

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.63	-2
5-yr UST	2.74	-1
10-yr UST	2.86	1
30-yr UST	3.02	2

MGS*		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.48	0	3.59	0
5-yr	3.70	-1	3.83	1
7-yr	3.93	-3	4.01	0
10-yr	4.04	1	4.14	0
15-yr	4.47	0	4.55	0
20-yr	4.67	0	4.76	0
30-yr	4.90	0	4.92	1

* Market indices

MYR IRS Levels*		
IRS	Closing (%)	Chg (bps)
1-yr	3.70	0
3-yr	3.75	0
5-yr	3.84	0
7-yr	3.97	1
10-yr	4.17	1

Upcoming Government Bond Tender

Nil

US Treasuries

- US Treasuries ended mixed with yields gyrating within 1-2bps in both directions and steepening the curve amid a mixed bag of economic data and renewed trade tariff concerns as the US and Canada failed to reach a deal on NAFTA. 2Y note yields lost 2bps to 2.63% at close while the 10s added within 1bp to 2.86%. The US markets will be closed today for Labour Day holiday but we suspect this week's trading will be very much under the influence of US-China trade headlines with the impending implementation of tariffs on another US\$200bn of Chinese goods. Further out into the week, investors will be scrutinizing nonfarm job data to assess the case of a fourth rate hike by the Fed beyond September.

MGS/GII

- Trading volume in Govvies saw increased momentum on the day of Merdeka Day holiday eve, picking up further to RM3.32b, from RM3.15b a day ago. Substantial interests were seen skewed towards the short-end 1Y-3Y, on both the MGS and GII space, which traded in a ratio of 45:55, believed to be on continuous robust interests from local investors for GII following the just matured GII 8/18. GII 4/19 traded heavily with RM740m done at 3.34%. GII 4/20 and 11/23 also traded 1-2bps higher at 3.51% and 3.82% respectively. In the MGS space, trades were concentrated on MGS 3/19, 7/20 and 9/21, which collectively saw RM645m changed hands, at 3.31%, 3.41%, and 3.58%. Expect investors to trade cautiously this week ahead of BNM OPR decision on Wednesday and key exports and IPI data.

Corp Bonds/Sukuk

- Contrary to the increased momentum in local govies, corporate bonds/sukuk saw volume traded more than halve to RM534m last Thursday, pulling back from RM1.14bn a day ago. Trading interests remained well spread across the curve spanning GG to AA-rated papers while single A-rated Affin Bank also came into the picture though with razor thin trading. PASB '6/20 and Danalnfra '5/23, 2/25, 4/25 dominated the GG space with RM80m and RM50m dealt respectively, at levels 5-7bps lower. Energy issuances also continued to garner investor interests with names like Jimah East Power, Southern Power Generation and Edra Energy making it to the list.

