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

Economic Highlights

	2024	2025F	2026F
GDP Growth (%)	5.1	4.2	4.1
CPI (%)	1.8	1.4	2.0
OPR year-end (%)	3.00	2.75	2.75
USD/MYR	4.57	4.20	4.15

FBM KLCI

Current Level	1,622.25
2025 Target	**1,670.00**

FBM KLCI Chart

Source: Bloomberg

Top Picks

Stock	Rating	Price (RM)	TP (RM)
GDB	BUY	0.47	0.53
TENAGA	BUY	13.22	15.77
ELRIDGE	BUY	0.725	0.86
SCGBHD	BUY	2.25	2.50
SLVEST	BUY	3.07	3.41
FRONTKN	BUY	4.45	5.36
VITROX	BUY	4.36	5.00

Market Outlook: Budget 2026

Prudent Fiscal Path, Neutral Market Impact

Budget Highlights

No Surprises. As the first Budget under the 13th Malaysia Plan (13MP), Budget 2026 continues to align with the three pillars of the Madani Economy: raising the ceiling of national growth, raising the floor of living standards, and strengthening governance and public service reform. There were no major policy surprises, as the government maintained a prudent fiscal stance while modestly broadening its revenue base through selective tax measures.

Fiscal Consolidation. The government targets a narrower fiscal deficit of –3.5% of GDP in 2026F (2025E: –3.8%), in line with the 13MP goal of reducing it to below 3% by 2030. The deficit is projected to narrow to RM74.6bn (–2.7% YoY; 2025E: RM76.7bn) in absolute terms, supported by GDP growth of 4.0–4.5% (2025E: 4.0–4.8%), broadly matching our 4.1% forecast. Development expenditure (DE) will edge up to RM81bn (+1.3% YoY), below the RM86bn annual average implied by the RM430bn allocation for 2026–2030, leaving room for stronger rollout in later years.

Tax Expansion but More Handouts. Budget 2026 raises excise duties on cigarettes and alcoholic beverages from 1 Nov 2025 and introduces a carbon tax on the iron, steel, and energy industries from 2026. No further SST expansion was announced, offering relief to SMEs. These measures should lift government revenue by 2.7% YoY to RM343.1bn (2025E: RM334.1bn), while cash assistance under STR and SARA will rise 15.4% YoY to RM15.0bn (from RM13.0bn in 2025), reflecting continued social support.

Sabah and Sarawak Remain in Focus. Development allocations for the Borneo states outpace the national average, with Sabah rising to RM6.9bn (+3.0% YoY) and Sarawak to RM6.0bn (+1.7% YoY). Key projects include the RM765m Southern Link 230kV transmission line in Sabah, RM48bn for highway and road infrastructure across both states, and the RM2bn SALAM submarine cable system linking Johor, Sabah, and Sarawak.

Rare Earth in the Spotlight. The Government has allocated RM10m to continue rare-earth resource mapping, with a focus on downstream value-chain development through Khazanah-led international joint ventures, signalling Malaysia's intent to establish a strategic foothold in the global rare-earth ecosystem.

Capital Market Measures. Stamp duty on buy-side transactions of structured warrants (previously 0.1%) will be exempted, while the existing stamp duty exemption for ETF transactions is extended to 2028 to boost market participation and trading liquidity.

Largely Neutral Market Impact. We view Budget 2026 as largely **Neutral** for equities, balancing social-support measures against higher sin and carbon taxes. We **trim our 2025F FBM KLCI year-end target to 1,670** (from 1,680), based on 14.5x FY26F EPS, after modest earnings revisions. Despite escalating US–China trade tensions, where President Trump on Friday threatened a 100% tariff on Chinese goods starting 1 Nov citing China's rare-earth export controls, we expect the index to hold up, supported by a prospective Fed rate cut and typical year-end window-dressing.

