

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

US Treasuries

- US Treasuries ended stronger, pushing benchmark yields lower as US equities continued its downtrend on tech-related names. Overall yield curve ended lower with the benchmark 2Y @ 4bps lower whilst 10Y also rallied to close 4bps lower at 3.08%. Strangely market participants are beginning to doubt the Fed's policy tightening projections following the tanking of US equities of late with some predicting 2 instead of 3 rate hikes for 2019. Despite the prospects of further policy tightening on the back of solid growth and inflation outlook; safe haven bids are expected to neutralize the upward move in UST yields. Meanwhile the US economy meantime slowed less than expected in 3Q as tariff-related drop in soya-bean exports was partially offset by the strongest consumer spending in 4 years.

MGS/GII

- Trading momentum in Govvies was tepid on continued low volume of RM1.32b last Friday with some investor interest in the off-the-run 19-22's. Overall benchmark yields generally higher with most MGS trades notching odd-lot transactions at the close. The 5Y MGS 4/23 ended 4bps higher at 3.84% while the 10Y MGS 6/28 similarly closed high at 4.18% levels. GII bond trades accounted for 34% of overall trades. Separately, Malaysia is open to offering either a US dollar or Japanese Yen bond to help pare down debts. Meanwhile all eyes will be focused on the upcoming auction of 10Y benchmark GII tomorrow; ahead of the unveiling of the 2019 Budget on 2nd November.

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Tenure	Closing (%)	Chg (bps)
2-yr UST	2.81	-4
5-yr UST	2.91	-5
10-yr UST	3.08	-4
30-yr UST	3.31	-3

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.71	10	3.77	4
5-yr	3.84	4	3.89	-3
7-yr	4.07	4	4.11	0
10-yr	4.18	3	4.28	2
15-yr	4.60	0	4.58	-2
20-yr	4.80	-1	4.82	1
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	3.79	1
5-yr	3.89	-1
7-yr	4.01	-1
10-yr	4.21	0

Source : Bloomberg

Upcoming Government Bond Tender

RM4.0b Reopening of 10Y GII 10/28 @ 30th Oct 2018

Corp Bonds/Sukuk

- Corporate bonds/sukuk volume eased to RM361m with investor interest mainly seen across the AA-part of the curve. There were a mere total 18 different bonds traded compared to 37 the prior day with overall yields ending lower. In the GG segment, PRASA 9/21 made its maiden trade at 4.02%. The AA-rated was again dominated by energy-cum-power related bonds i.e. SEB 32 and 36 which ended 1-2bps higher compared to previous-done levels at 4.85% and 5.01% levels. BGSM 6/24 and 3/26 closed mixed between 4.57-68% levels. AA-rated Fortune Premier 9/25 edged 1bps lower on substantial volume of RM160m.

