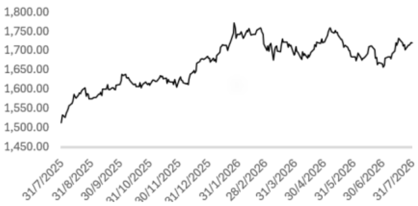
Nick Foo Mun Pang
(603) 7890 8888 (ext 2130)
foomunpang@apexsecurities.com.my

To Zheng Hong
(603) 7890 8888 (ext 2099)
zhenghong.to@apexsecurities.com.my

FBM KLCI Index



Economic at a glance

2025 GDP Growth	**+5.2%**
2026 GDP Growth Forecast:	**+5.0%**
2025 Export Growth:	**+6.4%**
2026 Export Growth Forecast:	**+16.3%**
2025 Unemployment Rate	**3.0%**
2026 Unemployment Rate Forecast:	**3.0%**
2025 Headline Inflation:	**+1.4%**
2026 Headline Inflation Forecast:	**+2.0%**
End-2025 OPR	**2.75%**
End-2026 OPR Forecast:	**2.75%**

Economics & Market Outlook

If the Strait of Malacca Shuts Down

- **The US-Iran conflict demonstrates that disruptions to one maritime chokepoint can quickly affect the global economy.**
- **A disruption to the Strait of Malacca would pose a far greater risk to Malaysia given its dependence on maritime trade.**
- **Our scenario analysis suggests GDP could slow to 2.5%–3.1%, while inflation could exceed 3.0% under a severe disruption.**
- **We view this as a tail-risk scenario rather than our base case, but one investors should not ignore.**
- **Our base-case outlook remains unchanged, with a FBM KLCI year-end target of 1,787 and our top picks of Mi Technovation (BUY, TP: RM6.38), EG Industries (BUY, TP: RM2.80), MSC (BUY, TP: RM3.06), MITRA (BUY, TP: RM1.27) and ISF (BUY, TP: RM0.62).**

Quick Take

The recent **US-Iran conflict** has once again highlighted the vulnerability of global maritime chokepoints. While market attention has largely focused on the **Strait of Hormuz**, the conflict has also disrupted shipping through the **Red Sea** and **Suez Canal**, forcing vessels to reroute and increasing freight costs, insurance premiums and delivery times.

The episode demonstrates how disruptions to a single strategic waterway can ripple through global supply chains, commodity markets and financial markets. Although the immediate geopolitical risks have eased, the conflict serves as a timely reminder that global trade remains highly dependent on a handful of critical maritime chokepoints.

Against this backdrop, we examine a hypothetical—but plausible—scenario in which geopolitical tensions disrupt shipping through the **Strait of Malacca**. Given Malaysia's heavy reliance on the waterway for trade and logistics, we believe such a disruption would have far greater implications for the domestic economy than the recent Middle East conflict.

