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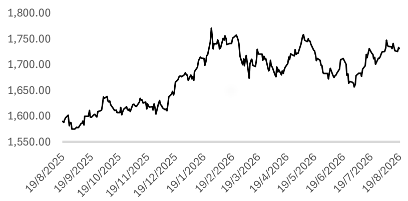
FBM KLCI Index



2H2026 Top Picks Summary

Stock	Price (RM)*	Target Price (RM)
Tenaga	14.60	16.70
ViTrox	9.35	11.12
EG	1.78	2.80
Mitra	0.625	1.27
ISF	0.72	0.92
SSB8	0.60	0.78
MSC	1.80	3.06
Kinergy	0.43	0.67
OHM	0.40	0.61
HSPLANT	2.50	3.31

Source: Apex Securities Berhad
*As of 19 Aug 2026

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%**

Market Outlook

Malaysia-Taiwan Tensions: Shake, Don't Break

- **Taiwan-Malaysia diplomatic tensions have flared up following PM Anwar Ibrahim's remarks on Taiwan, raising concerns over regional stability and Taiwanese investment sentiment.**
- **We see the development as more of a sentiment risk than a fundamental growth shock, with FDI confidence the key transmission channel.**
- **Near-term earnings impact on technology companies should remain minimal, although counters with higher Taiwan exposure warrant closer monitoring.**
- **The FBM ACE Index looks increasingly stretched, with forward P/E at 19.8x and technical indicators pointing to higher profit-taking risks.**
- **We remain constructive on Malaysian equities, maintaining our FBM KLCI year-end target of 1,770 and favouring a barbell investment strategy.**

Quick Take

Malaysian Prime Minister Anwar Ibrahim's recent remarks describing Taiwan as a Chinese province seeking independence have drawn a strong response from Taiwan's Ministry of Foreign Affairs (MOFA), which warned that such comments could threaten regional stability and undermine Taiwanese businesses' confidence in investing in Malaysia.

The issue comes at a sensitive time as Malaysia continues to position itself as a key beneficiary of global supply-chain diversification, particularly in semiconductors, E&E and data centres. While the immediate economic impact should be limited, prolonged diplomatic tensions could raise concerns over Malaysia's perceived geopolitical neutrality and future FDI appeal.

Our View

We believe the latest development is **more of a medium-term FDI-confidence and equity-market sentiment risk than an immediate macroeconomic shock**.

Malaysia and Taiwan have deep commercial linkages, particularly in the semiconductor and E&E industries. Existing Taiwanese investments are unlikely to be materially disrupted by the latest diplomatic episode. The bigger concern is future capital allocation, as multinational companies increasingly consider geopolitical stability when deciding where to locate new manufacturing and technology investments.

Malaysia has benefited from being able to engage with both China and Western-aligned economies. This flexibility has strengthened its position as a relatively neutral ASEAN manufacturing and supply-chain hub. A prolonged deterioration in Malaysia-Taiwan relations could therefore weaken part of this competitive advantage.

Economy: FDI Is the Key Transmission Channel

According to our Economist, we do not expect the latest development to materially alter Malaysia's bilateral trade relationship with Taiwan at this juncture. Malaysia has a deep trade relationship with Taiwan, the country's fifth-largest trading partner after Singapore, China, the US and the EU in 1H26. **Bilateral trade with Taiwan rose sharply by 34.7% YoY to RM147.8bn in 1H26, equivalent to 8.2% of Malaysia's total trade** (See Figure 1).

