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MALAYSIA BUDGET 2026 – A 10.10 Budget with All Winners

The tabled Budget 2026 themed "***Belanjawan MADANI Keempat: Belanjawan Rakyat"*** puts 5 key focus areas into the limelight, namely: 1) the Continuation of the Madani Economy vision, aligning with the first year of 13th Malaysia Plan (13MP), 2) Commitment to fiscal prudence and institutional reforms, under the Fiscal Responsibility Act (FRA) and the new Government Procurement Act, 3) Investment-led growth and bureaucratic streamlining to accelerate private sector participation, 4) Human capital uplift through Technical and Vocational Education and Training (TVET), Artificial Intelligence (AI) and green transition reskilling, and 5) Targeted support to raise household income and ease cost of living pressures.

Budget 2026 sustains the reformist yet disciplined tone of prior years, but with a clear pivot toward execution and inclusivity. The Government is balancing fiscal prudence with strategic investments in green energy, digitalisation, and regional infrastructure. For equities, this translates to a rotation into structural themes – construction, renewables, AI-tech and domestic consumption – underpinned by credible policy continuity. Hence, we opine a constructive bias toward Renewable Energy (RE), technology, infrastructure, and consumer names, underpinned by fiscal discipline and reform execution visibility.

1. Renewable Energy & Utilities (TNB, YTL Power, Solarvest, Samaiden, BMGreen, PetGas)
→ Major beneficiary of LSS6 (2GW), National Energy Transition Roadmap (NETR) rollout, and carbon tax transition policies. Strong policy visibility and investment pipeline drive multi-year earnings growth. Cross-Border electricity sales and trading initiative was announced aligning Malaysia ambition as regional ASEAN power hub.

2. Technology & Semiconductors (INARI, MI, Vitrox, Frontken)
→ Supported by RM550m semiconductor ecosystem fund, AI and automation incentives, and US$4bn digital FDI from Microsoft, Google, and AWS. Structural uplift in Electrical and Electronics (E&E) exports and automation demand. RM2bn launched under MOF Inc to co-invest with GLICs (Khazanah, EPF, KWAP) and private investors in high-value sectors.

3. Infrastructure & Construction (Gamuda, IJM, WCT, SunCon)
→ RM81bn development expenditure with focus on highways, flood mitigation, and state-level projects ensures robust orderbook visibility and job flow continuity. Further, a RM2bn undersea cable was announced by MCMC to strengthen Malaysia digital backbone ensuring equitable access and resilience digital infrastructure.

4. Consumer & Retail (Nestlé, MR DIY, QL, Padini, 99SpeedMart, Eco-Shop, FFB)
→ Benefiting from targeted subsidies, cash aid programs, and contained inflation. Stable consumption outlook supports earnings resilience. Increased allocation under Rahmah and SARA program underscores government effort to easing household pressure from rising living cost.

5. Tourism & Aviation (CapitalA, AAX, GENM, LSH, PetDag, KOPI, KLCCP, PavREIT)
→ Visit Malaysia Year 2026 and RM700m tourism allocation to boost arrivals, hotel occupancy, and passenger traffic. Additional incentive includes special individual income tax rebate of RM1,000 and up to RM500,000 tax rebate for tourism operators for renovation and refurbishment works.

Numbers at a Glance

In 2026, Malaysia Federal Government projects a revenue rise to RM343.1bn (+2.7% y-o-y), meanwhile share of tax revenue is expected to increase to 78.7% (2025: 75.8%). The improvement in tax revenue will be driven by increase in efficiency of tax collection such as e-invoicing, SST collection and other tax efficiency measure. Non-tax revenues on the other hand are expected to decline further 10% y-o-y at RM72.7bn. Total expenditure is forecasted at RM417.7bn (+1.7% y-o-y) and is characterized by a 1.8% rise in Operating Expenditure (OpEx) and a flat Development Expenditure (DevEx). However, an additional RM50.8bn will be contributed by GLIC and MOF Inc to support total public expenditure. Overall, the government aims to further improve the primary deficit to 3.5% of GDP shows government continued efforts to manage operating costs while balancing wage and debt obligation to achieve fiscal sustainability and creating more room for growth-oriented and inclusive spending in the medium term.

