Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	1.82	6
5-yr UST	1.82	5
10-yr UST	2.06	3
30-yr UST	2.58	2

	MGS		GII*	
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.29	0	3.32	0
5-yr	3.42	-2	3.44	-1
7-yr	3.53	-1	3.56	-2
10-yr	3.60	-1	3.63	-1
15-yr	3.80	0	3.83	-2
20-yr	3.99	0	4.03	0
30-yr	4.26	0	4.24	0

** Market indicative levels*

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.37	-1
3-yr	3.36	-1
5-yr	3.41	-2
7-yr	3.48	-1
10-yr	3.59	0

Source : Bloomberg

Upcoming Government Bond Tender

Nil

US Treasuries

- US Treasuries bear-flattened last Friday with the front-end leading the spike in yields as traders speculated a mere 25bps rate cut by Fed officials in the upcoming FOMC on 31st July. The curve shifted higher with overall benchmark yields ending 2-6bps higher as the UST 2Y spiked to 1.82% and the much-watched 10Y closing at 2.06%. Meanwhile the USD surged on similar news. Asset managers were reputed to add to net long positions across the long-end of the curve. On a separate matter President Trump said that negotiations to raise US borrowing authority are proceeding well despite House Speaker, Pellosi rejecting White House's demand for $150b in spending cuts earlier. The Fed and other leading central banks are stating that the peak in global rates has been reached and are beginning easing conditions.

MGS/GII

- Local govvies saw momentum sustain amid secondary decent volume of RM4.28b with interest seen mainly in the shorter-end i.e. off-the-run 19-20's and benchmark 3Y bonds. Overall benchmark yields ended mostly lower between 0-2bps from prior day's level. The benchmark 5Y MGS 6/24 ended 2bps lower at 3.42% whilst the 10Y MGS 8/29 edged 1bps lower at 3.60%. GII trades maintained at ~38% of overall trades. The increasing dovishness of major central banks may continue to mildly favour MYR bonds following recent inflows of RM6.6b after two(2) earlier consecutive months of outflows. Up next on the data front are the release of foreign reserves as at 15th July.

Corp Bonds/Sukuk

- Corporate Bonds/Sukuk saw volume pull-back at RM476m ahead of the weekend with trades centred mainly in the GG-segment followed by some spillover into the AAA-AA papers as yields continued to decline albeit by smaller margin. However the longer-end JKSB saw mixed fortunes with the 5/30 tranche closing 4bps lower at 3.86% whilst the 7/31 tranche edged 2bps higher at 3.91% instead compared to previous-done levels. The AAA-TNB 37-38's moved 3bps lower each between 4.10-12% levels. AA-rated highway concession holder DUKE3 saw the 2035-2037 tranches trade again but closing unchanged this time around at 4.74% and 4.89% respectively. The banking space saw AFFIN bank 27NC22 edge 1bps lower at 4.09%.

Daily Trades : Government Bond

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	07/19	3.062	330	3.064	12/07/2019	0
MGS	10/19	3.053	526	3.048	18/07/2019	0
MGS	11/19	3.071	161	3.040	18/07/2019	3
MGS	03/20	3.140	130	3.156	18/07/2019	-2
MGS	10/20	3.208	16	3.197	18/07/2019	1
MGS	02/21	3.249	2	3.259	17/07/2019	-1
MGS	07/21	3.244	53	3.267	18/07/2019	-2
MGS	09/21	3.676	106	3.282	16/07/2019	39
MGS	11/21	3.287	3	3.281	18/07/2019	1
MGS	03/22	3.293	368	3.297	18/07/2019	0
MGS	08/22	3.354	2	3.352	18/07/2019	0
MGS	08/23	3.428	199	3.454	18/07/2019	-3
MGS	06/24	3.415	160	3.431	18/07/2019	-2
MGS	07/24	3.480	1	3.480	18/07/2019	0
MGS	09/24	3.485	23	3.485	18/07/2019	0
MGS	07/25	3.546	20	3.578	21/06/2019	-3
MGS	09/25	3.550	3	3.549	18/07/2019	0
MGS	07/26	3.528	30	3.541	18/07/2019	-1
MGS	11/26	3.588	91	3.603	18/07/2019	-2
MGS	11/27	3.646	60	3.660	18/07/2019	-1
MGS	06/28	3.649	128	3.670	18/07/2019	-2
MGS	08/29	3.604	92	3.613	18/07/2019	-1
MGS	06/31	3.796	20	3.811	18/07/2019	-2
MGS	04/33	3.834	20	3.853	18/07/2019	-2
MGS	11/33	3.834	16	3.851	17/07/2019	-2
MGS	06/38	3.989	1	3.984	17/07/2019	0
MGS	07/48	4.256	100	4.257	18/07/2019	0
GII	04/20	3.159	270	3.166	18/07/2019	-1
GII	04/20	3.162	20	3.181	17/07/2019	-2
GII	06/20	3.186	5	3.156	28/06/2019	3
GII	08/20	3.189	115	3.181	18/07/2019	1
GII	04/21	3.274	20	3.281	18/07/2019	-1
GII	03/22	3.316	140	3.319	18/07/2019	0
GII	10/23	3.467	10	3.467	03/07/2019	0
GII	11/23	3.462	52	3.492	17/07/2019	-3
GII	10/24	3.439	60	3.449	16/07/2019	-1
GII	08/25	3.548	20	3.546	18/07/2019	0
GII	10/25	3.567	30	3.569	18/07/2019	0
GII	03/26	3.564	120	3.583	18/07/2019	-2
GII	09/26	3.589	120	3.625	18/07/2019	-4
GII	10/28	3.666	121	3.695	17/07/2019	-3
GII	07/29	3.626	310	3.637	18/07/2019	-1
GII	06/33	3.868	190	3.892	18/07/2019	-2
GII	11/34	3.825	20	3.85	16/07/2019	-2
			4283			