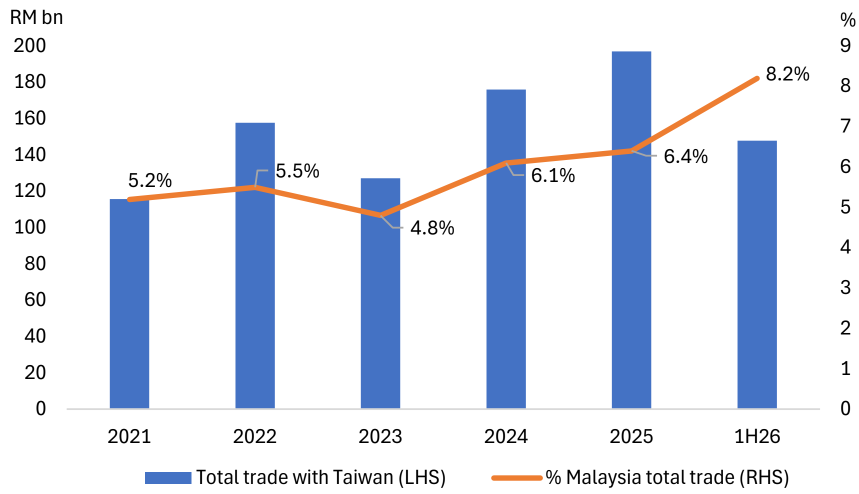
More importantly, Malaysia and Taiwan are closely integrated within the global semiconductor value chain. Malaysia has established strong capabilities in semiconductor assembly, testing and packaging, accounting for around 13% of the global market. Thus, we expect bilateral trade and investment to remain intact, including in advanced packaging and testing facilities and potentially higher-value-added segments, as companies expand capacity along the broader semiconductor supply chain.

Furthermore, given the highly integrated and specialised nature of semiconductor supply chains, we see limited scope for businesses to quickly shift to alternative suppliers in response to political developments. **Our back-of-the-envelope calculations suggest that E&E products accounted for as much as 65.9% of Malaysia's exports to Taiwan in 1Q26. This deep integration should limit the risk of near-term disruptions to bilateral trade.**

That said, we caution that the bigger risk lies in the impact on foreign investor sentiment and investment decisions over the longer term. While Taiwanese companies with established Malaysian facilities are unlikely to immediately shift their production base, **ongoing geopolitical developments could weigh on their future investment decisions**. This is particularly critical for E&E, where Malaysia competes with regional economies to move up the value chain amid the ongoing AI-driven technology upcycle.

Overall, we believe Malaysia's economic outlook remains intact for now. We maintain our full-year 2026 GDP growth forecast at 5.0% YoY, at the upper end of BNM's official forecast range of 4.0–5.0%. In particular, the recent strength in E&E exports and AI-related investment should continue to be supported by the global technology upcycle and ongoing supply-chain diversification.

Figure 1: Malaysia's Total Trade with Taiwan on an Uptrend



Source: Department of Statistics, Apex Securities

Semiconductor Supply Chain: The Most Sensitive Area

The semiconductor industry deserves particular attention given Taiwan's importance to the global chip ecosystem and Malaysia's growing role in semiconductor assembly, testing and other back-end activities.

Malaysia has been one of the beneficiaries of global semiconductor supply-chain diversification, while Taiwanese companies have been an important part of the country's high-value manufacturing ecosystem.

This creates two-way dependence. Malaysia benefits from Taiwanese technology, capital and supply-chain relationships, while Taiwanese companies benefit from Malaysia's skilled workforce, infrastructure, established semiconductor ecosystem and strategic access to regional markets.

Hence, the risk is unlikely to be an abrupt disruption to existing operations. Instead, **the concern is whether future Taiwanese investment could become more cautious or whether incremental projects could be redirected to alternative ASEAN locations.** This would become a more meaningful macro risk if Malaysia begins losing its competitive position in new semiconductor and E&E investment.

Market Implications

For the Malaysian equity market, we expect the initial impact to be felt through **foreign investor sentiment and valuation multiples rather than earnings**. Given Taiwan's deep integration with Malaysia's technology and E&E ecosystem, prolonged tensions could raise concerns over future Taiwanese investment and semiconductor supply-chain expansion, although we see limited near-term impact on existing operations and earnings.

Foreign investors may increasingly incorporate geopolitical positioning into their assessment of Malaysia. This could result in a higher perceived country risk premium, particularly if the diplomatic dispute escalates or becomes part of a broader deterioration in Malaysia-China-US-Taiwan relations. The implication is therefore that geopolitical uncertainty could raise the risk premium, weaken foreign investor appetite and potentially compress valuations, rather than causing an immediate deterioration in earnings.

