

## Global Markets Research

### Fixed Income

### Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.63	0
5-yr UST	2.74	0
10-yr UST	2.86	0
30-yr UST	3.02	0

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.49	1	3.60	0
5-yr	3.71	1	3.85	2
7-yr	3.93	-1	4.03	1
10-yr	4.05	1	4.15	1
15-yr	4.50	3	4.56	1
20-yr	4.67	0	4.76	0
30-yr	4.90	0	4.91	-2

\* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.72	1
3-yr	3.76	1
5-yr	3.86	2
7-yr	4.00	2
10-yr	4.18	1

Source : Bloomberg

Note: Levels for UST as at 31-Aug

### Upcoming Government Bond Tender

Nil

### US Treasuries

- US markets were closed for Labour Day holiday. As expected, trade war concerns dominated financial markets elsewhere and we expect the same for today's trading when US markets reopen with the impending implementation of tariffs by the US administration 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 in local govies saw extended increase in momentum. Volume transacted picked up for the 4<sup>th</sup> straight trading day, from RM3.32bn to RM3.93bn yesterday, mainly led by MGS as the percentage of GII traded dwindled to a mere 25%, its lowest in a month. Benchmark yields for both the MGS and GII were generally higher by 1-3bps, save for the benchmark 7Y MGS 3/25 (-1bps) and 30Y GII 5/47 (-2bps) due to odd-lots trade. We noted substantial interests in the front end to the belly of the curve, most notably MGS 11/21 and MGS 10/19, done at 3.49% (+1bp) and 3.46% (+5bps) respectively. In the GII space, 5Y GII 11/23 saw RM535m changed hands, trading 2bps wider at 3.84%. Expect investors to trade cautiously this week ahead of BNM OPR decision on Wednesday and key exports and IPI data.

### Corp Bonds/Sukuk

- Trading in corporate bonds/sukuk bucked the trend in local govies for a second straight day. Volume dealt tapered off further to RM444m yesterday, from RM534m the preceding trading day. Trading interests continued to center around GG to AA-rated papers. Topping the list is AAA-rated Caga '10/18 which saw RM100m done at 3.468%, followed by Danga '4/20 at 4.059% (RM80m). In the GG segment, Dana '4/30 was the only name traded, RM50m at 4.493%. Energy names continued to be in the limelight SEB '7/29 and '8/35, TBP '8/19 and '8/20 as well as Edra Energy '7/27 that saw a combined trades of RM101m.

