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2Q25 advance GDP Growth:	**+4.5%**
2025 GDP Growth Forecast:	**+4.2%**
6M25 Headline Inflation:	**+1.4%**
2025 Headline Inflation Forecast:	**+1.9%**
BNM OPR:	**2.75%**
End-2025 OPR Forecast:	**2.75%**

Malaysia Industrial Production

June output rebounds, but not out of the woods yet

- **Industrial Production Index (IPI) growth picked up to +3.0% YoY in June (May: +0.3%), beating market expectations of +0.5%. The improvement was broad-based across the manufacturing, mining, and electricity sectors.**
- **Manufacturing is showing some signs of waning momentum as frontloading effects dissipate. The export-oriented sector has been on a downtrend since January 2025.**
- **The proposed 100% US tariff on all semiconductor imports could affect c.5.3% of Malaysia's total exports, with margin compression likely across the broader supply chain.**
- **Nonetheless, we believe the direct hit will likely be manageable. Reshoring labour-intensive back-end segment to the higher-cost US environment is commercially unviable. Moreover, around 65% of Malaysia's semiconductor exports to the US are attributed to MNCs with US operations, which could qualify for exemptions.**
- **We maintain our 2025 manufacturing growth forecast at +3.7% (2024: +4.2%) and headline GDP growth projection at +4.2% (2024: +5.1%), while awaiting further details on the semiconductor tariffs. In the highly unlikely worst-case scenario, growth could slip closer to 3.5%.**

Broad-based recovery in domestic output

IPI growth picked up to +3.0% YoY in June (May: +0.3%), beating market expectations of +0.5%. The improvement was driven by stronger manufacturing production (+3.6%; May: +2.8%) and a notable recovery in mining output (-0.01%; May: -10.2%). Meanwhile, electricity output rebounded to +4.1% (May: -0.1%).

Mining output contraction narrowed sharply as natural gas production rebounded to +2.3% YoY (May: -16.6%), partially offsetting a sustained decline in petroleum (-3.2%; May: -1.6%). The rebound in natural gas suggests post-maintenance normalisation, reinforcing our view of a potential recovery in headline mining activity in the coming months.

Signs of waning momentum in manufacturing

Notwithstanding the broader recovery in IPI, manufacturing is showing signs of a slowdown. On a seasonally adjusted MoM basis, manufacturing fell by 0.4% MoM in June (May: +1.0%; Apr: +1.5%), pointing to softer momentum as frontloading effects dissipated.

We believe the volatile global trade environment continues to weigh on the domestic manufacturing sector, particularly within the export-oriented subsectors, which have been losing steam since January. On a 3-month moving average (3mma) basis, growth moderated across key export clusters, including E&E products at +7.2% YoY (May: +7.8%), petroleum, chemical, rubber & plastic products which slipped into contraction at -0.9% (May: +0.1%) and wood, furniture, paper products & printing, which eased slightly to +3.4% (May: +3.6%). In contrast, domestic-oriented subsectors improved further to +3.8% (May: +2.9%), offsetting the broader manufacturing slowdown.

Quarterly trend in line with advance GDP print

IPI growth moderated to +2.0% YoY in 2Q25 (1Q25: +2.3%), led by a moderation in manufacturing (+3.9%; 1Q25: +4.2%) and a deeper drag from mining (-5.5%; 1Q25: -3.3%). This is broadly in line with the advance 2Q25 GDP estimate, which showed manufacturing growth easing to +3.8% (1Q25: +4.1%) and mining falling further to -7.4% (1Q25: -2.7%). The final 2Q25 GDP data is scheduled for release on 15 Aug 2025.

Semiconductor tariffs: A new risk to watch

The recently announced 19% tariff on Malaysian exports to the US, effective 8 August, is softer than the 25% announced in July. This softer outcome has helped ease some concerns over

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domestic manufacturing sector. Malaysia's tariff level is now broadly aligned with regional peers such as Indonesia, Thailand and Philippines, thereby preserving export competitiveness.
However, the US tariff saga continues to cloud the external outlook. President Trump has proposed a 100% tariff on all semiconductor imports, with exemptions granted only for companies producing in the US. For now, semiconductors remain exempt due to ongoing Section 232 national security investigations, but the proposal has raised uncertainty across global supply chains.

The US is Malaysia’s key trading partner, accounting for 13% of Malaysia’s total exports. Of that, roughly 60% comprises Electrical & Electronics (E&E) products, with semiconductors making up around 68% of the E&E exports. This implies that a full 100% tariff on semiconductors could affect c.5.3% of Malaysia’s total exports. Such a move could trigger margin compression across the broader semiconductor supply chain.