Sector Highlights. Budget 2026 reinforces the government's focus on inclusive growth, high-value industries, and the energy transition, consistent with the NIMP, NSS, NETR, and APG agendas. Key sector beneficiaries are: (i) **consumer**, supported by higher cash handouts; (ii) tourism-related sectors such as **consumer**, **REITs**, and **transport**, driven by the RM700m allocation for Visit Malaysia 2026 campaign; (iii) **renewable energy**, benefiting from continued policy support and the introduction of 2GW LSS6 capacity; and (iv) **technology**, underpinned by incentives for semiconductor and AI-driven industries. Conversely, **oil & gas**, **power**, **steel**, and **sin** sectors may face earnings headwinds from new carbon and excise tax measures.

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

Economics Highlights

Pragmatic fiscal path to a sustainable growth

Budget 2026 keeps Malaysia on track with its fiscal consolidation plan. The government targets a narrower fiscal deficit of 3.5% of GDP in 2026 (2025E: -4.1%), consistent with the goal of bringing the deficit below 3% of GDP by 2030 under the 13th Malaysia Plan (13MP). The consolidation will be driven by expenditure rationalisation and higher revenue collection.

Total expenditure is set to rise modestly by 1.7% YoY to RM419.2bn (2025E: RM412.1bn), comprising RM338bn (80.7%) in operating expenditure (OE) and RM81bn (19.3%) in development expenditure (DE). On the OE front, subsidies and social assistance are projected to fall 14.1% (2025E: -15.3%), reflecting ongoing reforms such as the BUDI95 programme and measures to plug leakages in cooking oil subsidy.

As the first budget of the 13MP, the government will allocate RM81bn to DE (2025E: RM80bn) in 2026. Given the average annual RM86bn implied by the total RM430bn allocation for 2026–2030 in 13MP, we see room for stronger development spending in the later years of the Plan.

Meanwhile, total revenue is projected to rise by 2.7% YoY to RM343.1bn (2025E: RM334.1bn), led by higher tax collection (RM270.4bn; 2025E: RM253.4bn) on the back of e-invoicing implementation and the expanded SST scope (RM59.6bn; 2025E: RM53.4bn). However, non-tax revenue is expected to fall by 9.9% to RM72.7bn, reflecting lower Petronas dividends (RM20bn; 2025E: RM32bn) in line with the government's forecast of lower Brent crude prices averaging USD60–65/bbl in 2026 (Apex 2026F: USD65/bbl).

Overall, we believe the 3.5% deficit target is achievable, premised on steady GDP expansion. With no major new taxes or subsidy surprises, the government appears to be riding on the progress from earlier reforms, providing room to redirect its fiscal savings toward targeted support for lower-income groups. This approach strikes a balance between fiscal prudence and inclusive growth, aligning with the government's broader MADANI goals.

Table 1: Government Fiscal Targets

RM bn	RM bn			% YoY		
	2024	2025E	2026F	2024	2025E	2026F
Revenue	324.6	334.1	343.1	3.1	2.9	2.7
Operating expenditure	321.5	332.2	338.2	3.3	3.3	1.8
Current balance	3.1	2.0	4.9			
Gross development expenditure	84.0	80.0	81.0	-12.6	-4.8	1.3
Less: Loan recovery	1.7	1.3	1.5	72.5	-23.9	13.6
Net development expenditure	82.3	78.7	79.5	-13.5	-4.4	1.0
Overall Balance	-79.2	-76.7	-74.6			
% Deficit to GDP	-4.1	-3.8	-3.5			

Source: Budget 2026, Apex Securities

Sanguine growth and inflation outlook

In this report, we introduce our 2026 macro projections, which assume **GDP growth of +4.1% YoY**, **headline inflation of +2.0%**, an **average USD/MYR of 4.15**, and a **year-end OPR of 2.75%.**

According to Budget 2026, Malaysia's real GDP is expected to expand by 4.0-4.5% YoY in 2026 (2025E: 4.0-4.8%), broadly in line with our estimate of 4.1%. Growth will continue to be anchored by services, driven by tourism recovery and resilient household spending. The manufacturing sector should stay supported by domestic-oriented industries and firm E&E demand amid a global tech upcycle.