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*
Lembaga Pembiayaan Perumahan Sektor Awam	04/24	GG	3.486	15	3.500	27/06/2019	-1	6
Khazanah Nasional Berhad	08/24	GG	3.510	20	3.489	16/07/2019	2	8
Lembaga Pembiayaan Perumahan Sektor Awam	04/25	GG	3.553	25	3.553	17/07/2019	0	5
Prasarana Malaysia Berhad	12/25	GG	3.600	5	3.607	03/07/2019	-1	10
Lembaga Pembiayaan Perumahan Sektor Awam	04/26	GG	3.609	10	3.909	17/05/2019	-30	7
Prasarana Malaysia Berhad	08/26	GG	3.662	20	3.650	03/07/2019	1	13
Jambatan Kedua Sdn Berhad	05/30	GG	3.859	20	3.899	08/07/2019	-4	25
Jambatan Kedua Sdn Berhad	07/31	GG	3.912	20	3.893	12/07/2019	2	31
Prasarana Malaysia Berhad	03/34	GG	3.941	40	3.927	17/07/2019	1	13
DanaInfra Nasional Berhad	03/34	GG	3.927	60	3.928	18/07/2019	0	12
GENM Capital Berhad	03/22	AAA	3.741	30	3.876	10/07/2019	-14	45
Genting Capital Berhad	06/22	AAA	4.014	1	4.127	14/06/2019	-11	72
GENM Capital Berhad	07/23	AAA	4.076	1	3.867	18/07/2019	21	68
Danum Capital Berhad	02/34	AAA	4.019	20	4.069	11/07/2019	-5	21
Tenaga Nasional Berhad	08/37	AAA	4.098	20	4.123	17/07/2019	-3	9
Tenaga Nasional Berhad	08/38	AAA	4.122	30	4.151	17/07/2019	-3	12
Sabah Development Bank Berhad	04/26	AA1	4.858	10	4.887	15/07/2019	-3	132
YTL Power International Berhad	05/27	AA1	4.188	2	4.270	11/07/2019	-8	60
Celcom Networks Sdn Berhad	08/27	AA+	4.152	3	4.178	02/07/2019	-3	56
Imtiaz Sukuk II Berhad	10/20	AA2	3.675	10	4.147	15/02/2019	-47	51
IJM Corporation Berhad	06/22	AA3	4.116	2	4.354	08/05/2019	-24	82
Edra Energy Sdn Berhad	01/38	AA3	5.059	1	5.177	10/07/2019	-12	105
Segi Astana Sdn Berhad	01/23	AA-	4.868	1	4.869	18/07/2019	0	158
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/35	AA-	4.737	50	4.739	18/07/2019	0	93
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/37	AA-	4.889	50	4.890	17/07/2019	0	88
Affin Bank Berhad	02/27	A1	4.092	10	4.097	18/07/2019	-1	50
Alliance Bank Malaysia Berhad	10/25	A2	4.203	1	4.296	17/05/2019	-9	70
Affin Bank Berhad	07/18	A3	5.237	1	4.428	11/07/2019	81	123
				476				

