

To Zheng Hong

(603) 7890 8888 (ext 2099)

zhenghong.to@apexsecurities.com.my

2025 GDP Growth	+5.2%
2026 GDP Growth Forecast:	+4.7%
2025 Export Growth:	+6.4%
2026 Export Growth Forecast:	+4.8%
2025 Unemployment Rate	3.0%
2026 Unemployment Rate Forecast:	3.0%
2025 Headline Inflation:	+1.4%
2026 Headline Inflation Forecast:	+1.8%
End-2025 OPR	2.75%
End-2026 OPR Forecast:	2.75%

Malaysia Industrial Production

Geopolitical tensions cloud near-term outlook

- The Industrial Production Index (IPI) moderated to an eight-month low of +3.1% YoY in February (Jan: +5.9%), below consensus of +5.0%, led by softer manufacturing output.
- Despite moderation in the export-oriented cluster, E&E remained resilient at +12.9% YoY (Jan: +15.2%).
- While supply disruptions in key industrial inputs could weigh on the E&E segment, partial substitutability should keep the overall impact contained for now.
- Geopolitical conditions remain fluid, with risks to growth tilted to the downside.
- We maintain our 2026 manufacturing growth forecast at +4.5% YoY (2025: +4.5%) and GDP forecast at +4.7% (2025: +5.2%).

Pullback from recent uptrend

IPI growth moderated to an eight-month low of +3.1% YoY in February (Jan: +5.9%), undershooting market expectations of +5.0%. The softer print was driven by a slowdown in manufacturing (+4.2%; Jan: +7.3%) and electricity output (+4.6%; Jan: +6.2%), while mining contracted (-2.0%; Jan: +0.1%). On a month-on-month basis, IPI fell by 9.2% MoM, reflecting seasonal moderation amid festive-related pauses in production.

Broad-based moderation across manufacturing

The moderation in manufacturing was broad-based. The export-oriented cluster eased to +5.0% YoY (Jan: +7.8%), weighed by softer growth in “machinery & equipment” (+2.3%; Jan: +8.9%), “vegetable & animal oils and fats” (+0.3%; Jan: +20.7%) and continued weakness in “plastic products” (-3.2%; Jan: -0.3%). That said, E&E remained resilient at +12.9% (Jan: +15.2%), suggesting that underlying demand driven by the tech cycle remained intact prior to the escalation in Middle East tensions.

Meanwhile, domestic-oriented manufacturing slowed to +2.7% YoY (Jan: +6.4%), led by moderation in “basic metals” (+3.6%; Jan: +6.7%) and a sharp contraction in “motor vehicles, trailers & semi-trailers” (-10.5%; Jan: +2.9%). Despite the slowdown, we believe this is more of a breather given the still-solid domestic demand condition.

External developments cloud near-term outlook

We caution rising downside risks to our growth projection, stemming from the ongoing Middle East conflict. While Malaysia’s direct trade exposure to the region is limited, the closure of the Strait of Hormuz has disrupted global supply chains.

Malaysia’s March manufacturing PMI points to lengthier input delivery times, leading to a depletion of pre-production inventories and finished goods. In addition, manufacturers reported a marked increase in transportation, energy and input costs, highlighting intensifying supply disruptions and cost pressures.

More importantly, supply disruptions in key industrial inputs could pose near-term headwinds to the E&E segment, which accounts for c.27% of manufacturing output. Channel checks with our Tech analyst suggest that prolonged disruptions in semiconductor inputs, including helium, bromine and sulphuric acid, could lift production costs and weigh on capex. That said, partial substitutability and supply diversification should keep the overall impact contained for now.

Outlook hinges on geopolitical developments

Our 2026 GDP forecast of +4.7% YoY remains in line with BNM’s 4.0–5.0% projection range. BNM’s wider 4.0–5.0% growth range (MoF: 4.0–4.5%) reflects the strong momentum carried over from 2H25. BNM guided that in the absence of heightened geopolitical disruptions, underlying growth could have exceeded the upper end of the current forecast range. This is

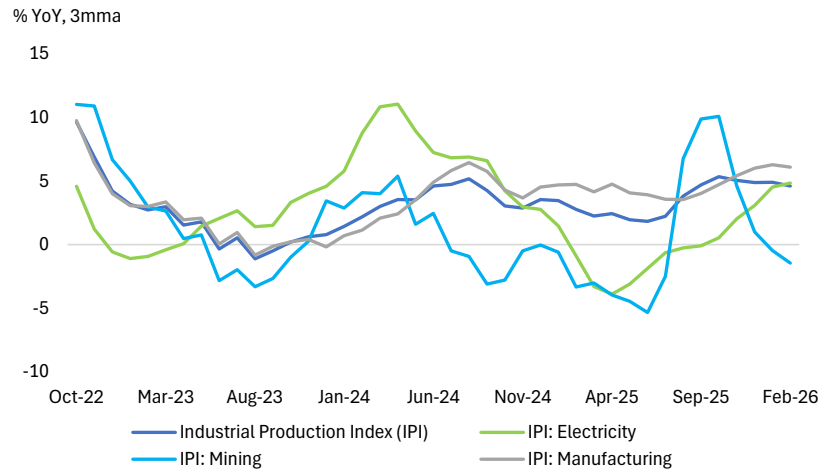
underpinned by sustained E&E demand amid the global AI upcycle, robust investment led by ongoing data centre expansion and continued policy support for domestic consumption.

However, this outlook is contingent on a swift de-escalation in geopolitical tensions. While the recent two-week ceasefire between the US and Iran offers some near-term relief and raises hopes of a lasting resolution, conditions remain fluid. Judging by the overall geopolitical developments, risks to growth remain tilted to the downside.

Maintaining forecasts for now

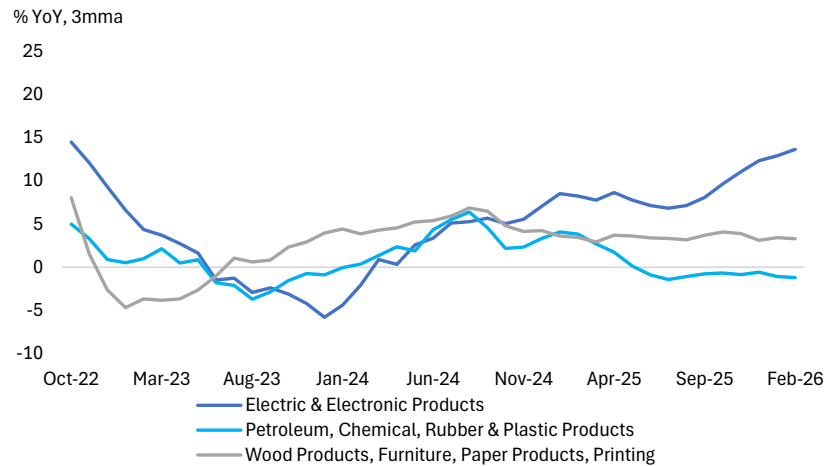
The 1Q26 advance GDP print on 17 April should offer clearer signals on the extent of conflict spillovers to the domestic economy. A prolonged conflict would warrant a revision to our current projections. For now, we keep our **2026 manufacturing growth forecast at +4.5% YoY** (2025: +4.5%) and **GDP forecast at +4.7%** (2025: +5.2%).

Figure 1: Manufacturing output moderated in February



Source: Department of Statistics, Apex Securities

Figure 2: E&E remained resilient in February



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.
