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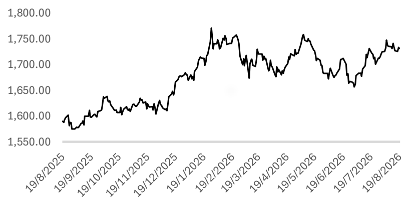
FBM KLCI Index



2H2026 Top Picks Summary

Stock	Price (RM)*	Target Price (RM)
Tenaga	14.50	16.70
ViTrox	9.26	11.12
EG	1.74	2.80
Mitra	0.62	1.27
ISF	0.72	0.92
SSB8	0.59	0.78
MSC	1.81	3.06
Kinergy	0.43	0.67
OHM	0.41	0.61
HSPLANT	2.50	3.31

Source: Apex Securities Berhad
*As of 20 August 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 Strategy

KLCI 50: A Broader Benchmark, Creating New Alpha

- **KLCI to expand from 30 to 50 constituents in two phases (Dec-26 and Jun-27), creating a broader and more diversified benchmark.**
- **The current KLCI remains highly concentrated, with Banks and Utilities accounting for 43.1% and 16.4% of the index respectively, while Technology has no representation.**
- **Technology and Construction should be the clearest sector beneficiaries from broader benchmark representation.**
- **The two-stage implementation should create an extended period of index-related positioning rather than a single rebalancing event, with the 20 new constituents introduced at 50% of eventual weights in Dec-26 and reaching full weight in Jun-27.**
- **We favour fundamentally strong potential entrants where index inclusion is an additional catalyst, rather than treating index eligibility as the investment thesis.**
- **Key risks are front-running, valuation premiums and buy-the-rumour/sell-the-fact dynamics. We maintain our year-end KLCI target of 1,770**

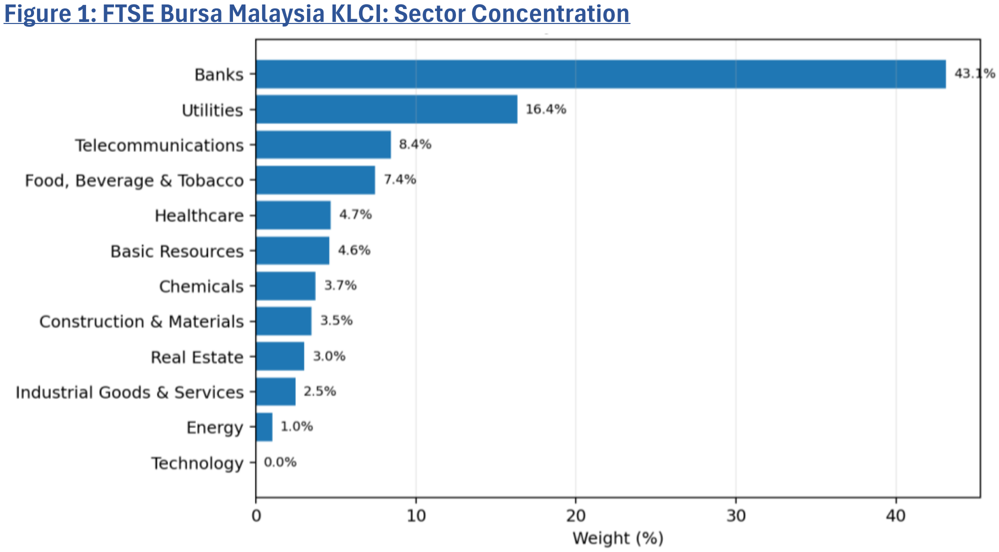
Quick Take

Bursa Malaysia and FTSE Russell will expand the FBM KLCI from 30 to 50 constituents, the most significant change to the benchmark since it was reduced to 30 stocks in 2009. The 20 new constituents will be introduced at 50% of their eventual index weights on 21 December 2026 and reach full weight on 21 June 2027. The FBM70 will be renamed the FBM Mid Cap Index and reduced to 50 constituents, while the FBM100 remains unchanged.

We view the reform as structurally positive because the current KLCI is materially more concentrated than the broader market. The FTSE Russell factsheet shows Banks at 43.1% of the KLCI versus 31.1% in the FBM EMAS, Utilities at 16.4% versus 12.2%, and Technology at 0.0% versus 3.2%. The expansion should therefore narrow some of the benchmark's existing representation gaps.

We expect **Technology and Construction** to be among the key sector beneficiaries, while the increased breadth of the index should also improve the visibility of selected large-cap names outside the traditional banking-heavy benchmark.

Figure 1: FTSE Bursa Malaysia KLCI: Sector Concentration



Source: FTSE Russell, as at 31 Jul 2026. Weights may not sum due to rounding.