This distinction is important. Corporate earnings are unlikely to change materially in the near term, but the market can re-rate stocks well before fundamentals deteriorate. This could be particularly relevant for technology and E&E stocks, where valuations are often driven not only by near-term earnings but also by expectations of future capacity expansion, foreign investment and supply-chain growth.

Technology Sector Implications

We see technology and E&E as the most sensitive sectors. **However, our Technology Analyst sees minimal near-term earnings impact on Malaysian technology companies, as the current dispute remains rhetorical rather than policy-driven.** Malaysia's semiconductor supply-chain relationship with Taiwan, both as an equipment/services partner and investment source, has historically remained resilient despite periodic political tensions.

Nevertheless, Taiwan's importance varies significantly across our technology coverage. **FRONTKN (BUY, TP: RM5.86) and MI (BUY, TP: RM6.38) have the highest disclosed Taiwan revenue exposure at 73.8% and 39.0% respectively**, followed by VITROX (BUY, TP: RM11.12) at 12.1% and SKYECHIP (BUY, TP: RM3.76) at 11.2%. We believe these counters warrant closer monitoring should the diplomatic tensions escalate or Taiwanese investment sentiment towards Malaysia deteriorate.

For now, we see the issue as **more of a sentiment risk than an earnings risk**. We maintain our constructive view on the sector, supported by the ongoing semiconductor upcycle, while favouring companies with strong earnings visibility and diversified customer exposure.

What Would Change Our View?

We would become more concerned if three developments emerge.

First, Taiwanese companies begin delaying or reassessing planned Malaysian investments. This would indicate that the issue is moving beyond diplomatic rhetoric and affecting real capital allocation.

Second, new semiconductor and E&E investments increasingly shift towards alternative ASEAN markets. A persistent loss of new projects would suggest that Malaysia's competitive advantage as a neutral supply-chain hub is being eroded.

Third, foreign fund flows and technology-sector valuations weaken disproportionately. This would suggest that investors are beginning to price a higher geopolitical risk premium into Malaysian equities.

For now, we see none of these as sufficient to warrant a change to our broader Malaysia growth outlook, as we view the development as a sentiment risk rather than a fundamental growth shock. Hence, we would not advocate reducing Malaysia exposure solely on the back of the latest Taiwan-Malaysia diplomatic spat.

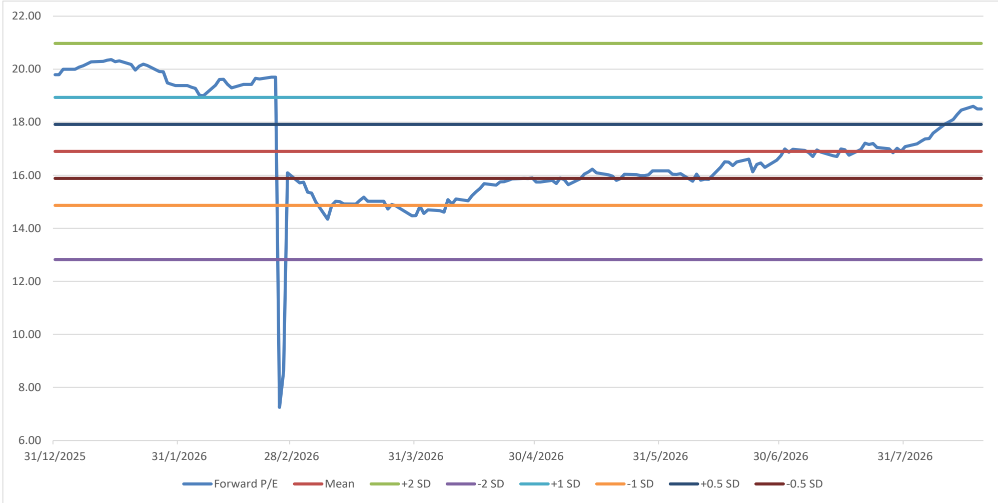
ACE Index: Profit-Taking Risks Rising After Strong Rally

Meanwhile, we expect **the FBM ACE Index to face near-term profit-taking following its recent strong rally**, with valuations becoming increasingly stretched. The index's forward P/E has risen to 19.8x as of 18 Aug 2026, above the available-period mean of 16.9x and +1SD level of 18.9x, suggesting limited room for further re-rating in the near term (See Figure 2).

