

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

US Treasuries

- US Treasuries ended weaker, pushing benchmark yields higher as tech-related stock equities recovered some ground following a rout on Wednesday. Overall yield curve bear-flattened upwards with the benchmark 2Y up 2bps whilst 10Y edged 1bps higher 3.12%. Treasury's auction of US\$31b 7-year notes yesterday was also softer with a BTC ratio of 2.3px (lower than prior month), averaging at 3.074%. That brings total interest by direct bidders in this week's 2Y, 5Y and 7Y's auctions totaling \$108b; to a multi-year low. Prospects of further policy tightening on the back of solid growth and inflation outlook are expected to drive UST yields higher. Up next are the GDP numbers for 3Q expected out tonight.

MGS/GII

- Trading momentum in Govvies was tepid on lower of RM1.2b mark yesterday as investors were mostly sidelined on Moody's Investor Service's concern on the country's intention to widen the fiscal deficit until 2020. Some sporadic interest was seen in the off-the-run 21's, 3Y and 5Y. Overall benchmark yields generally mixed-to-higher with most GII bond trades ending up 2-3bps. The 5Y MGS 4/23 ended 2bps higher at 3.81% while the 10Y MGS 6/28 was similarly higher at 4.16% levels. GII bond trades accounted for 43% of overall trades. Investors may be tempted to be sidelined ahead of the unveiling of the Budget on 2nd November. Up next on the data front is September CPI reading today.

Corp Bonds/Sukuk

- Corporate bonds/sukuk continued to maintain strong traction with investor interest seen across the GG to AA-part of the curve despite lower volume of RM654m yesterday. There were a total of 37 bonds traded; similar to Wednesday with overall yields ending mixed-to-lower. In the GG segment, MKD Kenchana 2/25 rose 4bps compared to previous-done levels on substantial volume of RM130m at 4.28%. Other similar GG-related bonds also ended 1-4bps higher. However the AAA-rated PUTRAJAYA 20, 23 and 26 ended up to 18bps lower between 4.09-51% levels. In the AA-space; power-related bonds within the energy sub-sector like SEB 21, 24, 32 and also Southern Power 31-35's ended mostly lower on yields. Likewise Malakoff 12/22 and TBEI 3/27 closed 13-15bps lower at 4.49% and 4.74% levels. HLA 25NC20 meantime edged 1bps lower at 4.61% in the finance-segment.

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Tenure	Closing (%)	Chg (bps)
2-yr UST	2.85	2
5-yr UST	2.96	2
10-yr UST	3.12	1
30-yr UST	3.34	1

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.61	-2	3.73	3
5-yr	3.81	2	3.92	2
7-yr	4.03	0	4.11	3
10-yr	4.16	1	4.25	3
15-yr	4.60	-2	4.61	0
20-yr	4.81	0	4.81	0
30-yr	4.92	0	4.95	0

* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.71	0
3-yr	3.78	0
5-yr	3.90	1
7-yr	4.02	1
10-yr	4.21	0

Source : Bloomberg

Upcoming Government Bond Tender

Nil

Daily Trades : Government Bonds

Securities	Closing	Vol	Previous	Previous	Chg
	YTM	(RM mil)	YTM	Trade Date (dd/mm/yyyy)	(bp)
MGS 10/19	3.424	8	3.421	24/10/2018	0
MGS 08/20	3.679	20	3.649	23/10/2018	3
MGS 09/21	3.658	151	3.645	24/10/2018	1
MGS 11/21	3.609	100	3.626	24/10/2018	-2
MGS 04/23	3.806	70	3.789	24/10/2018	2
MGS 08/23	3.845	90	3.845	24/10/2018	0
MGS 07/24	3.992	40	3.983	24/10/2018	1
MGS 09/24	4.020	29	3.986	24/10/2018	3
MGS 09/25	4.017	29	4.030	24/10/2018	-1
MGS 04/26	4.164	6	4.172	22/10/2018	-1
MGS 11/26	4.157	20	4.134	23/10/2018	2
MGS 11/27	4.234	21	4.182	24/10/2018	5
MGS 06/28	4.157	22	4.139	24/10/2018	2
MGS 04/30	4.509	2	4.515	22/10/2018	-1
MGS 04/32	4.589	1	4.589	24/10/2018	0
MGS 11/33	4.596	2	4.615	23/10/2018	-2
MGS 04/37	4.840	40	4.820	24/10/2018	2
MGS 09/43	4.968	40	4.935	24/10/2018	3
GII 04/19	3.356	25	3.300	24/10/2018	6
GII 04/20	3.544	37	3.520	22/10/2018	2
GII 03/22	3.728	160	3.700	24/10/2018	3
GII 11/23	3.918	82	3.901	24/10/2018	2
GII 08/25	4.111	20	4.080	18/10/2018	3
GII 09/26	4.182	10	4.177	23/10/2018	1
GII 10/28	4.251	117	4.221	24/10/2018	3
GII 06/33	4.605	62	4.610	23/10/2018	0
GII 08/33	4.733	1	4.624	11/10/2018	11
GII 05/47	4.948	2	4.947	17/10/2018	0
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Daily Trades: Corp Bonds / Sukuk

