

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.62	0
5-yr UST	2.71	-1
10-yr UST	2.81	-2
30-yr UST	2.96	-2

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.47	-1	3.50	0
5-yr	3.70	2	3.80	0
7-yr	3.93	1	4.01	1
10-yr	4.03	1	4.14	1
15-yr	4.48	1	4.51	0
20-yr	4.67	0	4.76	0
30-yr	4.90	0	4.95	0

*Market indicative

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.70	0
3-yr	3.73	0
5-yr	3.82	-1
7-yr	3.94	0
10-yr	4.16	0

Source: Bloomberg

Upcoming Government Bond Tender

Nil

US Treasuries

- US Treasuries continued to reflect a flatter curve following initial volatility arising from Fed Chairman Powell's preference for gradual rate hikes at the Jackson Hole conference. The 2s10s spread hit a new low at ~19bps whilst the 5s30s spread similarly narrowed to ~25bps. Overall benchmark yields moved within 1-2bps across the curve save for the 2Y which edged within 1bps higher at 2.62% whilst the much-watched 10Y UST dipped 2bps lower at 2.81% levels. Meanwhile Trump fueled speculation of further issues to be raised on its trade war with China. Confirmation that the Fed's preferred inflation gauge is rising as tightening is seen on track coupled with ~\$104b of fixed-rate, short-term note auctions may weigh on the yield curve.

MGS/GII

- Trading momentum in Govvies notched lower volume of RM2.06b with interest seen sporadically across the curve especially on some off-the-run 22-23's and 10Y benchmarks. Overall benchmark yields were generally 1bps higher save for an odd-lot trade on the 3Y MGS. We note GII trades as a whole dropped to 40% of total trades. Both the benchmark 7Y MGS and 10Y MGS 6/28 edged almost 1bps higher at 3.93% and 4.03% respectively. The final auction for the month for the reopening of 5Y MGS is expected to be announced today.

Corp Bonds/Sukuk

- Corporate Bonds/Sukuk saw volume double to RM498m yesterday with interest seen across the GG to the single-A part of the curve involving a mere 24 different bonds. Overall yields generally ended lower yet again on investor demand. Govt-guaranteed DANA 7/27 and PRASA 3/38 moved 2-5bps lower between 4.32% and 4.88% respectively compared to previous-done levels. In the AAA-space TELEKOM 8/23 made its debut trade at 4.32%; about 2.2%bps lower than coupon whilst RANTAU 3/29 edged 1bps lower at 4.58% levels. In the AA-segment, IJM 8/28 rallied to 4.95% levels whereas JEP 6/32 moved 1bps lower at 4.99% on RM30m nominal amount. AMMB 28nc23 and PBB 4/25 dominated the banking space closing 4.98% and 4.55% levels each.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	03/19	3.293	7	3.302	21/08/2018	-1
MGS	07/19	3.370	1	3.337	23/08/2018	3
MGS	11/19	3.349	8	3.398	23/08/2018	-5
MGS	10/20	3.481	4	3.462	23/08/2018	2
MGS	07/21	3.569	30	3.597	23/08/2018	-3
MGS	11/21	3.465	2	3.459	23/08/2018	1
MGS	03/22	3.623	10	3.617	23/08/2018	1
MGS	08/22	3.713	49	3.691	23/08/2018	2
MGS	09/22	3.715	8	3.715	23/08/2018	0
MGS	04/23	3.702	300	3.685	23/08/2018	2
MGS	08/23	3.794	8	3.771	23/08/2018	2
MGS	07/24	3.919	8	3.912	23/08/2018	1
MGS	09/24	4.006	7	3.988	23/08/2018	2
MGS	03/25	3.934	60	3.925	23/08/2018	1
MGS	09/25	4.067	13	4.078	23/08/2018	-1
MGS	11/26	4.162	90	4.159	23/08/2018	0
MGS	11/27	4.149	210	4.138	23/08/2018	1
MGS	06/28	4.025	154	4.025	23/08/2018	0
MGS	04/30	4.431	8	4.450	23/08/2018	-2
MGS	04/33	4.515	162	4.510	23/08/2018	0
MGS	11/33	4.475	6	4.462	23/08/2018	1
MGS	06/38	4.670	10	4.666	23/08/2018	0
MGS	09/43	4.831	38	4.841	23/08/2018	-1
MGS	03/46	4.899	11	4.889	23/08/2018	1
MGS	07/48	4.895	14	4.895	23/08/2018	0
GII	04/19	3.356	149	3.390	20/08/2018	-3
GII	04/22	3.748	414	3.748	23/08/2018	0
GII	07/22	3.810	1	3.755	23/08/2018	6
GII	07/23	3.859	2	3.839	23/08/2018	2
GII	05/24	3.990	100	4.020	21/08/2018	-3
GII	08/25	4.010	10	4.000	23/08/2018	1
GII	10/28	4.138	140	4.129	23/08/2018	1
GII	09/30	4.526	2	4.607	22/05/2018	-8
GII	08/33	4.568	20	4.596	10/08/2018	-3
			<u>2056</u>			

