duties of Indonesia threatens local CPO demand, shortage of labours and rising operational cost.

Peer Comparison

Company	FYE	Price (RM) as at 20Jun25	P/E (x)		P/B (x)		Dividend Yield (%)	Target Price (RM)	Potential Upside	ESG Rating
			CY25	CY26	CY25	CY26				
Sime Darby Guthrie Bhd	Dec	4.49	17.9	16.8	1.4	1.4	3.6	5.20	15.8%	★★★
Hap Seng Plantations Hldg Bhd	Dec	1.77	10.9	11.0	0.7	0.7	7.8	2.00	13.0%	★★★
Kuala Lumpur Kepong Bhd*	Sep	20.00	82.4	78.8	1.5	1.4	0.8	21.60	8.0%	★★★
United Plantation Bhd	Dec	21.78	17.0	16.8	4.8	4.6	3.0	21.60	-0.8%	★★★
Sarawak Plantations Bhd	Dec	2.36	8.2	8.7	0.9	0.9	8.5	2.30	-2.5%	★★★
Kim Loong Resources Bhd*	Jan	2.27	14.0	14.1	2.2	2.2	6.1	2.10	-7.5%	★★★
Average			**25.1**	**24.4**	**1.9**	**1.9**	**5.0**			

Source: Apex Securities

Chelsea Chew
(603) 7890 8888 (ext 2070)
chelsea.chew@apexsecurities.com.my

Rubber Products

(Neutral ↔)

Intensified Headwinds

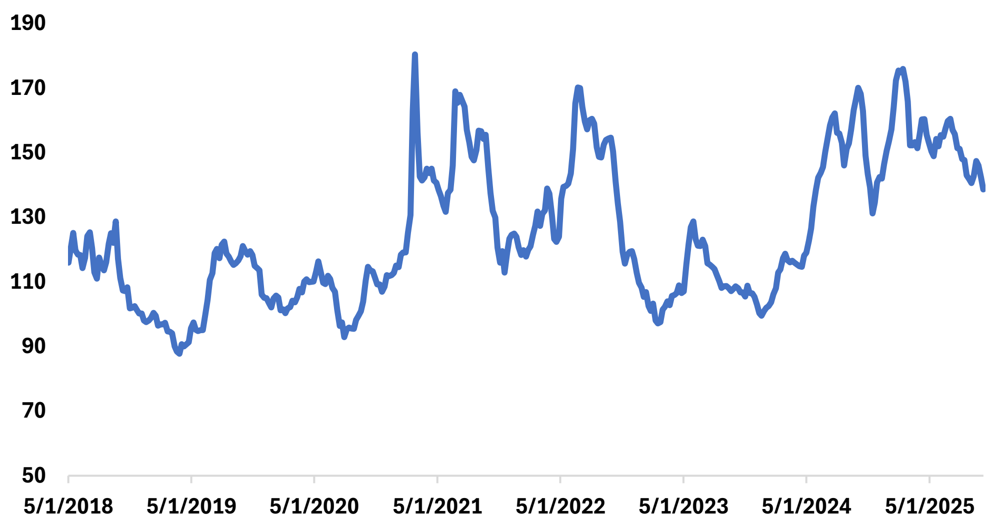
Summary. The Malaysian rubber products sector, particularly gloves, faces a challenging near-term outlook despite signs of global recovery. Thus, we maintain our **Neutral** stance on the gloves sector. Key headwinds include (i) intense international competition (especially from the US and increasing Chinese production capacity), (ii) which prevents higher Average Selling Prices (ASP); and (iii) significant domestic cost pressures from the new SST. These factors collectively threaten the progress of recovery prospects.

Valuation & Recommendation. We maintain our **Neutral** stance on the Malaysian glove sector due to persistent trade and policy uncertainties, coupled with an increasingly volatile operating environment. In this sector, we favour **HARTA (HOLD; TP: RM1.76)**. This preference is justified by its stronger US market share and a comparatively lower impact from the SST expansion, owing to its more diversified raw material sourcing. Under our coverage for rubber products, **TOPGLOV (HOLD; TP: RM0.78)** and **KAREX (HOLD; TP: RM0.73)** remain challenged by geopolitical tensions and other factors. Specifically, for Karex, we anticipate flattish qoq earnings as its order flows are disrupted by US tariff uncertainties.