We ascribe to the government's view that domestic fundamentals remain stable, though external headwinds, notably prolonged US tariff uncertainties and geopolitical tensions, could pose some downside risks. For now, our projection is for GDP to grow at +4.2% YoY in 2025, before moderating slightly to +4.1% in 2026 amid external uncertainties.

Inflation is projected to stay benign at 1.3-2.0% YoY in 2026 (2025E: 1.0-2.0%), supported by steady macro conditions and productivity gains. With the SST expansion has already been rolled out in 2H25, we see limited impacts on inflation next year. Combined with softer commodity prices, in which the government expects Brent to average USD60–65/bbl in 2026 (2025E: USD70/bbl), price pressures should stay contained. We forecast headline inflation to rise modestly from +1.4% in 2025 to +2.0% in 2026, reflecting steady demand and macroeconomic conditions.

Table 2: GDP Growth Projections

	% YoY		
	2024	2025E	2026F
Expenditure			
Private consumption	5.1	5.0	5.1
Private investment	12.3	10.0	7.8
Public consumption	4.7	4.0	3.2
Public investment	11.1	12.7	7.3
Exports	8.3	1.9	3.8
Imports	8.2	3.1	5.8
Sectors			
Services	5.3	5.1	5.2
Manufacturing	4.2	3.8	3
Agriculture	3.1	1.2	2.2
Mining	0.9	1.1	-1.0
Construction	17.5	10.1	6.1
Real GDP	5.1	4.0-4.8	4.0-4.5

Source: Budget 2026, Apex Securities

Sectorial Analysis

Automotive

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

Budget Impact	Key Measures	In-house View
Neutral	• No new revisions to existing excise duty structures or additional EV-specific incentives announced. • Vehicle tax exemptions in Langkawi and Labuan to be restricted to cars priced below RM300,000, effective 1 Jan 2026, aimed at curbing misuse of exemptions for luxury vehicles. • Outcome-Based Incentive Framework (OBIF) to be fully implemented in 1Q 2026, prioritising high-value manufacturing segments such as automotive parts, and EV-component clusters. • Full excise and sales tax exemptions maintained for Proton and Perodua vehicles purchased by taxi and e-hailing (private hire) operators, supporting domestic car manufacturers.	• Budget 2026 provides limited policy impetus for the automotive sector. • Restriction on vehicle tax exemptions in Langkawi and Labuan is expected to curb premium CBU imports, while having minimal impact on mass-market brands. • The OBIF for the manufacturing sector is positive for localisation and supply-chain development. **BAUTO (SELL, TP: RM0.50)** (29 % stake in Inokom) is well-positioned to benefit as an emerging EV assembly hub. • Continuation of excise and sales-tax exemptions for Proton and Perodua vehicles is modestly positive, supporting demand for national marques, benefiting **MBMR (BUY, TP: RM2.50)** and **DRBHCOM (NR)**. • Maintain **NEUTRAL**. We maintain our 2025F total industry volume (TIV) forecast at 770k units (-4% YoY), slightly below the MAA projection of 780k units (-4.5% YoY), reflecting a normalisation from the high 2024 base.