Daily Trades : Government Bonds

Securities	Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS 09/18	3.268	20	3.276	28/08/2018	-1
MGS 03/19	3.314	214	3.239	29/08/2018	8
MGS 07/19	3.359	68	3.382	28/08/2018	-2
MGS 11/19	3.396	3	3.408	29/08/2018	-1
MGS 07/20	3.407	200	3.399	28/08/2018	1
MGS 10/20	3.460	1	3.476	28/08/2018	-2
MGS 02/21	3.527	11	3.513	21/08/2018	1
MGS 07/21	3.575	26	3.565	29/08/2018	1
MGS 09/21	3.582	231	3.595	28/08/2018	-1
MGS 11/21	3.479	12	3.477	29/08/2018	0
MGS 03/22	3.622	40	3.623	24/08/2018	0
MGS 08/22	3.706	153	3.713	24/08/2018	-1
MGS 09/22	3.714	78	3.715	24/08/2018	0
MGS 03/23	3.783	1	3.769	23/08/2018	1
MGS 04/23	3.695	29	3.702	29/08/2018	-1
MGS 08/23	3.789	154	3.784	29/08/2018	1
MGS 07/24	3.939	13	3.929	28/08/2018	1
MGS 03/25	3.934	151	3.952	29/08/2018	-2
MGS 09/25	4.062	1	4.040	29/08/2018	2
MGS 09/26	4.161	0	4.183	14/08/2018	-2
MGS 11/26	4.167	1	4.167	29/08/2018	0
MGS 03/27	4.194	0	4.194	23/08/2018	0
MGS 05/27	4.198	1	4.201	23/08/2018	0
MGS 11/27	4.162	15	4.149	29/08/2018	1
MGS 06/28	4.038	20	4.039	29/08/2018	0
MGS 04/30	4.455	18	4.431	24/08/2018	2
MGS 06/31	4.512	2	4.501	29/08/2018	1
MGS 04/33	4.525	27	4.527	29/08/2018	0
MGS 11/33	4.470	12	4.468	29/08/2018	0
MGS 05/35	4.692	2	4.697	28/08/2018	0
MGS 04/37	4.715	1	4.729	27/08/2018	-1
MGS 06/38	4.670	2	4.670	24/08/2018	0
MGS 09/43	4.848	0	4.855	27/08/2018	-1
MGS 03/46	4.889	0	4.873	29/08/2018	2
MGS 07/48	4.899	0	4.894	27/08/2018	0
GII 04/19	3.343	740	3.321	29/08/2018	2
GII 08/19	3.374	1	3.362	27/08/2018	1
GII 04/20	3.514	153	3.544	29/08/2018	-3
GII 05/20	3.561	90	3.549	28/08/2018	1
GII 05/20	3.561	50	3.603	22/02/2018	-4
GII 05/20	3.561	41	3.525	23/08/2018	4
GII 08/20	3.572	5	3.579	29/08/2018	-1
GII 04/22	3.747	113	3.745	29/08/2018	0
GII 07/23	3.818	0	3.859	24/08/2018	-4
GII 11/23	3.815	270	3.808	29/08/2018	1
GII 05/24	3.989	0	3.970	28/08/2018	2
GII 10/25	4.081	0	4.074	29/08/2018	1
GII 09/26	4.151	20	4.164	28/08/2018	-1
GII 07/27	4.138	131	4.142	29/08/2018	0
GII 10/28	4.140	60	4.136	29/08/2018	0
GII 06/33	4.535	40	4.509	23/08/2018	3
GII 08/33	4.559	100	4.615	27/08/2018	-6
GII 05/47	4.924	1	4.914	28/08/2018	1
		<u>3322</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*
Pengurusan Air SPV Berhad	06/20	GG	3.823	80	3.894	13/03/2018	-7	39
DanaInfra Nasional Berhad	05/23	GG	4.030	40	4.094	16/08/2018	-6	33
DanaInfra Nasional Berhad	02/25	GG	4.170	40	4.230	03/08/2018	-6	30
DanaInfra Nasional Berhad	04/25	GG	4.191	10	4.240	15/08/2018	-5	24
Malaysia Airports Capital Berhad	08/20	AAA	4.100	20	4.213	15/08/2018	-11	67
Bank Pembangunan Malaysia Berhad	03/22	AAA	4.454	5	4.500	08/08/2018	-5	82
GENM Capital Berhad	07/23	AAA	4.600	1	4.865	29/08/2018	-27	90
Telekom Malaysia Berhad	03/24	AAA	4.296	20	4.296	29/08/2018	0	42
Projek Lebuhraya Usahasama Berhad	01/26	AAA	4.480	5	4.607	09/08/2018	-13	53
Telekom Malaysia Berhad	05/28	AAA	4.568	20	4.611	20/08/2018	-4	53
Projek Lebuhraya Usahasama Berhad	01/32	AAA	4.759	5	4.849	02/08/2018	-9	29
Danga Capital Berhad	09/33	AAA	4.799	30	4.819	27/08/2018	-2	33
Sabah Development Bank Berhad	09/20	AA1	4.600	0	4.684	29/08/2018	-8	117
UniTapah Sdn Berhad	06/23	AA1	4.431	10	4.477	14/02/2018	-5	73
Malayan Banking Berhad	05/24	AA1	4.278	10	4.314	17/08/2018	-4	40
CIMB Bank Berhad	08/26	AA+	4.561	20	4.743	20/08/2018	-18	52
Konsortium ProHAWK Sdn Berhad	12/29	AA2	4.832	20	0.000	00/01/1900	483	79
Media Chinese International Limited	02/19	AA3	4.742	10	4.797	13/08/2018	-5	137
IJM Corporation Berhad	06/22	AA3	4.533	10	4.692	07/06/2018	-16	90
Gamuda Berhad	11/22	AA3	4.621	10	4.623	27/08/2018	0	99
Gamuda Berhad	03/23	AA3	4.678	20	4.698	29/08/2018	-2	98
Edra Energy Sdn Berhad	07/26	AA3	5.427	1	5.457	05/07/2018	-3	139
IJM Corporation Berhad	08/28	AA3	4.919	20	4.937	29/08/2018	-2	88
UEM Edgenta Berhad	04/22	AA-	4.607	1	4.909	28/08/2018	-30	97
WCT Holdings Berhad	05/22	AA-	4.996	20	5.021	10/08/2018	-2	136
Jimah East Power Sdn Berhad	12/26	AA-	4.717	10	4.725	28/08/2018	-1	68
Jimah East Power Sdn Berhad	06/29	AA-	4.808	5	4.842	29/08/2018	-3	77
Jimah East Power Sdn Berhad	06/30	AA-	4.825	50	4.839	29/08/2018	-1	79
Southern Power Generation Sdn Berhad	10/31	AA-	4.850	20	5.130	28/06/2018	-28	38
Jimah East Power Sdn Berhad	06/32	AA-	4.964	10	4.989	24/08/2018	-2	49
Jimah East Power Sdn Berhad	12/32	AA-	5.000	10	5.021	20/08/2018	-2	53
Affin Bank Berhad	09/27	A1	4.700	0	4.958	21/08/2018	-26	64
Affin Bank Berhad	07/18	A3	5.191	1	5.198	23/08/2018	-1	52
Mah Sing Group Berhad	04/17	-	6.501	0	6.421	28/08/2018	8	-
				<u>534</u>				

