

## Global Markets Research

### Fixed Income

#### Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.19	0
5-yr UST	2.13	0
10-yr UST	2.32	0
30-yr UST	2.75	0

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.41	0	3.47	0
5-yr	3.57	0	3.63	0
7-yr	3.71	-2	3.76	0
10-yr	3.81	0	3.86	1
15-yr	4.11	1	4.13	0
20-yr	4.32	0	4.34	0
30-yr	4.56	0	4.61	0

\* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.45	1
3-yr	3.47	-1
5-yr	3.54	1
7-yr	3.61	0
10-yr	3.80	0

Source : Bloomberg

#### Upcoming Government Bond Tender

Nil

#### US Treasuries

- Financial markets were closed yesterday for Memorial Day. However the two (2) US auctions on the front-end i.e. 2Y and 5Y tonight may keep that part of the curve under some pressure whilst month-end rollovers may be seen supporting the longer-end. The 3m10y spread which is seen as a precursor to recession remains inverted amid escalating trade tensions and signs of slowing global growth as President Trump ratchets up a tough line on China trade; saying the US isn't ready for a deal now. Interestingly, the UST 10Y net long positions being cut of late by asset managers are seen to indicate a bearish stance. Meanwhile the data front remains light for now.

#### MGS/GII

- Trading momentum in local govies teethered-off as secondary market volumes notched RM3.49b. Benchmark yields ended mostly mixed between -2 to +1bps led by the contrast movement in IRS levels. Interest was mainly seen in the off-the-run 19-21's and previous 10Y benchmark GII bonds. The benchmark 5Y MGS 4/23 closed within 1bps of prior day's close at 3.57% whilst the 10Y MGS 8/29 was untraded at 3.81%. GII bond trades jumped to form 41% of overall trades. Although investors are bearish on the prospects for US-China trade talks; most positioning actually reflect a broad neutral view on EM. (In April, investors cut exposure to several emerging markets including Malaysian bonds and FX).

#### Corp Bonds/Sukuk

- Corporate Bonds/Sukuk space continued to see solid secondary volume of RM995b with ~70% of trades centred mainly across the GG-part of the curve. Both the Govt-guaranteed Khazanah and LPPSA 23's saw RM210m in nominal amounts traded; closing unchanged compared to previous-done levels between 3.75-79% levels. Meanwhile the long-end PRASA 9/47 edged 2bps lower at 4.66%. AAA-rated DANGA 1/30 and RANTAU 5/31 saw double-digit rallies in yields; closing at 4.22-23% levels. The AA-space saw green bond issuer Sinar Kamiri 1/31 and 1/35 end unchanged at 5.55% and 5.85% each whilst power-related bond SEB 1/27 edged 1bps lower at 4.17% on RM50m trades. The banking space saw the short-end MBSB 12/19 move 18bps lower at 3.91%.

