

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

US Treasuries

- US Treasuries rallied on flight-to-safety following financial turmoil in Turkey and other emerging markets. The yield curve ended lower with overall benchmark yields closing 4-6bps lower. The 2Y UST moved 4bps lower at 2.61% whilst the much-watched 10Y rallied 5bps at 2.87% levels. Meanwhile ballooning Treasury supply especially in the front-end as the Fed is seen to maximizing the pace of its quantitative tightening together with another possible government shutdown at the end of September (yet again) may create prolonged market volatility. On a separate note the front-loading of pension fund buying in the long-end (to beat the deadline to claim deductions for contributions at 35% before it drops to 21% as a result of corporate tax cuts passed in Dec 2017) helped drive curve to a flatter stance. However the continued prospects for this to continue may appear dim.

MGS/GII

- Trading momentum in Govvies maintained albeit on slightly lower volume of RM2.04b with sporadic interest across the curve especially the 15Y tenures. GII bond trades dropped to 44% of total govovies traded whilst overall benchmarks were within 1bps move compared to prior day. The benchmark 7Y MGS 3/25 closed unchanged at 3.96% whilst the 10Y MGS 6/28 edged 1bps lower at 4.03% levels. Meanwhile investors are expected look for further clarity on the current fiscal condition updates along with the next auction involving 15Y MGS 11/33 slated for tomorrow.

Corp Bonds/Sukuk

- Trading activity in Corporate Bonds/Sukuk continued strong, on higher volume of RM806m yesterday largely due to chunk of short-end AAA-rated CAGA 2/19 traded 3bps lower at with 3.81% levels compared to previous-done levels. Interest was seen across the curve involving total of 36 different bonds compared to 42 the previous day. JKSB 5/25 traded again; closing unchanged at 4.27% MKD Kenchana 2/25 and DANA 3/32 closed 6bps lower at 4.30% and 4.71% respectively. In the AAA-space DANGA 30 and RANTAU 32 closed unchanged at 4.70% and 4.78% each. AA-rated UniTapah 28-30's made their rare foray in the secondary market rallying 10-11bps between 4.77-82% levels whilst long end power-related JEP 6/32 closed at 5.00% levels. CELCOM 8/19 and 8/24 notched trades again for the 2nd consecutive day at 4.26% and 4.69% levels respectively.

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.61	-4
5-yr UST	2.75	-6
10-yr UST	2.87	-5
30-yr UST	3.03	-4

MGS			GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)	
3-yr	3.53		0	3.57	0
5-yr	3.75		0	3.85	-1
7-yr	3.96		0	4.02	0
10-yr	4.03	-1	4.14	-1	
15-yr	4.48	-1	4.56	1	
20-yr	4.67	0	4.76	-1	
30-yr	4.89	-1	4.94	0	

* Market indicative

M YR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.70	0
3-yr	3.72	-1
5-yr	3.83	-1
7-yr	3.95	0
10-yr	4.15	0

Source : Bloomberg

Upcoming Government Bond Tender

RM3.0b of 15Y MGS 11/33 on Tue, 14th Aug

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	07/21	3.576	9	3.598	09/08/2018	-2
MGS	07/24	3.942	11	3.913	09/08/2018	3
MGS	09/25	4.028	4	4.028	09/08/2018	0
MGS	08/23	3.833	20	3.822	09/08/2018	1
MGS	03/22	3.665	1	3.671	09/08/2018	-1
MGS	03/25	3.960	70	3.960	09/08/2018	0
MGS	11/19	3.440	8	3.463	09/08/2018	-2
MGS	04/23	3.747	167	3.749	09/08/2018	0
MGS	07/19	3.361	2	3.396	03/08/2018	-3
MGS	05/27	4.187	1	4.243	09/08/2018	-6
MGS	04/30	4.437	4	4.442	09/08/2018	0
MGS	04/26	4.130	40	4.149	09/08/2018	-2
MGS	03/23	3.803	70	3.791	09/08/2018	1
MGS	10/20	3.512	20	3.514	08/08/2018	0
MGS	11/26	4.144	27	4.151	09/08/2018	-1
MGS	04/37	4.709	5	4.721	09/08/2018	-1
MGS	11/33	4.477	200	4.491	09/08/2018	-1
MGS	06/31	4.526	1	4.518	08/08/2018	1
MGS	10/19	3.447	35	3.453	09/08/2018	-1
MGS	11/21	3.534	172	3.538	09/08/2018	0
MGS	11/27	4.148	27	4.151	09/08/2018	0
MGS	09/18	3.257	79	3.271	07/08/2018	-1
MGS	06/28	4.034	16	4.049	09/08/2018	-2
MGS	03/19	3.354	12	3.323	09/08/2018	3
MGS	07/48	4.892	143	4.898	08/08/2018	-1
GII	08/20	3.572	240	3.578	09/08/2018	-1
GII	08/21	3.704	70	3.711	09/08/2018	-1
GII	10/28	4.141	90	4.147	09/08/2018	-1
GII	04/22	3.770	161	3.779	09/08/2018	-1
GII	11/23	3.853	30	3.859	09/08/2018	-1
GII	10/25	4.131	8	4.176	08/08/2018	-4
GII	04/20	3.566	6	3.566	09/08/2018	0
GII	08/33	4.596	60	4.591	02/08/2018	0
GII	08/37	4.761	100	4.770	08/08/2018	-1
GII	06/33	4.562	40	4.555	09/08/2018	1
GII	04/21	3.666	1	3.685	02/08/2018	-2
GII	12/28	4.195	90	4.256	25/07/2018	-6
			2039			