Figure 1: Alternative Shipping Routes if the Strait of Malacca Is Disrupted

Source: Apex Securities

Why the Strait of Malacca Matters to Malaysia

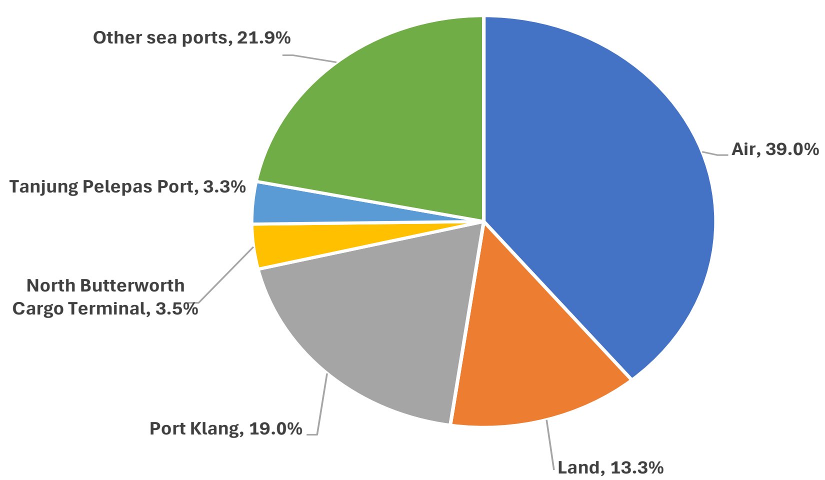
The Strait of Malacca is not merely one of the world's busiest shipping lanes—it is the backbone of Malaysia's external trade. Stretching between Peninsular Malaysia, Indonesia and Singapore, the waterway serves as the primary maritime gateway linking East Asia with Europe, the Middle East and South Asia. Every day, thousands of vessels carrying crude oil, liquefied natural gas (LNG), manufactured goods and intermediate components transit through the Strait, making it one of the world's most important maritime chokepoints.

Malaysia's dependence on the Strait extends well beyond international shipping. The country's largest ports—including **Port Klang**, **Port of Tanjung Pelepas**, **Penang Port** and **Johor Port**—are all strategically located along or connected to the Strait of Malacca, handling a substantial share of the nation's imports and exports. According to the Department of Statistics, maritime transport accounted for approximately **48% of Malaysia's total trade in 2025**. Based on the location and throughput of Malaysia's major ports, we estimate that **up to 36.8% of total trade** could be directly affected should shipping through the Strait be significantly disrupted.

While alternative shipping routes exist through the Indonesian archipelago, they are generally longer, more congested and less efficient, resulting in higher freight costs, longer transit times and increased logistical complexity. For an export-oriented economy like Malaysia—particularly for time-sensitive industries such as electronics and electrical (E&E), manufacturing and commodities—even temporary disruptions could interrupt production schedules, delay deliveries and weaken export competitiveness.

Consequently, unlike recent Middle East tensions that primarily affected global energy prices, a disruption to the Strait of Malacca would directly impact Malaysia's trade flows, supply chains and overall economic activity, making it one of the country's most significant geopolitical vulnerabilities.

Figure 2: Malaysia's Total Trade by Mode of Transport



Source: Department of Statistics, Apex Securities

GDP Scenario Analysis

We currently forecast Malaysia's GDP to grow by **4.5% in 2027**. However, a disruption to the Strait of Malacca would pose significant downside risks to our forecast. Given the inherent uncertainty surrounding geopolitical events, our estimates are **judgement-based scenario analyses rather than econometric forecasts**, intended to illustrate the potential magnitude of the economic impact under varying degrees of shipping disruption.

Scenario 1: Mild Disruption (Up to 50% Shipping Disruption)
Authorities continue to allow a significant proportion of commercial vessels to transit through the Strait to minimise disruptions to global trade. Alternative shipping routes through the Indonesian archipelago also help alleviate supply chain bottlenecks, although at higher freight costs and longer transit times. Under this scenario, Malaysia's GDP growth would likely moderate to around **3.5%**.

Scenario 2: Moderate Disruption (51–75% Shipping Disruption)
Commercial shipping becomes more restricted, with priority given to essential goods, energy supplies and strategic cargo. While trade flows remain disrupted, partial access prevents a complete breakdown in supply chains and allows economic activity to continue, albeit at a slower pace. Under this scenario, we estimate Malaysia's GDP growth could moderate to around **3.1%–3.5%** in 2027.

Scenario 3: Severe Disruption (76–100% Shipping Disruption)
A prolonged geopolitical standoff results in a near-complete closure of the Strait of Malacca, severely disrupting Malaysia's external trade and manufacturing supply chains. With limited alternative shipping capacity, export-oriented industries would face significant production and logistics challenges. Under this scenario, Malaysia's GDP growth could slow to approximately **2.5%–3.1%**, particularly if the disruption is prolonged.