Construction

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

Budget Impact	Key Measures	In-house View
Neutral	• Development expenditure (DE) reduced by 5.8% to RM81.0bn from RM86.0bn in Budget 2025. • DE allocation to Sabah increased by RM0.2bn (+3.0%) to RM6.9bn, while Sarawak's allocation rose by RM0.1bn (+1.7%) to RM6.0bn. • State-owned investment companies to raise domestic investments under the GEAR-uP Programme, targeting RM30.0bn. • RM2.3bn allocated for airport upgrades in Penang, Sabah, and Sarawak. • RM1.3bn allocated for the Jeniang Water Transfer Project. • Pengurusan Aset Air Berhad (PAAB) to invest up to RM13.0bn over the next five years in new water treatment plants. • RM3.0bn allocated to replace ageing water pipes nationwide under the National Non-Revenue Water Programme. • RM3.3bn set aside for basic rural infrastructure projects. • RM5.6bn in MARRIS grants allocated to state governments for state road maintenance nationwide. • RM2.5bn allocated for the maintenance of federal roads.	• No positive surprises from Budget 2026, with key allocations largely in line with expectations. • The government's commitment to ongoing large-scale infrastructure projects, including the Penang LRT, Pan Borneo Highway, and major airport expansion programmes, will continue to anchor construction activity over the medium term, providing earnings visibility for key players such as **GAMUDA (NR)**, **IJM (NR)**, **SUNCON (NR)**, **MRCB (NR)**, **YTL (NR)** and **WCT (NR)**. • Water-sector players such as **RANHILL (NR)**, **TALIWRK (NR)** and **JAKS (NR)**, stand to benefit from the Government's heightened focus on strengthening water treatment and transfer infrastructure. • Companies with exposure to road construction and maintenance — including **EDGENTA (NR)**, **CMSB (NR)** and **PRTASCO (NR)** — are poised to benefit from the Government's continued emphasis on infrastructure upkeep.

		• We maintain our **Overweight** view on the sector, driven primarily by strong growth in data centre (DC) construction, which is expected to more than offset the slowdown in government DE. Supported by private-sector investments and pro-digital infrastructure policies, the DC segment is emerging as a key growth catalyst. • Top pick: **GDB (BUY, TP: RM0.53).**

Consumer

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

Budget Impact	Key Measures	In-house View
Positive	• Malaysians aged 18 and above will receive a one-off RM100 credit via MyKad under the expanded Sumbangan Asas Rahmah (SARA) initiative, with payments to be distributed in mid-February 2026. • In 2026, all 9m Sumbangan Tunai Rahmah (STR) recipients will receive SARA assistance of up to RM100 monthly (RM1,200 annually), while 1m STR recipients under the e-Kasih programme will receive up to RM200 monthly (RM2,400 annually). Single individuals will receive RM600, equivalent to RM50 monthly, with the maximum household benefit at RM4,600 — comprising RM2,200 in STR and RM2,400 in SARA — for households earning below RM2,500 monthly with 5 children. • Over RM700m will be channelled to revitalise the tourism sector in 2026, including RM500m for the Visit Malaysia 2026 campaign, RM60m for promotions, RM50m to support craft and heritage entrepreneurs, RM50m in flight matching grants, RM25m for tourism facility and UNESCO site upgrades, and RM20m to strengthen health tourism initiatives under MHTC. Plus, there will also be a special RM1,000 tax relief for domestic travel expenses related to entrance fees to local tourist attractions and cultural programmes. • Excise duties on cigarettes will rise effective 1 Nov this year, with an increase of 2 sen per stick; cigars, cheroots and cigarillos up by RM40/kg; and heated tobacco products up by RM20/kg. • Excise duties on alcoholic beverages will be raised by 10% effective 1 Nov this year. • A Luxury Goods Tax of 5-10% will be imposed on selected high-end items effective January 2026.	• We note that allocations for STR and SARA have been increased to RM15bn in Budget 2026, up from RM13bn in Budget 2025, signalling the government's continued focus on supporting lower-income households amid elevated living costs. With higher disposable income, we expect stronger consumption for staple goods. • In addition, the RM700m tourism allocation under the Visit Malaysia 2026 campaign, alongside the RM1,000 tax relief for domestic travel and cultural activities, is expected to spur consumer spending in the retail and F&B segments. This should provide a near-term uplift for operators in tourist-centric areas such as shopping malls. • Top beneficiaries: **KOPI (BUY, TP: RM1.26)**, **PADINI (BUY, TP: RM2.37)**, **99SMART (NR)** and **ECOSHOP (NR)**. • Excise duty hikes on tobacco and alcoholic beverages, aligned with the government's efforts to curb non-communicable diseases, are expected to pressure earnings of tobacco and brewery companies. • Key underperformers: **BAT (NR)**, **HEIM (NR)** and **CARLSBG (NR)**. • Maintain **Neutral.** Overall, we expect consumption trends in 2026 to remain steady, supported by fiscal aid and tourism recovery.