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	06/23	GG	4.093	5	4.101	08/08/2018	-1	34
MKD Kencana Sdn Berhad	02/25	GG	4.300	30	4.361	18/07/2018	-6	34
Jambatan Kedua Sdn Berhad	05/25	GG	4.272	25	4.270	09/08/2018	0	32
Prasarana Malaysia Berhad	12/27	GG	4.379	15	4.429	23/07/2018	-5	31
Danaharta Nasional Berhad	03/32	GG	4.709	10	4.770	25/07/2018	-6	22
Cagamas Berhad	10/18	AAA	3.625	2	3.686	13/06/2018	-6	25
Cagamas Berhad	02/19	AAA	3.809	400	3.838	01/08/2018	-3	43
GENM Capital Berhad	07/23	AAA	4.877	1	4.898	09/08/2018	-2	113
Danga Capital Berhad	01/30	AAA	4.699	20	4.699	03/08/2018	0	65
Rantau Abang Capital Berhad	01/32	AAA	4.779	20	4.779	08/08/2018	0	29
Malayan Banking Berhad	01/24	AA1	4.287	20	4.193	26/07/2018	9	54
Public Islamic Bank Berhad	06/24	AA1	4.155	6	4.406	26/04/2018	-25	29
Hong Leong Islamic Bank Berhad	06/24	AA1	4.401	4	4.391	09/08/2018	1	53
UniTapah Sdn Berhad	12/28	AA1	4.770	5	4.869	15/06/2017	-10	72
UniTapah Sdn Berhad	06/30	AA1	4.820	5	4.929	30/06/2017	-11	77
Celcom Networks Sdn Berhad	08/19	AA+	4.264	5	4.262	09/08/2018	0	88
Celcom Networks Sdn Berhad	08/24	AA+	4.689	5	4.698	09/08/2018	-1	82
Tanjung Bin Power Sdn Berhad	08/20	AA2	4.338	10	4.335	08/08/2018	0	87
Konsortium ProHAWK Sdn Berhad	06/33	AA2	5.078	4	5.249	13/06/2018	-17	59
Gamuda Berhad	11/22	AA3	4.643	1	4.646	08/08/2018	0	97
RHB Islamic Bank Berhad	05/24	AA3	4.448	1	4.487	27/07/2018	-4	58
Malayan Banking Berhad	09/24	AA3	5.068	44	5.300	10/09/2014	-23	120
IJM Corporation Berhad	04/25	AA3	4.669	12	4.721	16/11/2017	-5	71
Malakoff Power Berhad	12/18	AA-	4.248	20	4.249	07/08/2018	0	87
Sports Toto Malaysia Sdn Berhad	06/19	AA-	4.500	10	4.438	16/11/2017	6	112
WCT Holdings Berhad	05/22	AA-	5.021	10	5.139	27/06/2018	-12	134
Southern Power Generation Sdn Berhad	04/23	AA-	4.568	10	4.592	29/03/2018	-2	82
Konsortium Lebuhraya Utara-Timur (KL) Sdn Berhad	12/24	AA-	4.714	5	4.717	03/08/2018	0	85
Sinar Kamiri Sdn Berhad	01/27	AA-	5.749	20	0.000	00/01/1900	575	170
Southern Power Generation Sdn Berhad	10/30	AA-	4.939	15	5.061	02/05/2018	-12	89
Jimah East Power Sdn Berhad	06/32	AA-	4.998	20	5.127	27/07/2018	-13	51
Tan Chong Motor Holdings Berhad	11/19	A1	6.104	20	6.111	30/07/2018	-1	272
Lafarge Cement Sdn Berhad	01/20	A1	5.282	5	5.336	22/06/2018	-5	190
Bank Islam Malaysia Berhad	11/27	A1	4.838	20	4.835	06/08/2018	0	77
Alliance Bank Malaysia Berhad	10/25	A2	4.842	1	4.669	20/07/2018	17	89
Bank Muamalat Malaysia Berhad	11/21	A	4.768	1	4.768	07/08/2018	0	123
				806				

