Global Markets Research
Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.80	1
5-yr UST	2.89	2
10-yr UST	3.06	0
30-yr UST	3.32	-1

	MGS		GII*	
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.68	0	3.78	1
5-yr	3.83	-3	3.93	0
7-yr	4.06	0	4.17	0
10-yr	4.15	1	4.27	0
15-yr	4.57	0	4.58	0
20-yr	4.79	0	4.79	0
30-yr	4.94	0	4.95	0

** Market indicative levels*

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.72	0
3-yr	3.77	0
5-yr	3.89	0
7-yr	3.99	0
10-yr	4.20	0

Source : Bloomberg

Upcoming Government Bond Tender

Nil

US Treasuries

- US Treasuries held steady yesterday despite the pull-back in both oil and equities as the curve flattened with the 10Y and 30Y slightly richer. Overall benchmark UST yields ended between -1 to +2 bps with the 2Y edging 1bps at 2.80% and the much-watched 10Y closing within a bps at 3.06% levels. With the Fed funds effective rate having closed the gap with the normally higher interest on excess reserves (IOER), the FX market has focused on dovish "Fedspeak" messages. Global growth concerns are intensifying and investors are wondering if the Fed will re-look its aggressive policy tightening stance. Meanwhile primary dealer holdings of US government securities reached a record $180.4b in the week ended 7th Nov; against a backdrop of heavy UST issuances and rising interest rate outlook.

MGS/GII

- Trading volume for local Govvies ended higher at RM1.84b on Monday with interest seen across off-the-run MGS and GII 19-21's and 25's. Overall benchmark yields ended largely unchanged to within 1bps move save for the 5Y as investors were mostly sidelined ahead of the mid-week break to celebrate the Prophet's birthday. The 5Y benchmark MGS 4/23 rallied 3bps at 3.83% whilst the 10Y MGS 6/28 closed higher at 4.15% levels. GII trades improved to form 35% of overall bond trades. Meanwhile investors are divided on the expected performance of Ringgit bonds as the nation's budget deficit swells especially with oil slumping over the month. Some are also tempted to think that BNM may ease monetary policy following recent pull-back in GDP data.

Corp Bonds/Sukuk

- Trading momentum in Corporate Bonds/Sukuk space dropped as volume notched a mere RM89m with interest seen along the AAA-AA part of the curve. There were no Govt-guaranteed bonds traded. AAA-rated CAGA 6/22 ended 2bps higher compared to previous-done levels at 4.11%. In the AA-space, Southern Power 31-32's close 0-2bps lower between 4.78-87% levels whilst Northport 12/24 rallied 3bps at 4.99%. In the banking space Hong Leong Islamic 24NC19 closed 3bps higher at 4.19% levels.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	03/19	3.287	41	3.293	16/11/2018	-1
MGS	10/19	3.411	200	3.435	16/11/2018	-2
MGS	03/20	3.528	50	3.505	16/11/2018	2
MGS	10/20	3.564	16	3.570	16/11/2018	-1
MGS	09/21	3.705	106	3.680	16/11/2018	2
MGS	03/22	3.783	45	3.751	16/11/2018	3
MGS	03/23	3.898	2	3.892	16/11/2018	1
MGS	04/23	3.826	20	3.856	16/11/2018	-3
MGS	08/23	3.960	1	3.953	15/11/2018	1
MGS	07/24	4.040	2	4.027	15/11/2018	1
MGS	09/24	4.097	2	4.068	16/11/2018	3
MGS	03/25	4.057	2	4.057	16/11/2018	0
MGS	09/25	4.136	439	4.097	16/11/2018	4
MGS	11/26	4.219	2	4.188	16/11/2018	3
MGS	05/27	4.191	20	4.217	15/11/2018	-3
MGS	11/27	4.250	11	4.250	16/11/2018	0
MGS	06/28	4.154	122	4.135	16/11/2018	2
MGS	04/30	4.520	29	4.538	16/11/2018	-2
MGS	06/31	4.569	2	4.577	15/11/2018	-1
MGS	04/32	4.603	1	4.601	05/11/2018	0
MGS	04/33	4.635	7	4.620	15/11/2018	1
MGS	11/33	4.574	5	4.572	08/11/2018	0
MGS	09/43	4.977	60	4.981	16/11/2018	0
GII	04/19	3.252	610	3.268	16/11/2018	-2
GII	08/21	3.691	20	3.628	05/11/2018	6
GII	03/22	3.776	21	3.766	14/11/2018	1
GII	07/22	3.559	3	3.798	08/11/2018	-24
GII	10/35	4.856	3	4.848	13/11/2018	1
			1840			

