

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

US Treasuries

- US Treasuries ended weaker; driven by lack of catalysts with overall benchmark yields within 0-2bps higher. The 2Y (most sensitive to interest rate outlook) edged another 2bps higher at 2.50% whilst the much-watched 10Y rose 1bps to 2.97%. Nevertheless this is a busy week with Fed's policy decision on rates, quarterly refunding announcement and NFP data. The expectations of inflationary pressures and jobs data may reinforce bets on gradual rate hikes. FOMC is expected to be on a hawkish hold tonight with the Fed Fund Futures market has already priced in a 63% possibility of a hike in June. The economy is chugging along despite uncertainties of its magnitude which may have implications on wage-cost pressures.

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.50	2
5-yr UST	2.81	1
10-yr UST	2.97	1
30-yr UST	3.13	0

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.65	-12	3.79	0
5-yr	3.77	-1	3.85	-7
7-yr	3.96	-9	4.13	0
10-yr	4.13	-3	4.30	-7
15-yr	4.65	-4	4.73	-2
20-yr	4.78	4	4.84	-2
30-yr	4.89	0	4.92	1

*Market indicative

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.77	0
3-yr	3.83	0
5-yr	3.91	1
7-yr	4.01	0
10-yr	4.16	0

Source: Bloomberg

MGS/GII

- Trading volume in local Govvies was a paltry RM1.42b ahead of Labour Day celebrations. Both MGS and GII bonds continued their recovery following general weakness across the curve in response to the spike in UST yields the prior week. Overall benchmark yields were 0-12bps lower save for the 20Y MGS. The benchmark 7Y MGS 3/25 rallied to yield 9bps lower at 3.96% whilst the 10Y MGS 11/27 settled 3bps lower at 4.13% compared to previous-done levels. Expect a cautious but optimistic follow-through session for Govvies provided Ringgit contains its recent weakness. On the data front we have the trade balance, imports and export numbers out on 4th May.

Corp Bonds/Sukuk

- Corporate Bonds saw market volume ease to RM312m with interest across AAA to A2-rated bonds. There were no Govt-guaranteed bond trades whilst AAA-rated CAGAMAS 3/19 and PUTRAJAYA 5/26 spiked between 7-13bps to close at 3.98% and 4.64% respectively compared to previous-done levels. Meanwhile AA-rated UEM Sunrise 6/19 and 12/24 rose 3bps to close at 4.53% and 5.01% respectively whereas the seldom-traded PKNS 18's saw a total of RM30m traded closing higher between 4.20-40% levels. Selective trades may continue to be printed as investors seek value ahead of GE14.

Upcoming Government Bond Tenders

Nil

Daily Trades : Government Bonds

Securities	Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS 09/18	3.368	22	3.381	27/04/2018	-1
MGS 03/19	3.495	24	3.496	27/04/2018	0
MGS 07/19	3.559	8	3.576	27/04/2018	-2
MGS 10/19	3.605	35	3.619	27/04/2018	-1
MGS 11/19	3.617	7	3.618	27/04/2018	0
MGS 03/20	3.660	31	3.599	26/04/2018	6
MGS 10/20	3.710	3	3.723	27/04/2018	-1
MGS 02/21	3.745	20	3.744	27/04/2018	0
MGS 07/21	3.797	63	3.841	27/04/2018	-4
MGS 09/21	3.826	7	3.817	27/04/2018	1
MGS 11/21	3.649	49	3.680	27/04/2018	-3
MGS 03/22	3.867	40	3.901	27/04/2018	-3
MGS 08/22	3.926	2	3.933	27/04/2018	-1
MGS 09/22	3.894	53	3.919	27/04/2018	-2
MGS 03/23	3.993	66	4.049	27/04/2018	-6
MGS 04/23	3.768	12	3.779	27/04/2018	-1
MGS 08/23	3.968	50	4.011	27/04/2018	-4
MGS 07/24	4.070	22	4.083	26/04/2018	-1
MGS 09/24	4.014	3	4.067	26/04/2018	-5
MGS 03/25	3.957	296	4.051	27/04/2018	-9
MGS 09/25	4.185	16	4.193	27/04/2018	-1
MGS 04/26	4.168	1	4.213	27/04/2018	-4
MGS 11/26	4.180	28	4.208	27/04/2018	-3
MGS 11/27	4.129	60	4.155	27/04/2018	-3
MGS 06/31	4.599	2	4.563	27/04/2018	4
MGS 04/32	4.607	1	4.617	26/04/2018	-1
MGS 04/33	4.648	121	4.668	27/04/2018	-2
MGS 05/35	4.839	16	4.862	27/04/2018	-2
MGS 04/37	4.778	3	4.742	27/04/2018	4
GII 05/18	3.451	55	3.178	27/04/2018	27
GII 04/19	3.454	5	3.444	27/04/2018	1
GII 09/19	3.548	1	3.458	21/03/2018	9
GII 04/22	3.851	14	3.906	27/04/2018	-6
GII 07/23	4.011	5	4.065	26/04/2018	-5
GII 07/27	4.234	27	4.231	27/04/2018	0
GII 10/28	4.303	233	-	-	-
GII 06/33	4.728	1	4.752	26/04/2018	-2
GII 08/37	4.835	2	4.859	23/04/2018	-2
GII 05/47	4.921	17	4.915	09/04/2018	1
		<u>1420</u>			