## Daily Trades : Government Bond

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	10/19	3.171	10	3.143	24/05/2019	3
MGS	11/19	3.179	71	3.105	24/05/2019	7
MGS	03/20	3.199	869	3.239	24/05/2019	-4
MGS	07/20	3.291	120	3.266	24/05/2019	2
MGS	10/20	3.329	50	3.314	24/05/2019	2
MGS	11/21	3.389	205	3.377	24/05/2019	1
MGS	04/23	3.568	52	3.576	24/05/2019	-1
MGS	07/24	3.662	1	3.663	24/05/2019	0
MGS	09/24	3.659	160	3.670	24/05/2019	-1
MGS	03/25	3.749	23	3.740	24/05/2019	1
MGS	09/25	3.792	5	3.801	24/05/2019	-1
MGS	07/26	3.706	65	3.716	24/05/2019	-1
MGS	11/26	3.823	12	3.818	24/05/2019	0
MGS	06/31	4.084	10	4.084	24/05/2019	0
MGS	04/33	4.140	4	4.124	24/05/2019	2
MGS	11/33	4.114	60	4.105	24/05/2019	1
MGS	03/46	4.571	48	4.592	24/05/2019	-2
MGS	07/48	4.561	147	4.565	24/05/2019	0
GII	08/19	3.122	460	3.350	26/03/2019	-23
GII	08/20	3.330	85	3.271	17/05/2019	6
GII	08/21	3.447	2	3.400	14/05/2019	5
GII	11/22	3.575	10	3.609	28/03/2019	-3
GII	07/23	3.597	150	3.636	24/05/2019	-4
GII	10/23	3.638	60	3.690	16/05/2019	-5
GII	08/25	3.763	20	3.783	24/05/2019	-2
GII	10/25	3.778	50	3.783	24/05/2019	0
GII	09/26	3.828	9	3.857	17/05/2019	-3
GII	07/27	3.840	180	3.863	24/05/2019	-2
GII	10/28	3.873	230	3.873	24/05/2019	0
GII	07/29	3.859	40	3.849	24/05/2019	1
GII	06/33	4.132	130	4.133	24/05/2019	0
GII	08/33	4.206	19	4.229	09/05/2019	-2
GII	10/35	4.302	106	4.290	24/05/2019	1
GII	08/37	4.323	30	4.330	15/05/2019	-1
			<u>3489</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	03/20	GG	3.420	40	3.673	04/04/2019	-25	17
Khazanah Nasional Berhad	06/22	GG	3.677	40	3.759	12/04/2019	-8	26
Khazanah Nasional Berhad	08/23	GG	3.788	100	3.788	24/05/2019	0	26
Lembaga Pembiayaan Perumahan Sektor Awam	09/23	GG	3.750	110	3.753	21/05/2019	0	22
Lembaga Pembiayaan Perumahan Sektor Awam	04/24	GG	3.799	35	3.799	15/05/2019	0	22
Khazanah Nasional Berhad	08/24	GG	3.868	10	3.873	16/05/2019	-1	29
Lembaga Pembiayaan Perumahan Sektor Awam	04/25	GG	3.859	75	3.859	19/04/2019	0	16
Danainfra Nasional Berhad	03/27	GG	3.939	50	3.941	24/05/2019	0	15
Danainfra Nasional Berhad	07/27	GG	3.938	20	3.961	24/05/2019	-2	14
Prasarana Malaysia Berhad	09/27	GG	3.938	20	3.940	09/05/2019	0	14
Danainfra Nasional Berhad	10/28	GG	4.010	35	4.030	23/04/2019	-2	18
Perbadanan Tabung Pendidikan Tinggi Nasional	02/34	GG	4.307	55	4.310	24/05/2019	0	20
Lembaga Pembiayaan Perumahan Sektor Awam	10/38	GG	4.421	15	4.419	23/05/2019	0	11
Perbadanan Tabung Pendidikan Tinggi Nasional	03/39	GG	4.479	20	4.530	06/05/2019	-5	17
Lembaga Pembiayaan Perumahan Sektor Awam	04/39	GG	4.441	10	-	-	-	13
Prasarana Malaysia Berhad	09/42	GG	4.509	20	4.499	15/04/2019	1	20
Prasarana Malaysia Berhad	09/47	GG	4.661	20	4.678	16/05/2019	-2	35
Malaysia Airports Capital Berhad	12/24	AAA	4.018	10	4.082	08/05/2019	-6	32
Danum Capital Berhad	02/26	AAA	4.008	15	4.033	13/05/2019	-3	28
DiGi Telecommunications Sdn Berhad	04/27	AAA	4.122	40	4.540	12/10/2018	-42	33
Danga Capital Berhad	01/30	AAA	4.215	10	4.438	05/03/2019	-22	40
Rantau Abang Capital Berhad	05/31	AAA	4.228	20	4.500	06/03/2019	-27	41
MBSB Bank Berhad (fka Asian Finance Bank Berl	12/19	AA1	3.913	10	4.091	08/04/2019	-18	66
Kuala Lumpur Kepong Berhad	04/26	AA1	4.098	20	4.311	15/03/2019	-21	37
Sarawak Energy Berhad	01/27	AA1	4.169	50	4.183	16/05/2019	-1	38
Public Islamic Bank Berhad	08/27	AA1	4.111	12	4.500	29/08/2018	-39	32
First Resources Limited	06/20	AA2	4.016	20	4.105	09/05/2019	-9	77
Krung Thai Bank Public Company Limited	07/25	AA2	4.068	1	4.426	15/04/2019	-36	37
WCT Holdings Berhad	08/20	AA-	4.703	54	4.720	14/05/2019	-2	145
Southern Power Generation Sdn Berhad	04/24	AA-	4.119	20	4.549	08/10/2018	-43	54
UEM Sunrise Berhad	10/25	AA-	4.339	10	4.508	10/05/2019	-17	64
Sinar Kamiri Sdn Berhad	01/31	AA-	5.549	5	5.551	24/05/2019	0	174
Southern Power Generation Sdn Berhad	10/31	AA-	4.239	5	4.251	23/05/2019	-1	43
Southern Power Generation Sdn Berhad	04/32	AA-	4.319	10	4.358	15/05/2019	-4	21
Sinar Kamiri Sdn Berhad	01/35	AA-	5.849	5	5.850	24/05/2019	0	174
Lafarge Cement Sdn Berhad	12/20	A1	4.388	3	4.388	24/05/2019	0	103
UMW Holdings Berhad	04/18	A1	5.035	1	5.047	23/05/2019	-1	72
				<u>995</u>				