Our View

The case for KLCI 50 goes beyond adding 20 more stocks. The current benchmark is concentrated in a handful of large-cap sectors and companies. The top 10 constituents account for 68.0% of KLCI market capitalisation, while Banks alone account for 43.1%. This is materially different from the broader FBM EMAS, where the top 10 account for 47.4%.

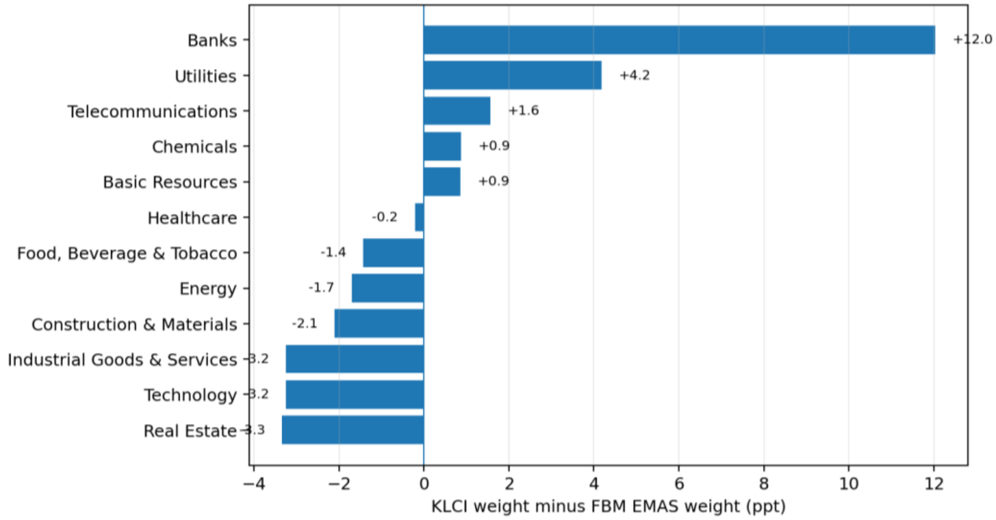
The reform should therefore gradually shift the KLCI towards a broader representation of Malaysia's corporate economy. Technology is the clearest example: the sector has 53 Main Market constituents and RM103.35bn of market capitalisation as at end-July, yet carries a 0% weight in the current KLCI. Construction similarly has 52 constituents and RM62.86bn of market capitalisation, versus only 3.5% KLCI representation.

Figure 2: Current KLCI vs FBM EMAS Sector Representation

ICB Supersector	KLCI	FBM EMAS	Gap
Banks	43.1%	31.1%	+12.0ppt
Utilities	16.4%	12.2%	+4.2ppt
Telecommunications	8.4%	6.9%	+1.6ppt
Food, Beverage & Tobacco	7.4%	8.9%	-1.4ppt
Healthcare	4.7%	4.9%	-0.2ppt
Basic Resources	4.6%	3.7%	+0.9ppt
Chemicals	3.7%	2.8%	+0.9ppt
Construction & Materials	3.5%	5.6%	-2.1ppt
Real Estate	3.0%	6.4%	-3.3ppt
Industrial Goods & Services	2.5%	5.7%	-3.2ppt
Energy	1.0%	2.7%	-1.7ppt
Technology	0.0%	3.2%	-3.2ppt

Source: FTSE Russell, as at 31 Jul 2026

Figure 3: KLCI vs FBM EMAS: Sector Representation Gap



Source: FTSE Russell, as at 31 Jul 2026. Gap = KLCI weight less FBM EMAS weight.

Two-Phase Implementation: An Extended Positioning Window

The implementation timetable is an important feature of the reform. The 20 new constituents will initially receive 50% of their eventual index weights in December 2026, with the remaining 50% introduced in June 2027. We therefore expect index-related positioning to develop over a longer period rather than being concentrated on one effective date.

Ahead of December, investors may seek to anticipate the eventual inclusions and weights, while June provides a second rebalancing point as the new constituents move to full weight. This should create an extended period of potential flow support for selected entrants, although it also increases the risk that some of the expected benefit is priced in before the actual implementation.

Figure 4: KLCI 50 Two-Phase Implementation Timeline

Timing	Event	Potential Market Impact
23 Nov 2026	Review reference date	Final share-price dynamics become increasingly important for potential entrants.
21 Dec 2026	Phase 1	20 new constituents enter at 50% of eventual weights; first major rebalancing.
21 Jun 2027	Phase 2	New constituents reach full weights; second rebalancing window.

Source: Bursa Malaysia and FTSE Russell

Sector Winners: Technology and Construction Stand Out

We expect **Technology and Construction** to emerge as the clearest sector beneficiaries from the KLCI expansion, as greater benchmark representation should improve institutional visibility and potential index-related demand. In contrast, **Banking and Utilities** could face relative weight dilution as the index broadens, creating a potential technical overhang. We view these changes primarily as **index-flow implications rather than fundamental signals**, and therefore favour sectors where greater benchmark visibility is supported by underlying earnings and structural growth.