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

Market/Corporate News: What's Brewing

An unexpected bright spot this year, the oil and gas (O&G) sector is expected to continue on a recovery path with upstream companies gradually stepping up production and boosting other firms involved in the industry. The coming quarterly results over the next two to three weeks are expected to give a clearer indication of the state of the sector. Although the recovery has been gradual, he believes it should meet market expectations. As the improved earnings outlook for the O&G sector has only taken place recently, the coming earnings season will signal if improved oil prices have finally translated into better earnings for most of these companies. Take Velesto Energy Bhd — formerly known as UMW Oil & Gas Corp Bhd — as an example. Twelve months ago, the consensus view was Velesto Energy would record an average estimate net loss of about RM140.1 million for financial year ending Dec 31, 2018 (FY18). But as oil prices continue its steadily climb to above US\$70 (RM286.02) per barrel, the earnings outlook also improved. Prior to the announcement of its first-quarter (1Q) results for the period ended March 31 where it posted a net profit of RM5 million, the market had already reduced the expected net loss in FY18 to about RM14.2 million. Earnings upgrades over the past few months have come on the back of announcements of drilling contracts won as they have reaffirmed the analysts' view that rig utilisations are improving. The current consensus estimate for Velesto Energy's FY18 net profit is RM12.3 million, an improvement of 20.6% from the average estimate of RM10.24 million just a month ago. The post-impairment lower depreciation and finance cost with the restructured balance sheet will also lift the burden off the group. A fund manager with a local asset management company agreed that the outlook for Velesto Energy has improved but said the group's earnings in the second quarter are unlikely to impress. Still, he acknowledged that some of the new contracts won will contribute to its earnings in the second half of FY18. Other than Velesto Energy, other O&G-related companies such as Petronas Dagangan Bhd, which is the marketing arm of Petroliaam Nasional Bhd (Petronas), has also seen earnings upgrades. Prior to 2018, the consensus earnings for Petronas Dagangan for FY18 hovered below RM1 billion. However, the latest data saw an average estimate net profit of RM1.026 billion. Hong Leong Investment Bank analyst Yip Kah Ming, who was the least optimistic, expected the group to record a net profit of RM909.0 million while TA Securities Holdings Bhd's Kylie Chan, has the highest estimate net profit of RM1.13 billion. Dialog Group Bhd, which has been one of the few listed O&G companies that have continued to record strong growth since the oil price plummeted in the second half of 2014, has remained solid. Its net profit jumped by 71.7% to RM370.6 million in its financial year ended June 30, 2017 (FY17) against RM215.9 million in FY14. The group has also registered a total return of 127.6% over the last three years or an annualized return of 31.6%. In 3QFY18, Dialog recorded a net profit of RM395.5 million, which is about 87.9% of the full-year consensus estimate. Given its consistent growth in the last few years, analysts have been revising upwards their earnings estimates for Dialog since the beginning of 2017. One of the key drivers for the improved earnings outlook is the resilience of oil prices, which have climbed far above US\$70 per barrel since April this year. Prices have managed to sustain above the level despite recent volatility arising from concerns of an oversupply as Saudi Arabia and other large producers ramp up production. Of the 16 O&G companies covered by analysts, 11 of them are expected to turn profitable in their current financial year. However, the earnings upgrades seen in the last couple of months for most of the O&G players have lifted expectations and could lead to disappointment if the companies fail to deliver. Malaysia Marine and Heavy Engineering Holdings Bhd, a global marine and heavy engineering solutions provider, saw a decline in its share price after its 2Q financial results failed to meet expectations when it posted a second successive quarter of losses. Prior to that, analysts were expecting the group to be in the black in FY18 with a net profit of RM25.1 million. Following the disappointing quarter, its earnings were downgraded to an average

net loss of RM30.9 million. A look at the 32 companies that have announced their financial results and the analysts' expectations show that 15 companies have received an earnings downgrade after their second-quarter results while 14 have been upgraded. The remaining three companies' earnings expectations were maintained for their current financial year. Earnings for the quarter were less than exciting as 14 companies failed to meet expectations while only six companies exceeded analysts' expectations. The remaining 12 managed to meet expectations. As most of the companies are only expected to announce their 2Q earnings beginning next week, it may be too early to determine if growth can be sustained. As E&E continues to remain one of the drivers of economic growth in the first half of the year (1H), many believe that semiconductors which form part of the E&E products, might be able to sustain decent earnings in the 2Q, and improve in the 2H. Semiconductor companies that have announced their 2Q earnings so far include Globetronics Technology Bhd, ViTrox Corp Bhd and Unisem (M) Bhd. Both Globetronics and ViTrox have met analysts' expectations and saw earnings upgrades but Unisem has underperformed, leading to an earnings downgrade. (Source: *The Edge*)

Rating Actions			
Issuer	PDS Description	Rating/Outlook	Action
Cagamas Berhad	Global, ASEAN and National-scale corporate credit ratings	gA2/Stable/gP1, seaAAA/Stable/seaP1 and AAA/Stable/P1	Reaffirmed
Senari Synergy Sdn Bhd	RM380.0 million Danajamin-guaranteed Islamic Medium-Term Notes Programme	AAAIS(fg)/Stable	Withdrawn

Source: RAM Ratings; MARC

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