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

### Market/Corporate News: What's Brewing

**Axiata Group Bhd says the proposed merging of its business with Norway-based Telenor ASA's Asian operations is "a merger of equals" and not about one company taking over the other, rubbish claims circulating online that the exercise was akin to selling Malaysian interests to a Norwegian company.** The eventual ownership in the merged entity, known as MergedCo at this juncture, is purely mathematical and based on the relative valuation of both parties' assets, Axiata told theedgemarkets.com recently. Under the planned ownership ratio, Telenor will have 56.5% in the MergedCo, while Axiata will have 43.5%. This is because Telenor's valuation of assets in the merger works out to be higher than that of Axiata's, the group said. The valuations are based on several measurements to include operating profits, analysts' estimates, forecasts, and market valuations. However, it excludes revenue and the number subscribers each entity has, according to Axiata. "Despite Telenor having a majority stake, on matters of governance of the new MergedCo, the concept of merger of equals is fundamental to this proposed merger. Although Axiata does not own a majority stake in the MergedCo, we would own a significant share of a much larger group and value, as the value of our assets would increase due to the synergy benefits of the merger between RM15 billion to RM20 billion, of which our portion [works out to] RM7 billion to RM9 billion. Capex savings would be approximately two-thirds of that, of which close to 40% would be the savings in Malaysia alone or RM4 to RM5 billion," the group said. The deal also includes the merger of Axiata's wholly owned Celcom and Telenor's 49%-owned Digi.Com Bhd (MalaysiaCo), in which roughly 67% will be owned by the MergedCo. "Together with some major government institutions which would own this entity directly, Malaysian institutions will be the single largest shareholder in MalaysiaCo, based on a combination of direct and indirect shareholdings of approximately 46%, compared to Telenor's indirect ownership of around 38%," the group said. And the MalaysiaCo will be a national champion, with a potential market capitalisation exceeding that of Axiata's current market value of about RM41 billion, based on its stock's closing price on Monday. To ensure balance in the merger, and to remain totally committed to the Malaysian national agenda, the chairman of MalaysiaCo is to be nominated by Axiata and will be a Malaysian. "A majority of MalaysiaCo's board members will be Malaysians, and its chief executive officer will also be a Malaysian," Axiata said. As for the MergedCo, its board of directors mix will reflect the shareholding structure, but its chairman will be from Axiata. "The board will be professionally run with the mandate to make all decisions in Malaysia for the benefits of the MergedCo," said Axiata. According to Axiata, the MergedCo will have a proforma revenue of over RM50 billion and a net profit of RM4 billion. It will have operating subsidiaries in nine countries with a total of 300 million customers, making it one of the largest telecommunication companies in the South Asian and Southeast Asian regions. The merger will also see the creation of a global tower company, combining Axiata's existing tower company (TowerCo), edotco Group Sdn Bhd -- which is currently the 13th largest TowerCo globally -- and Telenor's tower assets in Asia, thus paving the way for the fourth largest tower company in the world. The proposed deal also includes the establishment of an innovation centre in the region, in which the MergedCo will invest RM100 million a year in areas pertaining to the Internet of Things, Artificial Intelligence, Robotics and 5G solutions. "It is envisaged to be the largest in the region and would conduct research and develop products and solutions that would put Malaysia in the global map of technology innovation," said Axiata. The merger will result in the creation of three companies; the MergedCo, the MalaysiaCo and the global TowerCo. All three will be listed separately within five years. Axiata is currently the eighth largest public listed company in Malaysia. Post-merger, the MergedCo could be among the top three companies on Bursa Malaysia, while the MalaysiaCo will rank among the top five, and the global TowerCo will have a place among the top 25. "This will substantially help to attract investments into Malaysian capital markets," the group said.

