# Strategy

## 2Q26 Results Wrap: Positive Earnings Breadth With Constructive Outlook, But Downside Risks Are Building

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### Highlights

- The improvement in earnings breadth in 2Q26, reflected by a higher proportion of positive surprises and fewer disappointments, was partly due to more prudent cost assumptions incorporated during the previous reporting season amid the Middle East conflict.
- While we remain constructive on Malaysian equities in 2026, supported by a selective earnings recovery and thematic opportunities, we are increasingly mindful of downside risks heading into 4Q26, including persistent geopolitical tensions, a higher-for-longer cost environment, volatile foreign fund flows and profit-taking following the market's recent rally.
- We stay selective, favouring high-quality, large-cap domestic leaders with resilient earnings, robust cash flows and strong balance sheets.
- Top picks: 99 Speedmart, CIMB Group, Eco World Development, Greatech, Kuala Lumpur Kepong, MISC, Solarvest Holdings and Tenaga Nasional.

### Analysis

- **Earnings breadth improved during the 2Q26 results season** as positive surprises (20% vs 1Q26: 10%) outpaced disappointments (16% vs 1Q26: 34%). Sector wise, autos (2 above, 1 below), gloves (2 above, 1 in-line), NFOs (2 above) saw the highest proportion of beats. Other notable positive surprises include IJM Corporation, Nestle, Petronas Dagangan, Inari and Vitrox. Misses were scattered this quarter with oil and gas (2 above, 3 in-line, 2 below) and tech (3 above, 5 in-line, 4 below) being mixed bags. Other notable misses include Oriental Kopi, SP Setia and Gas Malaysia (see overleaf table for details).
- **Trimming our 2026 forecasts.** After the results announcements, we trim our 2026 earnings forecasts for our coverage universe by 0.8%. However, we raise our 2027 earnings estimate marginally by 0.1%. We also cut our 2026/27 FBMKLCI earnings forecasts by 2.3%/1.9% respectively. The 2026 earnings downgrade is largely concentrated in the electronics manufacturing services (EMS) technology segment as well as construction and utilities. Looking to the KLCI segment, aside from the sectors mentioned above, banking also saw minor cuts to earnings (see overleaf table for details).
- We now expect our coverage universe to deliver 2026/27 earnings growths of 8.1%/9.4% respectively and the FBMKLCI to deliver 2026/27 earnings growths of 8.8%/7.7% respectively (previously 8.3%/9.6% for our coverage and 10.1%/7.3% for the FBMKLCI).

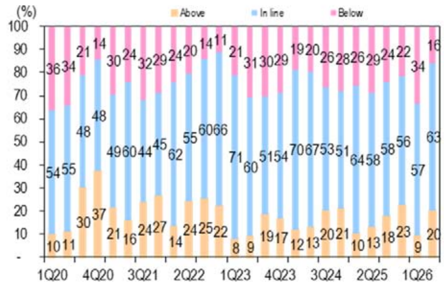
### Action

- **We maintain our end-26 FBMKLCI target at 1,760,** which broadly implies -0.5SD PE (15.6x 2026F) vs the 10-year mean of 16.2x (our bottom-up FBMKLCI target is 1,968) after earnings updates.
- **Entering into 4Q26,** while speculation of an early general election has eased following indications that the Prime Minister may defer the national polls until 2H27, we expect market volatility to persist amid the growing impact of a higher-for-longer cost environment, as reflected in the recent reporting season and evolving geopolitical developments in the Middle East. With sentiment likely to remain cautious particularly following the outperformances of small- and mid-cap and cyclical names, we would look to progressively adopt a more defensive stance in 4Q26, hence we favour high-quality, large-cap domestic leaders offering resilient earnings, robust cash flows and defensive characteristics while selectively participating in mid-cap growth themes.

**Current FBMKLCI: 1,700**

**Target end-26 FBMKLCI: 1,760**

### Quarterly Results Tally




*Source: UOB Kay Hian*

### 2Q26 Results Season Key Takeaways

- Iran war impact persists
- Broad-base consumption remained soft

*Source: UOB Kay Hian*

- **Top picks:** 99 Speedmart, CIMB Group, Eco World Development, Greatech, Kuala Lumpur Kepong, MISC, Solarvest Holdings and Tenaga Nasional.

