AUTHOR: By ELIM POON SECTION: STARBIZ PAGE: 1,2 PRINTED SIZE: 1124.00cm² REGION: KL
MARKET: Malaysia PHOTO: Full Color ASR: MYR 56,784.00 ITEM ID: MY0069569091

Biz

03 JUN, 2026

Earnings season turns softer

The Star, Malaysia

THE STAR, WEDNESDAY 3 JUNE 2026 Content: starbiz@thestar.com.my

Earnings season turns softer

Banks under pressure from higher provisions while tech, commodities and REITs remain key profit bright spots

CORPORATE

By ELIM POON
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PETALING JAYA: Corporate Malaysia delivered a mixed first-quarter results season as companies grappled with the Middle East war-driven cost pressures, margin compression and foreign exchange headwinds.

Tradeview Capital Sdn Bhd portfolio manager Ng Tzyy Loon said earnings were generally "muted to disappointing", as geopolitical tensions in the Middle East overshadowed seasonal factors that are typically associated with the first quarter.

"Manufacturing companies posted weaker earnings in the first quarter of financial year 2026 (1Q26) due to a shorter working quarter, with Hari Raya Aidilfitri falling earlier this year.

Moreover, the ongoing war had pushed up costs and compressed margins. Counters that surprised on the upside would be commodity-linked players such as Press Metal Aluminium Holdings Bhd and plantation companies.

"The market, however, is more focused on the impact of the Middle East war than on seasonal factors.

"While shipments continue to pass through the Strait of Hormuz, many container vessels have switched off their GPS signals to avoid being blacklisted by insurance companies, making it difficult to assess whether supply bottlenecks or constraints are developing," he told *StarBiz*.

Ng says the earnings performance of the banking sector, for instance, came in mostly below expectations in 1Q26 as banks raised provisions amid concerns over possible higher non-performing loan rates.

The only silver lining in 1Q26, according to Ng, was the technology sector, which he opined still "has legs to go".

> **"The market, however, is more focused on the impact of the Middle East war than on seasonal factors."**
> Ng Tzyy Loon

"There are no major pullbacks expected for the technology sector.

"However, we expect a healthy correction of between 10% and 20% in the quarters ahead this year," he said.

On top of the technology sector, Ng said retail real estate investment trusts (REITs) – IGB Bhd, Sunway-REIT, Pavilion-REIT and KLCCP Stapled Group, are also in a good position to deliver stronger earnings growth in 2Q26 underpinned by strong inbound tourists.

"On the other hand, electronics manufacturing services players will likely see continued pressure on their earnings as they use a lot of plastics, the supply of which is affected by the war.

"Another sector to watch is plantations, particularly regarding the impact of rising fertiliser costs," he said.

"Fertiliser costs will definitely increase, so the question is whether crude palm oil prices can sustain it to cushion the impact."

Fortress Capital Asset Management chief executive officer Datuk Thomas Yong said consumer-facing firms are "worth watching carefully".

According to Yong, the strong festive-driven 1Q for consumer staples is unlikely to be repeated at the same pace in 2Q, given that 2Q lacks comparable festive catalysts.

"Elevated global energy prices, driven by the Hormuz disruption, may eventually feed through to domestic fuel and utility costs, which could temper household spending power, particularly for lower-income segments," he said.

Yong said the "clearest upside" in 1Q26 was petrochemicals, where the sector's largest player, PETRONAS Chemicals Group Bhd swung to a meaningful quarterly profit after four consecutive quarters of losses.

The turnaround was driven by the Hormuz disruption tightening global supply and pushing product spreads materially higher, compounded by strong plant utilisation rates and lower operating costs.

"This was a genuine positive inflection that few had priced in heading into the quarter.

"Petrochemicals should sustain its turnaround in 2Q26, as the Strait of Hormuz-related supply disruption continues to support product spreads," he said.