Both Axiata and Telenor will work towards entering a binding agreement for the proposed transaction by the end of the third quarter of 2019, once a due diligence exercise is completed. Last week, the Malaysian Communications and Multimedia Commission (MCMC) released its guidelines on mergers and acquisitions of telecommunications companies, to increase clarity and provide transparency to the industry. The regulator is expected to make a decision pertaining to the proposed Axiata-Telenor mega merger once it obtains and evaluates all the relevant information. The challenge for telecommunications companies, be it in Malaysia or globally, is to attract customers by providing excellent network quality and coverage, together with innovative products, at an affordable price. To offer these, a significant investment in both capital and operating expenditure is needed. The merger, Axiata believes, would help provide the scale required for a substantial outlay of resources. "Given the scale that the merger brings, consumers are expected to benefit from affordable prices, better network quality and coverage, and more innovative products, due to a much stronger Malaysian entity and the regional innovation center. With a stronger balance sheet and the enhanced profitability of MalaysiaCo, we will have the ability to offer affordable 5G and broadband services while increasing network coverage and quality, much better and earlier than Celcom or Digi could do [in their individual capacities], to support the Malaysian Digital Agenda," the group said. Axiata added that the improved profitability of the Malaysian entity would also lead to higher corporate taxes paid in the country. Axiata also reiterated that the planned merger will not result in any retrenchments. "No employee will be forced out, as we do not believe the company should benefit from this merger at the expense of our employees. If there is any plan for reduction of manpower, it will purely be on a voluntary basis. Celcom has never retrenched their employees in the history of the company while being managed by Axiata," the group said. And with a bigger scale and expected profitability, the MalaysiaCo will also be able to avoid job cuts, a path that many less profitable telecommunication companies in developed countries have been forced to choose. "Whatever we do will be from the position of strength and therefore, we would have the luxury to manage any reduction of workforce, if required, through voluntary means. Our people plan includes the retraining or reskilling of employees to new areas," the group said. Instead of job cuts, new jobs will be created, the group said, and the quantum will be more than the individual company would have been able to provide, due to the financial strength of MalaysiaCo. The positions will be in new areas of growth namely, home broadband, enterprise, solutions. The planned regional innovation centre alone will need to hire about 200 people -- including Malaysians -- once it is set up, it added. (Source: *The Star*)

**Independent power producer Malakoff Corp Bhd's net profit grew 26.6% to RM67 million for the first quarter ended March 31, 2019 (1QFY19) from RM52.91 million a year ago.** The improved earnings were attributed to higher payments from electricity generation for its Tanjung Bin Power Sdn Bhd (TBP) and Tanjung Bin Energy Sdn Bhd (TBE) coal power plants. In a filing with Bursa Malaysia this evening, Malakoff attributed the increase in net profit to the improved contribution from TBE coal plant as there was no unplanned plant outage occurrence during the quarter coupled with lower net finance costs. However, it pointed out that these were partially offset by higher operation and maintenance costs. Quarterly revenue expanded by 25% to RM2.007 billion from RM1.604 billion in 1QFY18, supported by higher applicable coal price during the quarter, which led to higher payments for its coal power plants. Earnings per share improved to 1.37 sen per share compared with 1.06 sen in the previous corresponding quarter. On its prospects for the financial year ending Dec 31, 2019, Malakoff said the growth in power demand is expected to be sustained driven by industrial and domestic segments, supported by the Government's continued commitment towards renewable energy (RE).

As such, it said the group expects to expand its RE business portfolio through strategic partnerships. "The recent 21-year RE Power Purchase Agreement (REPPA) entered into between Green Biogas Sdn Bhd and Tenaga Nasional Bhd (TNB) for the proposed 2.4MW biogas power plant in Kota Tinggi, Johor, will accelerate the group's expansion into the RE segment," Malakoff said. Besides that, it pointed out that the improved net energy metering policy has enabled the group to aggressively explore solar installation projects. Meanwhile, the acquisition of Alam Flora Sdn Bhd, which is expected to be completed by end-2019, will enable the group to expand into high potential waste and environment-related services. "Based on the foregoing, the group expects performance to remain satisfactory for FY19," it added. (Source: *The EdgeMarkets*)

Rating Action			
Issuer	PDS Description	Rating/Outlook	Action
Cagamas MBS Berhad	RM2,110.0 million asset-backed Sukuk Musyarakah issuance (CMBS 2007-1-i)	AAA-IS/Stable	Affirmed
	RM2,410.0 million asset-backed fixed rate serial bonds (CMBS 2007-2)	AAA/Stable	Affirmed
	RM2,060.0 million asset-backed fixed rate serial bonds (CMBS 2005-2)	AAA/Stable	Affirmed
	M2,050.0 million asset-backed Sukuk Musyarakah issuance (CMBS 2005-1)	AAA-IS/Stable	Affirmed

Source: RAM, MARC

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