Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

US Treasuries

- US Treasury benchmarks held steady led by the belly of the curve as overall yields were 1-2bps lower despite weakness in equities. Both the 2Y and 10Y edged 1bps lower at 2.53% and 2.88% respectively. Meanwhile the spat arising from US-global trade tariffs is affecting equities whilst seen capping the UST10Y at 3.00% for now. Meanwhile primary dealers and commercial banks have been boosting their holdings of UST's and related securities; somewhat baffling investors who believe "severe storms" are building with global trade issues and rising US rates. The auction of $50b of 2Y, $36b of 5Y and $30 of 7Y bonds is expected to be completed this week.

MGS/GII

- Trading momentum in Govvies improved with volume at RM1.38b as investors and inter-bank players were seen nibbling some off-the-run 19-21's MGS bonds and actively trading the benchmark 5Y GII 11/23. GII bond trades continue to form almost 40% of overall trades. Benchmark yields ended mixed largely unchanged save for odd-lot trades on the 3Y and the much-watched 10Y. The 7Y MGS 3/25 was unchanged at 4.04% whilst the 10Y MGS 6/28 rallied 2bps at 4.21%. The escalating global trade tensions and diverging theme between US and other countries with regard to monetary policy may however impact equities, currencies and foreign bond holdings in South-East Asian economies for now.

Corp Bonds/Sukuk

- Interest in Corporate Bonds/Sukuk was maintained with volume again at RM259m; with bulk of trades seen across Govt-guaranteed and AA-part of the yield curve. PASB 23's were traded to the tune of RM60m albeit 20-21bps higher than previous-done levels between 4.32-35% levels whereas PRASA 2/26 and 12/27 also grinded higher at 4.51% and 4.58% respectively. Infra-cum-power related bonds hogged the AA-space with Southern Power 29-34 closing mixed on yields between 5.03-36% levels whist Tanjung Bin Power 9/28 and 9/31 too closed weaker at 4.97% and 5.16% respectively. In the banking space, Bank Islam 25nc20 closed unchanged at 4.93%. Activity is seen to be picking up following a lull period the past week.

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.53	-1
5-yr UST	2.75	-2
10-yr UST	2.88	-1
30-yr UST	3.02	-2

	MGS		GII*	
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.61	1	3.63	0
5-yr	3.87	0	4.01	0
7-yr	4.04	0	4.19	2
10-yr	4.21	-2	4.33	0
15-yr	4.61	0	4.72	0
20-yr	4.89	0	5.00	0
30-yr	4.93	0	4.98	0

*Market indicative

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.73	0
3-yr	3.80	0
5-yr	3.89	0
7-yr	3.99	-1
10-yr	4.16	0

Source: Bloomberg

Upcoming Government Bond Tender

Nil

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	09/18	3.314	5	3.325	21/06/2018	-1
MGS	03/19	3.456	60	3.427	22/06/2018	3
MGS	10/19	3.467	32	3.490	22/06/2018	-2
MGS	11/19	3.466	50	3.476	21/06/2018	-1
MGS	03/20	3.502	16	3.513	22/06/2018	-1
MGS	10/20	3.602	193	3.589	21/06/2018	1
MGS	02/21	3.649	50	3.639	20/06/2018	1
MGS	07/21	3.670	203	3.688	21/06/2018	-2
MGS	09/21	3.701	78	3.687	21/06/2018	1
MGS	11/21	3.610	8	3.598	22/06/2018	1
MGS	03/22	3.793	130	3.790	22/06/2018	0
MGS	08/22	3.853	91	3.904	19/06/2018	-5
MGS	09/22	3.832	50	3.876	22/06/2018	-4
MGS	03/23	3.924	6	3.929	22/06/2018	0
MGS	08/23	3.977	4	3.973	22/06/2018	0
MGS	07/24	4.130	31	4.132	22/06/2018	0
MGS	09/24	4.173	9	4.140	22/06/2018	3
MGS	04/26	4.295	30	4.300	22/06/2018	0
MGS	11/27	4.293	1	4.306	22/06/2018	-1
MGS	06/28	4.207	206	4.222	21/06/2018	-2
MGS	04/30	4.642	70	4.675	19/06/2018	-3
MGS	06/31	4.677	10	4.698	22/06/2018	-2
MGS	04/33	4.745	11	4.756	22/06/2018	-1
MGS	05/35	4.912	72	4.946	22/06/2018	-3
GII	04/19	3.481	110	3.434	21/06/2018	5
GII	05/20	3.658	1	3.630	22/06/2018	3
GII	03/21	3.792	3	3.734	22/06/2018	6
GII	04/21	3.795	40	3.740	22/06/2018	5
GII	04/22	3.927	21	3.918	22/06/2018	1
GII	11/23	4.010	620	4.011	14/06/2018	0
GII	08/24	4.194	30	4.193	19/06/2018	0
GII	08/25	4.193	30	4.176	13/06/2018	2
GII	07/27	4.415	1	4.433	21/06/2018	-2
GII	08/33	4.844	2	4.811	19/06/2018	3
			2273			