Daily Trades : Government Bonds

Securities	Closing	Vol	Previous	Previous	Chg
	YTM	(RM mil)	YTM	Trade Date (dd/mm/yyyy)	(bp)
MGS 03/19	3.316	41	3.274	24/10/2018	4
MGS 07/19	3.384	95	3.360	24/10/2018	2
MGS 10/19	3.445	1	3.424	25/10/2018	2
MGS 11/19	3.461	123	3.416	24/10/2018	4
MGS 07/21	3.658	111	3.631	25/10/2018	3
MGS 11/21	3.706	72	3.609	25/10/2018	10
MGS 03/22	3.769	167	3.690	24/10/2018	8
MGS 08/22	3.788	10	3.773	23/10/2018	1
MGS 09/22	3.822	4	3.767	24/10/2018	6
MGS 03/23	3.820	2	3.841	22/10/2018	-2
MGS 04/23	3.843	11	3.806	25/10/2018	4
MGS 08/23	3.880	56	3.845	25/10/2018	3
MGS 09/24	4.030	70	4.020	25/10/2018	1
MGS 09/25	4.072	8	4.017	25/10/2018	5
MGS 11/26	4.161	1	4.134	23/10/2018	3
MGS 03/27	4.213	1	4.191	24/10/2018	2
MGS 11/27	4.241	3	4.234	25/10/2018	1
MGS 06/28	4.185	23	4.158	25/10/2018	3
MGS 04/30	4.488	6	4.470	25/10/2018	2
MGS 06/31	4.560	1	4.530	22/10/2018	3
MGS 04/33	4.610	33	4.603	24/10/2018	1
MGS 05/35	4.800	3	4.745	24/10/2018	5
MGS 06/38	4.799	20	4.807	23/10/2018	-1
MGS 09/43	4.956	3	4.935	24/10/2018	2
GII 03/22	3.766	170	3.728	25/10/2018	4
GII 07/22	3.857	20	3.803	23/10/2018	5
GII 07/23	3.960	40	3.931	22/10/2018	3
GII 11/23	3.886	9	3.918	25/10/2018	-3
GII 05/24	4.041	40	3.999	24/10/2018	4
GII 08/25	4.114	60	4.111	25/10/2018	0
GII 07/27	4.209	4	4.175	23/10/2018	3
GII 10/28	4.275	90	4.245	25/10/2018	3
GII 06/33	4.582	1	4.597	25/10/2018	-2
GII 08/33	4.647	3	4.624	11/10/2018	2
GII 08/37	4.824	2	4.810	23/10/2018	1
GII 05/47	4.948	13	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*
Prasarana Malaysia Berhad	09/21	GG	4.017	5	-	-	33
Cagamas Berhad	10/20	AAA	3.945	10	3.947	20/09/2018	43
Cagamas Berhad	04/21	AAA	3.967	18	4.020	26/09/2018	45
Sarawak Energy Berhad	12/32	AA1	4.849	20	4.838	25/10/2018	25
Sarawak Energy Berhad	04/36	AA1	5.013	10	4.990	23/10/2018	20
PBFIN Berhad	06/59	AA2	4.318	10	5.350	16/10/2018	-103
Fortune Premiere Sdn Berhad	09/25	AA	4.991	160	5.004	17/10/2018	93
Bumitama Agri Ltd	03/19	AA3	4.274	10	4.310	25/09/2018	86
Bandar Serai Development Sdn Berhad	11/19	AA3	4.265	10	4.466	03/01/2018	85
RHB Islamic Bank Berhad	05/24	AA3	4.161	10	4.217	19/10/2018	19
BGSM Management Sdn Berhad	06/24	AA3	4.569	50	4.618	05/09/2018	60
BGSM Management Sdn Berhad	03/26	AA3	4.679	10	4.671	17/10/2018	61
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/27	AA-	4.919	5	4.960	24/05/2018	75
Southern Power Generation Sdn Berhad	10/28	AA-	4.739	10	4.760	23/10/2018	56
RHB Bank Berhad	03/39	A1	4.216	10	4.240	25/10/2018	-60
RHB Bank Berhad	12/39	A1	4.534	10	4.588	08/10/2018	-28
CIMB Group Holdings Berhad	05/16	A1	5.158	1	5.209	25/10/2018	34
Eco World International Berhad	10/21	-	5.937	2	6.198	10/25/2018	-26
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*spread against nearest indicative tenured MGS (Source : BPAM)