Figure 3: Scenario Analysis

Scenario	Shipping Disruption	Real GDP	Remarks
Mild Disruption	Up to 50%	~3.5%	Minimal restrictions on shipping
Moderate Disruption	51-75%	3.1-3.5%	Restricted vessel access
Severe Disruption	76-100%	2.5-3.1%	Shipping largely suspended

Source: Apex Securities

Middle East tensions pose upside inflation risks

We currently forecast Malaysia's inflation at +2.0% in 2027 (2026: +2.0%), reflecting a broadly stable price environment supported by continued fuel subsidies. However, a disruption to the Strait of Malacca would likely push global oil prices sharply higher and pose significant upside risks to the domestic inflation outlook. The Strait of Malacca is a world's major oil transit chokepoint, carrying around 23.2 million barrels per day of crude oil and petroleum, equivalent to 29.1% of global seaborne oil trade and 22.2% of global oil supply in 1H25.

Figure 4: Volume of Crude Oil & Petroleum Liquids Transported

	Million barrels per day			% of World total oil supply		
	2023	2024	1H25	2023	2024	1H25
Strait of Malacca	24.0	22.5	23.2	23.4	21.8	22.2
Strait of Hormuz	21.8	20.7	20.9	21.2	20.0	20.0
Suez Canal and SUMED Pipeline	8.8	4.8	4.9	8.6	4.6	4.7
Bab el-Mandeb	9.3	4.1	4.2	9.1	4.0	4.0
Danish Straitsa	5.0	4.9	4.9	4.9	4.7	4.7
Turkish Straits (Dardanelles)	3.5	3.6	3.7	3.4	3.5	3.5
Panama Canalb	2.2	2.0	2.3	2.1	1.9	2.2
Cape of Good Hope	6.2	9.3	9.1	6.0	9.0	8.7
World maritime oil trade	80.2	79.7	79.8	78.2	77.2	76.4
World total oil supply	102.6	103.3	104.4	100	100	100

Source: US Energy Information Administration (EIA), Apex Securities

The main risk to Malaysia's inflation outlook comes from the extent of adjustments in domestic fuel prices, which account for 5.7% of the CPI basket. We currently assume Brent crude prices of USD85/bbl in 2026 and USD80/bbl in 2027. However, a disruption in the Strait of Malacca could drive Brent prices back towards USD120/bbl.

For simplicity, we assume the government maintains a partial fuel subsidy (at USD80/bbl), while any additional increase in Brent prices would be reflected in the domestic fuel prices. Based on our estimates, an average Brent price of USD95/bbl or higher could lift headline inflation above 3.0%, warranting closer policy attention. The inflation impact under different Brent price assumptions is shown in our sensitivity analysis (Figure 3).

Figure 5: Fuel Sensitivity Analysis

Brent Price (USD/bbl)	Total impact (ppts)	Headline inflation (%)
80*	0.0	2.0
85	0.4	2.4
90	0.7	2.7
95	1.1	3.1
100	1.4	3.4
105	1.8	3.8
110	2.1	4.1
115	2.5	4.5
120	2.9	4.9
125	3.2	5.2
130	3.6	5.6

Source: Apex Securities
**Our Brent price assumption for 2027 is USD80/bbl*

Policy Implications

A disruption to the Strait of Malacca would significantly weaken Malaysia's growth outlook, with GDP potentially slowing below +3.5%, well below our current forecast of +4.5% for 2027. Such an outcome would likely warrant a more dovish monetary stance and expansionary fiscal policy.

Following the 25-bp insurance rate cut in July 2025, a material deterioration in growth prospects could prompt BNM to lower the OPR by a further 50 bps to 2.25%. For reference, the OPR was reduced to 1.75% during the COVID-19 pandemic to cushion the economy. That said, higher inflation arising from elevated commodity prices could limit the room of monetary easing.

