

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	1.89	-4
5-yr UST	1.86	-3
10-yr UST	2.08	-4
30-yr UST	2.57	-4

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.33	-4	3.41	0
5-yr	3.45	-1	3.53	-4
7-yr	3.61	-2	3.65	-1
10-yr	3.67	-6	3.74	-3
15-yr	3.97	-5	4.14	0
20-yr	4.20	0	4.24	-4
30-yr	4.48	-1	4.55	0

* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.40	0
3-yr	3.42	1
5-yr	3.48	1
7-yr	3.55	1
10-yr	3.72	1

Source : Bloomberg

Upcoming Government Bond Tender

Nil

US Treasuries

- The US Treasuries gained as the curve shifted lower last Friday on continued risk-off mode as investors sought safety in sovereign debt. Purported news of an aversion on global trade tensions with Mexico helped pare gains in UST. Overall benchmark yields ended 3-4bps lower with the UST 2Y at 1.89% and the much-watched 10Y closing 4bps lower at 2.08%. Meanwhile the bond traders seem to have firmed up their view of an interest rate cut in response to weakening growth outlook and elevated trade tensions which has manifested itself into weaker May jobs data last Friday. The fed fund futures have now priced in a full 25bps interest rate cut by July and ~70bps of easing by end of this year.

MGS/GII

- Trading momentum in local govies eased as secondary market volume notched a mere RM2.81b due to low staffing-levels arising from the Aidil Fitri festival break. Benchmark yields ended mostly 0-6bps lower again last Friday with interest mainly seen in both the shorter off-the-run 21-23's and benchmark 3Y bonds. The benchmark 5Y MGS 4/23 edged 1bps lower at 3.45% whilst the 10Y MGS 8/29 closed sharply lower by 6bps at 3.67% on odd-lot trade. GII bond trades dropped to form 29% of overall trades. Meanwhile the local debt market is still resilient amid decent macro fundamentals despite recent looming dark clouds by US to include Malaysia in its currency manipulator watchlist (which is seen as a mere wider protectionist push) and FTSE Russell's possible review of govies participation in the World Government Bond Index in September. Up next on the data front are the industrial production and manufacturing sales numbers out tomorrow.

Corp Bonds/Sukuk

- Corporate Bonds/Sukuk space also saw muted interest as secondary volume notched a mere RM181m with some interest in GG and AAA-part of the curve. Both the Govt-guaranteed DANA and PRASA 29's rallied 5bps at 3.97% levels. Meanwhile the AAA-rated DANGA 4/20 notched RM40m in nominal amounts; closing 7bps lower at 3.69% whilst MERCEDEZ 5/22 saw its maiden trade at 4.01%. The banking space saw very little interest with RHB Investment Bank 27NC22 and Sabah Development Bank 4/24 notching odd-lot trades.