## Daily Trades : Government Bonds

Securities	Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS 09/18	3.288	96	3.268	30/08/2018	2
MGS 03/19	3.333	120	3.314	30/08/2018	2
MGS 07/19	3.407	20	3.359	30/08/2018	5
MGS 10/19	3.455	273	3.404	29/08/2018	5
MGS 11/19	3.427	86	3.396	30/08/2018	3
MGS 03/20	3.458	28	3.425	29/08/2018	3
MGS 07/20	3.449	22	3.407	30/08/2018	4
MGS 10/20	3.464	184	3.460	30/08/2018	0
MGS 02/21	3.535	2	3.527	30/08/2018	1
MGS 07/21	3.583	8	3.575	30/08/2018	1
MGS 09/21	3.562	11	3.582	30/08/2018	-2
MGS 11/21	3.494	648	3.480	30/08/2018	1
MGS 03/22	3.631	17	3.622	30/08/2018	1
MGS 08/22	3.748	101	3.706	30/08/2018	4
MGS 09/22	3.741	36	3.714	30/08/2018	3
MGS 03/23	3.758	4	3.769	23/08/2018	-1
MGS 04/23	3.709	92	3.695	30/08/2018	1
MGS 08/23	3.800	14	3.800	30/08/2018	0
MGS 07/24	3.939	95	3.937	30/08/2018	0
MGS 09/24	3.987	31	3.986	29/08/2018	0
MGS 03/25	3.927	0	3.943	30/08/2018	-2
MGS 09/25	4.104	114	4.062	30/08/2018	4
MGS 04/26	4.163	23	4.144	29/08/2018	2
MGS 11/26	4.174	92	4.167	30/08/2018	1
MGS 03/27	4.217	10	4.194	30/08/2018	2
MGS 05/27	4.191	1	4.198	30/08/2018	-1
MGS 11/27	4.178	199	4.162	30/08/2018	2
MGS 06/28	4.045	116	4.038	30/08/2018	1
MGS 09/28	4.295	0	4.296	23/08/2018	0
MGS 04/30	4.464	17	4.454	30/08/2018	1
MGS 06/31	4.512	121	4.512	30/08/2018	0
MGS 04/33	4.537	13	4.524	30/08/2018	1
MGS 11/33	4.495	268	4.470	30/08/2018	3
MGS 05/35	4.697	48	4.692	30/08/2018	0
MGS 04/37	4.705	3	4.722	30/08/2018	-2
MGS 03/46	4.877	3	4.889	30/08/2018	-1
MGS 07/48	4.901	46	4.894	27/08/2018	1
GII 08/19	3.603	0	3.374	30/08/2018	23
GII 09/19	3.443	2	3.352	28/08/2018	9
GII 04/20	3.482	5	2.386	30/08/2018	110
GII 06/20	3.520	1	3.555	28/08/2018	-4
GII 08/20	3.587	3	3.579	29/08/2018	1
GII 04/22	3.753	103	4.082	30/08/2018	-33
GII 11/23	3.840	535	3.815	30/08/2018	2
GII 08/24	4.007	70	3.980	29/08/2018	3
GII 07/27	4.138	115	4.138	30/08/2018	0
GII 10/28	4.153	130	4.140	30/08/2018	1
GII 08/37	4.747	0	4.751	27/08/2018	0
GII 05/47	4.908	1	4.914	28/08/2018	-1
		<u>3927</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*
Danainfra Nasional Berhad	04/30	GG	4.493	50	4.470	29/08/2018	2	45
Cagamas Berhad	10/18	AAA	3.468	100	3.704	13/06/2018	-24	10
Danga Capital Berhad	04/20	AAA	4.059	80	4.171	24/07/2018	-11	63
TTM Sukuk Berhad	11/21	AAA	4.196	10	4.260	08/08/2018	-6	72
GENM Capital Berhad	07/23	AAA	4.848	11	4.865	29/08/2018	-2	115
CIMB Bank Berhad	05/24	AAA	4.488	20	4.501	21/08/2018	-1	61
Danga Capital Berhad	09/33	AAA	4.794	10	4.799	30/08/2018	-1	32
Malayan Banking Berhad	01/24	AA1	4.568	0	4.619	13/08/2018	-5	87
Sarawak Energy Berhad	07/29	AA1	4.733	10	5.055	18/06/2018	-32	69
Sarawak Energy Berhad	08/35	AA1	5.034	40	5.139	16/08/2018	-11	56
Celcom Networks Sdn Berhad	08/19	AA+	4.256	15	4.217	21/08/2018	4	89
Celcom Networks Sdn Berhad	10/21	AA+	4.476	5	4.479	27/08/2018	0	100
Tanjung Bin Power Sdn Berhad	08/19	AA2	4.221	20	4.271	16/08/2018	-5	85
Tanjung Bin Power Sdn Berhad	08/20	AA2	4.300	20	4.338	10/08/2018	-4	87
AMMB Holdings Berhad	08/19	AA3	4.419	2	4.514	25/06/2018	-10	105
Gamuda Berhad	11/22	AA3	4.638	10	4.621	30/08/2018	2	100
RHB Islamic Bank Berhad	04/27	AA3	4.643	20	4.617	09/08/2018	3	58
Edra Energy Sdn Berhad	07/27	AA3	5.336	11	5.509	11/04/2018	-17	128
RHB Bank Berhad	03/39	A1	4.438	10	4.534	27/07/2018	-10	-23
				444				