On the fiscal front, the government's ability to provide another large-scale stimulus may be more limited. Fuel subsidy costs have already risen sharply following the recent Middle East conflict, with total fuel subsidies likely to reach around RM40bn in 2026, significantly above the RM15bn allocated under Budget 2026. This is likely to push the 2026 fiscal deficit modestly above the government's official target of 3.5% of GDP.

Looking ahead, the government remains committed to reducing the fiscal deficit below 3.0% of GDP by 2028. Another round of sizeable fiscal stimulus in 2027 would therefore risk derailing Malaysia's medium-term fiscal consolidation path.

Our View – Market Implications

While a disruption to the Strait of Malacca remains a hypothetical scenario, we believe it represents one of the most significant geopolitical risks to Malaysia given the country's heavy reliance on maritime trade. Unlike the recent Middle East conflict, which primarily affected global energy markets, a disruption to the Strait of Malacca would directly impact Malaysia's external trade, manufacturing supply chains and logistics network, resulting in slower economic growth, higher inflation and weaker corporate earnings.

Nevertheless, we view this as a **tail-risk scenario rather than our base case**. The Strait of Malacca is a strategically important international shipping lane, and a prolonged closure would have far-reaching consequences for global trade. As such, regional governments and the international community would have strong incentives to ensure shipping activities resume as quickly as possible.

Should such a disruption occur, we expect investors to rotate towards sectors that benefit from higher commodity prices and defensive earnings, while reducing exposure to companies with significant fuel, freight and export-related cost pressures. We believe market volatility would rise sharply in the initial stages of the disruption before gradually stabilising as alternative shipping routes are established and policy responses become clearer.

Figure 6: Sector Impact Assessment

SECTORS BENEFITING		
Sector	**Reason**	**Illustrative Stocks**
Oil & Gas	Higher oil prices support upstream earnings and capex.	Hibiscus, Deleum, Velesto, Uzma, Dayang
Plantation	Higher crude supports biodiesel demand and CPO prices.	SD Guthrie, IOI, KLK, HSPLANT, SPLB
Gold-related	Safe-haven demand increases during geopolitical uncertainty.	Poh Kong, Tomei, Bahvest
Utilities (Selective)	Regulated earnings and defensive cash flows may outperform during risk-off periods, although fuel cost exposure should be monitored.	Tenaga Nasional
SECTORS UNDER PRESSURE		
Sector	**Reason**	**Illustrative Stocks**
Airlines	Higher jet fuel costs pressure operating margins.	Capital A, AirAsia X
Logistics & Shipping	Higher freight & insurance costs.	Tasco, Harbour-Link, FM Global Logistics, Swift Haulage
Consumer	Softer discretionary spending.	Consumer discretionary companies
Construction	Higher material and transportation costs.	Gamuda, IJM, SunCon, Kerjaya Prospek
Technology / Export Manufacturers	Longer shipping times and supply chain disruptions may delay exports and production schedules, particularly for E&E manufacturers.	ViTrox, Inari, Greatech, Mi Technovation

Source: Apex Securities

Base Case Outlook

While this report examines the potential implications of a disruption to the Strait of Malacca, it represents a **hypothetical downside scenario rather than our base case**. Accordingly, **our house macroeconomic forecasts and FBM KLCI year-end target of 1,787 remain unchanged**. Investors should view this report as a framework for assessing geopolitical tail risks rather than a revision to our current market outlook. Nevertheless, should geopolitical tensions escalate materially and increase the probability of a prolonged disruption to the Strait of Malacca, we may reassess our macroeconomic assumptions and market outlook accordingly.

Our **top picks** remain **Mi Technovation (BUY, TP: RM6.38), EG Industries (BUY, TP: RM2.80), MSC (BUY, TP: RM3.06), MITRA (BUY, TP: RM1.27)** and **ISF (BUY, TP: RM0.62)**. These recommendations are based on our **base-case outlook** for Malaysia's economy and corporate earnings, rather than the downside scenario presented in this report.

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, 31 Jul, 2026**, 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.