Oil & Gas

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

Budget Impact	Key Measures	In-house View
Negative	• Carbon Tax on the energy industry to be introduced in 2026.	• No further details were provided on the scope or quantum of the proposed carbon tax, though it poses a material risk to major Scope 1 emitters, particularly the petrochemical industry.

		• Key underperformers: **PCHEM (NR)** and **LCTITAN (NR)**. • Maintain **Neutral**. The global oil market remains in a cyclical downturn amid oversupply and weak demand. We expect prices to fall below high-cost producer breakeven levels before supply rationalisation restores balance. Brent oil forecast: USD68/bbl (2025F), USD65/bbl (2026F).

Plantation

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

Budget Impact	Key Measures	In-house View
Mildly Positive	• Start-up companies will receive support to develop mechanisation and automation solutions in collaboration with the Malaysian Palm Oil Board (MPOB) and major palm oil producers, enhancing efficiency and productivity in plantation operations. • RM2.4bn allocated to FELDA, FELCRA, and RISDA to strengthen the welfare of settlers, smallholders, and their families. • Funding will be provided for the development and maintenance of plantation roads nationwide to improve connectivity and logistics. • The Anti-Palm Oil Discrimination Campaign will be intensified, with broader promotion of sustainable certification and increased support for independent smallholders. • The government will also expand support for high-value industries through industrial development programmes targeting pharmaceuticals, semiconductors, artificial intelligence, digital technology, and sustainability sectors.	• The government continues to promote mechanisation and automation within the plantation sector, reinforcing long-term productivity gains. • Initiatives to develop high-value industries are expected to boost demand for industrial land and parks, benefiting plantation groups with landbank exposure near key growth corridors. • Top beneficiaries: **SDG (BUY, TP: RM5.50), KLK (HOLD, RM19.90).** • Upgrade to **Overweight**. Sector outlook has turned positive, with CPO prices expected to remain firm into CY26. We believe year-end wet weather conditions and Indonesia's transition from B40 to B50 biodiesel will constrain global supply, providing strong price support for palm oil producers. • Top pick: **SDG (BUY, TP: RM5.50).**

Power & Utilities
Power Ancillary

Ong Tze Hern (603) 7890 8888 (ext 2113) tzehern.ong@apexsecurities.com.my
Tan Sue Wen (603) 7890 8888 (ext 2095) suewen.tan@apexsecurities.com.my

Budget Impact	Key Measures	In-house View
Neutral	• TNB and PETRONAS to collaborate on the Vietnam–Malaysia–Singapore Renewable Energy Project under the ASEAN Power Grid (APG) initiative, enabling cross-border transmission of renewable power from southern Vietnam to Malaysia and Singapore. • PAAB to spearhead the RM13bn Water Sector Transformation Programme (2026–2030). • The government to continue the National Non-Revenue Water (NRW) Programme with a RM3bn allocation, alongside underground dam and tube well projects in Langkawi worth over RM400m. • Carbon Tax on the energy industry to be introduced in 2026. • RM765m to be invested in the Southern Link 230kV transmission project in Sabah to enhance grid resilience and support renewable integration. • RM1.2bn allocated to maintain electricity reliability in Sabah and ensure system readiness following the regulatory transition.	• No major policy surprises, with APG and NRW reduction remaining key Budget 2026 priorities. • APG projects should drive demand for overhead transmission lines and HV cables, benefiting **TENAGA (BUY, TP: RM15.77)**, **CHEEDING (BUY, TP: RM0.73)** and **SCGBHD (BUY, TP: RM2.50).** • NRW programmes should sustain earnings growth of water utilities like **RANHILL (NR)** and **PBA (NR)**. • The proposed carbon tax poses risks to coal plant operators such as **TENAGA (BUY, TP: RM15.77)** and **MALAKOF (HOLD, TP: RM0.97)**, and it remains uncertain if costs can be passed through to consumers, a mechanism typically allowed in other countries that have implemented such levies.

