

**Global Markets Research**
**Fixed Income**
**Fixed Income Daily Market Snapshot**
**US Treasuries**

US Treasuries continued to drift weaker on the last trading day for 2019 on lack of direction. Overall benchmark yields closed within 1-6bps from prior day's close with the UST 2Y within 1bps higher at 1.58% whilst the much-watched 10Y rose 4bps at 1.92% levels; having earlier hit a 1-month high of 1.95% two weeks ago. The Fed's three (3) rate cuts and trade tensions between the US and China benefitted UST's generally for 2019. Although the economy has not displayed nervous signals of weakening; there is little to suggest commendable growth for now. Meanwhile the Treasury Department is set to announce January's auctions of 3Y, 10Y and 30Y bonds soon.

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	1.58	1
5-yr UST	1.68	2
10-yr UST	1.92	4
30-yr UST	2.39	6

MGS			GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)	
3-yr	2.98	0	3.05	-3	
5-yr	3.15	-1	3.19	-5	
7-yr	3.30	0	3.30	-6	
10-yr	3.30	-1	3.42	-5	
15-yr	3.60	0	3.72	-4	
20-yr	3.74	0	3.83	0	
30-yr	4.09	-1	4.00	0	

\* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.27	0
3-yr	3.28	-2
5-yr	3.34	2
7-yr	3.36	0
10-yr	3.40	2

Source : Bloomberg

**Upcoming Government Bond Tender**

Nil

**MGS/GII**

- Local govies continued to be well-bid on the eve of the New Year amid low volume of RM1.08b. Investor interest was predominantly seen in the short off-the-run 20's and benchmark 10Y GII with overall benchmark MGS/GII yields closing lower between 0-6bps. Both the benchmark 5Y MGS 6/24 and 10Y MGS 8/29 edged 1bps edged lower from prior day's close at 3.15% and 3.30% respectively. GII trades jumped to form ~ 53% of overall trades. The alarming rise of negative-yielding global debt has seen foreign/offshore parties snap up EM sovereign debt as trade-sensitive nations such as Malaysia may benefit from easing global growth concerns next year on a steady MYR outlook.

**Corp Bonds/Sukuk**

- Corporate bonds/Sukuk space surprisingly continued to see some interest in the final trading session for 2019 with secondary market volume at RM225m. Overall investor interest was seen across the GG-AA part of the curve on 12 different bonds as overall yields closed mostly lower. The sole Govt-guaranteed trade was DANA 5/23 which closed 5bps lower compared to previous-done levels at 3.25% levels. AAA-rated TELEKOM 27-28's however spiked between 14-17bps between 3.56-59% whilst AA-rated BATU KAWAN 6/23 ended 3bps lower at 3.70%. The banking space saw MAYBANK 2117 perps close similarly lower at 3.98%.

## Daily Trades : Government Bond

Securities	Closing	Vol	Previous	Previous	Chg
	YTM	(RM mil)	YTM	Trade Date (dd/mm/yyyy)	(bp)
MGS 03/20	2.755	233	2.739	30/12/2019	2
MGS 07/20	2.829	81	2.912	24/12/2019	-8
MGS 10/20	2.839	32	2.888	30/12/2019	-5
MGS 07/21	3.011	1	2.995	30/12/2019	2
MGS 09/21	3.004	20	3.016	30/12/2019	-1
MGS 11/21	3.008	2	3.004	30/12/2019	0
MGS 03/23	3.131	10	3.105	30/12/2019	3
MGS 04/23	3.114	4	3.140	26/12/2019	-3
MGS 08/23	3.143	5	3.127	27/12/2019	2
MGS 06/24	3.152	4	3.165	30/12/2019	-1
MGS 07/24	3.162	10	3.223	30/12/2019	-6
MGS 09/24	3.198	2	3.200	30/12/2019	0
MGS 09/25	3.219	10	3.241	30/12/2019	-2
MGS 11/26	3.329	8	3.392	30/12/2019	-6
MGS 06/28	3.356	5	3.383	30/12/2019	-3
MGS 08/29	3.296	25	3.304	30/12/2019	-1
MGS 06/31	3.559	46	3.597	30/12/2019	-4
MGS 05/35	3.729	1	3.776	23/12/2019	-5
MGS 04/37	3.733	2	3.733	30/12/2019	0
MGS 03/46	4.102	3	4.109	30/12/2019	-1
GII 03/21	3.013	1	3.018	20/12/2019	0
GII 04/21	3.133	5	3.011	19/12/2019	12
GII 03/22	3.054	5	3.079	20/12/2019	-3
GII 05/23	3.056	40	3.072	30/12/2019	-2
GII 07/23	3.148	20	3.150	30/12/2019	0
GII 05/24	3.248	2	3.264	19/12/2019	-2
GII 10/24	3.193	20	3.245	27/12/2019	-5
GII 08/25	3.321	12	3.293	30/12/2019	3
GII 03/26	3.297	47	3.355	24/12/2019	-6
GII 06/27	3.394	20	3.454	09/12/2019	-6
GII 07/27	3.397	20	3.445	30/12/2019	-5
GII 10/28	3.442	70	3.449	30/12/2019	-1
GII 07/29	3.417	244	3.472	30/12/2019	-6
GII 06/33	3.679	1	3.770	26/12/2019	-9
GII 11/34	3.723	30	3.766	20/12/2019	-4
GII 09/39	3.833	40	3.837	30/12/2019	0
		<u>1080</u>			

