Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.75	3
5-yr UST	2.87	4
10-yr UST	2.98	4
30-yr UST	3.12	4

	MGS		GII*	
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.62	-2	3.57	0
5-yr	3.83	-2	3.92	-4
7-yr	4.05	-1	4.11	-3
10-yr	4.16	0	4.23	-3
15-yr	4.59	-1	4.62	0
20-yr	4.70	0	4.79	0
30-yr	4.92	0	4.95	0

** Market indicative levels*

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.70	0
3-yr	3.76	0
5-yr	3.86	0
7-yr	3.98	0
10-yr	4.17	0

Source : Bloomberg

Upcoming Government Bond Tender

RM2.0b reopening of 30Y GII 5/47 on 13th Sep '18

US Treasuries

- US treasuries lost ground yesterday as yields were 3-4bps higher despite solid 3Y note auction as equities rallied instead. In addition, a slew of IG issuances that included 3M, Enel Finance, Southwestern Electric Power, Bell Canada and PNC bank NA were in focus and dampened demand for UST's. Meanwhile the US Treasury's $35b auction of 3Y notes notched 2.821% on BTC ratio of 2.68x (versus 2.76x on previous six auctions). Despite an escalating trade war potentially disrupting the solid US economic growth; bond traders seemed concerned as Fed rate hike odds soar this month on solid jobs data. This helped push demand for bills and cash equivalents as negative duration requirements were being adopted. Up next on the data front are the PPI figures slated for tonight followed by US CPI tomorrow.

MGS/GII

- Trading volume inn Govvies dissipated further to RM1.25b yesterday with interest mainly on the short-end 18-19's and 23's. However on a brighter note, benchmark yields were generally 0-2bps lower across the curve with the 7Y MGS 3/25 edging 1bps lower at 4.05% whilst the 10Y MGS 6/28 was untraded at 4.16% levels. With very little local leads, investors expect external developments to rule the overall direction and sentiments in the local market.

Corp Bonds/Sukuk

- Corporate bonds/sukuk saw improved trading volume of RM527m on 26 different bonds compared to prior day's 34 as interest spanned across the GG-AA part of the curve. Both the shorter-end Govt-Guaranteed PASB 11/20 and PRASA 12/20 papers rallied 10 and 20bps respectively to end at 3.90% levels compared to previous-done levels. The recently-issued CAGA 9/21 traded unchanged at coupon of 4.05% on RM100m in nominal value in the AAA space whilst AA-rated Southern Power 4/24 and DUKE 8/38 closed mixed at 4.61% and 5.54% respectively on decent investor demand.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	09/18	3.524	154	3.351	06/09/2018	17
MGS	03/19	3.288	100	3.298	06/09/2018	-1
MGS	07/19	3.397	4	3.484	06/09/2018	-9
MGS	11/19	3.438	53	3.500	06/09/2018	-6
MGS	02/21	3.584	1	3.583	04/09/2018	0
MGS	07/21	3.598	37	3.606	06/09/2018	-1
MGS	09/21	3.621	2	3.663	06/09/2018	-4
MGS	11/21	3.619	21	3.645	06/09/2018	-3
MGS	08/22	3.772	90	3.813	06/09/2018	-4
MGS	04/23	3.828	101	3.852	06/09/2018	-2
MGS	08/23	3.890	7	3.890	06/09/2018	0
MGS	07/24	4.064	52	4.083	06/09/2018	-2
MGS	09/24	4.068	59	4.036	05/09/2018	3
MGS	03/25	4.050	91	4.080	06/09/2018	-3
MGS	04/26	4.197	3	4.205	06/09/2018	-1
MGS	11/27	4.230	1	4.230	06/09/2018	0
MGS	04/30	4.509	2	4.531	06/09/2018	-2
MGS	06/31	4.565	27	4.544	06/09/2018	2
MGS	04/33	4.603	12	4.593	06/09/2018	1
MGS	11/33	4.586	17	4.595	06/09/2018	-1
MGS	05/35	4.742	3	4.753	06/09/2018	-1
MGS	09/43	4.900	1	4.893	06/09/2018	1
MGS	07/48	4.920	22	4.917	06/09/2018	0
GII	04/22	3.776	60	3.797	05/09/2018	-2
GII	07/22	3.797	1	3.759	28/08/2018	4
GII	07/23	4.004	33	3.976	05/09/2018	3
GII	11/23	3.922	153	3.965	06/09/2018	-4
GII	05/24	4.026	20	4.037	05/09/2018	-1
GII	08/25	4.111	10	4.144	06/09/2018	-3
GII	10/28	4.234	110	4.264	06/09/2018	-3
			1248			