	• RM500m earmarked for climate-resilient infrastructure, protecting grid assets and substations in flood-prone areas.	• Meanwhile, grid investment in Sabah is long overdue, given its persistently higher SAIDI versus Peninsular Malaysia, reflecting lower reliability. • Maintain **Overweight** on the Power & Utilities sector. The sector is poised for multi-year growth, underpinned by rising electricity demand from data centres and the electrification of vehicles. • Top pick: **TENAGA (BUY, TP: RM15.77)**. • Maintain **Overweight** on power ancillary sector. The segment continues to benefit from data centre-driven demand and long-term grid modernisation, spanning transmission, substation, and underground utility works, supporting earnings visibility for electrical contractors. • Top pick: **SCGBHD (BUY, TP: RM2.50).**

Property

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

Budget Impact	Key Measures	In-house View
Neutral	• RM20bn coverage under the Home Credit Guarantee Scheme (SJKP) to support 80,000 additional first-time homebuyers, including self-employed and gig workers. • Full stamp duty exemption for first-time buyers purchasing homes up to RM500,000 extended until 31 December 2027. • Stamp duty for non-residents and foreign companies increased from 4% to 8%, aimed at preserving housing affordability for local buyers. • Urban Renewal Incentives: 10% special tax deduction for converting or renovating commercial buildings into residential units, capped at RM10m per project. • Encouragement for rent-to-own and build-then-sell schemes, consistent with 13th Malaysia Plan (RMK13) objectives to enhance housing accessibility. • Faster investment approvals through the Iskandar Malaysia Facilitation Centre and Johor Super Lane to expedite project delivery. • RM180m allocation under the NIMP Industrial Development Fund for high-impact sectors, driving demand for specialised industrial and logistics facilities.	• Budget 2026 introduces no new incentives, largely maintaining existing government support for affordable housing and first-time buyers. • Urban Renewal Incentives may encourage the conversion of underutilised commercial assets, improving occupancy and utilisation rates. • Rent-to-own and build-then-sell schemes could expand homeownership access but may strain cash flows for smaller developers; larger players remain resilient given stronger balance sheets. • The stamp duty hike for foreign buyers should have limited sector impact, as domestic demand continues to drive overall sales. • Top beneficiaries: **LAGENDA (BUY, TP: RM1.53)** and **SCIENTX (NR)**. • Maintain **Overweight.** The sector remains supported by the recent OPR cut, which should improve housing affordability, alongside resilient demand in both affordable and premium segments. • Top pick: **MATRIX (BUY, TP: RM1.72)**.

REITS

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

Budget Impact	Key Measures	In-house View
Positive	• Over RM700m will be channelled to revitalise the tourism sector in 2026, including RM500m for the Visit Malaysia 2026 campaign, RM60m for promotions, RM50m to support craft and heritage entrepreneurs, RM50m in flight matching grants, RM25m for tourism facility and UNESCO site upgrades, and RM20m to strengthen health tourism initiatives under MHTC.	• The increase in tourist arrivals is expected to boost footfall at malls and drive hospitality demand. • Top beneficiaries: **IGBREIT (NR)**, **PAVREIT (NR)**, **SUNREIT (NR)**. • Maintain **Overweight**. The sector stands to benefit from OPR cut which widens yield spread and

	• Additionally, there will also be a special RM1,000 tax relief for domestic travel expenses related to entrance fees to local tourist attractions and cultural programmes.	improve REIT valuation, while resilient occupancy and stable income visibility reinforce the sector's defensive appeal amid market volatility. • Top pick: **KIPREIT (BUY, TP: RM1.07)**.