## 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*	
DanaInfra Nasional Berhad	05/23	GG	3.253	50	3.302	24/12/2019	-5	24
DiGi Telecommunications Sdn Berhad	04/22	AAA	3.335	10	3.451	01/10/2019	-12	33
Bank Pembangunan Malaysia Berhad	11/26	AAA	3.729	10	3.579	19/09/2019	15	43
Telekom Malaysia Berhad	09/27	AAA	3.728	15	3.587	15/10/2019	14	39
Telekom Malaysia Berhad	05/28	AAA	3.729	10	3.557	20/09/2019	17	39
Bakun Hydro Power Generation Sdn Berhad (fka)	08/29	AAA	3.779	20	3.799	10/12/2019	-2	47
Bakun Hydro Power Generation Sdn Berhad (fka)	08/31	AAA	3.880	20	3.899	10/12/2019	-2	57
Batu Kawan Berhad	06/23	AA1	3.698	20	3.726	10/12/2019	-3	68
CIMB Group Holdings Berhad	09/29	AA	3.827	10	3.841	30/12/2019	-1	51
Jimah Energy Ventures Sdn Berhad	05/20	AA3	3.304	10	3.426	13/09/2019	-12	35
Malayan Banking Berhad	02/17	AA3	3.981	40	4.013	26/12/2019	-3	23
WCT Holdings Berhad	08/20	AA-	3.767	10	3.840	14/11/2019	-7	81
				<u>225</u>				

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

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

**The government, which remains steadfast in the belief that Malaysia will achieve an economic growth of 4.8% this year, expects to see positive effects from its development spending latest by June 2020, according to Finance Minister Lim Guan Eng.** “We are confident about maintaining the projection, supported by a rebound in the commodity prices, growth in investment spurred especially by government spending, as well as expectations of a positive outcome to the US-China trade war,” he told Bernama in an interview. He was commenting on the downward revisions of the 2020 growth projections by economists. Last month, the World Bank Group trimmed its forecast of the country's gross domestic product (GDP) growth for this year to 4.5% from 4.6% previously on weakening investment and trade activity recorded in the third quarter of last year. According to Lim, some ministries disbursed the development expenditure allocated to them under Budget 2019 a little late – in May or June – although the funds were released in January. “Tenders could only be called in September or October, and the awarding of contracts could only be made two or three months after that. “Therefore, work (on the projects) could only begin at the end of 2019 or in 2020. “There was no problem in terms of development expenditure for ongoing projects, but new projects would have to be brought forward to 2020 and added to Budget 2020 (for new developments),” he pointed out. On the US-China trade war, Lim said the end of the dispute would be a booster or catalyst to spur the economy. “As an exporting economy, Malaysia will benefit. Like it or not, we are affected by the external trade environment. “So if we look at the forecast growth in global trade of 1.2% in 2019, the lowest in 10 years, and against this backdrop, we are expecting to achieve a GDP growth of 4.7%. “In 2020, global trade growth is expected to increase to about 3%, and based on this, we are confident of achieving a 4.8% GDP growth. “If the US-China trade war was resolved, we may even witness better growth. (Source: *The Star/Bernama*)

**AFTER two decades in Malaysia, Tesco Stores (M) Sdn Bhd may call it a day as the loss-making retailer, with RM3.89 billion of debt, has someone knocking on its door.** The offer comes at a time when the retail outlook for the supermarket and hypermarket segment remains gloomy. Consider this, Malaysia has four foreign hypermarket players — Tesco, Hong Kong's Giant, Japan's AEON BiG and Middle East-based Lulu — all of which are loss-making (see table). Note that these foreign retailers are governed by a different set of rules from the local players. ata from Retail Group Malaysia (RGM), tabulated on behalf of the Malaysia Retailers Association, speaks volumes about the outlook for the supermarket and hypermarket segment. Retailers interviewed by RGM expect retail sales to contract by 9% in the current quarter ending Dec 31. This segment has been contracting for 10 straight quarters since the third quarter of 2017. Naturally, it came as a surprise to the industry that there is someone who is keen on buying the business. Even Tesco's Malaysian employees were taken aback by the announcement of a possible sale of the business, given that the retailer had put into motion a three-year transformation plan beginning in 2016, including the introduction of its new-generation store concept aimed at strengthening its business. Could it be that the new investor is interested in the retail business or is it interested in the assets Tesco holds? On Dec 8, The UK parent Tesco Plc announced that “following inbound interest, it has commenced a review of the strategic options for its businesses in Thailand and Malaysia, including an evaluation of a possible sale of these businesses.” It added that the evaluation of the strategic options is at an early stage, and that no decision concerning the future of Tesco Thailand and Tesco Malaysia had been made. Malaysia and Thailand are the only countries in Asia where Tesco has stores. It has 1,951 stores in Thailand and 60 hypermarkets and nine convenience stores in Malaysia. Etiqa Insurance and Takaful Bhd chief strategy officer Chris Eng tells *The Edge*, “Following the trend that was first observed in Europe, which has since followed in the more developed Asian markets of Hong Kong and Singapore, there has been a shift in consumer sentiment away from bulk purchases in hypermarkets towards smaller grocery shops. “This has seen a rise of grocers such as Village Grocer and Jaya Grocer, even as hypermarkets have closed down. The exit of global chains in Asean has been driven by this. It will be difficult to find a buyer (for Tesco) as AEON [Co Ltd], which absorbed Carrefour some years ago, is still struggling to find a strong foundation. As a last resort, will Tesco be offered at a discount to its 30% partner Sime Darby

