

# Small caps defy volatility

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PETALING JAYA: TA Research remains constructive on Malaysian small-cap stocks despite heightened market volatility in the first half of financial year 2026 (1H26), arguing that the segment still offers investors opportunities to generate alpha and outperform the broader market.

It has reiterated its buy calls on five preferred names – Exsim Hospitality Bhd, CBH Engineering Holding Bhd, [Southern Score Builders Bhd](#) , [PGF Capital Bhd](#)  and [Skyworld Development Bhd](#)  – heading into 2H26.

In a thematic report, TA Research said uncertainty stemming from geopolitical tensions, inflation risks and shifting global trade policies has weighed on sentiment, but the earnings outlook for its selected small-cap companies remains intact.

“Looking ahead, we remain prepared to navigate continued market uncertainty in pursuit of growth opportunities in 2H26.”

It continues to favour the same five stocks “for investors seeking alpha and aiming to outperform the broader market”.

The research house noted that small-cap stocks endured a turbulent 1H26, as investors rotated into large-cap banking and utility counters while concerns over the Middle East conflict and rising oil prices dampened risk appetite.

The FBM Small Cap Index (FBMSC) fell sharply in March before recovering in April following a temporary ceasefire between the United States and Iran.



Despite the volatility, TA Research’s basket of five recommended small-cap stocks delivered an average return of 11.6% year-to-date, outperforming both the FBM KLCI and the FBMSC.

Exsim Hospitality and CBH Engineering emerged as the strongest performers, rising 63% and 43%, respectively.

TA Research said the portfolio's performance was supported by strong earnings growth, with all companies except SkyWorld reporting encouraging results during the latest reporting season.

Exsim Hospitality stood out after posting a 130.9% year-on-year (y-o-y) increase in profit, benefiting from stronger operational execution and higher earnings contributions from its hospitality and interior fit-out segments.

CBH Engineering delivered earnings growth of 214.8% as project execution accelerated, while Southern Score Builders recorded a 99.4% increase in core profit, driven by residential construction and data centre-related mechanical and electrical works.

PGF Capital also returned to profitability on stronger demand for glass wool insulation products in Australia and improved operating efficiency.

SkyWorld was the only disappointment, with earnings falling 74% y-o-y due to margin compression, higher finance costs and a higher effective tax rate.

Nevertheless, TA Research believes the weakness is temporary and expects a stronger earnings inflection beginning in financial year 2027.

Furthermore, it said investors will need to keep an eye on several unknowns, including the sustainability of the Middle East ceasefire, inflation trends, currency movements and the possibility of an early Malaysian general election.

However, it believes the five companies are relatively insulated from these risks given their predominantly domestic operations and limited foreign shareholdings.

TA Research maintained its end-2026 FBM KLCI target of 1,760, implying a 4.8% upside from current levels.

More importantly, it argued that the FBMSC could outperform the broader market in a supportive risk-on environment.