Renewable Energy

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

Budget Impact	Key Measures	In-house View
Positive	• LSS6 is reaffirmed under Budget 2026, with 2GW capacity and estimated RM6bn in private investment. • Corporate Green Power Programme (CRESS) is projected to achieve an installed capacity of 500MW and attract RM3.5bn in private investment. • The government will continue the Solar ATAP programme, enabling rooftop-solar exports of up to 500MW. • 300 MW of new FiT quotas for biogas, biomass, and small hydro projects will be introduced, with commissioning expected by 2028. • GLICs and GLCs are expected to invest RM16.5bn in green projects. • Additional financing support includes RM3bn under GTFS 5.0 and RM150mn via the National Energy Transition Fund (NETF) to accelerate green financing and clean-energy adoption. • Carbon tax (first announced in Budget 2025) will be implemented in 2026, initially targeting the iron, steel, and energy sectors. • Sustainable-lifestyle incentives include tax relief of up to RM2,500 for food-waste processors and RM20m in rebates for energy-efficient home appliances.	• Budget 2026 is largely a continuation of existing renewable-energy schemes, with no new major programmes announced. • The planned carbon tax implementation in 2026 is expected to accelerate RE adoption across the iron, steel and energy industries, further driving demand for clean-energy solutions. • Existing initiatives under LSS6, CRESS, Solar ATAP, and FiT are expected to collectively add c.3.3GW of new RE capacity. • Utility-scale solar projects (2.5GW capacity, c.RM7.5bn total contract value) will primarily benefit **SLVEST (BUY, TP: RM3.41)** and **SAMAIDEN (BUY, TP: RM1.45)**. • The Solar ATAP programme (500MW, c.RM1.5bn total contract value) will benefit **SLVEST (BUY, TP: RM3.41)** and **PEKAT (HOLD, TP: RM1.72)** through increased rooftop-solar deployment. • FiT quotas of up to 300MW should drive contract flows for biomass/biogas EPC players such as **KENERGY (BUY, TP: RM1.02)**. • Maintain **Overweight**. The sector remains supported by policy continuity, strong execution visibility, and sustained momentum under the National Energy Transition Roadmap (NETR). • Top pick: **SLVEST (BUY, TP: RM3.41)**.

Technology

Brian Chin Haoyan (603) 7890 8888 (ext 2064) brianchin@apexsecurities.com.my

Budget Impact	Key Measures	In-house View
Positive	• Khazanah and KWAP will jointly invest RM550m into the semiconductor ecosystem to foster partnerships between local firms and multinationals. • RM180m under the NIMP Industry Development Fund for high-impact sectors like pharmaceuticals, semiconductors, AI, digital, and sustainability. • Under the National Semiconductor Strategy (NSS), Bank Pembangunan Malaysia will offer RM500m in loans to support high-value-added activities like R&D, especially for Malaysian firms in the E&E ecosystem.	• We believe the semiconductor-related funding and financing initiatives could benefit listed Malaysian technology players such as **INARI (BUY, TP: RM2.23)**, **VITROX (BUY, TP: RM5.00)**, and **MI (NR)**, by enhancing access to capital and fostering increased R&D investment and semiconductor ecosystem expansion. • The RM2bn allocation for the Sovereign AI Cloud is expected to benefit **DNEX (NR)**, given its partnership with Google Cloud to develop Malaysia's next-generation sovereign cloud. As a Managed Google

	• Launch of SemiconStart incubator program by Malaysian Technology Development Corporation in collaboration with global incubators to help early-stage startups with guidance, global funding access, discounted prototyping, and customer networks. • Toward AI Nation status by 2030, the government allocates RM5.9bn for R&D, design, commercialisation, and innovation (RDCI) activities. • NAIO receives RM20m to develop talent, enhance digital infrastructure, and create an efficient AI ecosystem. • Additional 50% tax deduction for MSMEs on certified AI and cybersecurity training by MyMahir National AI Council for Industry (NAICI). • Sovereign AI Cloud to be built by MCMC with RM2bn investment.	Distributed Cloud (GDC) Provider under this framework, **DNEX (NR)** is well positioned to expand its offerings in secure, "air-gapped" cloud infrastructure for government and regulated sectors. • Maintain **Overweight** rating on the sector, premised on (i) a semiconductor capex upcycle propelled by proliferation of AI applications, which is driving strong recovery in ATE demand, (ii) robust demand for leading-edge nodes and continued wafer fab expansions underpinning earnings growth for players with front end exposure (i.e. Frontken and UWC), (iii) a gradual recovery in analog IDMs as the industry moves past the trough of the inventory correction cycle, providing uplift to OSAT players like MPI. • Top picks: **FRONTKN (BUY, TP: RM5.36)** and **VITROX (BUY, TP: RM5.00)**.