Daily Trades : Government Bond

Securities		Closing	Vol	Previous	Previous	Chg
		YTM	(RM mil)	YTM	Trade Date (dd/mm/yyyy)	(bp)
MGS	10/19	3.095	436	3.131	04/06/2019	-4
MGS	11/19	3.183	7	3.136	04/06/2019	5
MGS	03/20	3.183	233	3.184	04/06/2019	0
MGS	07/20	3.237	30	3.228	04/06/2019	1
MGS	10/20	3.236	12	3.251	04/06/2019	-1
MGS	02/21	3.308	1	3.316	03/06/2019	-1
MGS	07/21	3.341	7	3.352	04/06/2019	-1
MGS	09/21	3.354	1	3.367	04/06/2019	-1
MGS	11/21	3.352	201	3.369	04/06/2019	-2
MGS	03/22	3.333	192	3.347	04/06/2019	-1
MGS	08/22	3.400	100	3.450	04/06/2019	-5
MGS	09/22	3.391	76	3.471	04/06/2019	-8
MGS	03/23	3.422	139	3.465	04/06/2019	-4
MGS	04/23	3.449	50	3.436	04/06/2019	1
MGS	08/23	3.460	29	3.514	04/06/2019	-5
MGS	07/24	3.547	23	3.575	04/06/2019	-3
MGS	03/25	3.600	30	3.610	04/06/2019	-1
MGS	09/25	3.639	10	3.684	04/06/2019	-5
MGS	04/26	3.659	6	3.659	04/06/2019	0
MGS	07/26	3.608	60	3.616	04/06/2019	-1
MGS	11/26	3.669	6	3.669	04/06/2019	0
MGS	05/27	3.765	20	3.820	03/06/2019	-5
MGS	11/27	3.745	12	3.787	04/06/2019	-4
MGS	06/28	3.766	10	3.779	04/06/2019	-1
MGS	08/29	3.670	122	3.708	04/06/2019	-4
MGS	04/30	3.818	103	3.883	04/06/2019	-6
MGS	06/31	3.933	1	3.948	04/06/2019	-2
MGS	04/32	3.995	6	4.020	03/06/2019	-2
MGS	11/33	3.970	66	4.003	04/06/2019	-3
MGS	05/35	4.105	1	4.191	03/06/2019	-9
MGS	04/37	4.192	9	4.200	04/06/2019	-1
MGS	03/46	4.527	7	4.554	03/06/2019	-3
GII	06/20	3.195	31	3.241	04/06/2019	-5
GII	04/21	3.353	250	3.426	28/05/2019	-7
GII	03/22	3.407	40	3.404	04/06/2019	0
GII	07/22	3.426	70	3.445	04/06/2019	-2
GII	11/23	3.477	150	3.510	04/06/2019	-3
GII	10/24	3.528	60	3.572	04/06/2019	-4
GII	10/25	3.722	20	3.743	03/06/2019	-2
GII	03/26	3.647	50	3.658	04/06/2019	-1
GII	10/28	3.782	13	3.801	04/06/2019	-2
GII	07/29	3.744	60	3.775	04/06/2019	-3
GII	09/30	3.935	40	3.957	04/06/2019	-2
GII	09/39	4.244	20	4.281	04/06/2019	-4
			<u>2808</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*
Khazanah Nasional Berhad	06/22	GG	3.543	40	3.677	27/05/2019	-13	20
Danalinfra Nasional Berhad	02/29	GG	3.969	20	4.021	24/05/2019	-5	27
Prasarana Malaysia Berhad	09/29	GG	3.969	20	4.020	09/05/2019	-5	27
Danga Capital Berhad	04/20	AAA	3.686	40	3.752	24/05/2019	-7	48
Mercedes-Benz Services Malaysia Sdn Berhad	05/22	AAA	4.012	10	-	-	-	66
YTL Power International Berhad	05/27	AA1	4.439	10	4.459	31/05/2019	-2	76
Segi Astana Sdn Berhad	01/24	AA-	5.081	1	-	-	-	160
Southern Power Generation Sdn Berhad	04/31	AA-	4.191	10	4.329	30/04/2019	-14	49
Southern Power Generation Sdn Berhad	04/32	AA-	4.318	10	4.319	27/05/2019	0	32
Tadau Energy Sdn Berhad	07/27	AA3	4.808	6	5.420	28/08/2017	-61	113
Edra Energy Sdn Berhad	07/33	AA3	5.139	4	5.400	24/05/2019	-26	114
CIMB Group Holdings Berhad	05/16	A1	4.225	1	4.223	04/06/2019	0	2
Great Realty Sdn Berhad	05/23	AAA	4.937	10	5.178	13/03/2019	-24	150
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*spread against nearest indicative tenured MGS (Source : BPA)