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	11/20	GG	3.902	60	4.000	24/07/2018	-10	47
Prasarana Malaysia Berhad	12/20	GG	3.901	50	4.100	28/06/2018	-20	47
Khazanah Nasional Berhad	03/21	GG	3.981	15	4.070	09/03/2018	-9	50
Khazanah Nasional Berhad	06/22	GG	4.100	15	4.152	08/08/2018	-5	47
Perbadanan Tabung Pendidikan Tinggi Nasional	03/24	GG	4.170	20	4.180	09/08/2018	-1	30
Prasarana Malaysia Berhad	09/25	GG	4.268	40	4.397	16/01/2018	-13	31
Perbadanan Tabung Pendidikan Tinggi Nasional	07/26	GG	4.360	20	4.460	17/01/2017	-10	32
DanaInfra Nasional Berhad	05/31	GG	4.580	4	4.769	05/07/2018	-19	11
Aman Sukuk Berhad	05/19	AAA	4.034	5	4.099	03/04/2018	-7	66
Cagamas Berhad	09/21	AAA	4.050	100	4.050	06/09/2018	0	57
Malayan Banking Berhad	01/24	AA1	4.249	1	4.589	05/09/2018	-34	55
Hong Leong Islamic Bank Berhad	06/24	AA1	4.293	12	4.390	23/08/2018	-10	42
Kuala Lumpur Kepong Berhad	08/25	AA1	4.500	20	4.578	19/01/2018	-8	55
TRIplc Medical Sdn Berhad	10/30	AA1	4.821	5	4.931	12/06/2018	-11	78
TRIplc Medical Sdn Berhad	10/31	AA1	4.860	5	4.970	12/06/2018	-11	39
CIMB Bank Berhad	08/26	AA+	4.874	1	4.561	30/08/2018	31	83
Benih Restu Berhad	06/25	AA2	4.628	40	4.589	28/08/2018	4	67
Fortune Premiere Sdn Berhad	09/23	AA	4.848	30	-	-	-	115
BGSM Management Sdn Berhad	08/25	AA3	4.682	1	4.748	09/08/2018	-7	73
WCT Holdings Berhad	12/18	AA-	4.426	10	4.414	06/09/2018	1	106
Segi Astana Sdn Berhad	01/22	AA-	5.136	10	-	-	-	166
Southern Power Generation Sdn Berhad	04/24	AA-	4.609	20	4.648	02/08/2018	-4	74
Konsortium Lebuhraya Utara-Timur (KL) Sdn Berha	12/30	AA-	4.914	10	4.989	29/03/2018	-8	88
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/38	AA-	5.539	30	5.509	03/08/2018	3	87
CIMB Group Holdings Berhad	05/16	A1	5.113	2	4.723	28/08/2018	39	44
Pacific & Orient Insurance CO Berhad	06/22	A3	6.525	1	-	-	-	-
				527				

spread against nearest indicative tenured MGS (Source : BPAM)