Federal Government Finance

(RM bn)	2026F	2025P	2024A
Revenue	343.1	334.1	324.6
Operating Exp	(338.2)	(332.2)	(321.5)
Development Exp	(81.0)	(80.0)	(84.0)
Overall Deficit	(74.6)	(76.7)	(79.2)
GDP Growth (%)	4.0-4.5	4.0-4.8	4.8-5.3
- Agriculture	2.2	1.2	3.1
- Construction	6.1	10.1	17.5
- Manufacturing	3.0	3.8	4.2
- Mining	(1.0)	1.1	0.9
- Services	5.2	5.1	5.3

Source: Economic Report 2025/2026, Ministry of Finance, PCM Oct 2025

A = Actual
P = Preliminary
F = Forecast

Sector Highlights

1. Infrastructure & Regional Development

Announcement:

- 2026 DevEx allocation budgeted at RM81m (+1.25% y-o-y) vs RM80m in 2025E. Original expectation for 2025 DevEx was RM86bn.
- Projects mentioned: Penang LRT, RM2.2bn for flood mitigation, RM2.3bn allocation for airport upgrades in Penang, Sabah, and Sarawak, new water treatment plants in Klang Valley and Sabah, Senai-Desaru Expressway Upgrade Phase 2A for the JS-SEZ, flood mitigation Sungai Buloh Phase 2 and Trans-Borneo Highway tenders to open in 1Q26.
- Pengurusan Aset Air Berhad has committed to invest RM13bn over the next five years for projects such as the Langat 2 water treatment plant among others. Also, allocation of RM3bn to upgrade over 820km of pipes in Johor, Melaka, Negeri Sembilan, Kelantan, Pahang dan Selangor.
- MCMC to build Sovereign AI Cloud with an investment of RM2bn.
- Allocation for Sabah raised from RM6.7bn in 2025 to RM6.9bn in 2026 and for Sarawak from RM5.9bn in 2025 to RM6bn in 2026.

Comment:

2026 DevEx allocation came lower than expected at RM81m vs RM86m, assuming the RM430m allocation under 13MP were spread equally over 5 years. Lack of MRT3 mention was expected given the recent news report that land acquisitions would only complete by end of 2026, meaning tenders would be rolled out in 2027.

*Along with the lower forecast and absence of any mention of megaprojects, we view 2026 to be a more of a buffer year in terms of federal development, likely to allow the government to extract more savings first from the ongoing subsidy rationalisation programs and reserve ammunition for either closer to the next election or after. Nevertheless, we view Malaysia's strong ongoing construction theme to continue, benefitting companies with solid balance sheets to pursue new jobs and proven track records such as **Gamuda** and **IJM** for Malaysia infrastructure prospects and **LSH** for its added exposure to tourism initiatives through its Menara KL concession.*

2. Industrial, Tech & Investment Push

Announcement:

- NIMP 2030 implementation: RM1.8bn allocated under the *Dana Pembangunan Industri NIMP* to support advanced manufacturing, EV components, green chemicals, and MedTech.
- Strategic Investment Fund: RM2bn launched under MOF Inc to co-invest with GLICs (Khazanah, EPF, KWAP) and private investors in high-value sectors.
- Semiconductor ecosystem support: Khazanah and KWAP to inject RM550m; BPMB to provide RM500m in high-value E&E and R&D financing.
- Special Economic Zones (SEZs):
  - Johor–Singapore SEZ (JS-SEZ): RM37.1bn approved investments and RM29bn new commitments.
  - Bukit Kayu Hitam SEZ (Northern Corridor): RM2.7bn allocation for logistics and manufacturing upgrades.
- Industrial infrastructure enhancement: RM1bn to upgrade utilities, transport links, and digital infrastructure in key industrial parks.
- Industrial decarbonisation: RM500m under the *Green Transition Fund* to help heavy industries adopt cleaner and more energy-efficient production.
- Investment facilitation: *Investor Pass* and *Talent Fast Track* programmes to attract high-skill professionals and foreign investors.

Comment:

As Malaysia's transition from post-pandemic recovery to structural industrial upgrading, anchored by targeted fiscal tools rather than large-scale megaprojects. The RM5bn+ combined allocation to industrial funds, SEZ infrastructure, and green manufacturing demonstrates a shift toward investment quality and strategic alignment with global supply chain realignment trends.

*The establishment of SEZs, particularly the JS-SEZ, should provide sustained contract visibility for **Gamuda, IJM, Kerjaya Prospek**, and **UEM Sunrise**, while high-tech incentives will benefit semiconductor and automation players such as **Inari Amertron, MPI, Greatech, Frontken**, and **Kelington**.*

Overall, the industrial agenda under Budget 2026 positions Malaysia to capture incremental FDI inflows within the China+1 and ASEAN reindustrialisation themes, while maintaining fiscal discipline. The policy mix favours companies with strong execution capability, balance sheet strength, and regional exposure in high-value manufacturing and infrastructure.