Exemptions could limit the impacts

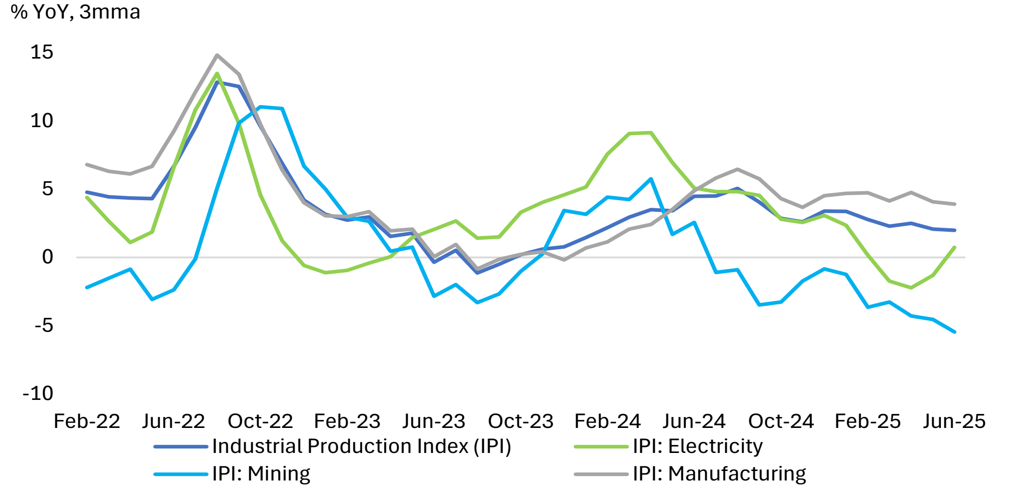
For now, we believe the direct hit is likely to be manageable. Malaysia’s semiconductor industry is concentrated in the generally labour-intensive back-end outsourced semiconductor assembly and testing (OSAT) segment. The higher labour and operating costs in the US would make the reshoring of such operations to the US commercially unviable. As such, any tariff implementation is expected to involve industry consultations and be introduced in a gradual and calibrated manner, to avoid severe disruptions to global supply chains.

In addition, an estimated 65% share of Malaysia’s semiconductor exports to the US are attributed to MNCs such as Intel and Micron, which have substantial commitment to invest in the US domestic manufacturing. These firms could potentially qualify for exemptions, given their existing or planned US operations, which may help further mitigate the impact of the proposed tariff measures.

Maintain GDP forecast; remain watchful for tariff risks

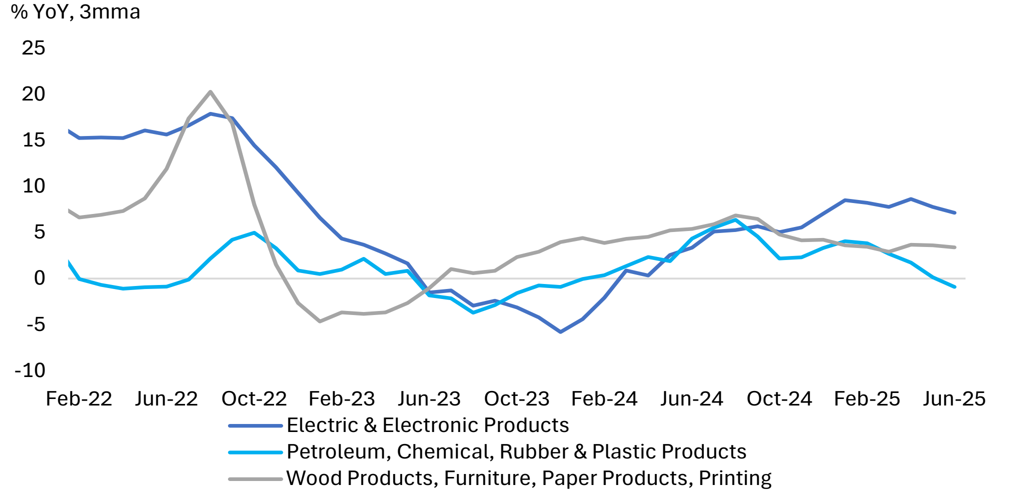
We maintain our 2025 manufacturing growth forecast at +3.7% (2024: +4.2%) and headline GDP growth projection at +4.2% (2024: +5.1%), barring a full-blown US tariff on semiconductor. We await further details on whether the tariffs are imposed at the product, component, or company level, which will ultimately determine the severity of the impact. In the highly unlikely worst-case scenario, growth could slip closer to 3.5%.

Figure 1: Industrial output softened in recent months



Source: Macrobond, Apex Securities

Figure 2: Export-oriented industries saw a broad-based slowdown



Source: Macrobond, 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 **Friday, 08 Aug, 2025**, the analyst(s), whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:
(a) nil.