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Banks, utilities to anchor KLCI re-rating in 2026

The Malaysian Reserve, Malaysia

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CIMB Securities Sdn Bhd is maintaining a constructive stance on Malaysian equities heading into 2026, reiterating its end-2026 FTSE Bursa Malaysia KLCI (FBM KLCI) target of 1,772 points, implying a 7% upside from its end-2025 target of 1,655 and an 8% gain over the index's 2024 close of 1,642.

The target is anchored on valuations at 1.5 standard deviations above the five-year historical average price-earnings multiple, reflecting expectations of sustained political stability and greater policy clarity, which should improve earnings visibility and investor confidence.

CIMB Securities expects corporate earnings to expand by 1.4% in 2025 and accelerate to 6.4% in 2026, supported by firmer domestic and foreign liquidity, a stronger ringgit, lower import costs and an anticipated 25 basis points (bps) cut in the Overnight Policy Rate (OPR) in 2026.

The brokerage believes this easing cycle could trigger a rotation back into equities as risk appetite improves.

Additional support is expected from improvements in corporate environmental, social and governance (ESG) disclosures and renewed policy efforts to revitalise the equity market, notably through the expanded Government-linked Enterprises Activation and Reform Programme (GEAR-uP).

Under the programme, Malaysia's six core government-linked investment companies (GLICs) aim to lift the market capitalisation of their investee companies by RM100 billion over five years, targeting at least a 7.5% annual return for shareholders from a combined RM540 billion investment base as of June 30, 2025.

Their holdings account for roughly 28% of Bursa Malaysia's total market capitalisation.

Banks, Utilities to Drive Earnings Growth

CIMB Securities projects banks and utilities to be the main earnings engines for the KLCI in 2026, contributing 2.4 percentage points (ppts) and 0.9ppts respectively to the index's total earnings growth.

Together, the two sectors are expected to account for more than half of KLCI earnings expansion.

Bank earnings are forecast to benefit from stronger loan growth, higher non-interest income, modest net interest margin (NIM) improvement and benign credit costs.

Sector net profit growth is projected at 4.2% in 2026, supported by loan growth of 5.5%-6%, disciplined cost management and improving asset quality.

Utilities earnings, meanwhile, are expected to grow 6.4% in 2026, largely driven by higher contributions from Tenaga Nasional Bhd (TNB) as grid investment accelerates to support rising electricity demand, particularly from data centres and renewable energy (RE) integration.

Excluding banks, KLCI earnings are projected to grow at a faster pace of 9.4% in 2026, reflecting stronger growth across non-financial sectors such as petrochemicals and construction.

CIMB Securities' 'Overweight' sectors for 2026 are banking, building materials, construction, healthcare, plantation, utilities, telecommunications and transport.

CIMB Securities' sector rating and top picks

Sector	Sector call	Top picks
Automotives	Neutral	Sime Darby
Banks	Overweight	RHB Bank, Hong Leong Bank and AMMB
Building materials	Overweight	Malayan Cement
Construction	Overweight	IJM Corp
Consumer	Neutral	99 Speed Mart, Farm Fresh and YOCB
Gaming	Neutral	Genting Berhad
Healthcare	Overweight	IHH Healthcare
Non-Bank Financials	Neutral	Syarikat Takaful Malaysia
Oil & Gas	Neutral	Dialog
Plantation	Overweight	SD Guthrie and IOI Corporation
Power & Utilities	Overweight	Tenaga Nasional
Property	Overweight (from Neutral)	UEM Sunrise
REITs	Neutral	Pavilion REIT and Axis REIT
Rubber gloves	Neutral	Kossan Rubber
Small-mid cap	Overweight	KJTS, Hi Mobility, Cloudpoint
Technology	Neutral	Malaysian Pacific Industries
Telecoms	Overweight	Telekom Malaysia and Time dotCom
Transport	Overweight	Westports

Source: CIMB Securities, Bloomberg

Banking

The brokerage remains Overweight on banks, citing a shift toward capital-efficient growth and improving dividend prospects.

Dividend yields for large-cap banks are estimated at around 6.5% in financial year 2026 (FY26), with scope for further upside as excess capital is optimised.

Valuations remain undemanding, with the sector trading at about 1.1 times FY26 price-to-book, below mid-cycle levels of 1.2 times and prior peak multiples of 1.4 times.

CIMB Securities' top picks are RHB Bank Bhd, Hong Leong Bank Bhd and AMMB Holdings Bhd, each offering a combination of earnings recovery, capital optimisation and attractive shareholder returns.

Building Materials

The building materials sector remains 'Overweight', supported by elevated prices following higher logistics costs and the anticipated rollout of 13th Malaysia Plan (MP13) projects from the second half of 2026 (2H26).

Malayan Cement Bhd is the top pick, underpinned by its domestic market leadership and push into value-added downstream products.

Construction

With RM430 billion allocated under the MP13 for 2026-2030, CIMB Securities expects the start of a new infrastructure upcycle.

Additional catalysts include the expected award of multiple data centre and mechanical and electrical contracts by early 2026.

Gamuda Bhd is preferred for its strong order book momentum, while IJM Corp Bhd is highlighted as an attractive value play.

Healthcare

The healthcare sector remains 'Overweight', driven by growth in outpatient and daycare services, cost-efficiency initiatives and resilient demand amid global uncertainty.

IHH Healthcare Bhd is the top pick. CIMB Securities also flags a major healthcare IPO in 2026 as a potential sector re-rating catalyst.

Plantation

CIMB Securities is 'Overweight' on plantations, citing structurally tight supply and policy-driven demand that could keep crude palm oil (CPO) prices elevated.

CPO prices are forecast to average RM4,200 per tonne in 2026, with upside risk toward RM5,000 if Indonesia's B50 biodiesel programme is fully implemented.

Preferred names are SD Guthrie Bhd, IOI Corp Bhd and Hap Seng Plantations Holdings Bhd, with an emphasis on Malaysian estate exposure.

Property

The property sector has been upgraded to 'Overweight', supported by expectations of an OPR cut in 2026, ample liquidity and potential policy tailwinds ahead of upcoming state elections.

CIMB Securities' top picks include UEM Sunrise Bhd, SP Setia Bhd and Eco World Development Group Bhd, each offering specific catalysts tied to land bank activation and industrial development themes.

Utilities

Utilities remain a core 'Overweight' call, aligned with the National Energy Transition Roadmap (NETR). TNB is the top pick, with core earnings expected to grow by 9.5% in FY26, driven by a rising regulated asset base and higher grid investment.

Additional catalysts include clarity on tax recovery and new gas-fired generation awards.

Telecommunications

While retail mobile and fixed-line growth is expected to remain subdued, CIMB Securities sees brighter prospects in wholesale services.

The brokerage favours fixed-line players with steady earnings and dividend appeal, naming Telekom Malaysia Bhd and Time dotCom Bhd as top picks.

Transport

The transport sector remains 'Overweight', supported by tariff revisions, trade diversion and improving container volumes.

Westports Holdings Bhd is CIMB Securities' preferred name, with expectations of stronger throughput growth in 2026 as global trade normalises and intra-Asia volumes remain resilient.

Overall, CIMB Securities believes that improving policy clarity, easing monetary conditions and sector-specific catalysts could finally set the stage for a sustained re-rating of Malaysian equities in 2026. — *TMR*