Daily Trades: Corp Bonds / Sukuk

Securities	Rating	Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)	Spread Against MGS*
Cagamas Berhad	03/19 AAA	3.979	20	3.850	17/04/2018	13	59
Malaysia Airports Capital Berhad	12/24 AAA	4.566	8	4.519	27/12/2017	5	56
Putrajaya Holdings Sdn Berhad	05/26 AAA	4.635	20	4.569	17/04/2018	7	57
Sarawak Hidro Sdn Berhad	08/27 AAA	4.691	4	4.659	13/04/2018	3	59
West Coast Expressway Sdn Berhad	08/31 AAA	4.999	10	4.924	18/01/2018	7	35
Sarawak Energy Berhad	06/18 AA1	4.152	15	3.984	09/04/2018	17	76
MBSB Bank Berhad (fka Asian Finance Bank Berhad)	05/19 AA1	4.535	10	-	-	-	-
Sabah Credit Corporation	10/19 AA1	4.472	10	4.424	05/02/2018	5	108
MBSB Bank Berhad (fka Asian Finance Bank Berhad)	12/19 AA1	4.628	10	-	-	-	-
Sabah Development Bank Berhad	05/22 AA1	4.923	20	4.975	18/04/2018	-5	115
Public Bank Berhad	09/23 AA1	5.034	1	5.098	23/04/2018	-6	124
Sepangar Bay Power Corporation Sdn Berhad	07/25 AA1	4.799	2	4.712	19/12/2017	9	79
PBFIN Berhad	06/59 AA2	4.626	10	4.560	23/04/2018	7	-13
CIMB Group Holdings Berhad	03/28 AA	4.604	1	4.949	17/04/2018	-35	47
Perbadanan Kemajuan Negeri Selangor	05/18 AA3	4.200	10	4.095	13/04/2018	11	81
Gamuda Berhad	10/18 AA3	4.213	20	4.154	18/04/2018	6	82
Perbadanan Kemajuan Negeri Selangor	10/18 AA3	4.405	20	4.278	06/04/2018	13	101
Bumitama Agri Ltd	03/19 AA3	4.582	10	4.471	24/04/2018	11	119
Edra Energy Sdn Berhad	07/22 AA3	5.204	20	5.197	10/01/2018	1	144
Gamuda Berhad	03/23 AA3	4.758	5	4.739	19/03/2018	2	97
WCT Holdings Berhad	04/20 AA-	4.853	2	4.765	17/04/2018	9	129
Kimanis Power Sdn Berhad	08/18 AA-	4.063	10	3.965	20/11/2017	10	67
Alpha Circle Sdn Berhad	11/18 AA-	5.031	10	5.000	16/11/2017	3	164
UEM Sunrise Berhad (fka UEM Land Holdings Berhad)	06/19 AA-	4.527	10	4.501	27/04/2018	3	113
WCT Holdings Berhad	10/21 AA-	5.048	4	5.038	20/03/2018	1	137
Jimah East Power Sdn Berhad	12/23 AA-	4.698	2	4.575	17/01/2018	12	76
UEM Sunrise Berhad (fka UEM Land Holdings Berhad)	12/24 AA-	5.008	10	4.978	08/03/2018	3	100
Quantum Solar Park (Semenanjung) Sdn Berhad	04/33 AA-	5.849	6	5.840	05/10/2017	1	120
AMMB Holdings Berhad	12/26 A1	4.882	1	0.000	00/01/1900	488	78
CIMB Group Holdings Berhad	05/16 A1	5.114	2	5.351	27/04/2018	-24	36
CIMB Group Holdings Berhad	05/16 A1	4.998	1	5.257	25/04/2018	-26	24
Alliance Bank Malaysia Berhad	10/25 A2	4.883	<u>30</u>	4.960	26/04/2018	-8	87
			<u>312</u>				

*spread against nearest indicative tenured MGS (Source : BPAM)