Review. In 1QCY25, the rubber products sector showed encouraging results: **HARTA** and **KAREX** surpassed earnings forecasts due to stronger sales/ASPs and tender market recovery, respectively, while **TOPGLOV** missed expectations due to weaker sales volume.

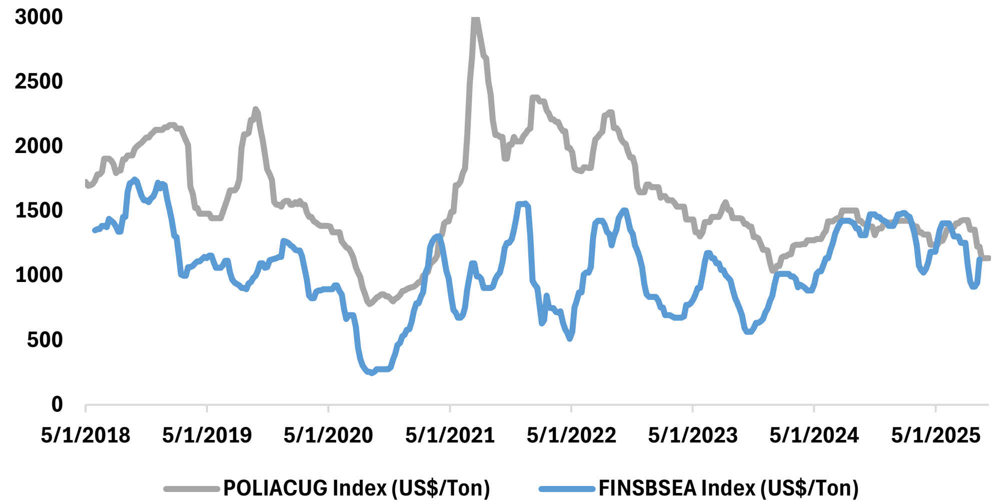
Overall, Bursa Malaysia's healthcare sector was the worst performer, slumping 29.4% ytd, that underperformed the FBM KLCI's 8.5% ytd decrease, impacted by escalating geopolitical tensions and unclear market sentiments. Glove counters, was impacted by difficulties in pricing revisions amid US tariffs, leading to cautious buying and slower demand. The sector also faces ongoing challenges from US tariff uncertainties and the SST imposed on key raw materials.

NR Concentrated Latex Price (USD/kg)



Source: Malaysia Rubber Council, Apex Securities

Nitrile Price (USD/kg)



Source: Bloomberg, Apex Securities

Outlook. Looking ahead, the Malaysian rubber products sector is expected to face a challenging outlook, pressured by intense international competition on the back of US tariffs and expanding Chinese capacity that continue to erode pricing power alongside subdued demand and rising domestic costs. Despite a temporary exemption period, the new 5% SST on latex is likely to compress margins and undermine global competitiveness, potentially tipping some players into losses. As a result, key industry names such as **HARTA, TOPGLOV**, and **KAREX** are anticipated to deliver flattish performance in the near term.

We anticipate rubber glove average selling prices (ASPs) to stabilise around USD17-19/1,000 pieces in 2H 2025, as the industry grapples with persistent price competition, fluctuating raw material costs, and ongoing USD/MYR exchange rate volatility. Natural rubber prices may ease slightly due to global economic uncertainties, while demand for nitrile butadiene rubber is set to grow, although its pricing will remain volatile given upstream cost pressures. Meanwhile, natural gas prices are broadly projected to rise, driven by robust demand, tightening supply, and lower inventory level.

In summary, the local glove industry in 2H 2025 will navigate fluctuating raw material prices, cost-pass-through difficulties, and persistent oversupply issues.

Key Risk. (i) Intense competition arising from both local and regional players. (ii) variations in raw material costs could impact profit margins, (iii) shifts in utilisation rates will hinge on supply and demand dynamics and (iv) changes in healthcare regulations could alter the operational environment of the industry.