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

Market/Corporate News: What's Brewing

Moody's Investors Service expects Bank Negara Malaysia's new measures to its foreign exchange administration could foster greater currency stability in the near term by reducing the steps involved in retaining earnings within the country. The international rating agency said the measures allowed greater flexibility in managing export proceeds and hedging foreign currency obligations. Moody's said these measures differed from measures implemented by governments to foster currency stability that often resort to restrictions to curb capital outflows. "Over the longer term, these measures will facilitate the deepening of onshore markets and introduce greater sophistication around the availability of risk management tools to limit currency volatility," it said. Bank Negara had on Aug 18 announced changes to the forex administration. The measures build on regulations announced at the end of 2016 that required exporters to convert three-quarters of their proceeds to ringgit and restricted transactions in the offshore non-deliverable forwards market. "While they do not reverse those measures, they could foster greater currency stability in the near term by reducing the steps involved in retaining earnings within the country," it said. Moody's said that like several other currencies in the region, the ringgit had weakened over recent months in the context of increasing concerns around the pace and extent of a global rise in interest rates and trade protectionism, exacerbated by investor uncertainty about the new Malaysian government's policy stance and priorities. The currency has depreciated 6.0% against

the dollar since the end of March. “Given Malaysia’s high degree of trade openness and its important role in the regional supply chain, the economy is exposed to potential negative spillovers from the ongoing trade dispute between the US (Aaa stable) and China (A1 stable). “The regulations announced by the central bank include allowing exporters to immediately transfer proceeds to separate onshore accounts to meet up to six months’ foreign currency obligations, without having to first convert the proceeds into ringgit. “The measures should help to limit currency and broader financial market volatility by making it easier for companies to retain earnings within the country, and contain the sovereign’s vulnerability to external risks. “In addition, the new rules should increase the flow of hedging transactions, a positive for bank profitability. “The new rules will have implications for financial institutions and companies. By allowing greater flexibility in the use of export proceeds to meet outstanding foreign currency obligations, exporters can reduce the overall cost of hedging. Lower hedging costs will support businesses’ profitability and their ability to manage foreign exchange risks and service bank debt. Moreover, domestic banks can now offer ringgit-denominated interest rate derivatives to non-resident companies in addition to resident companies. “Similar to the earlier move in December 2016 to increase the liquidity of the onshore foreign exchange market, we expect the new rules that broaden access to interest rate derivatives to a larger group of businesses to boost market activity and income opportunities for banks over time,” it said. (Source: The Star Online)