Market/Corporate News: What's Brewing

An estimated 6.58 million sqft of net lettable space from more than 10 malls is expected to enter the Klang Valley retail market in the second half this year, raising concerns of added pressure on occupancy levels for both existing and incoming stock. According to Knight Frank in its Real Estate Highlights report, the recent completion of around 450,000 sqft of net lettable retail space brings Klang Valley's cumulative supply to 57.5 million sqft in the first half. "Retail space per capita, analysed at around 7 sqft per person, is one of the highest in Malaysia. The current concern weighs more on the completed retail stock that have yet to be filled and this puts further pressure on occupancy levels going forward. "The Klang Valley retail landscape continues to face strong headwinds and the recent completion of some 450,000 sq ft of space further heightens competition in an already crowded market," it said. The biggest contributor of the 6.58 million sqft of space entering the Klang Valley market will be from Empire City Damansara Mall, totalling around 2.3 million sqft, said Knight Frank. This is followed by Tropicana Gardens and Central i-City Shopping Centre at one million sqft and 940,000 sqft of net lettable space respectively. Knight Frank noted that Kuala Lumpur City Hall has frozen new approvals for projects, including those built on hill slopes and public spaces, to address the growing mismatch in supply and demand of selected property segments including retail. "This measure is expected to provide a breather to the oversupplied retail market as it seeks to find its equilibrium." Nevertheless, the property consultancy is still optimistic about the outlook of the local retail sector for the remainder of 2018. "Moving forward, Malaysia Retail Association has revised upwards its full-year forecast from 4.7% to 5.3%. The government's decision to zero rate the Goods and Services Tax augured well for the retail industry and increased demand for goods and services. "The Sales and Service Tax may spur spending with lower prices for necessity goods." Meanwhile, the proposed move on minimal wage will be a breather for lower income consumers and may strengthen purchasing power, Knight Frank added. "For the remaining of 2018, retail sales growth is expected to be sustained as consumer sentiment improves with higher purchasing power. We continue to see more consumers turning to online shopping for greater choices, bargains and convenience evident from rapid growth in e-commerce. "To remain competitive due to rising popularity of online shopping, the retail segment has been banking on securing tenants with services and experience factor such as food and beverage, beauty and dermatology and sports and entertainment." Separately Knight Frank said the average monthly gross rentals of selected prime shopping centres remained resilient in the first half of this year. "In Kuala Lumpur city, Suria KLCC and Pavilion Kuala Lumpur continued to command higher average monthly rentals of RM24 per sq ft to RM26 per sq ft. These popular malls registered near full occupancy of 97% and 99% respectively. "In the city fringe, Mid Valley Megamall and The Gardens Mall command average monthly rentals of RM17 per sq ft and RM16 per sq ft respectively. These malls registered 100% and 98% occupancies, with back-to-back tenant movements and renewals."The property consultancy said the average monthly rentals for Sunway Pyramid Shopping Centre and The Mines in Selangor were RM14 per sq ft and RM9 per sq ft respectively. "These malls are 99% and 94% occupied respectively." *(Source: The Star Online)*