Peer Comparison

Company	FYE	Price (RM) as at 20Jun25	P/E (x) CY25	P/E (x) CY26	P/B (x) CY25	P/B (x) CY26	Dividend Yield (%)	Target Price (RM)	Potential Upside	ESG Rating
Gloves										
Hartalega Holdings Bhd	Mar	1.58	42.0	38.1	1.7	1.6	1.2	1.76	11.4%	★★★
Top Glove Corporation Bhd	Aug	0.72	N/A	252.2	1.3	1.2	0.0	0.78	8.3%	★★★
Kossan Rubber Industries Bhd	Dec	1.42	24.5	10.9	1.0	1.0	2.0	2.10	47.9%	
Supermax Corporation Bhd	Jun	0.59	N/A	N/A	0.4	0.4	1.5	0.70	18.6%	★★★
Average			**33.3**	**100.4**	**1.1**	**1.1**	**1.2**			
Condoms										
Karex Bhd	Jun	0.73	32.7	35.1	1.7	1.6	1.4	0.73	0.0%	★★★

**Based on Bloomberg consensus estimates*

Source: Bloomberg, Apex Securities

Steven Chong
(603) 7890 8888 (ext 2068)
stevenchong@apexsecurities.com.my

Telecommunication

(Neutral ↔)

All Eyes on Jendela P2 as Telco Valuations Linger Below Mean

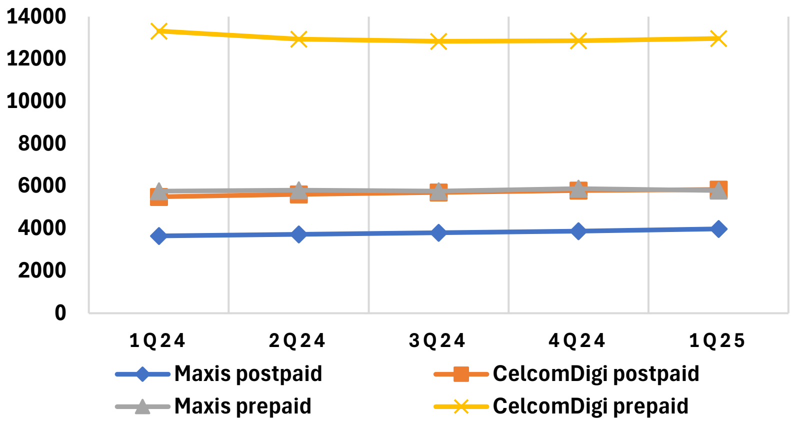
Summary. We are **Neutral** on the telecommunication sector as we anticipate that the deployment of dual 5G networks and potential project awards under Jendela Phase 2 will serve as key growth drivers for telecom players from 2H 2025 onwards.

Our top pick is **Redtone (BUY, FV: RM0.95)**, which stands to be a direct beneficiary in the event of a Jendela P2 rollout, backed by its proven track record in Phase 1. We also favour **Telekom (BUY, FV: RM7.40)** for its role as a strategic asset owner for 5G fibre connectivity. Meanwhile, we view **Maxis (BUY, FV: RM4.00)** as a compelling value play, currently trading at 8.6x forward EV/EBITDA (-1 SD), following the recent weakness in share price performance. We retain our **HOLD** ratings on **Axiata (HOLD, FV: RM2.10)** and **CDB (HOLD, FV: RM4.00)** as we believe current valuation have already priced in the bulk of merger-related synergies.

Review. Bursa Malaysia Telecommunication Index is trading at forward EV/EBITDA multiples of 7.0x for 2025F and 2026F which is regarded as undervalued against the historical five-year mean average of 7.4x. The sector's discounted valuation largely reflects persistent structural headwinds, including stagnating ARPU, intensifying price competition, and the capital-intensive nature of 5G deployment. These challenges have collectively limited margin expansion, dampened earnings visibility, and constrained the potential for a meaningful re-rating.

Prepaid subscribers fell due to FMC strategy

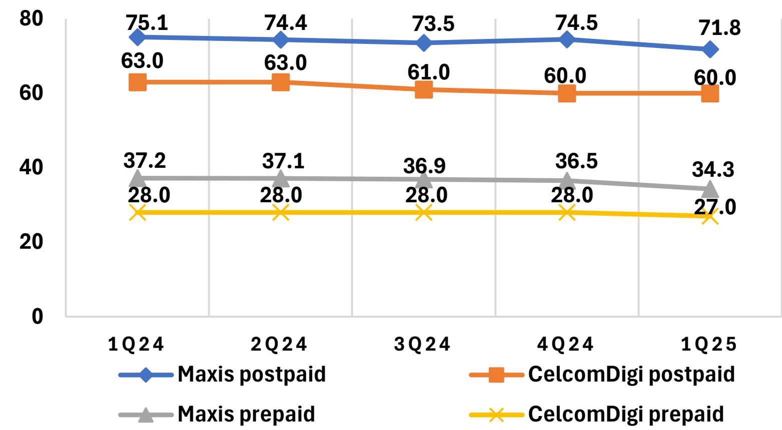
Mobile Subscribers ('000)