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

Market/Corporate News: What's Brewing

It is a big relief to many, particularly Penangnites, when the federal government confirmed the project to expand the capacity of the Penang International Airport (PIA) to 20 million passengers per annum (mppa) from 6.5 million mppa currently. The international airport in the tiny island served 7.8 million passengers in 2018 — four times more than its population of 1.76 million. To triple the airport's capacity, Finance Minister Lim Guan Eng was quoted by the media as saying the expansion could cost up to RM1.2 billion. Another government official, however, told The Edge Financial Daily that the expansion might cost RM700 million. Since the details, such as whether there will be a swimming pool like in the Changi Airport, are not finalised yet, the total cost remains unknown. That said, when contacted, Malaysia Airports Holdings Bhd (MAHB) confirmed with The Edge Financial Daily that the group has the financial strength to undertake the expansion. "Yes, an application for Malaysia Airports to fully fund the [PIA expansion] project under the proposed Malaysian Aviation Commission (Mavcom) Regulated Asset Base (RAB) framework has been submitted and is now waiting for approval. Malaysia Airports is in a position to fully fund the project on its own," it said in an email response. Weeks ago, after Penang Chief Minister Chow Kon Yeow revealed that "certain issues" have hampered the progress of PIA expansion, MAHB issued a statement on July 2 saying it has obtained the ministry of finance's approval to begin the project, and construction is expected to start in the first quarter of 2020. However, this does not mean the federal government has given the green light for MAHB to solely fund and be in charge of the expansion, although MAHB is expected to be granted the project. Like it or not, certain quarters could recall MAHB's track record on the development of klia2 that cost RM3.98 billion. Until now, the facilities that have been put in place compared with the money spent remains a debatable issue. Also, the upgrading works of the PIA in 2010 ended up in a legal dispute with contractor Syarikat Pembinaan Anggerik Sdn Bhd. "Like it or not, MAHB, although it operates many domestic airports for decades, is still lacking the experience of airport developments, a task undertaken by the government in the past. "One question arises: Will MAHB be able to handle the procurement of such a large-scale project, one that could cost over RM1 billion?" asked an analyst who declined to be named. The analyst stresses that procurement is an important part of the project that will determine the level of cost-efficiency and help to avoid any cost overrun. Under the RAB, MAHB is incentivised to invest more in capital expenditure (capex) by giving the airport operator a certain rate of return for every ringgit spent in capex in the future. It is worth noting that Transport Minister Anthony Loke understands that the main challenge to the domestic aviation sector is the government's tight fiscal position, while the development of airport infrastructure requires big money. The RM40 billion allocation as development expenditure in the national budget is just not enough, he told The Edge Malaysia weekly in an interview in May. Loke believes the country should leverage on the private sector, tapping its financial muscle and expertise, to develop and modernise the country's 39 airports. He is looking at introducing new operators, which could be foreign parties, for domestic airports. Should that pan out, there will be a healthy dose of competition, which will likely be a rude awakening for some quarters that are used to being in the dominant position all these years. To do that, the government has grouped the domestic airports into four clusters — one for KLIA, including klia2, another for designated airports in Peninsular Malaysia, and one each for airports in Sabah and Sarawak, under four new operating agreements (OAs). Against this backdrop, some quarters think it will be interesting to see whether PIA's expansion will pave the way for new investors to manage local airports. Currently, Tan Sri Syed Mokhtar Albukhary is the only other airport operator in Malaysia, besides MAHB. The tycoon operates the Senai International Airport in Johor. Industry players globally are comparing the cost of the PIA's expansion with MAHB's Istanbul Sabiha Gokcen International Airport (ISG) expansion, said an industry source. The ISG, which commenced operations in October 2009, undertook an expansion to raise its capacity by 8 mppa from 33 mppa to 41 mppa at the cost of €26 million (RM120 million) last year. The cost of the expansion has not been confirmed for now. Using the ISG as a yardstick, which might not be perfect due to possible variances in facilities and labour costs, based on a cost range of RM700 million to RM1.2 billion (which is several times more than the Turkish airport's), it should be reasonable for Penangnites to expect a world-class airport. In May, Guan Eng said the original proposal was to increase the PIA's capacity from 6.5 mppa to 12 mppa. "We feel 12 million is too small, so we increased it to 16 million and if possible, 16 million plus four million so that the airport can cope until 2035," he reportedly told local media. TA Securities analyst Steve Tan Kam Meng is of the view that MAHB is likely to bag the project. "In Mavcom's second consultation paper on the aeronautical charges framework, MAHB said it intends to spend RM10 billion in capex over the next three years, and Mavcom limited it to around RM5 billion. We think the expenditure required for the PIA is already included in the RM5 billion capex," he said over the phone. Under the current OAs, any third party who intends to participate in the development of the PIA has to invest in the Peninsula Cluster, which comprises all airports in Peninsular Malaysia, except for KLIA and klia2. Maybank Kim Eng analyst Mohshin Aziz said the PIA is one of the highly profitable airports in the portfolio, beside the Sultan Abdul Aziz Shah Airport in Subang. These two profitable international airports are currently cross-subsidising the airports with lower traffic, like the ones in Alor Setar, Melaka, Kuantan and Ipoh. But the analyst is not aware if government is bringing in new investors to operate local airports. The PIA's expansion will not strain the federal government's fiscal position as it will be financed by the private sector. Still, airports are public utility, so the government has a part to play in ensuring that consumers are not exploited by overpriced investments. The new government has been able to slash costs for several mega infrastructure projects, namely the East Coast Rail Link, mass rapid transit 2 and light rail transit 3. Will the airport expansion in Penang be another test for the new government?. (*Source: The Edge)*