3. Cross-Border & ASEAN Connectivity

Announcement:

- Malaysia to focus on advancing the ASEAN Power Grid (APG) to establish itself as a leading cross-border energy hub, enabling greater cross-border electricity trade with renewable energy.
- Collaboration between TNB and Petronas will be central to strengthening regional grid connectivity and supporting Malaysia's clean energy transition.
- Efforts to enhance JS-SEZ ecosystem such as Johor Super Lane, shortening approval time for investments and talent programmes to boost high income jobs.
- Development of Delapan in the Bukit Kayu Hitam Special Border Economic Zone to strengthen cross-ASEAN supply chain.
- Enhanced infrastructure along national borders such as:
    - New 28 km road from Kalabakan (Sabah) to Simanggaris (Indonesia)
    - Upgrade of Pasir Mas–Rantau Panjang railway line
    - Upgrade of Rantau Panjang (Kelantan) road to a four-lane dual carriageway
    - RTS Link Project to commence operations by 1 January 2027

Comment:

Although details on this front were sparse, it is clear to see that enhanced electrical infrastructure and increased capacity, namely in RE generation will be the key themes moving forward in order for Malaysia to leverage off the APG.

*Hence, we like **TNB**, **MN Holdings** and **Cheeding** for their direct exposure towards electricity infrastructure expansion through substations, UUE and overhead cabling. Moreover, APG's push towards increased capacity through RE sources spell out a boon for companies that have started to build hydro and solar assets such as **Gamuda** and **Solarvest**, with increase push from policy measures to likely enhance the bankability of future projects that they can undertake.*

4. Islamic Finance & Halal Economy

Announcement:

- Labuan International Business and Financial Centre (IBFC) to be developed into a Digital Islamic Finance Hub, including Global Sukuk Tokenisation, retail access to sukuk trading, and the issuance of Climate Sukuk.
- Introduction of cash-wakaf sukuk for social financing (education, autism, palliative care).
- RM100m halal financing facility via SME Bank and RM2.0bn Syarikat Jaminan Pembiayaan Perniagaan Berhad (SJPP) guarantee for halal micro, small and medium enterprises (MSMEs).
- RM124m allocation for Perak Halal Industrial Park and accelerated halal certification process under JAKIM/HDC.

Comment:

*The digitalisation and tokenisation push marks a milestone in Malaysia's Islamic finance landscape, deepening market accessibility and broadening the investor base for sukuk. We view this positively for banks with strong Islamic franchises, particularly **BIMB** and **Bank Rakyat**, as it enhances financing flow to halal MSMEs and offers new product opportunities in digital sukuk issuance.*

*The RM2.0bn SJPP guarantee lowers credit risk and supports loan growth for Islamic banks with SME exposure (**BIMB, RHB Islamic**). From a capital market standpoint, **Maybank IB** and **CIMB IB** stand to benefit from advisory and structuring fees as tokenised sukuk products gain traction.*

*The halal industrial park and certification reforms should also benefit integrated halal producers like **QL Resources, Leong Hup and F&N**, with spill over demand for logistics and trade finance facilities. Overall, we see this segment as structurally positive for Islamic financial institutions and Malaysia's position as a regional sukuk hub.*

5. Tourism & Heritage

Announcement:

- RM350m was allocated for promotions of infrastructure and industry incentives, including restoration of heritage building and promotion of local tourism activity via Tourism Malaysia agency
- To attract MICE (meeting & conference) activity, a RM50m incentives will be extended to organizers of world class conference
- A special individual income tax relief up to RM1,000 provided to for expenses on entrance fees to local tourist attractions and participation in cultural programmes.
- Over RM700m is allocated to revitalise the tourism sector, including RM500m for Visit Malaysia Year 2026, alongside funds to promote events and cultural activities, support arts and heritage entrepreneurs, attract international flights, enhance UNESCO heritage sites, and boost health tourism initiatives.
- To support Visit Malaysia Year 2026, the Government will introduce tax incentives including deductions of up to RM500,000 for premise renovations, 100% income tax exemptions for increased tourism revenue and international conferences or exhibitions, and 50% exemptions for organisers of international arts, cultural, and sporting events with foreign participants.