Securities	Rating	Closing	Vol	Previous	Previous	Chg	Spread	
		YTM	(RM mil)	YTM	Trade Date (dd/mm/yyyy)	(bp)	Against MGS*	
Pengurusan Air SPV Berhad	02/23	GG	4.039	35	4.026	17/10/2018	1	29
MKD Kencana Sdn Berhad	02/25	GG	4.281	130	4.241	28/08/2018	4	32
Pengurusan Air SPV Berhad	02/26	GG	4.280	35	4.260	26/09/2018	2	24
Prasarana Malaysia Berhad	03/28	GG	4.388	60	4.360	17/10/2018	3	24
Putrajaya Holdings Sdn Berhad	09/20	AAA	4.088	10	4.245	26/04/2018	-16	58
Putrajaya Holdings Sdn Berhad	09/23	AAA	4.309	10	4.309	24/10/2018	0	50
Putrajaya Holdings Sdn Berhad	05/26	AAA	4.507	20	4.686	22/06/2018	-18	40
Putrajaya Bina Sdn Berhad	09/27	AAA	4.602	15	4.609	15/10/2018	-1	46
GENM Capital Berhad	07/28	AAA	4.932	10	4.934	24/10/2018	0	78
West Coast Expressway Sdn Berhad	08/32	AAA	4.804	10	4.811	22/10/2018	-1	21
Sarawak Energy Berhad	06/21	AA1	4.293	5	4.275	18/10/2018	2	65
Sarawak Energy Berhad	07/24	AA1	4.489	20	4.669	18/07/2018	-18	53
United Overseas Bank (Malaysia) Berhad	05/25	AA1	5.098	1	4.392	28/09/2018	71	105
YTL Power International Berhad	08/28	AA1	4.939	10	4.928	24/10/2018	1	79
Sarawak Energy Berhad	12/32	AA1	4.838	10	4.839	19/10/2018	0	24
Celcom Networks Sdn Berhad	08/19	AA+	4.166	20	4.172	22/10/2018	-1	76
Imtiaz Sukuk II Berhad	10/20	AA2	4.328	30	4.432	22/02/2018	-10	82
UMW Holdings Berhad	10/21	AA2	4.447	10	4.447	25/09/2018	0	80
UMW Holdings Berhad	06/22	AA2	4.498	10	4.536	28/09/2018	-4	75
Anih Berhad	11/23	AA	4.518	6	4.549	06/04/2018	-3	71
Besraya (M) Sdn Berhad	07/21	AA3	4.727	7	4.882	27/04/2018	-15	108
Hong Leong Assurance Berhad	02/25	AA3	4.609	10	4.622	10/10/2018	-1	65
Tanjung Bin Energy Issuer Berhad	03/27	AA3	4.739	20	4.870	03/07/2018	-13	63
SPR Energy (M) Sdn Berhad	07/27	AA3	5.004	10	4.970	29/08/2018	3	86
Malakoff Power Berhad	12/22	AA-	4.488	10	4.634	29/03/2018	-15	74
Kimanis Power Sdn Berhad	08/27	AA-	4.731	4	4.826	03/08/2017	-9	59
Southern Power Generation Sdn Berhad	10/31	AA-	4.801	20	4.809	23/10/2018	-1	20
Southern Power Generation Sdn Berhad	04/32	AA-	4.809	20	4.819	16/10/2018	-1	21
Southern Power Generation Sdn Berhad	04/33	AA-	4.921	15	4.939	22/10/2018	-2	32
Southern Power Generation Sdn Berhad	04/34	AA-	5.023	10	5.020	17/10/2018	0	42
Southern Power Generation Sdn Berhad	10/34	AA-	5.073	10	5.068	23/10/2018	1	47
Southern Power Generation Sdn Berhad	04/35	AA-	5.113	10	5.129	11/10/2018	-2	51
Southern Power Generation Sdn Berhad	10/35	AA-	5.172	30	5.199	16/10/2018	-3	57
Affin Bank Berhad	09/27	A1	4.917	10	5.252	23/10/2018	-34	77
RHB Bank Berhad	03/39	A1	4.240	10	4.291	10/10/2018	-5	-57
CIMB Group Holdings Berhad	05/16	A1	5.209	1	5.083	22/10/2018	13	40
Eco World International Berhad	#N/A	-	6.198	1	6.200	23/10/2018	0	-
				<u>654</u>				

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

Market/Corporate News: What's Brewing

The government has decided to cancel four independent power producers' (IPP) licences for failure to adhere to conditions stipulated in the respective offer letters.

