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Budget won't shake market

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MALAYSIA'S equity market is likely to face a volatile year-end as rising global bond yields, persistent inflationary pressures and geopolitical tensions compete with domestic growth prospects.

Budget 2027 provides support for household spending and infrastructure development, but investors are expected to favour companies with resilient earnings, strong cash flows and the ability to withstand rising operating costs.

Public Investment Bank Research (PublicInvest Research), TA Research, UOB Kay Hian (UOBKH) Research, Hong Leong Investment Bank (HLIB) Research and CIMB Research all see selective opportunities rather than a broad-based market rally following the tabling of Budget 2027 last Friday.

At RM459.8bil, the Madani government's "Budget 2027: Reaching for the Sky, Rooted in the Earth" is Malaysia's largest budget to date, representing a 3.6% increase from the revised RM444.1bil allocation for 2026.

Operating expenditure is up by 3.8% to RM376.8bil, while development expenditure (DE) increases 2.5% to RM83bil.

The government targets a narrower fiscal deficit of 3.3% of gross domestic product, compared with an estimated 3.6% in 2026, while maintaining support for households and productive investments.

However, the measures offer limited immediate catalysts for the equity market, with external developments likely to play a greater role in determining share prices.

HLIB Research describes the budget as "for Main Street rather than Malaysia's Wall Street", reflecting its emphasis on household welfare rather than measures that directly stimulate the capital market.

The research house expects a muted market reaction and retains its end-2026 FBM KLCI target of 1,720 points, based on 15.3 times 2026 price-to-earnings (P/E) estimates.

Other brokerages have different assessments of the market's valuation and prospects.

PublicInvest Research has cut its year-end FBM KLCI target to 1,650 points from 1,680, applying a lower P/E multiple of 14 times forecast 2026 earnings per share.

TA Research has also lowered its target to 1,690 points from 1,730, based on a calendar year 2027 P/E ratio of 14 times, below the index's five-year average of 14.8 times.

UOBKH Research maintains its end-2026 target at 1,760 points, implying a valuation of 15.6 times forecast 2026 earnings, or about half a standard deviation above its historical valuation benchmark.

The differing targets underline the uncertainty surrounding corporate earnings and valuations as investors weigh domestic policy support against international risks.

"We expect the market to remain volatile and unsettling as we move into 2027," PublicInvest Research says.

It expects geopolitical risks and elevated energy costs to remain significant challenges, while higher risk-free rates could weigh on equity valuations and rising operating expenses could squeeze corporate profit margins.

TA Research similarly high-

lights instability in West Asia, with potential knock-on effects on oil prices, inflation and monetary policy, alongside domestic political uncertainty.

These factors could limit the market's recovery despite the fourth quarter traditionally being its strongest period.

Household spending supports consumer stocks

One of the clearest beneficiaries of Budget 2027 is the consumer sector, as targeted cash assistance, personal income tax relief and affordability measures are expected to support disposable income.

Higher allocations for Sumbangan Tunai Rahmah (STR) and Sumbangan Asas Rahmah (Sara), together with additional tax relief, should help households maintain spending on essential goods and selected discretionary purchases. HLIB Research favours companies with exposure to Sara and mass-market consumers, including 99 Speed Mart Retail Holdings Bhd, MR DIY Group (M) Bhd, AEON Co (M) Bhd and Focus Point Holdings Bhd.

It also identifies Proton and Perodua-related beneficiaries through DRB-Hicom Bhd, Sime Darby Bhd and MBM Resources Bhd.

PublicInvest Research expects higher spending on food and staple products to benefit QL Resources Bhd, SDS Group Bhd, Farn Price Holdings Bhd, CCK

Consolidated Holdings Bhd and Teo Seng Capital Bhd.

CIMB Research likewise identifies 99 Speed Mart, Eco-Shop Marketing, MR DIY and QL Resources as potential beneficiaries of stronger household spending.