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	06/22	AAA	4.109	10	4.085	25/08/2017	2	35
Hong Leong Islamic Bank Berhad	06/24	AA1	4.186	10	4.159	01/11/2018	3	21
YTL Power International Berhad	05/27	AA1	4.830	10	4.832	15/11/2018	0	71
Sarawak Energy Berhad	12/32	AA1	4.837	10	4.838	16/11/2018	0	25
Sarawak Energy Berhad	08/35	AA1	4.939	3	4.949	31/10/2018	-1	36
Southern Power Generation Sdn Berhad	04/31	AA-	4.778	10	4.781	14/11/2018	0	63
Southern Power Generation Sdn Berhad	10/32	AA-	4.869	10	4.884	16/10/2018	-2	29
Alpha Circle Sdn Bhd	11/19	AA-	5.000	2	-	-	-	-
Alliance Bank Malaysia Berhad	10/25	A2	5.059	2	5.018	13/11/2018	4	100
Northport (Malaysia) Berhad	12/24	AA-	4.990	20	5.020	07/11/2017	-3	101
Fortune Premiere Sdn Berhad	10/25	AA	5.039	2	0.000	-	-	98
				89				

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

Market/Corporate News: What's Brewing

Paramount Corp Bhd's planned sale of its controlling stake in three KDU education institutions, which may pave the way for the eventual divestment of its entire loss-making tertiary education business, is seen as a "good move" by some analysts. On Monday, Paramount announced that Australia's University of Wollongong (UOW) — via UOW's wholly-owned subsidiary UOW Global Enterprises — had inked an agreement with the group to buy a 65% stake in the business and operations of KDU University College (KDU UC) and KDU Penang University College (KDU Penang UC) for RM16 million and RM22 million respectively, and a 70% stake in KDU College Petaling Jaya (PJ) for RM500,000, or RM38.5 million collectively. At a press conference, Paramount group chief executive officer (CEO) Jeffrey Chew said the group expects a profit gain of about RM20 million from the proposed stake sale, to be completed in three months. Meanwhile, Loong said it is understood that Paramount's intention is to divest from the tertiary education business as the segment is "rather competitive". "It is a good move to rid of the loss-making business. With this, the K-12 segment can continue to grow or could potentially be monetised in future," said Loong, referring to the group's kindergarten to secondary school segment. KDU UC and KDU College PJ were in the red for the financial year ended Dec 31, 2017 (FY17), with a loss after tax of RM8.3 million and RM3 million respectively. KDU Penang UC, however, posted a profit after tax of RM3.2 million for FY17. Under the deal, UOW has also agreed to buy another 5% of KDU UC and KDU Penang UC held by Paramount in the fourth year after the completion date of the acquisition of the initial 65% stake for RM2.63 million or 5% of 10 times earnings before interest, taxes, depreciation and amortisation based on the respective institutions' audited financial accounts for the preceding year — whichever is higher. Paramount will also irrevocably and unconditionally grant UOW a call option to purchase the remaining 30% of KDU UC and KDU Penang UC from the fifth to the seventh year from the completion date. The parties have also agreed that Paramount shall be entitled to buy back shares in KDU College PJ from UOW in the first three years after the 70% stake is sold, so Paramount's shareholding will be proportional to what it holds in KDU UC and KDU Penang UC, with the purchase price to be equivalent to the percentage to be bought back multiplied by RM500,000. Prior to the proposed stake disposal, Paramount announced on Oct 25 that KDU UC and KDU Penang UC will dispose of their university campus properties worth RM420 million via an asset securitisation proposal to a special purpose vehicle (SPV) to streamline its campus assets. The properties will then be subleased back to the university colleges via Paramount's wholly-owned unit Janahasil Sdn Bhd, which will ink a master lease agreement with the SPV. Loong, who currently has a "buy" call on Paramount with a target price of RM2.40, said the latest development is positive for Paramount. Shares in Paramount closed two sen higher at RM2.11 on Monday, valuing the group at RM903.65 million. Over the past year, the stock has grown 27.72% from RM1.65. Rakuten Trade Sdn Bhd vice-president Vincent Lau also viewed the proposed divestment as positive for Paramount. "The enrolment numbers will be better with the foreign university (uow) tied up. By years five to seven [after the completion of the sale and purchase agreement], enrolment figures will be better and they (the assets) should be profitable," he said, adding that valuation should also have improved by then. "It is good to have this call option because if they were to sell now, they might not be able to maximise the value [of these campuses] now," Lau added. *(Source: The Edgedaily)*