Figure 5: KLCI 50 Sector Opportunity Map

Sector	Expected Impact	Apex View
Technology	**Positive**	Biggest potential beneficiary from new KLCI representation, with structural growth exposure providing fundamental support.
Construction	**Positive**	Greater benchmark visibility should complement strong exposure to infrastructure and data-centre investment.
Banking	**Technical Headwind**	Relative index weight could decline as the benchmark broadens, creating potential near-term flow pressure despite unchanged fundamentals.
Utilities	**Technical Headwind**	Potential weight dilution could create a technical overhang, although the impact should remain primarily flow-driven rather than fundamental.

Source: Apex Securities

KLCI 50: Index Inclusion as a New Alpha Theme

The most interesting investment opportunity, in our view, is not simply to buy every potential entrant. Index inclusion should be treated as an additional catalyst to a fundamentally sound investment case. This reduces the risk of paying an excessive premium for a purely technical event that may already be anticipated by the market.

Figure 6: Apex KLCI 50 Alpha Framework

Filter	What We Look For	Why It Matters
1. Inclusion probability	Market cap, investability and likely eligibility	Higher probability improves the potential for index-related demand.
2. Potential index weight	Meaningful eventual benchmark weight	Larger weights can translate into stronger passive/benchmark flows.
3. Free float & liquidity	Adequate free float and tradability	Determines investability and the ability to absorb institutional flows.
4. Earnings momentum	Visible earnings growth / order-book support	Provides fundamental support if the initial index-flow effect fades.
5. Structural growth	AI/data centres, infrastructure and other long-duration themes	Creates a longer-term investment case beyond index inclusion.

Source: Apex Securities, FTSE Russell for index methodology and investability criteria

Bursa: An Indirect Beneficiary

Bursa Malaysia could benefit from higher trading activity as institutional investors reposition portfolios around the KLCI transition. The two implementation phases should generate portfolio rebalancing and index-positioning activity, potentially supporting average daily trading value around the review windows.

We see Bursa as a market-activity proxy for the KLCI 50 transition. The longer-term benefit is potentially broader: a more representative benchmark could improve the relevance of Malaysia's equity market to domestic and international benchmark investors. However, the near-term earnings impact will depend on whether index-related activity translates into a sustained increase in trading volumes rather than a temporary spike.

Strategy

We believe investors should approach the KLCI expansion through three buckets.

First, potential new entrants. Focus on companies with a high probability of entering the KLCI and sufficient free float to receive meaningful index weights.

Second, sector beneficiaries. Technology and Construction stand out as the clearest structural winners from the broader sector representation.

Third, market infrastructure. Bursa could benefit from elevated trading activity as investors reposition portfolios around the two implementation dates.

Rather than taking a blanket approach of buying all potential entrants, we favour **selective pre-positioning in fundamentally strong companies where index inclusion provides an additional catalyst to an existing earnings or structural-growth story**

Key Risk: Buy The Rumour, Sell The Fact

The principal risk is that potential KLCI entrants could experience **front-running ahead of the actual implementation**, resulting in some of the expected index-related upside being priced in early.

There is also a risk that investors overestimate the eventual index weights of potential entrants, particularly as the final selection will depend on market capitalisation, free float and closing prices closer to the review date.

As such, we would avoid treating the KLCI expansion as a purely mechanical buying opportunity. **Fundamentals should remain the first filter, with index inclusion serving as an additional catalyst.** We maintain **our year-end KLCI target of 1,770**.

2H2026 Top Picks

Company	FYE	Market Cap (RM m)	Rec.	Price (RM) as at 20 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	84,522.6	BUY	14.50	16.70	15.2%	18.4	18.0	1.5	1.4	9%	9%	3.5%	3.6%	★★★
ViTrox Corporation	Dec	17,546.0	BUY	9.26	11.12	20.1%	63.4	48.5	7.4	6.4	21%	22%	0.3%	0.4%	★★★
EG Industries	Jun	1,652.6	BUY	1.74	2.80	60.9%	15.1	9.0	1.3	1.1	15%	20%	0.3%	0.3%	★★★
Mitrajaya Holdings Berhad	Dec	448.0	BUY	0.62	1.27	106.5%	3.3	2.5	1.3	1.1	14%	16%	4.9%	5.0%	★★★
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	1,329.5	BUY	0.59	0.78	33.3%	18.3	13.3	2.5	2.3	12%	12%	1.5%	1.7%	★★★
Malaysia Smelting Corporation Berhad	Dec	1,520.4	BUY	1.81	3.06	69.1%	12.5	7.7	3.3	3.2	19%	24%	7.8%	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	202.5	BUY	0.41	0.61	50.6%	18.4	12.7	5.3	3.5	16%	20%	1.7%	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

KDN PP13226/06/2024 (035469)

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, 21 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.