## Peer Comparison

| Company | Ticker | Rec* | Share Price (RM) | Target Price (RM) | Upside To TP (%) | Last Year End | PE 2025 (x) | PE 2026F (x) | PE 2027F (x) | Yield 2026F (%) | ROE 2026F (%) | Market Cap. (RMm) | Price/ NAV ps (x) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 99 Speedmart | 99SMART MK | BUY | 3.41 | 4.10 | 22.9 | Dec-25 | 46.7 | 41.1 | 35.9 | 1.5 | 36.1 | 28,644.0 | 14.3 |
| CIMB Group | CIMB MK | BUY | 7.85 | 9.30 | 18.5 | Dec-25 | 10.8 | 10.2 | 9.4 | 6.5 | 12.0 | 84,754.1 | 1.2 |
| Eco World Development | ECW MK | BUY | 1.99 | 2.70 | 35.7 | Oct-25 | 15.3 | 12.0 | 10.5 | 4.1 | 9.9 | 6,414.6 | 0.9 |
| Greatech | GREATEC MK | BUY | 2.53 | 3.00 | 18.6 | Dec-25 | 57.5 | 49.6 | 29.1 | 0.0 | 11.3 | 6,350.3 | 5.6 |
| Kuala Lumpur Kepong | KLK MK | BUY | 21.84 | 24.65 | 12.9 | Sep-25 | 23.5 | 15.1 | 13.4 | 3.3 | 11.4 | 23,945.4 | 1.8 |
| MISC | MISC MK | BUY | 7.95 | 9.50 | 19.5 | Dec-25 | 15.0 | 13.3 | 11.4 | 4.6 | 6.3 | 35,487.2 | 1.0 |
| Solarvest Holdings | SOLAR MK | BUY | 3.04 | 3.50 | 15.1 | Dec-25 | 32.3 | 25.8 | 21.7 | 0.0 | 9.7 | 2,895.0 | 3.1 |
| Tenaga Nasional | TNB MK | BUY | 13.76 | 16.30 | 18.5 | Dec-25 | 16.8 | 16.3 | 15.8 | 4.1 | 9.5 | 80,209.0 | 1.6 |

*Source: Bloomberg, UOB Kay Hian*

## Notable Results Surprises/Disappointments

| Company | Comments |
|---|---|
| Above Expectations | |
| Automobiles | Improving sales mix from legacy automakers |
| Gloves | Sharp ASP hikes following the escalation of the Iran war |
| IJM Corp | Strong contributions from fast-track industrial projects |
| Inari | Stronger-than-expected revenue and margins |
| Nestle | Better-than-expected margins |
| Petronas Dagangan | Substantial commercial profit gains benefitting from a product price downtrend |
| Vitrox | Strong demand for AI infrastructure |
| Below Expectations | |
| Bumi Armada | Persistently low uptime for FPSO Kraken |
| VS Industry | Lower-than-expected loadings which resulted in operating deleverage |
| Oriental Kopi | Lower-than-expected sales and margins |
| SP Setia | Lower-than-expected residential revenue recognition |
| Gas Malaysia | Lower NG prices, higher opex including repair & maintenance and staff costs as well as higher finance costs |
| Pentamaster | Higher-than-expected tax rate following the expiration of pioneer tax incentives |

