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2Q25 GDP Growth:	+4.4%
2025 GDP Growth Forecast:	+4.2%
8M25 Headline Inflation:	+1.4%
2025 Headline Inflation Forecast:	+1.4%
BNM OPR:	2.75%
End-2025 OPR Forecast:	2.75%

Malaysia Industrial Production

Domestic sectors to cushion against external risks

- **Industrial Production Index (IPI) growth jumped to +4.9% YoY in August (Jul: +4.2%), beating market expectations of +3.4%, driven by a stronger-than-expected recovery in mining output.**
- **The domestic-oriented clusters remained largely on an uptrend, even as broader manufacturing growth stayed uneven. Resilient household spending and policy measures will help anchor demand for domestic-oriented products.**
- **The ongoing semiconductor upcycle continues to support Malaysia's manufacturing outlook. Nonetheless, bouts of volatility are likely heading into 2026 as the brunt of tariff impacts becomes more visible.**
- **We maintain our 2025 manufacturing growth forecast at +3.7% YoY (2024: +4.2%) and GDP growth at +4.2% (2024: +5.1%).**

Mining output recovery a positive surprise

IPI growth jumped to +4.9% YoY in August (Jul: +4.2%), beating market expectations of +3.4%. The stronger-than-expected performance was driven by a surge in mining output (+16.8% YoY; Jul: +4.3%). Meanwhile, manufacturing production eased (+2.8%; Jul: +4.4%), while electricity output held steady at +1.6% (Jul: +1.6%).

Mining recovery was increasingly visible, with natural gas output surging by +20.6% YoY (Jul: +6.8%) and petroleum accelerating to +11.4% (Jul: +1.0%). While the pace of post-maintenance recovery was firmer than expected, the low base from last year also contributed to the positive surprise in August IPI.

Domestic-oriented manufacturing gaining strength

The domestic-oriented cluster remained broadly on an uptrend, even as broader manufacturing growth stayed uneven. On a 3-month moving average (3mma) basis, stronger growth was seen in "food processing products" (+10.8% YoY; Jul: +10.0%), "basic pharmaceuticals, medicinal chemical and botanical products" (+8.2%; Jul: +7.7%), and "basic metals" (+6.2%; Jul: +5.7%).

Meanwhile, the export-oriented cluster moderated further to +3.3% (Jul: +4.0%), weighed down by "textiles" (-3.5%; Jul: -3.4%) and "plastic products" (-3.5%; Jul: -3.4%). However, E&E products held up well at +7.2% (Jul: +6.8%).

Semiconductor upcycle provided fundamental support

August IPI data showed continued recovery in the mining sector and broadly steady expansion in manufacturing, suggesting no immediate drag from the US 19% reciprocal tariffs implemented on 8 August, although it remains premature to gauge the full impacts. IPI growth averaged +4.5% YoY in Jul-Aug (2Q25: +2.0%), indicating stronger support for 3Q25 GDP growth. The advance 3Q25 GDP estimate due on 17 October will provide further clarity on any early signs of tariff-related impact on the broader economy.

On a positive note, robust global semiconductor demand continues to provide fundamental support to Malaysia's manufacturing outlook. The Semiconductor Industry Association (SIA) reported a +21.7% YoY increase in global semiconductor sales in August, driven by expansion across Asia Pacific, the Americas and China. Domestically, Budget 2026 earmarked RM5.9bn for R&D, commercialisation and innovation, including AI development initiatives, supporting the nation's aspiration of becoming an AI-driven nation by 2030. The broader semiconductor upcycle should sustain momentum in Malaysia's E&E sector, while resilient household spending and policy measures will continue to anchor demand for domestic-oriented products.

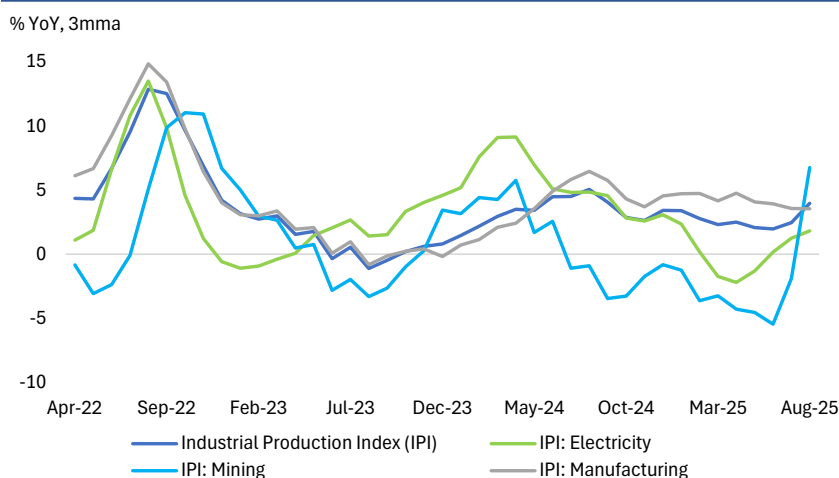
Lingering uncertainties from external front

Nonetheless, we reiterate our view that risks remain tilted to the downside. The 19% US tariff on Malaysian goods and potential sectoral tariffs, particularly on semiconductors, pose lingering headwinds to export-oriented sectors. The Manufacturing PMI in September signalled renewed softness in output and new export orders, underscoring external weakness and reinforcing our cautious outlook for export-oriented production in the coming months.

Stable for now, but risks building into 2026

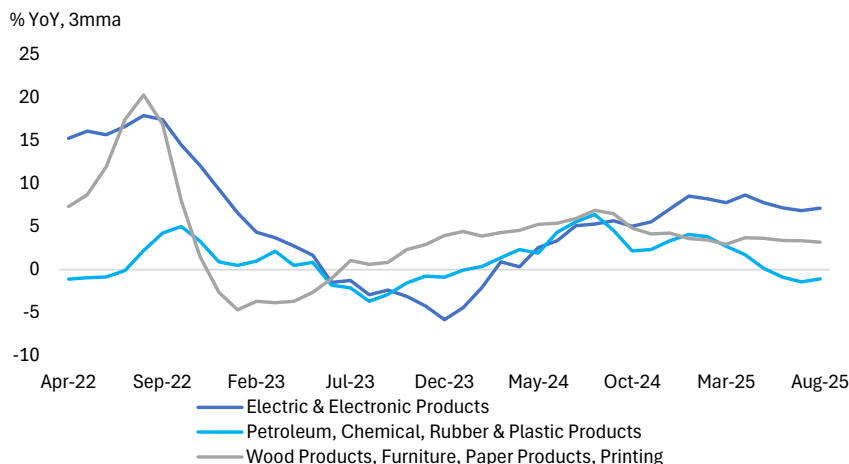
Overall, we expect manufacturing momentum to hold steady in the near term, supported by semiconductor demand and firm domestic activity. However, bouts of volatility are likely heading into 2026 as the brunt of tariff impacts becomes more visible. **We maintain our 2025 manufacturing growth forecast at +3.7% YoY (2024: +4.2%) and GDP growth at +4.2% (2024: +5.1%).**

Figure 1: Industrial output strengthened in August



Source: Department of Statistics, Apex Securities

Figure 2: Export-oriented industries remained tepid in August



Source: Department of Statistics, 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

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(a) nil.