Market/Corporate News: What's Brewing

Malaysian vehicle sales could fall for a third year in a row in 2018, weighed down by weaker sales, poor consumer sentiment, stringent loan approval rates and generally unfavourable market conditions. The latest annual reports of major automotive distributors reflect the gloomy outlook, and this has also been reflected in the Malaysian Automotive Association's (MAA) monthly and quarterly statistics, with March vehicle sales dropping 7% compared with the same month last year. For the first quarter ended March 31, sales declined 4% from the corresponding quarter. The MAA, which will release the April sales data later this month, projects flat sales volume for April, noting that consumers are awaiting the outcome of the upcoming general election, a view also held by Maybank Investment Research, which expects full-year sales of 595,000 units. The MAA expects 2.3% higher vehicle sales this year compared to last year. Total sales hit an all-time high of 666,674 units in 2015, then dropped almost 15% in 2016 before contracting further last year to 576,635 units. Oriental Holdings Bhd, a distributor of Honda cars and motorbikes, and UMW Holdings Bhd, whose 51%-owned UMW Toyota Motor Sdn Bhd, a mainstay of the conglomerate, distributes Toyota cars, both said in their annual reports that currency volatility will continue to be a major concern for their automotive business this year. "We envisage less than inspiring market conditions ahead, with the automotive division likely to face fierce market competition due to external factors such as rising costs of living and volatility of the ringgit. Nevertheless, we will endeavour to maintain our standing in the market. Over the past year, we have been continuously expanding and upgrading our showrooms and service centres. We have also strengthened efforts to boost our presence in Sabah and Sarawak," Oriental Holdings said in its annual report released recently. UMW Holdings said the key risks were the anticipated volatility in the interest rate environment, which could increase funding and borrowing costs and foreign currency fluctuations, which will have a particular impact on the automotive division and on the price of raw materials for UMW Aerospace's fan case supply contract with Rolls-Royce. The conglomerate's Toyota distributorship reported weaker earnings and margins last year, weighed down by a weak ringgit despite registering better-than-expected unit sales and earnings. As a whole, UMW Holdings reported a net loss of RM651.20mil for the financial year ended Dec 31, 2017 (FY17) and a net loss of RM1.7bil for FY16, with the narrower losses last year due to lower impairments and a smaller share of the losses in the oil and gas business. Meanwhile, Tan Chong Motor Holdings Bhd, the distributor of Nissan vehicles, expects only a marginal recovery in sales this year. The company nevertheless noted that the local automotive industry still expects some challenges – especially in the first half of the year, where cautious consumers may limit spending on big ticket items. "Concerns over loan approvals remain as the policy is still stringent. Bank Negara has raised its overnight policy rate, which has impacted interest rates. "Despite the uncertain and challenging outlook, the group took opportunities to plan for 2018 and beyond." The company slipped into the red in FY16 because of intense competition and a loss in market share from a freeze in new launches. A weak ringgit then and heavy discounting to clear off old inventories also weighed on the company's financial performance. Bermaz Auto Bhd (BAuto), the official distributor of Mazda cars in Malaysia, also expects a challenging year for the industry, anticipating sales driven by huge cash discounts towards the end of the year. "The persistently weak ringgit against the yen will continue to put pressure on vehicle cost and impact profit margin. The company said new model launches planned for the second half would help maintain its market share and mitigate the softer consumer sentiment. Despite the sentiments, BAuto recorded stellar earnings growth in the third quarter ended Jan 31, 2018 bolstered by increased sales volume of the new Mazda CX-5 model and a higher share of profit contribution from 30%-owned Mazda Malaysia as well as improved sales from the Philippines operations. According to a CIMB Research report, the strengthening of the ringgit against the greenback and the yen would bode well for automotive players with exposure to these currencies. "We see the strengthening of the ringgit versus the US dollar and yen as positive for the automotive sector, as it will help automakers reduce the cost of imported complete knocked-down kits and complete built-up units." (Source: The Star)

INDEPENDENT power producers (IPPs) are supposed to be cash cows with minimum earnings risks that pay generous dividends. They are usually the safe havens in times of uncertainty. But this is certainly not the case for Malakoff Corp Bhd, whose share price has halved since its initial public offering at RM1.80 per share in 2015. The stock closed at 89.5 sen last Friday, losing some RM3.9 billion in market capitalisation since its relisting on Bursa Malaysia. It is understood that Malakoff, a 37.7%-owned unit of MMC Corp Bhd — the flagship of tycoon Tan Sri Syed Mokhtar Albukhary —