Market/Corporate News: What's Brewing

The good news that MMC-Gamuda KVMRT (T) Sdn Bhd received last Friday that the consortium will remain the contractor for the underground portion of the mass rapid transit Sungai Buloh-Serdang-Putrajaya Line (MRT2) project comes with a catch. The consortium has to give a bigger cost cut of RM3.6 billion to reduce the underground works' construction cost to RM13.11 billion — lower than its previous offer of RM2.13 billion reduction — according to a statement by the ministry of finance (MoF) last Friday. Still, the news boosted Gamuda Bhd and MMC Corp Bhd's counters. Gamuda was the second most traded counter last Friday, with 64.4 million shares traded. It closed 15 sen or 6.47% higher at RM2.47 with a market capitalisation of RM6.1 billion. MMC Corp, meanwhile, rose four sen or 3.57% to settle at RM1.16, which gave it a market value of RM3.53 billion. The counter saw 2.79 million shares done. The stocks of both companies, which set up the consortium, were however still far below their trading range prior to Oct 7 — Gamuda was trading at RM3.21 while MMC was at RM1.35 — when news broke that the government terminated the consortium's contract for the underground portion when it rejected the latter's RM2.13 billion offer. While MMC-Gamuda has managed to retain the MRT2 project, the underground cost reduction — although smaller than the RM4.19 billion to RM5.79 billion targeted by MoF — will still eat into their margins. On Oct 10, Tony Pua, political secretary for Finance Minister Lim Guan Eng, quoted a Gamuda director as saying that anything beyond the initially proposed RM2.13 billion cut would be “meaningless to continue” for the consortium. Immediately after last Friday's announcement that MMC-Gamuda was keeping the MRT2 underground works, AmlInvestment Research analyst Joshua Ng wrote in a note about Gamuda that the consortium would have to complete the remaining 60% of the underground works valued at RM9.6 billion with only RM6 billion, which represents a 37.5% reduction. And Ng is doubtful that Gamuda “will be able to turn in any meaningful profits from the remaining [underground] works at this price”. “We are keeping our forecasts [on Gamuda] that have removed profits from the remaining MRT2 underground works,” said Ng. As such, Ng keeps his “hold” call on Gamuda, with a target price (TP) of RM2.71, while Macquarie Research maintains its “underperform” call at RM2.60. Both TPs are unchanged from when the underground contract was first terminated on Oct 7. At the time, MMC Corp had one “buy” call and two “hold” calls, with TPs ranged from RM1.35 to RM1.50. On the other hand, MIDF Research analyst Danial Razak believes that the underground portion of the MRT2 project “could still be profitable” to Gamuda, albeit with a slimmer margin, pending renegotiations between MMC-Gamuda and its subcontractors, as well as the implementation of cost-cutting measures. Speaking to The Edge Financial Daily, Danial pointed to another rail project, light rail transit 3 (LRT3), as the benchmark to how the cost-cutting efforts will unfold. MRCB George Kent Sdn Bhd, the project delivery partner (PDP) for LRT3, was notified by Prasarana Malaysia Bhd on Oct 17 that the LRT3 project would continue at RM16.6 billion, which was RM15.05 billion or 47.55% lesser than its earlier estimated cost of RM31.65 billion. The amended terms included the remodelling of the implementation concept for the project from a PDP regime to a fixed price contract regime. At the time, a source with knowledge of the matter told the daily that the consortium was still renegotiating the LRT3 package deals with the relevant subcontractors, and that the project could stay profitable at a single-digit margin. Guan Eng, when he first talked about the “inflated costs” of LRT3 on July 11, said six stations would be scrapped and the project deadline would be extended from 2020 to 2024 to reduce costs. MIDF's Danial said: “If LRT3 is a benchmark for what the government wants, there will be changes in the project schedule and design structure ... RM3.6 billion [reduction] is sizeable. However, I believe the negotiation would have taken into account the remaining 60% works needed to be done.” “The [impact of] cost-reduction initiatives could trickle down to the subcontractors ... [MMC-Gamuda] will probably have to renegotiate the terms, in accordance with the terms set by MoF,” Danial

added. When MoF announced the MMC-Gamuda's continuation with MRT2's underground portion, it also said construction of two Bandar Malaysia underground stations — Bandar Malaysia (North) and Bandar Malaysia (South) — would be postponed, bringing the total number of stations from the original 35 to 33. In contrast, when MMC-Gamuda offered its RM2.13 billion cost cut, it said it had already included "lower specifications for mechanical, electric and architecture works in the stations" and the suspension of four stations. Together with the RM5.22 billion cost cut for the above-ground portion to RM17.42 billion, MMC-Gamuda is going to reduce construction costs for the entire MRT2 by RM8.82 billion or 22.41% to RM30.53 billion, from RM39.35 billion previously. The new RM13.11 billion price tag for the underground portion excludes interest during construction, land acquisition costs and other costs, according to the MoF. It should be noted that the original underground portion was awarded at RM15.49 billion before being revised to RM16.71 billion when MRT Corp issued variation orders of an additional RM1.2 billion, according to Pua's statement on Oct 10. The profitability of the revised agreement could also be dependent on whether there are more variation orders in it. Regardless of the risks to profitability, the new agreement should at least put Gamuda and MMC in the good books of the new government for future projects.. (Source: *The EdgeMarkets*)

Rating Action			
Issuer	PDS Description	Rating/Outlook	Action
Konsortium ProHAWK Sdn Bhd	RM900 million Islamic MTN (IMTN) Programme (2013/2033)	AA2/stable	Reaffirmed
Malaysia Steel Works (KL) Bhd	Proposed RM130.0 million Sukuk Ijarah Programme	AAA-IS(FG)	Assigned

Source: RAM, MARC

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