In a reply to a question in Parliament today from Ipoh Timur MP Wong Kah Woh, the Minister of Energy, Science, Technology, Environment and Climate Change Yeo Bee Yin said the IPP projects had been awarded via direct negotiations. The four cancelled IPPs were Malakoff Corp Bhd and Tenaga Nasional Bhd's 700MW gas powered plant in Kapar, Selangor; the Aman Majestic Sdn Bhd and Tenaga Nasional's 1,400MW plant in Paka, Terengganu; the Sabah Development Energy (Sandakan) Sdn Bhd and SM Hydro Energy Sdn Bhd hydropower plant at the Palm Oil Industrial Cluster (POIC) in Sandakan, Sabah as well as the solar power quota of 400MW to Edra Power Holdings Sdn Bhd for the utilisation of solar power plant. Yeo explained that the cancellation of the four IPPs would optimise capacity payment for electric supply. She said this was due to 30% of electric bill payments at present were toward capacity payment and that capacity payment was very much dependent on the reserve margin as well as terms in power purchase agreements (PPAs) with IPPs. Yeo said if the national electric reserve margin remained at the optimal 32% and these projects were continued, it would increase the reserve margin to a higher-than-necessary level as well as raise capacity payments. "When capacity payments increase, so will electric bills," she said. Yeo added that furthermore, these projects were awarded through direct negotiations and did not necessarily guarantee competitive terms for the government in the PPAs. She said that with the cancellations, the government had achieved some savings of RM1.26 billion in electric supply to consumers. Yeo said the cancellations will not impose any negative financial implication on the government. "The government is committed to ensure future power generation projects, whether fossil fuel or [renewable] energy-based, will be awarded through open tenders," she said. (Source: *The EdgeMarkets*)

The government's move to cancel four electricity generation projects, which had been awarded through direct negotiations, has further dampened Malakoff Corp Bhd's growth prospects, which were already far from rosy.

The news has exerted more pressure on Malakoff's share price, which drifted lower yesterday, down 4.65% to 82 sen on light volume of barely 954,099 shares traded, as the independent power producer (IPP) was involved in one of the four projects that has been cancelled. The four cancelled IPP projects were Malakoff and Tenaga Nasional Bhd's (TNB) 700mw gas-powered plant in Kapar, Selangor; the Aman Majestic Sdn Bhd and TNB's 1,400mw plant in Paka, Terengganu; the Sabah Development Energy (Sandakan) Sdn Bhd and SM Hydro Energy Sdn Bhd's hydropower plant at the Palm Oil Industrial Cluster (POIC) in Sandakan, Sabah as well as the solar power quota of 400mw to Edra Power Holdings Sdn Bhd for the utilisation of solar power plant, according to news reports. The share price of the IPP, which is controlled by tycoon Tan Sri Syed Mokhtar Al-Bukhary, has been going downhill since late 2016, falling from RM1.60-level to an all-time low of 79.6 sen in April. The current share price level is less than half of its initial public offering price of RM1.80 in 2015. The lingering concern over Malakoff is the lack of future growth catalysts, in addition to its limited ability to declare generous dividends given its high debts, said analysts. The loss of another power generation project will add to the concern on its prospects moving forward, they commented. Energy, Science, Technology, Environment and Climate Change Minister Yeo Bee Yin was quoted by the media as saying in Parliament that the IPP projects had been awarded via direct negotiations. Yeo explained that the cancellation of the four IPP projects would optimise capacity payment for electricity supply. This was due to 30% of electricity bill payments at present were towards capacity payment and that capacity payment was very much dependent on the reserve margin as well as terms in the power purchase agreements with IPPs, she told the Parliament. Yeo said if the national electricity reserve margin remained at the optimal

32% and these projects were continued, it would increase the reserve margin to a higher-than-necessary level with higher capacity payments, adding that the cancellations will not impose any negative financial implication on the government. "The government is committed to ensure future power generation projects, whether fossil fuel or [renewable] energy-based, will be awarded through open tenders," she was quoted by the media as saying. (Source: *The EdgeMarkets*)

Rating Action			
Issuer	PDS Description	Rating/Outlook	Action
Mukah Power Generation Sdn Bhd	RM665 million Senior Sukuk Mudharabah Programme (2006/2021)	AA2 (S)	Revised from stable to positive
Sarawak Power Generation Sdn Bhd (SPG)	RM215 million Serial Sukuk Musharakah (2006/2021)	AA2 (S)	Revised from stable to positive

Source: RAM, MARC

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