Market/Corporate News: What's Brewing

The recently-concluded reporting season of listed Malaysian corporates has been nothing short of lacklustre, as The Edge Malaysia finds that only 440, or just close to half of the 883 companies on Bursa Malaysia, had reported improvement in their recent quarterly earnings. However, it should be noted that this is a slightly better showing than the same period in 2018, in which only 397, or 45.5% out of 872 Malaysian corporates had recorded improvement in their earnings. The improvement recorded is in spite of corporates grappling with a slowing global economy, escalating trade tensions from the China-US trade war and closer to home, a new Government in power. Sector-wise, those that recorded more notable improvements in the quarter were the automotive, energy and consumer sectors. As for the banks, more than half had reported improvement in earnings. (Source: The EdgeMarkets)

The old Terminal 2 in Subang, Selangor, which was once part of Subang International Airport, will be torn down to make way for the regeneration of Sultan Abdul Aziz Shah Airport. Randhill Singh, general manager of land development at Malaysia Airports Holdings Bhd (MAHB), says the decision to demolish the ageing terminal building was made after it was deemed unsafe by the airport operator's engineering team. He adds that the area will be cordoned off within the next two months to allow the demolition team to tear down the structure. The terminal building has been vacant since November 2009, when MAHB moved its corporate headquarters to Sepang. What happens next with Terminal 2 will depend on a master plan for the airport. In March, MAHB had called a tender for airport planners to master plan and design the redevelopment of 1,200 acres of land surrounding Subang Airport into "the preferred city airport in Asia-Pacific". Describing the response as "overwhelming", Randhill says about 50 local and international consultants attended the tender briefing and the last date for submitting their bids was May 13. "The selected master planner will draw up a master plan, which will probably take about six months to complete, and then we will have a clear idea what will happen to the site of Terminal 2 and how are we going to expand Terminal 3 (now known as Skypark Terminal). Our initial plan was to demolish Terminal 2 and turn the site into aircraft parking bays. The outcome now will depend on the master plan," he tells The Edge in an interview. Under its regeneration initiative for Subang Airport, MAHB envisions a modern airport with a high rate of technology that also offers convenience to passengers. "As Subang Airport caters to turbo-props and private jets, the investment in expanding the airport's current capacity of 1.5 million passengers to 5 million passengers need not be big," he says, noting that the airport's enhanced facilities will be above Singapore's Seletar Airport but lower than Changi Airport's Terminal 4. Still, the proposed demolition marks a reversal of the plans for the redevelopment of Terminal