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

## Market/Corporate News: What's Brewing

Moody's Investors Service is bullish on Sime Darby Plantation Bhd (SDP) despite its lower earnings in fiscal 2018. The global credit rating company said it expect SDP to generate an annual reported profit before interest and tax (PBIT) of around RM1.7bil over the next two years based on its crude palm oil (CPO) price assumption of RM2,300 a ton. "While downstream operations, which include bulk refineries, specialty fats, and oleochemicals continue to grow, SDP's upstream operations will contribute more than three quarters of total PBIT over the next two years," it noted. Consolidated PBIT declined 9% year-on-year to RM2bil driven by weakness in SDP's upstream plantations business, consisting of CPO and palm kernel sales, as CPO and palm kernel prices declined 11% and 13%, respectively. Moody's said based on its CPO price assumption of RM2,300 a ton, it expect SDP's adjusted leverage to be around 2.8 times and interest coverage around 5.8 times over the next 12-18 months. "While SDP will periodically seek similar-sized investments, we expect its management to maintain a conservative approach toward further investments such that adjusted leverage remains below its 3.5 times downgrade trigger over a sustained period, it added. SDP is also conducting a strategic review of its loss-making operations in Liberia, which includes collaborating with other domestic palm oil companies or selling the business outright. In August 2018, SDP acquired Markham Farming Company Limited in Papua New Guinea (PNG), that country's largest exporter of coconut oil, for \$52.6 million (MYR216 million). Markham Farming has 6,110 hectares of agricultural land near PNG's largest port, and two copra mills with an annual capacity of 55,000 tons. The acquisition is small, representing around 1% of SDP's total assets, but it will increase SDP's oil palm plantations in PNG and help SDP expand its downstream lauric oils business by providing coconut oil as a feedstock to its refineries. The plantation company declared a final dividend for fiscal 2018 of RM544mil in addition to its interim dividend of RM238 paid during the year. It also declared a special dividend of RM408mil from its RM491mil non-recurring income during the year, which includes gains on sale of land. The final and special dividends will be paid in fiscal 2019. The special dividend is credit negative as it will increase the company's cash needs over the next 12 months. "However, the cash outflow for

dividends will be lower than total dividends declared because SDP plans to establish a dividend reinvestment plan, which allows shareholders to reinvest their cash dividends into additional shares. “SDP’s cash balance, along with projected cash flow from operations, will not be sufficient to meet its cash needs, including scheduled debt maturities, capital spending and dividends. “However, we expect SDP to roll over its short-term obligations, if required, as the company enjoys superior access to funding from domestic and international banks,” Moody’s said. *(Source: The Star Online)*

The board of FGV Holdings Bhd, led by its chairman Datuk Wira Azhar Abdul Hamid, has introduced new production and cost targets for the plantation company as he plots a return to sustainable profitability. The immediate turnaround plan entails the formation of a special board committee, establishment of transformation office, enhancements in plantation operation as well as review of investigations and proceeding with all legal recourse. FGV had posted a net loss of RM21.9mil in the first six months ended June 30. At a press conference yesterday, Azhar said FGV intended to boost its fresh fruit bunch (FFB) production from 4.65 million tonnes estimated this year to 5.6 million tonnes in 2019. This means increasing the current yield per hectare to 20 tonnes. Azhar said about 34% of the group’s estates have already meet this target and the focus is to increase yield from at least half of its estates. “This is not going to happen overnight but it is not going to be too long before it happens,” he said. Azhar was accompanied by three of the company’s independent directors but there was a glaring absence of his senior management except for newly appointed chief transformation officer Syed Mahdhar Syed Hussain. When asked, Azhar said chief executive officer Datuk Zakaria Arshad and chief financial officer Ahmad Tifli Mohd Talha were unable to attend as they were in Turkey for a meeting. FGV is in the midst of completing a fresh investigation into some of its recent deals. At the briefing, Azhar said investigations on the six transactions and/or investment decisions, which began in January this year, are to be “narrowed down” by year-end, as some investigations involved overseas transactions. Four of the investigations have been completed, which include the acquisition of Asia Plantations Ltd, the investment in FGV Cambridge Nanosystems Ltd and the acquisition of Troika condominiums near the Kuala Lumpur Twin Towers. FGV’s lawyers are in the midst of finalising their recommendations and advice. “The legal advice report will be completed in a couple of weeks. I can’t name the individuals (involved) but I think it is safe to say that the individuals range from board members and management employees. “The only legal recourse that we (FGV) have is civil – claim for damages or loss. It is up to the relevant government authorities to see if they want to proceed with any other actions,” he said. Azhar elaborated that there are “quite a few people involved” and they are “those we can identify as directly-linked to the transactions”. “Under the Companies Act, the board has the highest responsibility for the management of a company. “Ultimately, whether you are a board member or management, you have the obligation or responsibility to exercise due care and carry out your fiduciary duty properly to protect the interest of FGV,” he said. As FGV goes through the investigation and legal process, Azhar stressed that the turnaround plan remained its key priority. He said it is vital to ensure that values are implemented within the group, efficiency and effectiveness of operations enhanced, and good financial results generated. “The board and management remains quite committed to this (turnaround plan),” he said. *(Source: The Star Online)*

SRating Action			
Issuer	PDS Description	Rating/Outlook	Action
Nil			

*Source: RAM, MARC*

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