Daily Trades: Corp Bonds / Sukuk

Securities	Maturity (dd/mm/yyyy)	Rating	Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)	Spread Against MGS*
Pengurusan Air SPV Berhad	02/23	GG	4.315	45	4.107	10/10/2017	21	47
Pengurusan Air SPV Berhad	06/23	GG	4.354	15	4.155	11/04/2018	20	51
Prasarana Malaysia Berhad [fka Syarikat Prasarana Negara Berhad]	02/26	GG	4.508	10	4.299	05/05/2017	21	38
DanaInfra Nasional Berhad	11/27	GG	4.609	5	4.658	07/06/2018	-5	42
Prasarana Malaysia Berhad [fka Syarikat Prasarana Negara Berhad]	12/27	GG	4.580	20	4.531	04/04/2018	5	37
DanaInfra Nasional Berhad	07/29	GG	4.700	15	4.658	29/03/2018	4	49
Lembaga Pembiayaan Perumahan Sektor Awam	09/36	GG	5.049	20	4.919	11/01/2018	13	16
Pengurusan Air SPV Berhad	11/21	AAA	4.413	10	4.365	15/03/2018	5	78
YTL Power International Berhad	05/27	AA1	5.000	2	5.007	22/06/2018	-1	81
Samalaju Industrial Port Sdn Berhad	12/29	AA1	5.209	10	5.119	13/02/2018	9	100
Sarawak Energy Berhad	12/32	AA1	5.319	5	5.319	18/06/2018	0	68
Celcom Networks Sdn Berhad [fka Celcom Transmission (M) Sdn Berhad]	10/26	AA+	5.027	10	5.061	08/06/2018	-3	90
CIMB Group Holdings Berhad	03/28	AA	4.594	1	4.604	30/04/2018	-1	38
AMMB Holdings Berhad	08/19	AA3	4.514	5	4.514	20/06/2018	0	111
Bumitama Agri Ltd	09/19	AA3	4.599	20	4.632	05/06/2018	-3	119
Tanjung Bin Energy Issuer Berhad	09/28	AA3	4.968	10	4.959	07/05/2018	1	76
Southern Power Generation Sdn Berhad	10/29	AA-	5.027	10	5.048	16/05/2018	-2	82
Tanjung Bin Energy Issuer Berhad	09/31	AA3	5.161	10	5.087	19/04/2018	7	52
Southern Power Generation Sdn Berhad	04/30	AA-	5.064	10	5.037	25/04/2018	3	85
Southern Power Generation Sdn Berhad	10/34	AA-	5.359	10	5.369	09/02/2018	-1	72
AMMB Holdings Berhad	03/27	A1	4.936	6	5.198	07/05/2018	-26	75
Bank Islam Malaysia Berhad	11/27	A1	4.925	10	4.925	20/06/2018	0	73
Alliance Bank Malaysia Berhad	10/25	A2	4.600	1	5.158	21/06/2018	-56	55
				259				

spread against nearest indicative tenured MGS (Source : BPAM)