The Federal Land Development Authority (Felda), the authority that is saddled with debts of RM8.05bil, is expected to see its cash balance drop to about RM100mil by year-end, hampering efforts for external funding, according to sources. Although Felda is implicitly owned by the government, it is learnt that financial institutions are not prepared to extend loans or carry out long-term bond programmes unless there is a government guarantee because of its weak finances. Before the May 9 general election, Felda was to issue bonds to the tune of RM6bil to help it carry out its programmes while an exercise to rationalise and divest its assets was completed. The funding was to help it tide over until the performance of its associate company, FGV Holdings Bhd, improved. Post-FGV listing, the arrangement was for Felda to get RM250mil as lease payments and 15% of the operating profit. With the crude palm oil (CPO) price at RM2,200 per tonne, the portion of operating profit is less than RM400mil. For Felda to have a sustainable cash flow model, it would need CPO prices to be about RM3,000 per tonne, where its portion of the operating profit is estimated at RM800mil. Together with a land lease payment of RM250mil and dividends from its stake in FGV, Felda would be able to get more than RM1.1bil. "However, the CPO price is low and this is beyond the control of FGV or Felda. "FGV's plan to improve the plantations is only expected to bear fruit in 2022. Until then, Felda needs an external cash infusion, which is why the bond issue was proposed," said a source. The other alternative is for Felda to take back all its assets from FGV, or the government to take over all its social obligations towards the 112,000 settlers. The rationale is that Felda can improve its financial position if it manages the 355,864ha under FGV currently. "The alternatives cannot be done immediately. FGV has other shareholders to contend with and any exercise would incur a lot of money. "As for the government, it cannot take over the social obligations because its finances are already strained," said the source. Felda has a new chairman in Tan Sri Megat Zaharuddin Megat Mohd Nor, whose immediate task is to see to it that Felda's finances improve. It has been reported that Felda's debt is expected to be reduced to RM6bil from RM8.05bil from the proceeds of the sale of assets by the end of this year – something that could help its case for more borrowings from banks. "Recommendations on the solutions to Felda's cash crisis will be out together with the White Paper on Felda," said a source. Felda's cash position of RM100mil is a far cry from the RM2.1bil it was sitting on as of end-2011 after the listing of FGV. Felda received RM5.5bil, of which RM1.7bil was given to settlers in the form of a durian runtuh (windfall) and loans of RM400mil given to them to extend their homes. Only 25% of the proceeds of the listing was used for reinvestment purposes. Among the assets it purchased were a serviced apartment block in London, a hotel in Sabah, a stake in Iris Corp Bhd and a piece of land in Bukit Katil, Malacca. The assets were not yielding as much as desired, and on top of that, several other initiatives such as Felda Wellness Corp Sdn Bhd lost money. Economic Affairs Minister Datuk Seri Azmin Ali is expected to table the White Paper on Felda towards the end of the current Parliament sitting. According to sources, Felda also needs fresh money to help service debts taken to purchase assets such as PT Eagle High Plantations Tbk in Indonesia from the Rajawali Group. Apart from that, it also has to extend loans to settlers. Felda has always acted as the "lender" of first resort to settlers for all their needs from loans to extend their homes to replanting activities. There are some 80,000 settlers who owe Felda more than RM60,000 each and they depend on financial assistance, as the current price of palm oil is too low. Sources said CPO prices needed to be closer to RM3,000 per tonne before the settlers could start paying back the amounts due. "At current levels, the money is hardly enough for them to take back even RM1,000 per month because productivity is low and cost remains high," said a source. *(Source: The Star Online)*

Rating Action			
Issuer	**PDS Description**	**Rating/Outlook**	**Action**
CIMB Bank Berhad (CIMB Bank)	Financial Institution (FI) ratings	AAA / MARC-1	Affirmed
	RM10.0 billion Basel III-compliant Tier 2 Subordinated Debt Programme	AA+/stable	Affirmed
	RM5.0 billion Subordinated Debt and Junior Sukuk Programmes	AA+/AA+IS/stable	Affirmed
Impian Ekspresi Sdn Bhd	RM300m Guaranteed MTN Programme	AAA(FG)/Stable	Affirmed
	RM300m Guaranteed MTN Programme	AAA(BG)/Stable	Affirmed

Source: RAM, MARC

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