Bhd?” he says. AEON BiG (M) Sdn Bhd — which is 95.49% owned by Aeon Co and 4.51% by AEON South East Asia Sdn Bhd — purchased French retailer Carrefour’s ailing Malaysian operation, comprising 26 stores, in 2012 for an enterprise value (value of debt in the business minus cash in the business) of €250 million, but has yet to turn the business around (see table). According to AEON BiG’s website, it currently has 22 stores. Dairy Farm International Ltd — which operates the Giant supermarket and hypermarket brand as well as supermarkets under the Cold Storage, Mercato and Jason’s Food Hall names — has been closing stores rapidly. From a peak of 147 stores in 2014, today the retailer appears to have only about 80 stores. Incidentally, calls made to industry players reveal that market talk of Aeon Co being a potential suitor for Tesco has resurfaced. It was reported in 2015 that AEON Co was interested in purchasing Tesco’s stores to expand the AEON BiG chain. Various reports value the Thai and Malaysian businesses at £6.5 billion to £9.5 billion. A Bloomberg report, quoting Ahmad Maghfur Usman, an analyst with Nomura Global Markets Research, says Tesco Malaysia’s enterprise value is US\$2 billion. It is also worth noting that the Malaysian business generates just a fifth of the revenue of Thailand. Asked to comment, one industry observer quips, “Who has that kind of money? The Chinese perhaps.” Indeed, the market is speculating that to buy a business this big, one would need deep pockets and the Chinese may be a possibility. Other potential interested investors are believed to be from Thailand and private equity funds. Names of Thai investors floating around the market include Central Group and Singha Corp. Tesco Plc’s entry into Malaysia was in 2000 with Sime Darby Bhd as its 30% local partner. In 2002, Tesco opened its first store in Puchong. It enjoyed seven straight years of profitability from the financial year ended Feb 28, 2008 (FY2008) to FY2014. It slipped into the red in FY2015 and continued to post losses in FY2016 and FY2017. However, in FY2018 it bounced back into profitability, posting a net profit of RM22.81 million. Unfortunately, it has slipped into the red again in FY2019, posting a net loss of RM44.29 million. Are Tesco’s assets valuable? “Their real estate value is high,” an estate agent tells The Edge. If Tesco’s financial reports on non-current assets are anything to go by, the retailer has some RM3.43 billion in assets. According to sources, about 10 of its stores in the Klang Valley alone are worth about RM1 billion. And these stores have land available for development. Recall that it also inherited some eight stores, including in Ipoh and Penang, when Tesco bought Makro Cash & Carry Distribution in 2006. Of the 60 Tesco stores it operates, it is learnt that Tesco owns at least half of the inventory. Tesco also owns stores in Johor. Last year, The Edge reported that Tesco was seeking an alternative source of revenue and was planning to venture into property development at its larger stores. It was looking for partners to help develop the sites. The large hypermarkets owned by Tesco include Tesco Extra Ampang, which is built on about 13 acres. This land alone is valued at some RM170 million. Tesco Ara Damansara, with about seven acres, is possibly worth RM100 million. The most valuable real estate owned by Tesco is believed to be the Mutiara Damansara store. An estate agent says Tesco may be better off investing the RM100 million (estimated value of the Ara Damansara Store) in other commercial assets that could provide a 6% yield, as opposed to being involved in the retail business, which is not growing by as much. Should Tesco exit Thailand and Malaysia, its remaining stores outside the UK would be in Ireland, the Czech Republic, Hungary, Poland and Slovakia.

Rating Action			
Issuer	PDS Description	Rating/Outlook	Action
UEM Sunrise Berhad	Islamic Commercial Papers and Islamic Medium-Term Notes programmes (ICP/IMTN-1 and ICP/IMTN-2)	MARC-1 IS/AA-I/Stable	Affirmed

Source: RAM, MARC

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