

**Global Markets Research**

**Fixed Income**

**Fixed Income Daily Market Snapshot**

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.56	1
5-yr UST	2.53	0
10-yr UST	2.72	0
30-yr UST	3.08	-1

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.55	2	3.63	-3
5-yr	3.70	-3	3.80	-1
7-yr	3.85	-2	3.96	-2
10-yr	3.89	-1	4.02	-2
15-yr	4.29	-1	4.37	-1
20-yr	4.48	1	4.61	0
30-yr	4.71	0	4.86	1

\* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.64	-3
3-yr	3.67	-4
5-yr	3.76	-4
7-yr	3.86	-6
10-yr	4.04	-4

Source : Bloomberg

**Upcoming Government Bond Tender**

RM3.0b reopening of 3Y MGS 3/22 on Wednesday, 7<sup>th</sup> March 2019

**US Treasuries**

- US Treasuries closed mixed on Tuesday with the front-end losing steam as the curve flattened pursuant to strong ISM non-manufacturing report whilst benchmark yields closing between -1 to +1bps with the 2Y note yield edged higher at 2.56% and the much-watched 10Y bond almost unchanged at 2.72% levels. Corporate issuances i.e. IG slate continued to see action. Meanwhile some market players are still pricing in at most one (1) rate hike by the Fed through 2019 as policy makers are bent on adopting a patient stance. US Treasury secretary is expected to urge Congress to increase the statutory debt limit to avoid future breaches in the government's debt ceiling. Up next on the data front is the all-important Non-Farm payrolls out on Friday.

**MGS/GII**

- Local govies saw pent-up demand with volume recording a massive RM5.17b following BNM's dovish hints at yesterday's MPC meeting as OPR was maintained at 3.25%. Interest was mainly focused on off-the-run 19's, 26-27's and also 5Y benchmark MGS bonds. Overall benchmark yields ended mostly 1-3bps lower. The 5Y benchmark MGS 4/23 yields ended 3bps lower at 3.70% whilst the 10Y MGS 8/29 was 1bp lower at 3.89% level. GII trades rose to form 44% of overall trades. MYR Interest Rate swaps which closed 3-6bps sharply lower, led the underlying cash market. Meanwhile investors, mainly inter-bank players are awaiting tomorrow's 3Y MGS bond auction.

**Corp Bonds/Sukuk**

- Corporate Bonds/Sukuk saw volume boosted to RM1.25b with investor interest mainly across the GG to single-A part of the curve on strong demand following MPC's dovish comment. Govt-guaranteed PRASA 3/20 and BPMB 9/21 saw RM120m in nominal amounts traded between a whopping 14-20bps lower compared to previous-done levels at 32.68% and 3.93% respectively. PTPTN and DANA 32's however closed unchanged at 4.47-49% levels. AAA-rated DANGA 1/30 and 9/33 ended lower on yields at 4.44% and 4.59% each whilst TELEKOM 8/23 and 5/28 closed 0-3bps lower at 4.20% and 4.49% each. In the AA-space, short-end BUMITAMA 19's traded again rallying 13bps lower at 4.20% on heavy volume whilst ENCORP 22's saw demand; ending at 4.44% and 4.59% respectively. The banking space saw both HLISB 24NC19 and HLBB 24NC19 exchange hands at 4.12% and 4.00% each.

## Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	03/19	3.470	20	3.409	01/03/2019	6
MGS	07/19	3.312	13	3.357	01/03/2019	-5
MGS	10/19	3.374	275	3.383	04/03/2019	-1
MGS	11/19	3.364	288	3.382	04/03/2019	-2
MGS	03/20	3.442	13	3.394	04/03/2019	5
MGS	10/20	3.477	31	3.503	04/03/2019	-3
MGS	07/21	3.574	2	3.577	01/03/2019	0
MGS	09/21	3.602	29	3.606	04/03/2019	0
MGS	11/21	3.549	31	3.561	04/03/2019	-1
MGS	03/22	3.566	80	3.554	04/03/2019	1
MGS	08/22	3.651	252	3.695	04/03/2019	-4
MGS	09/22	3.659	32	3.688	01/03/2019	-3
MGS	03/23	3.742	4	3.731	01/03/2019	1
MGS	04/23	3.696	475	3.730	04/03/2019	-3
MGS	08/23	3.750	79	3.763	04/03/2019	-1
MGS	07/24	3.818	211	3.831	04/03/2019	-1
MGS	09/24	3.817	140	3.837	04/03/2019	-2
MGS	03/25	3.893	1	3.916	04/03/2019	-2
MGS	07/25	3.948	10	3.993	04/02/2019	-4
MGS	09/25	3.902	27	3.920	04/03/2019	-2
MGS	04/26	3.952	159	3.984	01/03/2019	-3
MGS	07/26	3.852	135	3.869	04/03/2019	-2
MGS	09/26	3.995	20	3.922	20/02/2019	7
MGS	11/26	3.966	60	3.963	04/03/2019	0
MGS	05/27	4.024	30	4.033	26/02/2019	-1
MGS	11/27	3.981	216	4.004	04/03/2019	-2
MGS	06/28	3.985	51	3.986	04/03/2019	0
MGS	08/29	3.887	85	3.899	01/03/2019	-1
MGS	04/32	4.308	2	4.308	01/03/2019	0
MGS	11/33	4.290	68	4.298	04/03/2019	-1
MGS	04/37	4.485	5	4.477	04/03/2019	1
MGS	06/38	4.477	41	4.465	01/03/2019	1
MGS	09/43	4.714	10	4.708	01/03/2019	1
MGS	03/46	4.756	2	4.761	04/03/2019	0
GII	05/20	3.495	30	3.521	01/03/2019	-3
GII	06/20	3.520	10	3.502	10/01/2019	2
GII	08/20	3.518	1	3.526	04/03/2019	-1
GII	03/21	3.587	387	3.613	04/03/2019	-3
GII	04/21	3.559	70	3.496	12/12/2018	6
GII	04/21	3.559	30	3.615	12/12/2018	-6
GII	08/21	3.658	24	3.634	12/02/2019	2
GII	03/22	3.635	110	3.666	04/03/2019	-3
GII	04/22	3.672	106	3.693	04/03/2019	-2
GII	07/23	3.809	241	3.826	04/03/2019	-2
GII	10/23	3.838	40	3.902	08/01/2019	-6
GII	11/23	3.803	190	3.815	04/03/2019	-1
GII	08/24	3.890	51	3.901	01/03/2019	-1
GII	08/25	3.959	70	3.977	04/03/2019	-2
GII	10/25	3.984	100	3.998	04/03/2019	-1
GII	09/26	4.039	180	4.030	28/02/2019	1
GII	07/27	4.045	60	4.052	04/03/2019	-1
GII	10/28	4.090	140	4.103	04/03/2019	-1
GII	12/28	4.114	10	4.123	01/03/2019	-1
GII	07/29	4.019	260	4.040	04/03/2019	-2
GII	06/33	4.368	30	4.377	01/03/2019	-1
GII	10/35	4.582	135	4.595	01/03/2019	-1
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## 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*
Small Medium Enterprise Development Bank Malay	03/19	GG	3.441	85	3.481	07/02/2019	-4	0
Prasarana Malaysia Berhad	03/20	GG	3.680	100	3.884	04/10/2018	-20	24
Bank Pembangunan Malaysia Berhad	09/21	GG	3.928	20	4.070	29/11/2017	-14	36
Lembaga Pembiayaan Perumahan Sektor Awam	04/22	GG	3.931	5	3.945	01/03/2019	-1	37
DanaInfra Nasional Berhad	11/22	GG	3.931	5	3.952	01/03/2019	-2	26