UOBKH Research highlights 99 Speed Mart and Eco-Shop, while noting that the higher minimum wage could increase operating costs for labour-intensive retailers.

The minimum monthly wage rises from RM1,700 to RM2,000 from June 2027, although HLIB Research notes that micro, small and medium enterprises are excluded from the increase.

The measure could support consumer demand but also reduce margins for businesses that rely heavily on labour.

Companies that improve productivity through efficiency measures and automation may be better equipped to absorb the higher wage bill.

Infrastructure and utilities remain in focus

The RM83bil DE allocation provides continued support for infrastructure and construction, although the increase is relatively modest.

Major allocations include RM15bil committed by Tenaga Nasional Bhd (TNB) to strengthen the national electricity grid, RM2.5bil for water-loss reduction and the replacement of 1,900km of ageing pipes, RM3.4bil for rail-service upgrades, RM1.2bil for maintenance and repairs at public healthcare facilities, and RM16.5bil for road-related spending.

These projects provide potential opportunities for contractors, engineering companies and equipment suppliers.

TA Research identifies Gamuda Bhd, TNB, Samaiden Group Bhd, Nestlé (M) Bhd and Sime Darby Property Bhd (SimeProp) as its top-five picks.

Gamuda offers exposure to infrastructure and flood mitigation, while TNB stands to benefit from grid investment and Samaiden from government-backed solar projects.

Nestlé Malaysia is expected to benefit from stronger demand for essential products, while SimeProp could gain from stamp duty relief and the Elmina data centre fund.

UOBKH Research also favours Gamuda, alongside Sunway Construction Group Bhd, Solarvest Holdings Bhd, Pekat Group Bhd and Northern Solar Holdings Bhd, citing opportunities from grid investment, renewable energy, rail rehabilitation and water infrastructure.

The reinstatement of the variation-of-price clause for diesel and bitumen also provides some relief to eligible contractors facing fluctuating material costs.

For property, first-homebuyer guarantees and stamp duty exemptions could support demand for affordable housing. UOBKH Research identifies Eco World Development Group Bhd (EcoWorld Malaysia), Mah Sing Group Bhd and Matrix Concepts Holdings Bhd as potential beneficiaries.

HLIB Research favours Matrix Concepts and SkyWorld Development Bhd, while identifying UEM Sunrise Bhd and Kimlun Corp Bhd as potential beneficiaries of developments linked to the Johor-Singapore Special Economic Zone.

CIMB Research also sees opportunities for UEM Sunrise and EcoWorld Malaysia from housing incentives and improved Johor connectivity.

Support for healthcare and tourism

Healthcare providers could benefit from increased public hospital outsourcing and the introduction of MediAsas, a government-backed healthcare initiative intended to improve access to private medical services.

HLIB Research believes the scheme could help mitigate the impact of expiring premium caps, with KPJ Healthcare Bhd potentially well positioned because its prices may better match the programme's reimbursement range.

PublicInvest Research also sees potential for private healthcare providers to attract more patients, although any increase in volume could be offset by lower profit margins.

CIMB Research identifies KPJ Healthcare and IHH Healthcare Bhd as beneficiaries of outsourcing opportunities and MediAsas.

Meanwhile, the extension of the Visit Malaysia campaign into 2027 could support tourism-related businesses, including hotels, restaurants, cafes and hospitality suppliers.

PublicInvest Research has identified Spritzer Bhd, Life Water Bhd, Genting Bhd, IHH Healthcare, KPJ Healthcare and Sunway Healthcare Holdings Bhd as potential beneficiaries.

HLIB Research also highlights aviation, brewers, real estate investment trusts with prime malls and hotels, the Genting group and Oriental Kopi Holdings Bhd.

Overall, brokerages generally favour companies with clear earnings visibility, noting that companies that can convert policy support into sustainable growth while managing higher costs will be better positioned to navigate market volatility.

■ Investors expected to favour companies with resilient earnings and strong cash flows

■ One of the clearest beneficiaries of Budget 2027 is the consumer sector

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