Permodalan Nasional Bhd (PNB), which has come under scrutiny for supporting a RM4bil cash call by **Sapura Energy Bhd**, said that it was putting more money into the oil and gas company based on the merits of investments. Brushing off a view that the fund is backing the massive rights issue of the oil and gas company (O&G) because **Malayan Banking Bhd** (Maybank) is believed to be one of the creditors of Sapura Energy, PNB said it “only pursues investment opportunities which meet the fund’s stringent investment criteria and objectives.” “All investment opportunities presented to PNB are evaluated fully based on their own merits. “In this instance, we believe that Sapura Energy’s proposed recapitalisation plan presents PNB and all its shareholders with the potential of strong returns, given the attractive entry price and position of the company to benefit from the recovery of the O&G industry,” the fund said via email replies. PNB is the second largest shareholder in Sapura Energy, owning about 12%. The fund is also the controlling shareholder of Maybank, which is a core holding in the fund’s portfolio of companies. The bulk of the RM4bil rights issue is to be utilised to pare down Sapura Energy’s debts of RM16bil, of which RM10.9bil is long-term debt. Sapura Energy’s two-year reprieve on the debts is said to end in the first quarter of next year. PNB’s support for the rights issue comes at a time when interest from other institutional funds such as the Employees Provident Fund (EPF) and Kumpulan Wang Amanah Pencen (KWAP) has been waning or uncertain. EPF now owns less than 5% of the stock from 11.27% it had in April last year and unlikely to subscribe to the rights issue given the issue of excessive compensation raised at the shareholders meeting two months ago. As for KWAP, which owns just below 7% and sitting on paper losses, it has yet to decide whether it wants to participate in the rights issue. In July, the Minority Shareholders Watchdog Group (MSWG), which is backed by institutional shareholders, raised the issue of Sapura Energy’s president and chief executive Tan Sri Shahril Shamsuddin receiving excessive remuneration. Shahril received RM71.92mil in total remuneration for the financial year ended end January 2018 despite the company making a loss. In 2017, Shahril was paid RM84.24mil. Later the company disclosed that Shahril’s compensation was due to the company’s debt covenants that tied down his 16% shareholding in the company. PNB said that it shared the concern raised by other institutional shareholders over the excessive executive compensation that was brought up during the company’s AGM. “PNB has been informed by Shahril on his commitment to discuss with the board of directors of Sapura Energy on a revised remuneration package to be based on relevant

key performance indicators and benchmarked against global oil and gas companies.”

“We understand that as part of the recapitalisation exercise, Sapura Energy board shall be reviewing the executive compensation of key management to ensure that it is fair and well-aligned with shareholders’ interests,” it said. Back to the company’s borrowings, the fund said it recognised that one of the major issues at Sapura Energy is the significant debt exposure it has with both domestic and international financial institutions. Apart from a rights issue, Sapura Energy plans to reduce debts through listing its exploration and production (E&P) business and a potential partnership for its drilling arm. PNB said it was approached by Sapura Energy to seek its support for the proposed recapitalisation exercise and it has expressed interest to participate in the rights issue, both for their share of entitlement and excess shares. “After careful consideration and evaluation, PNB views the proposed recapitalisation plan positively as it has the potential to generate returns and create more value for the company’s shareholders,” it said. According to the fund, Sapura Energy is one of the few local bumiputera companies with a strong track record and significant global presence in over 20 countries. Sapura Energy’s single largest shareholder currently is Sapura Technology Sdn Bhd with a 16.5% interest. Sapura Technology is the vehicle of Shahril and his brother Datuk Shahrizan Shamsuddin. However, with Sapura Technology only intending to participate in the rights issue for a minimum amount of RM300mil, its shareholding in the listed entity would be potentially diluted to about 12.6% after the exercise. With PNB committed to subscribe for both its entitlement and excess shares, it may emerge as Sapura Energy’s single largest shareholder. Notably, this would be PNB’s second fresh capital injection via a rights issue after doing so for its 62%-owned **Velesto Energy Bhd** (formerly UMW Oil & Gas Corp Bhd) recently. Shares of Sapura Energy closed at 34 sen on Friday, down from 60 sen on Aug 24 when the recapitalisation plan was first announced. Its market cap now stood at RM2bil. The company, which posted a net loss of RM135.7mil in the first quarter of FY19, expects to complete the exercise by the end of this year subject to shareholders’ approval. (Source: The Star Online)

SRating Action			
Issuer	PDS Description	Rating/Outlook	Action
Nil			

Source: RAM, MARC

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