Bright Focus Bhd -- a subsidiary of Maju Holdings Sdn Bhd, which is controlled by business tycoon Tan Sri Abu Sahid Mohamed -- is planning a sukuk restructuring that involves the buyback of its current outstanding sukuk of RM1.225 billion at its full nominal or par value. The company, which holds the concession for the 26km Maju Expressway or Mex via its 96.8%-owned Maju Expressway Sdn Bhd (MEXSB), said it plans to do a sukuk-to-sukuk swap by replacing the existing sukuk with a new sukuk it is proposing to issue. The move came after RAM Rating Services Bhd (RAM Ratings) recently downgraded Bright Focus' sukuk to BB1 from A1. Bright Focus is wholly owned by Maju Holdings, which is keen on taking over highway operator PLUS Malaysia Bhd. The Edge Malaysia reported early this month, quoting a Maju Holdings spokesperson, that the group has already submitted its proposal to the government. "Bright Focus Bhd has engaged several international banks to implement the proposed restructuring scheme within the next 90 days, subject to the necessary due diligence by the banks. "The current downgrade to BB1 for Bright Focus Berhad is not reflective of the highway itself, but the weak structure of the terms of the sukuk itself. The downgrade is due solely to reduced cash reserves due to unscheduled advances to Maju Holdings. On a standalone basis, the Mex highway is a performing highway from [the] perspective of its ability to meet all its obligation under the current sukuk in a timely manner," Bright Focus said in a statement today. It also referred to the latest rationale rating report by RAM Ratings, saying the ratings agency had highlighted that the projected cashflows were subject to stress assumptions and that the lowest point in the debt service coverage ratio was 1.20 times, adding that any measure above one indicates the ability to repay obligations in a timely manner. "Bright Focus Bhd and by virtue of that, Maju Holdings Sdn Bhd, is in a solid financial position to undertake this restructuring programme, which will address the weakness in the current terms of the sukuk. "The group is committed to good corporate governance practices and will ensure that sukukholders interests are protected and all obligations are repaid in full in a timely manner. Once the proposed restructuring is completed, the group expects to see an improvement in its rating for the sukuk," it added. RAM Ratings downgraded the rating of Bright Focus' RM1.35 billion sukuk musharakah (2014/2031) to BB1 from A1 on June 3. On the same day, it placed the sukuk on rating watch, with a negative outlook. RAM Ratings said the downgrade was premised on the "severe impairment in Bright Focus' debt-servicing metrics following further unanticipated advances by MEXSB to the ultimate parent company, Maju Holdings", as well as a deterioration in MEXSB's projected annual cashflow. It also noted that the unanticipated advances -- although disallowed under the sukuk's transaction terms -- have severely depleted the cash balances of MEXSB, where the MEX is the sole source of cashflow supporting the sukuk's repayment. The move came after additional advances of

RM24.82 million was paid to Maju Holdings between September and November last year, following an earlier RM73 million paid in June 2018 -- which had resulted in a prior rating downgrade of the sukuk from AA2 to A1. "The continued breacxh of the financing terms of the sukuk highlights concerns over areas of financial management policies and corporate governance," said RAM Ratings. The negative rating watch, meanwhile, was based on legal action being pursued by the trustee, on behalf of the sukukholders, to recover RM97.02 million of advances in 2018. The ratings agency also revealed that a letter of demand had been sent to MEXSB on May 24 this year, requiring the company to return all prohibited advances to date and to reinstate its cash position in 30 days, failing which the sukukholders would be entitled to exercise their right to declare a dissolution event, which is similar to an event of default. Subsequently, an English daily wrote on July 12, citing sources, that Bright Focus' sukuk holders were pursuing legal actions against the company to recover the advances. It quoted one of the sukuk holders, which it did not name, as saying that the action was based on a collective decision by the sukuk holders -- among which were Lembaga Tabung Haji, Malayan Banking Bhd, Standard Chartered, Nomura Asset Management, Retirement Fund Inc or KWAP, Amundi, KAF and RHB -- to demand money back from Maju Holdings for wrongful acts and for breaching the bonds' covenants. (*Source: The Edge)*

Rating Action

Issuer	PDS Description	Rating/Outlook	Action
Nil	Nil	Nil	Nil

Source: RAM, MARC

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