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FBM KLCI poised for strong year-end

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MALAYSIA'S equity market is heading into the final stretch of the year, with sentiment cautiously tilting upward and investors eyeing year-end positioning.

The third-quarter (3Q25) reporting season brings fresh clues on whether the benchmark can finally reclaim lost ground and sustain a more convincing recovery.

According to CIMB Research, corporate Malaysia exits the latest earnings window on steadier footing, supported by improved sector visibility and a better showing among index heavyweights.

The brokerage says it is "positive on the 3Q25 earnings season", noting that "21% of companies beat expectations (up from 16% in 2Q25), 27% underperformed (an improvement from 29% in 2Q25), and the remainder "meeting expectations".

It adds that FBM KLCI constituents actually outperformed the broader universe, with 27% exceeding expectations and 15% falling short, resulting in a stronger 1.8 times beat-to-miss ratio.

Reflecting this momentum, CIMB Research now expects FBM KLCI's earnings growth of 1.4% in 2025 and 6.4% in 2026, prompting it to lift its end-2025 target to 1,665 points from its earlier projection of 1,605 points, based on a higher 15.8 times price-to-earnings (PE) multiple.

The upgrade is driven by shifts in its sector stance: "We have upgraded our rating for the banking sector to 'overweight' from 'neutral', primarily owing to the upgrades of AMMB Holdings Bhd and Malayan Banking Bhd."

Further, it now holds "overweight" calls on eight sectors, including building materials, construction, and transport.

CIMB Research's top picks lean heavily into consolidation winners, policy beneficiaries, structural growers and value names, including Telekom Malaysia Bhd, IJM Corp Bhd, Hong Leong Bank Bhd, Time dotCom, UEM Sunrise Bhd, RHB Bank Bhd, SD Guthrie Bhd, Tenaga Nasional Bhd, IHH Healthcare Bhd, Malaysian Pacific Industries Bhd, Westports Holdings Bhd, Axis REIT, Pavillion REIT and 99 Speed Mart Retail Holdings Bhd.

Its list also includes small- and mid-cap selections such as KJTS Group Bhd, Hi Mobility Bhd, MBM Resources Bhd, Hap Seng Plantations Holdings Bhd, Cloudpoint Technology Bhd and Yoong Onn Corp Bhd.

Staying conservative

Kenanga Research, meanwhile, stays conservative, maintaining its year-end FBM KLCI target of 1,640, premised on relatively flat earnings.

The research house has pencilled in a 1.5% earnings growth in 2025, following an earnings season that delivered mixed but largely stable results, with planters and construction stocks offsetting weakness in petrochemicals and selected utilities.

Its 2026 outlook is brighter, with projected earnings growth of 7% translating to an index level of 1,725 on an unchanged 15.5 times multiple.

Kenanga Research's strategy is anchored on conviction calls in banks, technology and construction, rotating into names showing upward momentum or appealing laggard traits.

"Within our top picks, having downgraded IHH, we replace it with Syarikat Takaful Malaysia Keluarga Bhd, which is seeing favourable momentum in credit-related takaful products and also improved dividend payout," it says.

The brokerage also adds Bermaz Auto Bhd and SKP Resources Bhd into its small-cap list, describing them as laggards with improving prospects, while retaining renewable-energy-themed players such as KJTS and Solarvest Holdings Bhd.

Window to accumulate

Hong Leong Investment Bank (HLIB) Research is decidedly more opportunistic, framing the recent pullback as a window to accumulate.

■ Analysts are anticipating a mild earnings uplift, a firmer macro backdrop and the potential for a valuation-led rerating if foreign flows return

"We believe recent market softness is a buying opportunity," the research house says, highlighting that the FBM KLCI continues to trail regional peers by two to five percentage points over the past two months amid muted foreign interest, leaving shareholding at a low of 19%.

It argues that valuation signals remain appealing across multiple metrics and expects the anticipated US Federal Reserve (Fed) easing cycle to narrow the US federal fund rate-Malaysia's overnight policy rate (OPR) gap, thereby aiding foreign inflows and the ringgit.

Accordingly, HLIB Research maintains its 2025 FBM KLCI target of 1,660, derived from a 14.6 times PE, while keeping its top picks unchanged.

It highlights that six of its top-pick names delivered in-line results – CIMB, IHH, Sunway Bhd, AMMB Holdings Bhd, IOI Properties Bhd, and Dialog Group Bhd – while 99 Speed Mart and ITMAX System Bhd surprised on the upside.