Market/Corporate News: What's Brewing

Fitch Ratings has revised Telekom Malaysia Bhd's (TM) outlook to negative from stable due to its weakening credit profile, driven by pressure on earnings before interest, tax, depreciation and amortisation (EBITDA). The ratings agency said on Monday its long-term foreign-currency issuer default rating (IDR) and its senior unsecured rating are affirmed at 'A-'. Fitch also TM was impacted by its continuing high capex and dividend commitments. "The company's goals for 2018 include flat earnings before interest and tax (EBIT) and revenue growth of 3.5%-4.0%, suggesting near-term cost pressure. "Consequently, funds from operations (FFO) adjusted net leverage is likely to increase to 2.6x-2.7x in 2018-2019 (2017: 2.5 times), which may lead to a downgrade should there be a delay in deleveraging. "We expect TM's continued dominance of the domestic fixed-line market and the ongoing modest expansion in 4G networks to support a leverage profile that is consistent with the rating," it said. Last week TM's share price came under selling pressure following the government's announcement to reduce the price for broadband by 25% by year-end. Fitch assesses TM using a top-down approach, equalising the company's IDR with the Malaysia sovereign (A-/Stable), in line with the new Government-Related Entities (GRE) Rating Criteria. It views TM's status, ownership and control links with the state as 'Moderate', with its management team having greater oversight, despite the state's majority ownership of the company. However, the government's record of support and expectation of support are assessed at 'Strong', given TM's financial standing and the high probability of support from the state. "We also deem the financial implications of a default by TM to be 'Strong', and the socio-political implications of default at 'Moderate', reflecting the lower political and economic importance of the telecoms sector compared with the energy and utility sectors. Under our GRE criteria, TM's links with the sovereign score 22.5 out of a maximum of 60," it said. Leverage to remain high: Fitch expects free cash flow (FCF) to remain negative over the next three years, limiting TM's organic deleveraging capacity. FFO adjusted net leverage has ranged between 2.2x and 2.5x since 2015, and is likely to remain high through the next two years. Its forecast cash flow from operations of about RM3.2bil for 2018 will not be sufficient to meet dividend commitments and large capex. TM maintains a policy to distribute yearly dividends of RM700mil or up to 90% of its normalised net profit after minority interest, whichever is higher (2017: RM812mil). High Capex/revenue is likely to stay elevated in the mid-20s in 2018 (2017: 25%), driven by TM's continued investments in its long-term evolution (LTE) network, a new data centre, and the suburban broadband (SUBB) project that is due to be completed in 2019. However, Fitch expects capex to decline over time as TM plans to increase the efficiency of its assets to offer fixed-mobile convergence. Fitch's capex forecast excludes any potential spectrum investments, so any significant debt-funded capex would further delay deleveraging. Slow EBITDA growth: Fitch expects a relatively flat operating EBITDA of around RM3.6bil in the next two years (2017: RM3.5bil). Mobile investments and the incremental cost needed to support TM's broadband improvement plan are likely to offset cost reduction efforts, including a programme to maximise the performance of its workforce. Fewer government contracts and the government's aspiration to drive affordability of broadband services at higher speed could narrow margins further. The government's recent announcement to lower broadband prices by 25% this year may hamper TM's plans to increase revenue and EBIT by 3.5%-4.0% in the medium term, though its convergence capabilities could ease the impact on cash flow. Solid market position: The ratings reflect TM's strong market position in fixed-line services, which contribute a majority of its cash flows. The company's convergence proposition through fixed voice, fixed broadband, internet protocol TV (IPTV) and mobile should enable it to compete more effectively against other fixed-line providers and mobile operators. TM's nationwide fibre network and first-mover advantage are entry barriers for potential market entrants. *(Source: The Edge)*

The government will proceed with the East Coast Rail Link (ECRL) if it can obtain more favourable terms through renegotiation and the project's cost is brought down, said Tun Dr Mahathir Mohamad. "If it has to be built, if we cannot break the contract, then we have to reduce the costs," the prime minister said at a press conference today. Putrajaya does not think that the project "should cost RM55 billion" as has been announced, he said. Noting that that the terms of the contract are not favourable to Malaysia, he said: "So all these terms need to be re-negotiated. And if we get better terms, then of course we will continue (with the project)." Under the existing arrangement, payments were made "without regard for the progress of the construction", Dr Mahathir said. He expressed confidence that the government could reduce the overall cost quite significantly, pointing to how "there were a lot of wrong things being done" by the previous government in relation to the project. "They borrowed from China, RM55 billion, we don't think it should cost RM55 billion. "Then there's the issue that they give the contract to a Chinese company, and they bring in workers and everything from China, so what is there for Malaysia? We must gain something for Malaysia," he said. Finance Minister Lim Guan Eng was previously reported as saying that Malaysia has already paid RM20 billion in relation to the 688km rail project, but refused to share details of the contract and said negotiations need to be done "behind closed doors". In May, Council of Emminent Persons chairman Tun Daim Zainuddin said the RM55 billion was only for the first phase of ECRL, while the second phase would cost RM11 billion — all excluding interest rates tied to the funding of the project. It was reported that China-based Exim Bank will fork out 85% of the total project cost, with the project spearheaded by China Communications and Construction Co (CCCC). In a related matter, Dr Mahathir denied that the government is considering proceeding with the ECRL, because tycoon Tan Sri Vincent Tan had bought into T7 Global Bhd. T7 Global has inked a memorandum of understanding with Terengganu state-linked corporation Eastern Pacific Industrial Corp Bhd (EPIC) and a bumiputera company CMC Engineering Sdn Bhd to form a consortium to undertake the construction of the ECRL project's Terengganu parcel. Tan bought a 5.04% stake in T7 Global, soon after the May 9 general election. The Berjaya Corp Bhd founder was among entrepreneurs who had been very successful under Dr Mahathir's previous 22-year tenure as prime minister, before retiring in 2003. *(Source: The Star)*

Rating Actions

Issuer	PDS Description	Rating/Outlook	Action
United Overseas Bank (Malaysia) Bhd	Senior and subordinated notes of proposed RM8 billion MTN Programme	AAA/Stable and AA1/Stable	Assigned

Source: RAM Ratings; MARC

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: HLMarkets@hlbb.com.my