*Source: Bloomberg, UOB Kay Hian*

## Earnings Revision

| | ---------------- Earnings Revision (qoq % chg) ---------------- | |
|---|---|---|
| | Current FY | Next FY |
| 3Q22 | 0.2 | (1.9) |
| 4Q22 | 0.8 | 3.1 |
| 1Q23 | (3.2) | (1.9) |
| 2Q23 | (3.2) | (2.3) |
| 3Q23 | (2.7) | 0.1 |
| 4Q23 | (0.2) | 0.1 |
| 1Q24 | (0.7) | 0.1 |
| 2Q24 | 0.2 | 1.6 |
| 3Q24 | (0.8) | (1.7) |
| 4Q24 | (1.3) | (2.0) |
| 1Q25 | (4.2) | (3.6) |
| 2Q25 | (2.8) | (2.6) |
| 3Q25 | (0.2) | (0.1) |
| 4Q25 | 0.6 | 1.9 |
| 1Q26 | (2.0) | (1.1) |
| 2Q26 | (0.8) | 0.1 |

*Source: UOB Kay Hian*

## Corporate Earnings, Revision And Growth

| | ---- Net Profit (RMm) ---- | | | -- (2Q26 vs 1Q26 forecast) -- | | | --- Earnings Growth --- | | |
|---|---|---|---|---|---|---|---|---|---|
| Sector | 2025 | 2026F | 2027F | 2025 | 2026F | 2027F | 2025 | 2026F | 2027F |
| Automobile | 1,319 | 1,724 | 1,695 | 1.3 | 9.7 | 3.1 | (11.6) | 30.6 | (1.6) |
| Banking | 40,788 | 42,233 | 44,710 | 0.0 | (0.6) | (1.3) | 4.2 | 3.5 | 5.9 |
| Building Material | 2,291 | 2,956 | 3,537 | 0.0 | 0.3 | (0.0) | 7.4 | 29.0 | 19.7 |
| Construction | 2,203 | 2,309 | 2,865 | 0.3 | (2.1) | 1.3 | 18.0 | 4.8 | 24.1 |
| Consumer | 5,342 | 5,618 | 6,164 | 0.0 | (0.1) | (0.1) | 11.9 | 5.2 | 9.7 |
| Exchange | 250 | 301 | 306 | 0.0 | 0.0 | 0.0 | (19.4) | 20.4 | 1.7 |
| Gaming | 888 | 1,651 | 1,998 | 0.0 | 0.0 | 0.0 | (61.9) | 85.9 | 21.0 |
| Glove Manufacturing | 355 | 413 | 464 | 0.0 | 0.0 | 0.0 | n.a. | n.a. | n.a. |
| Healthcare | 2,329 | 2,637 | 3,029 | 0.0 | 0.0 | 0.0 | 9.2 | 13.2 | 14.9 |
| Insurance | 386 | 377 | 379 | 0.0 | 0.0 | 0.0 | 2.1 | (2.4) | 0.5 |
| Manufacturing | 517 | 568 | 618 | 0.0 | 0.0 | 0.0 | (5.8) | 9.9 | 8.8 |
| Oil & Gas - Heavy Engineering | 539 | 696 | 781 | 0.0 | 0.0 | 0.0 | (23.8) | 29.1 | 12.2 |
| Oil & Gas - Asset Owners | 2,490 | 2,170 | 2,302 | 0.0 | 0.0 | 0.0 | (2.4) | (12.9) | 6.1 |
| Oil & Gas - Offshore Contractors | 410 | 432 | 467 | 0.0 | 0.0 | 0.0 | n.a. | n.a. | n.a. |
| Oil & Gas - Shipping | 2,368 | 2,676 | 3,109 | 0.0 | 0.0 | 0.0 | 1.2 | 13.0 | 16.2 |
| Plantation | 5,403 | 6,442 | 6,737 | 0.0 | 0.6 | 0.5 | 17.5 | 19.2 | 4.6 |
| Port | 1,010 | 1,184 | 1,296 | 0.0 | 0.0 | 0.0 | 13.1 | 17.2 | 9.5 |
| Property | 3,312 | 3,852 | 4,811 | 0.0 | 0.0 | 0.1 | (2.2) | 16.3 | 24.9 |
| REITs | 2,469 | 2,754 | 2,881 | 0.0 | 0.0 | 0.0 | 11.4 | 11.5 | 4.6 |
| Technology (EMS) | 237 | 156 | 273 | 16.5 | (11.2) | (13.1) | (47.3) | (34.3) | 75.1 |
| Technology (Semiconductor) | 642 | 720 | 950 | 0.0 | 0.0 | 0.0 | (6.9) | 12.1 | 31.9 |
| Technology (Software) | 989 | 1,145 | 1,128 | 0.0 | 0.0 | 0.0 | 25.6 | 15.8 | (1.5) |
| Telecommunications | 5,822 | 6,168 | 7,245 | 0.0 | 3.0 | 2.9 | (3.0) | 5.9 | 17.5 |
| Utility | 5,249 | 5,470 | 5,811 | 0.0 | (2.7) | (0.3) | 8.3 | 4.2 | 6.2 |
| Total (RMb) | 87.7 | 94.8 | 103.8 | 0.4 | (0.8) | 0.1 | 3.4 | 8.1 | 9.4 |
| FBMKLCI | | | | | | | 2.6 | 8.8 | 7.7 |