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*	
Danainfra Nasional Berhad	07/27	GG	4.317	20	4.340	17/08/2018	-2	26
Danainfra Nasional Berhad	04/30	GG	4.470	55	4.710	13/03/2018	-24	44
Prasarana Malaysia Berhad	03/38	GG	4.880	10	4.930	02/08/2018	-5	21
Public Bank Berhad	04/25	AAA	4.548	20	4.616	10/07/2018	-7	61
Cagamas Berhad	08/28	AAA	4.565	13	6.500	07/08/2008	-194	54
Rantau Abang Capital Berhad	03/29	AAA	4.583	10	4.596	23/08/2018	-1	55
Danga Capital Berhad	01/33	AAA	4.790	5	4.830	20/08/2018	-4	32
Telekom Malaysia Berhad	08/23	AAA	4.320	150	-	-	-	-
Sepangar Bay Power Corporation Sdn Berhad	07/23	AA1	4.470	2	4.579	20/11/2017	-11	77
YTL Power International Berhad	08/23	AA1	4.616	40	-	-	-	92
Hong Leong Bank Berhad	06/24	AA1	4.905	1	4.498	24/05/2018	41	103
YTL Power International Berhad	08/28	AA1	4.921	15	4.910	23/08/2018	1	89
Celcom Networks Sdn Berhad	08/24	AA+	4.660	5	4.684	16/08/2018	-2	79
First Resources Limited	06/20	AA2	4.442	10	4.585	12/06/2018	-14	102
AmBank (M) Berhad	06/20	AA2	4.428	5	4.500	22/06/2018	-7	100
Perbadanan Kemajuan Negeri Selangor	08/23	AA3	5.029	4	5.067	20/08/2018	-4	133
IJM Corporation Berhad	08/28	AA3	4.954	20	4.980	16/08/2018	-3	92
Malakoff Power Berhad	12/18	AA-	4.157	10	4.205	15/08/2018	-5	80
UEM Sunrise Berhad	12/18	AA-	4.127	40	4.161	17/08/2018	-3	77
WCT Holdings Berhad	12/18	AA-	4.423	1	4.441	06/07/2018	-2	107
Jimah East Power Sdn Berhad	08/32	AA-	4.989	30	4.998	10/08/2018	-1	52
Tan Chong Motor Holdings Berhad	11/19	A1	6.118	1	6.104	10/08/2018	1	277
AMMB Holdings Berhad	02/28	A1	4.979	20	5.003	21/08/2018	-2	95
Mah Sing Perpetual	-	-	5.807	12	5.808	23/08/2018	0	-
			<u>498</u>					