Comment:

*In preparation to woo more tourist in Visit Malaysia Year 2026, Budget 2026 have announced a RM500m allocation to promote local travel and hospitality industry, with special emphasis on restoration of local heritage landmarks. Nevertheless, we expect increase in both domestic and foreign tourist inflows to drive higher footfall of retail and malls, as more tourist spending benefit the sales of tenants in retail REIT **KLCCP, IGBREIT, PAVREIT, SUNREIT and PARADIGM**.*

*Further, aviation player **(AAX, CAPITAL A)** well-positioned to benefit from the proactive measures by Ministry of Tourism to improve Malaysia airports connectivity by offering incentive to lure more international flights, as outbound travellers are key to ensure the country achieves its VMY 2026 goals, to generate RM147bn in tourist receipts and 35m foreign tourist arrival. Meanwhile the entertainment operators and retail establishment will get a piece of action from special RM1,000 individual income tax relief, as consumer has extra pocket to spend will likely to bolster the earnings of newly listed **Oriental Coffee (KOPI)**, convenience stores **MyNews, SEM**, theme-park operator **GENM** and the landmark KL Tower operator **LSH.***

*We view the government's initiative under Budget 2026 to align tourism incentives — particularly through the promotion of medical tourism and MICE activities is seen as a key driver to boost occupancy rates for hotel and homestay operators such as **Shang** and **EXIMHB**. Similarly, hospital operators **(KPJ, IHH)** and medical specialist providers **(Optimax, Alpha IVF)** are also poised to benefit, as the measures are expected to spur medical-related travel and staycations, further supported by the 30-day visa-free program.*

6. Innovation, AI & "Ciptaan Malaysia"

Announcement:

- National Artificial Intelligence Office (NAIO): Established under MOSTI to coordinate AI governance, data standards, and national AI strategy implementation.
- Sovereign AI Cloud: To be developed under MCMC with RM2bn investment, supported by global tech partners (Microsoft, Google, AWS, and YTL Power) to anchor Malaysia's AI and data centre infrastructure.
- "Ciptaan Malaysia" commercialisation drive: RM100m allocation under MOSTI to translate domestic R&D outcomes into market-ready innovations, focusing on AI, MedTech, green technology, and AgriTech.
- Innovation Commercialisation Fund (ICF): RM250m under a joint MOSTI–Khazanah structure to support startups and scale-ups commercialising local inventions.
- SemiconStart Incubator Programme: RM50m funding through MTDC to nurture semiconductor and AI-related startups.
- Human capital & skills: HRD Corp to channel RM3bn for 3 million training opportunities in AI, semiconductor, and EV-related fields; PTPK to offer RM650m in technical training loans.

- Tax incentives: R&D and IP commercialisation tax allowances extended, with continued Accelerated Capital Allowance (ACA) for automation and high-tech equipment.

Comment:

Malaysia's clear shift toward technology self-reliance and innovation-driven growth, positioning the country as a regional hub for AI, cloud, and R&D commercialisation. The combined RM400m+ innovation funding and RM2bn Sovereign AI Cloud investment reaffirm that innovation is now a core economic pillar.

Collaboration between MOSTI, Khazanah, and global tech firms is expected to boost Malaysia's AI and data infrastructure, benefitting ***YTL Power, TIME dotCom, and Telekom Malaysia*** *through rising hyperscale demand. Meanwhile, automation and semiconductor players such as* ***Greatech, Vitrox, UWC, Frontken, and Kelington*** *should gain from growing AI hardware and testing activities. Overall, the stronger focus on "Ciptaan Malaysia" and local R&D commercialisation is set to enhance Malaysia's technology competitiveness, reduce reliance on imported IP, and support a* ***structural re-rating of the domestic tech ecosystem*** *over the medium term.*

7. Energy Transition & Climate Policy

Announcement:

- A 100% Green Investment Tax Allowance for Own Use to companies that utilise locally manufactured green technology products certified with the MyHIJAU Mark.
- The Green Technology Financing Scheme (GTFS) 5.0, open until 31 December 2026, offers government guarantees of up to 80% for waste management technologies and 60% for other green sectors—including energy, water, transport, and manufacturing—with total financing of RM1bn.
- Prasarana will expand its public transport network with 310 new buses by February 2026, 300 DRT vans by year-end, and a phased rollout of 1,450 electric buses and 300 electric vans by 2030 to enhance connectivity and support a low-carbon transport transition.
- Under the National Energy Transition Roadmap (NETR), Malaysia targets 70% RE capacity by 2050, supported by RM150m in transition funding, large-scale solar projects (2GW, RM6bn investment), RM16.5bn in GLIC/GLC green investments, expanded bioenergy and mini-hydro capacity (300MW), the CRESS programme (500MW, RM3.5bn investment), and initiatives like Solar ATAP and public-sector solar adoption to accelerate low-carbon energy transition.
- Introduction of carbon tax in 2026, initially focusing on the iron, steel, and energy sectors. To ensure effective implementation, its mechanism will be aligned with the forthcoming National Carbon Market Policy and the proposed Climate Change Bill.
- RM2.2bn is provided to continue 43 high-priority RTB projects, in addition of 12 new projects starting next year.
- RM20m in rebates for consumers and traders purchasing energy-efficient appliances, and will expand the RM2,500 personal income tax relief to cover food waste disposers.

Comment:

To achieve 70% RE target in 2050, Budget 2026 continues to reaffirm government long-term commitment in energy transition through strong investment in NETR. Among key investment focus are expansion in green energy utility, investment in public transport and adoption of green-certified household application. We view the generous investment in green energy including biomass, biogas, solar farms (CRESS, LSS programs) and small hydropower will allow utility companies ***(Tenaga, Malakoff, YTLP)*** *to expand and diversify their power capacity. At the same time, renewable energy players such as* ***Solarvest, Samaiden, Pekat and BMGreen*** *will continue to benefit by increasing EPCC projects, in both residential or in C&I (commerical & industrial) segment.*

Likewise, we view government push into buying more buses and vans to support DRT mobility, in aim to strengthen the first-last mile connectivity are moves to bring down numbers of cars, correspondingly reduce oil consumption and oil imports in the long-run. In fact, savings from subsidy rationalization of both RON95 and diesel to be channel to upgrade the public transport network which will benefit private public transport operator ***(HI Mobility, PTRANS),*** *and digital payment solutions provider* ***(GoHub, and TechStore).***

Under Budget 2026, the extension of the GTFS scheme and the flood mitigation project is seen as a welcome move ,highlight the government awareness in disaster prevention and strengthen its commitment to promote efficient use of natural resources. By offering business and consumer to capitalized their tax allowance by investing in environment-friendly solutions and green-label product (MyHijau), this will spur growth in the facility *management that specializes in environmental engineering solution **AWC, AncomLogistics**, industrial waste management **TexCycle, UEM Edgenta** and energy efficiency company **KJTS & Kenergy***

8. <u>Fiscal & Tax Measures</u>

Announcement:

- Full implementation of e-invoicing by mid-2026 to enhance tax transparency.
- Introduction of Luxury Goods Tax (5–10%) effective January 2026.
- Service Tax (SST) maintained at 8%, excluding F&B and telecom sectors.
- Capital Gains Tax (CGT) on unlisted shares retained at 10%.
- Carbon Tax to commence in 2026, starting with the iron, steel and energy sectors.
- Government expects RM5bn savings from procurement reforms under the new value-for-money framework.

Comment:

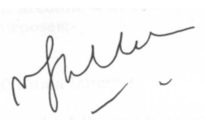
*We view the fiscal measures as credit-neutral to slightly positive for banks. The e-invoicing rollout will improve data visibility and SME credit profiling, allowing banks to underwrite loans with better information quality and lower provisioning risk. Banks with strong SME ecosystems (**Maybank, RHB, Ambank**) are best positioned to monetise e-invoicing integration through fee-based treasury and cash management services.*

*The retention of CGT and SST rates provides policy stability, removing immediate valuation overhangs for the market. The carbon tax, while mildly **negative for energy-intensive** corporates (e.g. **Ann Joo, Malayan Cement**), will drive financing demand for green upgrades and carbon transition projects — a medium-term opportunity for banks active in sustainable finance (**Maybank, CIMB, BIMB**).*

Procurement savings and deficit reduction to 3.5% of GDP reaffirm the government's fiscal credibility, a positive readthrough for sovereign yields, banks' investment portfolios and insurance bond holdings.

*We maintain a **Positive stance** on large-cap banks with strong fee income and ESG financing franchises (**Maybank, CIMB, RHB**) and Neutral on insurers pending further clarity on tax incentives for protection products.*

For Phillip Capital Management Sdn Bhd



Nona Salleh
Executive Chairperson