Malaysian Strategy – A Stock Picker's Market

We have **shifted Malaysia to a Neutral** (from Overweight) in our Q3 2025 outlook due to a lack of positive catalysts while FBMKLCI valuations at 14.2x FY25F PER appear fairly valued, given lacklustre growth. As such, we believe it is a stock picker's market and our index target of 1,600 is pegged to 14x PER (in line with its 5-year mean) on FY26F EPS.

A lacklustre 1H2025

FBMKLCI declined -6.7% in 1H2025 due to:

1. **Dismal corporate earnings growth**. In 1Q25, FBMKLCI's EPS declined 6.5% yoy. Bloomberg consensus has lowered 2025 FBMKLCI earnings growth to 1.7% yoy (from 6.2% in early 2025).

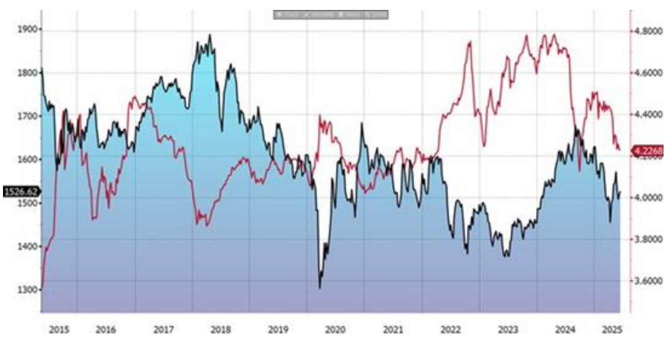
2. **More muted updates on key government policies** after an exciting 2024. Updates from major government policies such as the Johor-Singapore Special Economic Zone (JS-SEZ), has been more muted this year. Albeit an increase in enquiries seen in SEZ, contract flows have been quieter largely due to the wait-and-see approach to tariff uncertainties.

3. **Potential inflationary impact** stemming from the government's expanded scope for sales and service tax (SST) as of 1st July 2025. The imminent subsidy rationalization for RON95 could also have a negative knee-jerk impact on private consumption growth.

Where is the inflection point?

1. **Favourable trade outcome.** A positive outcome from US trade talks could remove an overhang on FDI flows into Malaysia coupled with strong pick-ups in E&E exports growth which are important impetus for economic growth. Admittedly, corporate earnings will see a lift from current levels should trade talks yield positive outcomes.

Figure 1: MYR strength typically lifts the FBMKLCI index; there has been a divergence in the past 2 months



Source: Bloomberg

2. **A change in tide in foreign flows.** Foreign ownership of Malaysia equities hit a historical-low of 15% as total net foreign outflow totaled to RM12.1bn in 1H25. Historically, the strengthening of MYR is positively correlated with foreign inflows into Malaysian equities and thus lifts the FBMKLCI.

A stock picker's market

We advocate a **bottom-up stock picking strategy** to capture compelling value and growth of portfolios. We highlight two baskets of stocks, one to ride on potential favourable trade outcome, balanced with dividend yielders (*refer to our Malaysia Dividend Stocks report - 17 June 2025 for more details*):

Favourable trade outcome *(removal of trade uncertainties and export revival)*	
1	Tenaga Nasional (TNB MK)
2	SP Setia (SPSB MK)
3	Gamuda (GAM MK)
4	IJM Corp (IJM MK)
5	YTL Power (YTLP MK)
6	Inari Amertron (INRI MK)

Resilient income *(defensives/dividend yielders)*	
1	Maybank (MAY MK)
2	Public Bank (PBK MK)
3	Gas Malaysia (GBM MK)
4	Heineken Malaysia (HEIM MK)
5	KLCCP Stapled Group (KLCCSS MK)

Within our Equity Model Portfolio, **we are doubling down on Inari (INRI MK, RM2.15)** as we take a positive view both on 1) potentially lower US-imposed tariffs for Malaysia, and 2) eventual resolution to trade restrictions on semiconductor chips. The stock currently trades at 26x FY26F PER, which is below its 5-year mean PER of 27x.

Funds

We suggest holding on to the below funds within our Funds Model Portfolio as catalysts emerge.

Fund Name
Principal Malaysia Titans
Principal Lifetime Balanced Income

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