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

Market/Corporate News: What's Brewing

Sarawak State infrastructure facilitator Cahya Mata Sarawak Bhd (CMSB) saw its net profit for the second quarter ended June 30, 2018 (2QFY18) leap by 59.5% to RM91.63 million from RM57.43 million mainly attributed to the increase in share of results of its associates. Earnings per share stood notably higher at 8.53 sen compared with 5.35 sen per share in the previous year's corresponding quarter. According to its filing with Bursa Malaysia today, quarterly revenue rose 15.4% to RM395.28 million from RM342.55 million in 2QFY17. It said second quarter results were substantially higher than the previous year's same quarter due to the turnaround of its associate OM Materials (Sarawak) Sdn Bhd since the third quarter of 2017. For the first half of the year (1HFY18), CMSB's net profit surged 56.8% to RM130.6 million from RM83.3 million recorded for the same period last year, while revenue increased 15.4% to RM750.27 million from RM650.23 million. In a separate statement, CMSB said the significant improvement in the group's financial performance for 1HFY18 was mainly due to increase in the share of results of associates namely OM Materials (Sarawak) Sdn Bhd, SACOFA Sdn Bhd, KKB Engineering Berhad and Kenanga Investment Bank Berhad. Collectively, CMSB said the aforementioned associates recorded a profit before tax of RM74.88 million during 1HFY18 compared to a loss of RM7.48 million in 1HFY17. "The main contributor to this astounding performance is the strong turnaround at OM Materials (Sarawak) where a PATNCI (profit after tax and non-controlling interests) of RM48.48 million was registered (for CMSB's 25% share) compared to a loss of RM26.21 million for the corresponding period in 2017," it said. CMSB added that the strong performance by OM Materials (Sarawak) is expected to be sustained if ferrosilicon and manganese alloy prices and production outputs are maintained at their current levels. Its group chief executive officer — corporate, Datuk Isaac Lugun, said the company's growth strategy for its strategic investments have begun to come to fruition. "The aim of this growth strategy is for our traditional core businesses and our strategic investments to equally contribute to double the group's earnings in the next three to five years," he said. "We are confident that CMSB will continue to maintain its strong growth potential and will remain resilient in spite of expected continuing headwinds," Isaac added. (Source: *The Edge*)

The sales and services tax (SST) regime is likely to have an impact on the earnings of manufacturers and importers while healthcare and building material companies are among the major beneficiaries. Under the SST system, which will begin from Sept 1, several manufacturers and importers would have to pay up to 10% tax rate in comparison with the 6% rate under the previous goods and services tax (GST) regime. Based on the list of goods to be taxed under the SST, manufacturers involved in the flavoured drinks, alcohol and tobacco, as well as automotive sectors are likely to face higher taxes. As for the producers in the rubber gloves, wood-based and electronic goods sectors, the tax is said to be limited to some segments of their production. A tax consultant said a number of manufacturers and importers would have to pay higher tax of 10% compared with 6% under the GST. "But it is worth noting that there are also companies that would be paying less if they are subject to 5% rate or exempt from it," said the chief executive officer of Tax Advisory and Management Services Yong Poh Chye. The SST is a single-layer tax, which only applies to the manufacturing and importers level, and does not involve a lot of transactions, according to Yong. This is in comparison with the GST which is a multi-layer system that applies across the value chain. "Under the SST, we expect the prices of goods to go down despite the higher tax rate for certain items compared with the GST," Yong said. "For example, a box of flavoured drinks worth RM100 is being taxed at 10% and the manufacturer would garner RM10, while under GST, the same goods could garner RM12 because of the multi-layer tax system pass-through via the manufacturer, wholesalers, and retailers," he explained. Additionally, he said under the SST, 38% of

items under the consumer price index bucket of goods and services are subject to tax while under the GST there is almost 60%. “There are many items that would be exempted under the SST including cans of sardines, dairy products, coffee and tea. “Bicycles, small motorcycles and building materials such as cement and bricks are also not subject to the 10% tax,” he said. In the automobile sector, the completely knock-down models are exempted from the sales tax while the completely-built-up models are subject to the 10% sales tax. The healthcare industry would be one of the biggest beneficiaries under the SST system because consultation fees, medications, usage of medical equipment and ambulance services are exempted. On the additional 6% service tax, Yong said the tax rate would only apply to food and beverages (F&B) outlets that churned more RM1mil turnover a year. “The 6% service tax is only applicable to certain prescribed services compared with 6% GST that applied to most services. “In the case of restaurant business, the 6% SST is only imposed if the turnover is more than RM1mil a year compared with RM500,000 under the GST,” he said. Yong expected the excise duty and import duty to remain at the same rate. It is worth noting that tobacco and alcohol are heavily taxed in Malaysia. The last excise duty hike for the tobacco sector was in November 2015, at 36%. Excise duty for locally-produced hard liquor increased from RM24 to RM60 per litre in December 2016. Excise duty for beers had been changed to RM175 per 100% volume per litre, from the previous RM7.40 per litre and 15% ad valorem tax, effective since March 1, 2016. (Source: *The Star*)

Rating Action			
Issuer	PDS Description	Rating/Outlook	Action
Nil	Nil	Nil	Nil

Source: RAM, MARC

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