2. Subang SkyPark Sdn Bhd, the manager of the RM45 million SkyPark Terminal at Subang Airport, had expressed interest in the project as far back as April 2011. Randhill says MAHB had difficulty finalising its plans for Terminal 2 as it was still in negotiations with the government over its operating agreements (OAs), which were signed in February 2009. On April 12 this year, MAHB announced that the Cabinet had approved the extension of MAHB's concession to operate 39 airports in Malaysia from 2034 to 2069. "The 35-year extension was a big milestone for us. We see Subang growing fairly fast from now," says Randhill. The proposed master plan will also include the redevelopment of land around Subang Airport, which is managed by MAHB, into a business aviation hub with an aerospace ecosystem that includes maintenance, repair and overhaul (MRO) facilities and an aerotech park. MAHB plans to do away with the cargo complex currently occupied by DHL and Raya Airways and turn it into MRO facilities when the two freight operators relocate their operations to Sepang by end-2021. However, this will be determined by the master plan. Another important priority for MAHB is the development of KLIA Aeropolis, which is set for a major boost after the government gave it another 35 years to operate the Kuala Lumpur International Airport (KLIA) in Sepang and the other 38 airports in the country recently. The extension clears a major hurdle for the group to attract new investors to the area, according to Randhill, who also oversees KLIA Aeropolis. KLIA Aeropolis has been years in the making. MAHB has been planning to turn some 10,000 acres of vacant land surrounding KLIA into a commercial, tourism and transportation hub as early as 2008 but it never took off in the way it planned due to a lack of investors. At the time, the short-term lease was a major factor making investing in KLIA Aeropolis less attractive as MAHB could only grant investors leases until 2034, coinciding with the end of its concession to operate KLIA. "Prior to the latest concession extension, in 2007, the government extended MAHB's OAs, which saw the concession period for Subang airport ending in 2067, but that of the other airports, including KLIA, ending in 2034. That is why the development at Subang Airport was moving faster than that at KLIA Aeropolis," explains Randhill. Another challenge is the lack of budget to expedite the project. "We will only invest when we have secured the customer. We will do land preparation only when we have identified the market and we see that it can grow. We will not do speculative work," says Randhill. While the latest extension of the concession period to 2069 is heartening, it is clearly far from enough. "When you talk about industrial development, a 50-year lease is doable. But when you talk about commercial development, it is considered short. In fact, most commercial investors prefer to acquire freehold assets as they offer an opportunity to get the return on their investment," says Randhill. What makes the development of KLIA Aeropolis even more challenging is that potential investors would be subleasing the land from MAHB, which is itself leasing it from the Federal Lands Commissioner. Randhill also acknowledges that KLIA Aeropolis faces competition from other states wanting to develop their own aerospace industrial parks, and investors will not be lured until the government agrees to tweak the leases of the land surrounding KLIA to 99 years. "A 99-year lease period would be more attractive to investors and, hopefully, the terms would also be business friendly. (With a 99-year lease) we can also go forward with larger-scale projects," he says. He notes that the government had given approval in principle to a 99-year lease for KLIA Aeropolis at end-2016. "However, we have not been able to conclude the final terms. We are still engaging with the government." Will it be too late for KLIA Aeropolis to jump on the commercial property bandwagon by then? "The pie is big and is growing. What is more important for us is to get things right," says Randhill. Thus, the group's immediate priority is to continue its focus on the industrial real estate market, such as aerospace manufacturers and MRO and logistics companies. Despite these challenges, MAHB has managed to attract major tenants, including China's Alibaba Group Holding Ltd, Singapore-listed Boustead Projects Ltd and Japan's Mitsui Fudosan Co Ltd to KLIA Aeropolis and UK-based Senior Aerospace UPECA to Subang Aerotech Park. "We expect to secure more investments in the months ahead," he adds. Since the launch of

the KLIA Aeropolis concept master plan on May 23, 2016, the airport operator has drawn RM700 million worth of investments to KLIA Aeropolis and Subang Airport and generated 1,500 jobs. “These investments are in the form of brownfield and greenfield infrastructure, totalling 890,000 sq m in gross floor area (GFA) and 150 acres. They include facilities built by Senior Aerospace and the development of Subang Aeropark Park by Boustead Projects, as MAHB’s joint venture partner in Subang, as well as the refurbishment of the former low-cost carrier terminal into KLIA Air Cargo Terminal 1, Mitsui Outlet Park’s Phase 2 expansion and Sepang Aircraft Engineering’s second hangar at KLIA Aeropolis,” says Randhill. He deems the total GFA of 890,000 sq m and 150 acres of infrastructure developments achieved over three years as comparable with that of other industrial developers. Today, more than one-third of the land at KLIA Aeropolis is developed, with airport infrastructure making up the bulk of it. On its part, MAHB has invested about RM150 million in the project over the past three years. “We are looking to develop another 2,000 acres of the land surrounding KLIA over the next 25 to 30 years. This will bring the developed area to some 50% to 60%,” says Randhill. (Source: The EdgeMarkets)

Rating Action			
Issuer	PDS Description	Rating/Outlook	Action
Notable Vision Sdn Bhd	Proposed Notes Series 2019-A, to be issued under its existing RM750 mil MTN Programme (2014/2034) (the Programme).		
	Class A Senior MTNs	AAA/Stable	Assigned
	Class B Junior MTNs	B2/Stable	Assigned
	Class C Junior MTNs	C3/Stable	Assigned
Premier Auto Assets Berhad	Proposed RM90 mil Class A	AAA/Stable	Assigned
	RM20 mil Class B Tranche 1 Medium Term Notes (MTN) (collectively, Senior MTN) under its RM1 bil Nominal Value MTN Programme)	AA3/Stable	Assigned

Source: RAM, MARC

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