lost its shine mainly because it has not been able to secure new power generation projects. Also, gone are the days when IPPs were awarded sweetheart deals with favourable terms plus high internal rates of return. Adding to the gloom is that Malakoff has been having operational issues at its power plants. “Although Malakoff’s IPP business is defensive in nature, the company has been plagued by operational issues such as the two major outages at its Tanjung Bin Energy plant,” says an analyst. In view of such problems, TA Securities has given the IPP a “sell” rating with a target price of 82 sen. “We prefer to stay on the sidelines until Tanjung Bin Energy’s rolling unscheduled outage rate is comfortably below its allowable first threshold of 6% (currently at 14%), as defined by its PPA, with signs of sustainable smooth operations,” it says in a research note. “Furthermore, Malakoff lacks major visible earnings catalysts in the near-to-medium term. This is underpinned by limited capacity expansion save for new small renewable energy projects, which are not expected to swing Malakoff’s earnings pendulum meaningfully.” Malakoff’s earnings took a dip in its financial year ended Dec 31, 2017 (FY2017), partly due to revisions in Segari Energy Ventures Sdn Bhd’s PPA with effect from last July. The PPA extension resulted in a lower capacity payment and, therefore, reduced earnings. Revenue grew 17% to RM7.13 billion on higher energy payments but net profit fell 13% to RM309.95 million as the higher payments from Tanjung Bin Power Sdn Bhd and Tanjung Bin Energy Sdn Bhd were partially offset by lower capacity payments recorded at Segari Energy Ventures’ gas plant. Malakoff is in a net debt position. It has cash and cash equivalents of RM2.35 billion, against total borrowings of RM15.83 billion. Frank Lin, a dealer’s representative at Hong Leong Investment Bank Bhd, opines that Malakoff’s gearing is a concern to investors. “Malakoff is a highly geared company, which may not go down well with investors. When we are approaching a general election, there are risks involved in long-term [government] contracts. They may be reviewed if there is change on the domestic political scene,” he tells The Edge. “The election factor aside, the company does offer excellent value for investors as PPAs always favour the power producers ... not only are the prices good but also there is a guaranteed take-up rate by Tenaga Nasional Bhd, so it is a safe business.” To be fair, Malakoff is not the only IPP losing its shine. YTL Power International Bhd, which operates the Paka and Pasir Gudang power stations in Malaysia and the PowerSeraya plant in Singapore, also saw its share price hit a 12-year low of 93.5 sen last Thursday. In an April 4 note on the utilities sector, Kenanga Research says the weakness in the IPPs’ share prices offers a buying opportunity. “IPP’s are backed by PPAs, which guarantee capacity payments as long as the requirements are met. Also, the valuation for the sector is not demanding, at 13.3 times 2018 [expected] earnings, which is below the FBM KLCI’s 15.3 times.” The research house has an “outperform” call on Malakoff and “market perform” call on YTL Power International with a target price of RM1.25 for both. Areca Capital CEO Danny Wong opines that the outlook for the IPP sector does not seem too promising, given that most of the first-generation PPAs are nearing expiry. They will have lower contributions from the PPA extensions. “Therefore, the outlook may not be as good as before. This may also make it more difficult for IPPs to raise funds via the issuance of debt instruments such as bonds as they may not get the level of subscription as before because the contracts are not as lucrative as they once were,” he says. “The dividend yields of IPPs may look attractive to investors, given that their share prices have come down. However, the yields of cash cows such as gaming stocks are attractive too, so there are many choices out there.” Malakoff’s dividend yield is 6.9% while YTL Power International’s is 5.19%. UOB Kay Hian points out that Malakoff’s strategy to conserve cash for expansion may put more pressure on the IPP. “Following Malakoff CEO’s recent announcement on conserving the group’s war chest for future expansion, we are projecting a conservative dividend payout of 80%, versus 2016/17’s 100%. This translates into a net dividend yield of 4.6% and 5.2% for 2018 and 2019 respectively,” it says in a Feb 22 note. Malakoff saw a change in its top management last year after its managing director Datuk Wira Azhar Abdul Hamid and chairman Tan Sri Syed Anwar Jamalullail resigned in June. Azhar was appointed chairman of Felda Global Ventures Holdings Bhd in September. The boardroom changes did not seem to go down well with the market as Malakoff’s share price plunged to an all-time low of RM1.04 a day after the announcement. Former Proton Holdings Bhd CEO Datuk Ahmad Fuaad Mohd Kenali was appointed Malakoff CEO while Datuk Hasni Harun was made its chairman. Some say the group’s new leadership will have to perform a delicate balancing act in attracting investor interest, that is, between acquiring earnings-accretive power assets and paying handsome dividends. (Source: The Edge)

Rating Actions			
Issuer	PDS Description	Rating/Outlook	Action
AEON Co. (M) Bhd	RM1 billion Islamic Medium-term Notes Programme (2016/2031) and RM300 million Islamic Commercial Papers Programme (2016/2022).	AA2/Stable and P1	Reaffirmed

Source: RAM Ratings; MARC

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