Malaysia Debt Ventures Berhad	03/23	GG	3.960	20	4.048	18/12/2018	-9	28
Lembaga Pembiayaan Perumahan Sektor Awam	04/24	GG	4.031	60	4.029	20/02/2019	0	32
Prasarana Malaysia Berhad	03/28	GG	4.210	10	4.266	11/02/2019	-6	29
DanaInfra Nasional Berhad	10/28	GG	4.231	10	4.242	21/02/2019	-1	33
DanaInfra Nasional Berhad	07/29	GG	4.240	50	4.430	12/10/2018	-19	34
Prasarana Malaysia Berhad	09/29	GG	4.232	10	4.310	11/02/2019	-8	33
Perbadanan Tabung Pendidikan Tinggi Nasional	03/32	GG	4.487	75	4.489	26/02/2019	0	19
DanaInfra Nasional Berhad	05/32	GG	4.470	30	4.470	20/02/2019	0	17
MKD Kencana Sdn Berhad	10/32	GG	4.510	30	4.590	04/02/2019	-8	21
Cagamas Berhad	03/19	AAA	3.630	5	3.700	20/12/2018	-7	19
Putrajaya Holdings Sdn Berhad	07/21	AAA	4.052	13	3.993	10/10/2016	6	53
Putrajaya Holdings Sdn Berhad	04/22	AAA	4.101	3	4.242	31/03/2016	-14	54
Putrajaya Holdings Sdn Berhad	07/22	AAA	4.121	7	4.303	14/09/2018	-18	56
Putrajaya Bina Sdn Berhad	03/23	AAA	4.188	30	4.308	13/11/2018	-12	51
Cagamas Berhad	05/23	AAA	4.100	15	4.130	12/02/2019	-3	42
Telekom Malaysia Berhad	08/23	AAA	4.198	50	4.199	21/02/2019	0	52
Telekom Malaysia Berhad	05/28	AAA	4.487	20	4.518	26/02/2019	-3	57
Danga Capital Berhad	01/30	AAA	4.438	10	4.538	14/02/2019	-10	54
Danga Capital Berhad	09/33	AAA	4.589	10	4.609	27/02/2019	-2	29
Encorp Systembit Sdn Berhad	05/22	AA1	4.240	30	4.343	04/11/2016	-10	68
Encorp Systembit Sdn Berhad	11/22	AA1	4.267	20	4.643	12/01/2017	-38	59
Hong Leong Islamic Bank Berhad	06/24	AA1	4.115	40	1.534	29/01/2019	-	41
Hong Leong Bank Berhad	06/24	AA1	3.997	10	4.047	20/02/2019	-5	29
YTL Power International Berhad	05/27	AA1	4.759	15	4.788	01/03/2019	-3	85
Sarawak Energy Berhad	07/29	AA1	4.509	10	4.519	01/03/2019	-1	61
TRIpIc Medical Sdn Berhad	10/35	AA1	5.020	5	5.131	23/10/2018	-11	72
Imtiaz Sukuk II Berhad	03/19	AA2	3.851	20	3.901	17/12/2018	-5	41
Benih Restu Berhad	06/25	AA2	4.481	25	4.528	20/02/2019	-5	65
Bumitama Agri Ltd	03/19	AA3	4.200	130	4.332	04/03/2019	-13	76
Edra Energy Sdn Berhad	01/22	AA3	5.257	10	5.195	23/11/2018	6	169
Tanjung Bin Energy Issuer Berhad	09/29	AA3	4.633	10	4.769	11/12/2018	-14	73
Edra Energy Sdn Berhad	07/36	AA3	6.229	5	6.220	14/02/2019	1	193
WCT Holdings Berhad	04/20	AA-	4.653	10	4.785	04/09/2018	-13	122
WCT Holdings Berhad	10/23	AA-	5.080	5	5.098	29/01/2019	-2	137
WCT Holdings Berhad	04/26	AA-	5.381	10	5.482	07/12/2018	-10	152
MMC Corporation Berhad	03/28	AA-	5.531	10	5.549	22/02/2019	-2	161
SAJ Capital Sdn Berhad	01/29	AA-	5.020	10	5.489	11/04/2018	-47	112
Hong Leong Financial Group Berhad	11/17	A1	4.844	1	4.718	01/03/2019	13	36
UMW Holdings Berhad	04/18	A1	5.651	200	5.638	28/02/2019	1	117
Mah Sing Perpetual Sukuk	#N/A	-	5.895	1	6.195	11/02/2019	-30	-
				<u>1249</u>				