The reporting season itself was stable, with 47% and 43% of stocks under its coverage posting in line with HLIB Research's estimates and consensus projections, respectively, 24%/29% above, and 29%/27% below, with core profit rising 1% quarter-on-quarter (q-o-q) and 4% year-on-year (y-o-y).

HLIB Research projects FBM KLCI earnings growth of 2.6% in 2025 and 7.6% in 2026, suggesting a stronger cycle ahead.

Optimistic view

MBSB Research offers another layer of optimism, reiterating that it remains rather sanguine on the local equity market, underpinned by a positive macro outlook and inexpensive PE valuations.

It keeps its 2025 FBM KLCI target at 1,650, equivalent to a 15.3 times PE, noting that the 3Q25 results season was "largely on target", prompting only minor estimate revisions.

Within its coverage, 19% of stocks reported higher-than-expected earnings, 22% fell short and 59% came within expectations.

Adjustments were mixed, with aggregate 2025 FBM KLCI earnings trimmed marginally by 0.2%, while 2026 estimates rose 1.2%.

This mirrors improvements in broader estimates across its universe, where 2026 earnings were lifted 1.3%.

Where MBSB Research leans on valuation and macro stability, TA Research emphasises improving earnings dynamics and a rebound in investor appetite.

"The 3Q25 reporting season offered a welcome reprieve," it says, with companies posting "6.2% y-o-y earnings growth after two consecutive quarters of contraction.

The recovery was led by construction, consumer and insurance counters, offsetting softness in oil and gas, media, and gaming.

Potential rebound

TA Research raises its 2025 and 2026 earnings forecasts by 1% and 0.1%, respectively, and now projects FBM KLCI constituent earnings growth of 3.3% this year and 6.3% in 2026.

This supports its unchanged end-2025 FBM KLCI target of 1,660, pegged to a 14.5 times 2026 PE.

The research house sees "scope for valuation multiple expansion" should the Fed deliver the expected December rate cut and domestic political stability holds following Sabah's election outcome.

The index, it notes, has already traversed a wide range this year – swinging 272 points from a tariff-driven low in April to a high above last year's close in October – before fading on global and political uncertainties.

TA Research says the rebound could extend if key catalysts align: the Fed acting as expected, no new political noise, and stronger foreign inflows.

"We see a strong possibility of the FBM KLCI outperforming last year's close and moving closer to our end-2025 target of 1,660," it says.

It emphasises that global conditions are supportive – greater clarity on US trade policy, abundant liquidity from ongoing monetary easing, and renewed foreign inflows – while domestic demand, labour-market resilience and government initiatives provide a firmer foundation.

The firm projects index earnings per share growth of 3.3% in 2025 and 6.3% in 2026, underpinned by undemanding valuations relative to historical averages.

In terms of positioning, TA Research retains four dominant themes: undervalued blue chips; domestic construction and property; defensive plays; and high-growth small caps.

Four themes

On blue chips, banks remain centre-stage, with TA Research noting they are trading at attractive average price-to-book multiples of about one time, while delivering 4.4% quarter-on-quarter earnings growth despite the 25-basis-point OPR cut.

Its preferred names are CIMB and Alliance Bank Malaysia Bhd, alongside IHH, which it believes is set to "accelerate its growth trajectory" following the Fortis acquisition and a potential sector rerating from the upcoming Sunway Healthcare listing.

Construction and property plays – Gamuda Bhd, Sime Darby Property Bhd and Mah Sing Group Bhd – feature prominently due to infrastructure momentum, transit-oriented developments and expanding data centre ventures.

On defensives, TA Research highlights Nestle (M) Bhd and Farm Fresh Bhd, with catalysts ranging from fading boycott effects to government cash aid lifting festive spending.

For high-growth small caps, PGF Capital Bhd and Exsim Hospitality Bhd stand out, riding structural growth in insulation demand, infrastructure development and robust construction and hospitality pipelines.

Taken together, the five brokerages collectively point towards a mild uplift in earnings expectations, a more constructive macro backdrop and the potential for a valuation-led rerating if foreign flows return.

Their year-end 2025 FBM KLCI targets cluster tightly between 1,640 and 1,665, offering investors a reasonably aligned roadmap as the year draws to a close – though the next leg for the index will hinge on global monetary policy, domestic political stability and upcoming corporate catalysts.