That said, Yong also cautioned that this is a supply-shock-driven uplift for petrochemicals rather than a demand-led recovery, and the durability of the earnings improvement is directly contingent on the evolving geopolitical situation in West Asia.

Apart from petrochemicals, Yong said consumer staples, construction, technology and semiconductors were the outperformers in 1Q26.

Meanwhile, he added the underperformers were plantation, aviation, telecommunications, and banking.

On the technology and semiconductor sector, Yong noted local tech players are finally seeing genuine participation in the artificial intelligence (AI) story after multiple false starts since 2024, and that he is "more constructive on Malaysian tech today than at any point in the past two years".

"Importantly, integrated device manufacturers (IDMs) with fabrication facilities in Peninsular Malaysia, predominantly serving automotive and industrial end-markets, are signalling that the automotive segment is at an inflection point, with prices firming on a combination of rising raw material costs and supply chain tightness as AI-related demand cannibalises backend capacity," he said.

As a matter of fact, Yong said the technology sector is where he sees "the most interesting inflection building into 2Q26 and second half of financial year 2026".

"If this read is accurate across the broader industry, it bodes well for local players servicing IDMs in the assembly, testing, and burn-in segments," he said.

Meanwhile, CP Global Fintech Solutions chief investment officer William Yii said utilities and data centre (DC) infrastructure was the standout outperformer.

Yii said Tenaga Nasional Bhd delivered core profit growth of about 6% to 10% year-on-year (y-o-y), driven by a 7% surge in electricity demand – with DC consumption more than doubling y-o-y to 1.8 terawatt-hour – comfortably meeting or beating most analyst forecasts.

"Also, automotive surprised positively, with Sime Darby's nine-month period of financial year 2026 core net profit soaring 24% y-o-y, powered by a turnaround in China's auto market, eclectic vehicle market leadership in Singapore, and UMW Holdings Bhd's contributions – well ahead of expectations," he said.

Having said that, Yii said the automotive sector faces a structural volume headwind, with total industry volume expected to normalise down about 5% y-o-y to 780,000 units for full-year 2026.

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"Furthermore, non-national brands face intensifying competition from new entrants with competitive pricing and updated product lines, though a stronger ringgit provides a partial cushion on input costs."

Yii is also of the view that retail and consumer discretionary players, along with banks, are likely to face earnings pressure in the quarters ahead.

Other than the aforementioned underperformers, BIMB Research director of research Mohd Redza Abdul Rahman said property development and real estate are other underperformers in 1Q26.

He noted that developers are grappling with an increase in baseline building materials and logistics costs.

"Unlike high-end or luxury segments, mass-market developers lack the pricing flexibility to pass these cost hikes onto price-sensitive buyers without severely hitting transaction volumes.

"This could translate to slow new project starts and developers repricing their product offerings and relooking at their cost structures," he said.

Looking ahead, Mohd Redza said thematic capital expenditure validation is one of the key factors that will shape corporate earnings performance.

He said the market will closely monitor whether the multi-billion-ringgit investments pledged for DC hubs, the National Semiconductor Strategy, and green infrastructure will continue to translate into highly visible order book drawdowns and top-line expansion.

"Investors will have little patience for mere contract wins and possibly to focus on the speed of progress billings and operating margins for construction giants, tech-infrastructure builders, and advanced packaging electrical and electronics players."

Mohd Redza added that a stabilising ringgit, which appreciated slightly in 1Q26 on the back of non-resident inflows, will alter the landscape for export-orientated manufacturers versus import-heavy domestic players.

"But this is also dependent on the interest rate decision in the United States as the new Federal Reserve chairman starts his tenure," he said.

Meanwhile, Rakuten Trade head of equity sales Vincent Lau described 1Q26 as a typically "quieter" quarter due to festive-related disruptions, but maintained that overall earnings performance remained largely in line with expectations.

"Looking ahead to 2Q26, there is a possibility that inventories could start running low, but I do not think the situation will be that severe.

"If supply chains normalise and shipping routes reopen, conditions should gradually improve," he said.