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

## Market/Corporate News: What's Brewing

Khazanah Nasional Bhd posted its first pre-tax loss in 13 years in 2018, amid significant impairment provisions made during the year — a big chunk of which was due to Malaysia Airlines Bhd (MAB) — but hopes to return to profitability in 2019. The sovereign wealth fund reported a pre-tax loss of RM6.3 billion for 2018, compared to its pre-tax profit of RM2.9 billion in the preceding year, after recording impairments totalling RM7.3 billion — more than triple the RM2.3 billion seen in 2017. The last time it fell into the red was in 2005, when the fund reported a pre-tax loss of RM831 million. Khazanah managing director (MD) Datuk Shahril Ridza Ridzuan said the sizeable impairment reflected the drop in market value of the share prices of listed stocks the fund holds, as well as the decline in the fair carrying value of some of its unlisted assets. “Our performance in 2018 was impacted by several key global and domestic developments in both the economic and social spheres. At the same time, the government initiated a reset of Khazanah, which involved significant changes including a refreshed mandate,” he said at the Khazanah annual review yesterday. The fund

received RM2.8 billion in dividends from its investments in 2018, down 9.7% from the RM3.1 billion it recorded in the previous year, while divestment gains halved to RM1.4 billion for the year from RM2.8 billion, reflecting the challenging market conditions during the year. “Looking ahead into 2019, Khazanah should be able to return to profit, given the fact that the clean-up we did in 2018 has gone through the books. We don’t expect any more large impairments that we have to go through again in 2018. “The provisions are primarily due to Malaysia Airlines Bhd, which accounted for roughly half of the total impairments for 2018,” he said. Its portfolio’s realisable asset value (RAV) — or the market value of all equities, securities and cash held — fell to RM136 billion in 2018 from RM157 billion a year ago. In terms of net worth adjusted — which is RAV less total liabilities and adjusted to measure value created — that fell 21.6% to RM91 billion from RM116 billion, weighed by subdued earnings outlook, market volatility and regulatory changes. Shahril said the airline industry is challenging, as he pointed to persistent overcapacity and how airlines in the country, such as the region’s leading low-cost airline AirAsia Bhd, are also struggling. While Malaysia Airlines was a drag on Khazanah’s financials for 2018, he justified the fund’s investment in the airline by saying that it provides other economic benefits to the country beyond the fund’s bottom line. As an example, he cited the connectivity it provides that brings business and leisure travellers into Malaysia, which indirectly contributes to the economy. However, he said that does not discount the fact that the national airline should be as operationally efficient as possible. “Quite clearly, the strategy put in place for Malaysia Airlines has not met its objectives. That is a fact we have to acknowledge. The question now is whether it makes sense to continue with the same strategy or do we need to rethink how the airline operates given the challenging environment? “We are waiting for Malaysia Airlines to complete its review and we will be looking at understanding what that strategy requires,” he said. Another factor that drove Khazanah into the red was Telekom Malaysia Bhd (TM), which saw a substantial fall in market value following the 83% drop in the group’s net profit for 2018, which Shahril attributed to regulatory changes. TM registered a 56.9% decline in total returns, the biggest decliner in Khazanah’s portfolio, followed by Axiata Group Bhd (-26.9%), CIMB Group Holdings Bhd (-9.3%), Tenaga Nasional Bhd (-7.9%), IHH Healthcare Bhd (-7.6%) and Malaysia Airports Holdings Bhd (-3.3%). Shahril said the market has priced in the fact that TM will take some time to improve its cost base, following the government’s move to bring down consumer pricing as quickly as possible. As the telecommunications company shifts its pricing to reflect the new regulatory environment, revenue will be affected, he said, but added that profitability will return given time. Meanwhile, Shahril said the fund will remain focused on executing its portfolio rebalancing strategy and strengthening its financial position. He stressed that Khazanah is looking at long-term returns and that it is natural for there to be fluctuations in the market over long periods of time, especially since the fund’s portfolio is very much equity-based. “The key thing to focus on is the fact that we are restructuring the portfolio and are geared towards long-term returns,” Shahril said. The portfolio rebalancing, he said, will look at taking out some of the inherent risks in its portfolio, such as the concentration of risk it is facing given that a big chunk of its investments in Malaysia are tied up in just a few companies. So, over time, Khazanah will have a more balanced portfolio spread over more sectors and geographies to mitigate the concentration of risk, and benefit from a more diversified portfolio. Khazanah is also splitting its portfolio into two — commercial and strategic. The commercial portion targets returns equivalent to inflation plus 3% on a five-year rolling basis. It will comprise public assets such as CIMB, Axiata, IHH and Alibaba.com as well as private assets such as The Holstein Milk Company Sdn Bhd, Sun Life Malaysia, WeLab and Palantir. The strategic portion is a developmental fund targeting returns equivalent to the 10-year Malaysian Government Securities yield on a five-year rolling basis. It includes strategic assets such as TM, TNB, MAB and PLUS Malaysia Bhd and developmental assets such as Silterra Malaysia Sdn Bhd, Iskandar Investment Bhd, Themed Attractions Resorts & Hotels Sdn Bhd, Pinewood Iskandar

Malaysia Studios and Medini Iskandar Malaysia. Meanwhile, as part of the review of the fund's operational costs, Khazanah is looking at the operations of its international offices and may take steps to improve their operations. "Some of our offices are quite vital to our operations, like China, for example. We have a lot of investments in the country and a lot of these are private equity investments, so we need people on the ground to ensure those assets are managed well and are creating value for Khazanah as a whole. "Some of the other offices, for instance in London, may be less important because we will be adopting a more market-driven approach. So, we can do more of the operations out of other offices. As we review our costs and business operations, if there is a cost benefit to us by running the international offices in a different way, we will make those decisions as we go along," he said. Meanwhile, when asked if Khazanah had received offers for Legoland Malaysia Resort — following a news report that the fund is looking to sell the theme park — Shahril said Khazanah is not in talks with any party, though the fund is reviewing all its assets. "Legoland is not only Ebitda (earnings before interest, taxes, depreciation and amortisation) positive — it's returning a positive profit as well. The time will come when we need to think about reinvesting the capital. "Everything has a value at the end of the day and if a great valuation comes in, we will look and see whether the capital that can be returned to our books can be better deployed in other areas," he said. (Source: *The Star*)

Rating Action			
Issuer	PDS Description	Rating/Outlook	Action
Zamarad Assets Berhad ( RCE's newly-sponsored vehicle)	RM195.0 million Class A Sukuk and RM45.0 million Class B Sukuk	AAA/Stable and AA2/Stable	Assigned

Source: RAM, MARC

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