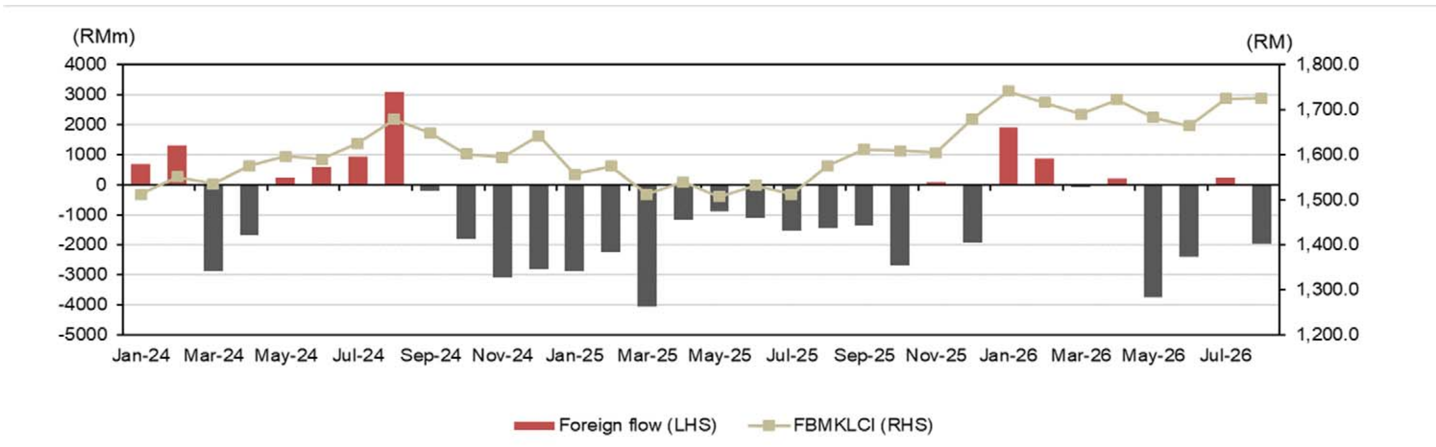
*Source: UOB Kay Hian*

## Sector Weightings

| Sector | Weighting |
|---|---|
| Automobile | MARKET WEIGHT |
| Banking | OVERWEIGHT |
| Building Material | OVERWEIGHT |
| Construction | OVERWEIGHT |
| Consumer | MARKET WEIGHT |
| Exchange | MARKET WEIGHT |
| Gaming | MARKET WEIGHT |
| Glove Manufacturing | MARKET WEIGHT |
| Healthcare | MARKET WEIGHT |
| Insurance | MARKET WEIGHT |
| Manufacturing | MARKET WEIGHT |
| Oil & Gas | MARKET WEIGHT |
| Plantation | OVERWEIGHT |
| Port | MARKET WEIGHT |
| Property | OVERWEIGHT |
| REITs | MARKET WEIGHT |
| Technology | MARKET WEIGHT |
| Telecommunications | MARKET WEIGHT |
| Utility | OVERWEIGHT |

*Source: UOB Kay Hian*

## Foreign Flows




*Source: UOB Kay Hian*