From a technical perspective, the index has surged c.25% from its March 2026 low of around 4,180 to 5,300 currently, bringing it close to the long-term descending trendline resistance at around 5,400. The 14-day RSI has also risen above 70, suggesting that the recent rally is becoming technically stretched and increasing the risk of near-term consolidation or profit-taking (See Figure 3).

Hence, **we advise traders to lock in some profits**, while selective buying in defensive and fundamentally resilient names should continue to support the broader market.

Figure 2: FBM ACE Index: Forward P/E Valuation Band (2 January –18 Aug 2026)



Source: Bloomberg, Apex Securities

Note: Due to unavailable Bloomberg data for 2023–2025, the forward P/E analysis is based on the period from 2 Jan to 18 Aug 2026.

Figure 3: FBM ACE Index: Rally Faces Near-Term Profit-Taking

Source: Bloomberg, Apex Securities

Conclusion

Overall, **we view the latest Malaysia-Taiwan diplomatic tensions as a near-term sentiment risk rather than a fundamental threat to Malaysia's growth outlook**. While prolonged diplomatic tensions could weigh on foreign investor confidence and future FDI, particularly in the technology and E&E sectors, Malaysia's strong economic linkages and ongoing supply-chain diversification should remain supportive.

Strategy

Given the heightened political uncertainty ahead of the 16th General Election (GE16), an increasingly fragile regional market environment, persistent foreign fund outflows and tail risks from a potential disruption to the Strait of Malacca, we expect market volatility to remain elevated in the months ahead. Nevertheless, we view market volatility as an opportunity to position for **our year-end KLCI target of 1,770**. Hence, we recommend a barbell investment strategy, balancing exposure between defensive, earnings-resilient companies and high-quality structural growth stocks. Consistent with this strategy, our preferred investment ideas for 2H2026 are as follows.

2H2026 Top Picks

Company	FYE	Market Cap (RM m)	Rec.	Price (RM) as at 19 August 2026	TP (RM)	Potental Upside	P/E (x)		P/B (x)		ROE (%)		Div Yield (%)		ESG Rating
							FY26F	FY27F	FY26F	FY27F	FY26F	FY27F	FY26F	FY27F	
Tenaga Nasional Berhad	Dec	83,939.6	BUY	14.40	16.70	16.0%	18.3	17.9	1.5	1.4	9%	9%	3.5%	3.6%	★★★
ViTrox Corporation	Dec	17,716.6	BUY	9.35	11.12	18.9%	64.0	49.0	7.4	6.4	21%	22%	0.3%	0.4%	★★★
EG Industries	Jun	1,690.6	BUY	1.78	2.80	57.3%	15.5	9.2	1.3	1.1	15%	20%	0.3%	0.3%	★★★
Mitrajaya Holdings Berhad	Dec	455.3	BUY	0.63	1.27	103.2%	3.3	2.5	1.3	1.1	14%	16%	4.9%	4.9%	★★★
ISF Group Berhad	Dec	720.0	BUY	0.72	0.92	27.8%	20.6	16.7	1.3	1.3	25%	23%	1.9%	2.4%	★★★
Southern Score Builders	Jun	1,363.6	BUY	0.60	0.78	30.0%	18.8	13.6	2.5	2.3	12%	12%	1.5%	1.7%	★★★
Malaysia Smelting Corporation Berhad	Dec	1,512.0	BUY	1.80	3.06	70.0%	12.4	7.7	3.3	3.2	19%	24%	7.9%	12.8%	★★★
Kinergy Advancement Berhad	Dec	928.7	BUY	0.43	0.67	57.6%	22.4	19.3	1.2	1.1	13%	13%	0.0%	0.0%	★★★
Oasis Home Holding Berhad	Jun	200.0	BUY	0.40	0.61	52.5%	18.2	12.5	5.3	3.5	16%	20%	1.8%	2.5%	★★★
Hap Seng Plantations	Dec	1,999.2	BUY	2.50	3.31	32.4%	10.8	9.4	2.0	1.7	8%	8%	5.6%	6.4%	★★★

Source: Apex Securities Berhad

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 **Thursday, 20 Aug, 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.