Telecommunication

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

Budget Impact	Key Measures	In-house View
Mildly Positive	• RM770m allocated to complete the remaining Point of Presence (PoP) Phase 2 rollout near selected industrial areas and schools in rural and remote regions. • Broadband coverage will be expanded under JENDELA 2, reaching 2,700 new locations nationwide with an allocation of RM780m. • RM2bn allocated for the Madani Submarine Cable Connection (SALAM), to be developed by the Malaysian Communications and Multimedia Commission (MCMC). The 3,190 km network will link Sedili (Johor) with key landing points in Sarawak and Sabah, enhancing domestic data capacity and inter-regional connectivity.	• JENDELA continues under Budget 2026, reaffirming the government's ongoing efforts to improve broadband access nationwide and achieve 80% 5G population coverage by 2026, with no new major policy announcements. • A notable development is the SALAM aimed at strengthening East Malaysia's digital connectivity and network resilience. • These measures support the government's long-term goal to bridge the digital divide, benefiting major telcos and network-infrastructure providers. • Top beneficiaries: **TM (UR)**, **TIME (NR)**, **OCK (NR)**, and **REDTONE (UR)**, given their exposure to fibre backhaul, tower expansion and PoP-related works. • Maintain **Neutral**. While infrastructure rollouts underpin long-term sector resilience, earnings upside remains capped as 5G monetisation continues to lag, with limited ARPU uplift amid users' unwillingness to pay for higher speeds.

Transport & Logistics

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

Budget Impact	Key Measures	In-house View
Positive	• RM2.3bn has been allocated for airport upgrades in Penang, Sarawak, and Sabah, targeted for completion by 2028.	• Airport expansion and enhancement projects are expected to increase flight capacity, reduce congestion, and improve aircraft turnaround times,

	• Short Take-Off and Landing Ports (STOLports) in Marudi, Sarawak, and Redang, Terengganu, are being upgraded, with completion expected by 2027. • The Inter-Terminal Transfer Project between KLIA Terminal 1 and Terminal 2 will be implemented to improve passenger connectivity, integrating both terminals into a seamless, world-class international airport. • RM700m has been allocated to boost tourism activities nationwide, particularly under the Visit Malaysia 2026 campaign. • New tax incentives will be introduced to stimulate the tourism and cultural sectors, including deductions of up to RM500,000 for the renovation and upgrading of tourism premises. • Tour operators and event organisers will enjoy income tax exemptions of up to 100% for hosting international tourism, cultural, and business events that attract foreign participants. • The Selangor State Government and MAHB will jointly develop the 600-acre Selangor Aero Park (SAP) in Sepang, envisioned as a regional logistics and air-cargo hub.	enabling airlines to add frequencies or introduce new routes. • Tourism promotion initiatives under the Visit Malaysia 2026 campaign are anticipated to boost visitor arrivals, driving demand for air travel. • Top beneficiaries: **CAPITALA (NR)**, **AAX (NR)**. • The SAP, which will focus on regional e-commerce fulfilment and air logistics, is expected to enhance operating efficiency for integrated logistics and freight-service providers. • Top beneficiaries: **TASCO (HOLD, TP: RM0.51)**, **SWIFT (HOLD, TP: RM0.39)**, **TIONGNAM (NR)**. • Maintain **Neutral**. The sector outlook remains subdued, weighed down by softening freight rates as importers front-loaded shipments ahead of tariff adjustments earlier this year. Looking ahead, tariff-related uncertainties and ongoing geopolitical tensions may continue to dampen trade activity in the near term.

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