Source: Maxis, CelcomDigi

Fierce competition continues to pressure Postpaid and prepaid ARPU

APRU (RM)



Source: Maxis, CelcomDigi

Under the mobile segment, both **Maxis and CDB** recorded yoy growth in postpaid revenue, helping to partially offset persistent softness in the prepaid segment. The improvement was driven by effective customer acquisition strategies and attractive convergence bundles, which translated into healthy subscriber additions. However, ARPU remained subdued for both players, reflecting a highly competitive market where price-sensitive consumers continue to gravitate toward aggressively priced, value-centric plans. Despite ongoing upselling efforts, meaningful ARPU accretion remains challenging.

For the fixed broadband segment, **Maxis** and **CDB** have continue to outpace **TM** in terms of subscriber acquisition, steadily capturing market share through attractive promotional offerings and competitive pricing strategies. Both players have effectively strengthened brand presence by leveraging sharp value propositions and well-executed targeted campaigns. Although **TM** retains a structural advantage in terms of infrastructure reach, its relatively higher pricing and the absence of compelling mobile-fibre bundling packages have limited its competitiveness in an increasingly value-driven market.

We anticipate a pick-up in 5G adoption in 2HFY25 as the ecosystem matures and device penetration improves. Nevertheless, MNOs may face near-term earnings pressure from higher wholesale charges linked to rising 5G traffic volumes. This cost headwind is likely to be partially mitigated by ongoing cost optimisation and network modernisation efforts aimed at enhancing operational efficiency.

Outlook. We believe the announcement of Jendela Phase 2 (P2) could serve as a key catalyst for a sector re-rating. Notably, P2 is expected to be primarily funded through the Universal Service Provision (USP) Fund, administered by the MCMC, thus, offering a high degree of funding clarity and execution confidence. Building on the success of Jendela P1, which substantially improved network coverage and fiber access, we reckon P2 will continue to drive structural upgrades in digital infrastructure in underserved areas. In this context, we continue to favour towercos and fixed infrastructure providers, including **REDTONE, TM, REACHTEN (NR), and OCK (NR**). These players are well-positioned to benefit from the rollout through backhaul fiber contracts, site leasing, and infrastructure deployment mandates, which reinforce their medium-term earnings visibility.

Key Risk. Regulatory risk, higher-than-expected 5G capex affecting cashflow and dividend, excessive price competition

Peer Comparison

Company	FYE	Price (RM) as at 20Jun25	P/E (x) CY25	P/E (x) CY26	P/B (x) CY25	P/B (x) CY26	Dividend Yield (%)	Target Price (RM)	Potential Upside	ESG Rating
Redtone International Bhd	Jun	0.56	10.4	10.5	1.4	1.3	5.1	0.95	71.2%	★★★
Telekom Malaysia Bhd	Dec	6.56	13.9	13.0	2.3	2.1	3.9	7.40	12.8%	★★★
Maxis Bhd	Dec	3.60	19.5	18.1	4.7	4.4	4.4	4.00	11.1%	★★★
CelcomDigi Bhd	Dec	3.83	26.7	22.3	2.8	2.7	3.7	4.00	4.4%	★★★
Axiata Berhad	Dec	2.03	23.9	20.3	0.7	0.7	5.0	2.10	3.4%	★★★
Average			**18.9**	**16.8**	**2.4**	**2.2**	**4.4**			

Source: Apex Securities

Recommendation Framework:
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain + dividend yield

Sector Recommendations:
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:
★★★★★ : Appraised with 3% premium to fundamental fair value
★★★★ : Appraised with 1% premium to fundamental fair value
★★★ : Appraised with 0% premium/discount to fundamental fair value
★★ : Appraised with -1% discount to fundamental fair value
★ : Appraised with -5% discount to fundamental fair value

As of **Monday, 30 Jun, 2025**, the analyst(s) whose name(s) appears on any pages, whom prepared this report, has interest in the following securities covered in this report:
(a) nil.