Upstream activities are increasing in tandem with crude oil prices that are climbing steadily. While things are looking up in the oil and gas (O&G) industry, many domestic O&G companies are still bogged down by high borrowings and finance costs. Given the growing optimism in the O&G industry, some quarters believe more debt-laden companies are likely to tap on existing shareholders' for fresh capital by making cash calls. "With [the] oil price at this level, they [O&G companies] have the opportunity to turn around. But first they need to have cash to pare down their debts." "Some players can [undertake rights issue], but not all. But I do expect more high-gearing companies to make cash calls," said Areca Capital Sdn Bhd chief executive officer Danny Wong Teck Meng. Among O&G companies that are still burdened by its high gearing includes Bumi Armada Bhd and Icon Offshore Bhd. (see chart) Debt restructuring would be essential to give these companies the breathing space so that the high finance cost would not be straining their finances. Nonetheless, they also need fresh capital to execute jobs as new orders start flowing in. Furthermore, it is hard to obtain jobs when finances are weak. With improved sentiment, cash calls would be the more appropriate channel to raise working capital, although rights issue seldom goes down with shareholders as reflected by the sharp fall in share prices of the companies that have announced rights issue. Wong concurred with the view that after Sapura Energy Bhd, the next in line with "concerns over debt" to finance in the near term could be Bumi Armada Bhd. "I think [for Bumi Armada] the best option is capital injection," Wong told The Edge Financial Daily. The company has US$500 million worth of bank borrowings due in stages in October and December, and in May 2019. It said back in March that it is assessing options to raise funds including "potential share placement, asset divestment, establishing equity partnerships and obtaining debt funding". "But for projects with tighter time frames, companies may still turn to debt financing," he said. HLIB Research analyst Sean Lim opined that debt restructuring through the Corporate Debt Restructuring Committee (CRDC) is another option for some companies. He pointed to loss-making Alam Maritim Resources Bhd, which has just signed supplementary agreements with its financiers on Sept 6 to restructure its existing debt under supervision by the CRDC. As at June 30, Alam Maritim had long- and short-term borrowings of RM15.27 million and RM113.93 million respectively. While the figure affected was not disclosed, terms under the debt-restructuring exercise include a repayment period of up to seven years and maximum interest rate of 5%. "That is one way to reduce financing costs," said Lim. "And we have seen in the case of Velesto Bhd and Sapura Energy … their share prices reacted quite sharply when their cash calls were announced," he said. If Bumi Armada, too, seeks more support from the banks such as CDRC, its success will hinge on the ability to ensure the Armada Kraken floating production storage and offloading vessel achieves final acceptance, said Lim. "Everything boils down to Kraken. If they cannot get Kraken [for final acceptance], even banks won't refinance [its debt]," he added. Last Friday, Bumi Armada announced to Bursa Malaysia that Armada Kraken had been issued with the final acceptance certificate. "The final acceptance was completed in accordance with the requirements set out in the bareboat charter contract dated Dec 20, 2013 (as supplemented by Amendment Agreement Number One, dated Aug 19, 2016, and Amendment Agreement Number Two, dated Aug 27, 2018)," said the announcement. Sapura Energy's share price dropped to the all-time low of 33.5 sen from 60 sen after the cash call was announced. Shares of Velesto (formerly UMW Oil & Gas Corp Bhd) also took a beating when it undertook a cash call to raise RM1.8 billion in January 2017. It slipped below its right issue price of 30 sen apiece from above 80 sen. Since the completion of the rights issue in September last year, Velesto's interest costs have declined 45.6% to RM19.76 million in the second quarter ended June 30, 2018 (2QFY18) from RM36.32 million a year ago. Total debts shrunk to RM1.43 billion from RM3.42 billion previously. Gearing ratio more than halved to 0.38 times from 1.37 times in the same period, while current ratio rose to 4.01 from 0.28 times. In the case of Velesto and Sapura Energy, both benefited from strong shareholders like Permodalan Nasional Bhd which is willing to put yet another round of investment into the business. But it might be different scenario for those O&G companies that do not have shareholders with deep pockets and are willing to pump in fresh capital. "It is tough for some of the smaller companies, especially," said Areca's Wong. "That's why, major shareholders have to convince other minorities and investors, or they have to underwrite." Another company that is currently dealing with CDRC is Perdana Petroleum Bhd. Reports show that CDRC only accept cases when a company is able to generate positive cash flow post-restructuring. All said, some segments, for instance offshore support vessel (OSV), are still in choppy waters as the freight rates are not recovering as fast as the crude oil prices. Some OSV operators told The Edge Malaysia weekly that margin squeeze is still common. Many of them are not earning enough to even cover the operating costs simply because vessels are currently chartered out at the rate below operating costs, which have gone up partly due to the weak ringgit. Such a situation would make it harder for OSV operators to get out of the woods, should the oil majors keep pressing down the freight rates. *(Source: The Edge Markets)*

SRating Action

Issuer	PDS Description	Rating/Outlook	Action
Serba Dinamik Holdings Berhad	Proposed RM500 million multi-currency Islamic Commercial Papers Programme and RM1.5 billion Islamic Medium-Term Notes Programme (collectively, the Sukuk Wakalah programmes) with a combined limit of RM1.5 billion	MARC-1IS/AA-IS	Assigned
Sports Toto Malaysia Sdn Bhd	RM800.0 million 10-year Medium-Term Notes Programme (MTN-1) and RM800.0 million 15-year Medium-Term Notes Programme (MTN-2)	AA-	Affirmed
Gas Malaysia Berhad	Islamic Commercial Papers (ICP) programme and Islamic Medium-Term Notes (IMTN) programme with a combined limit of up to RM700 million	MARC-1IS and AAAIS	Affirmed

Source: RAM, MARC

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