2022 Annual Fixed Income Perspective

Quick Review of 2021

***2021** saw prominent sell-off in US Treasuries (USTs), led by strong economic growth, solid labor market recovery and elevated inflation which jolted the Fed into embarking on faster asset-tapering (QE) activities. Overall benchmark yields jumped between 60-90bps (save for the 30Y long-bond which jumped 26bps to 1.90%). Both the 2Y (reflective of interest-rate predictions) and much-watched 10Y jumped 60-61bps y/y to 0.73% and 1.52% each. The monthly bond purchases of $80b of USTs and $40b of MBS were subsequently slashed to $60b and $30b respectively; ultimately leading to higher Dot Plot projections by Fed officials and traders.*

***On the local front** we witnessed several key events that included the impact of COVID-19 pandemic on the economy resulting from movement restrictions, a change at the helm of the country's leadership, FTSE Russell's decision to maintain its weightage of MYR bonds in the WGBI. This was followed by the successful approval of the National Budget 2022 that is expected to see an improvement in fiscal deficit to GDP from 6.5% in 2021 to 6.0% in 2022 despite a higher statutory debt from 60% to 65% of GDP. **Overall benchmark yields spiked between 72-100bps (save for the 30Y MGS which rose 36bps)** as at 31st December 2021. The belly was seen pressured the most. The benchmark 5Y MGS/GII and 10Y MGS/GII settled between 81-96bps higher at 3.21-16% and 3.62-56% levels*

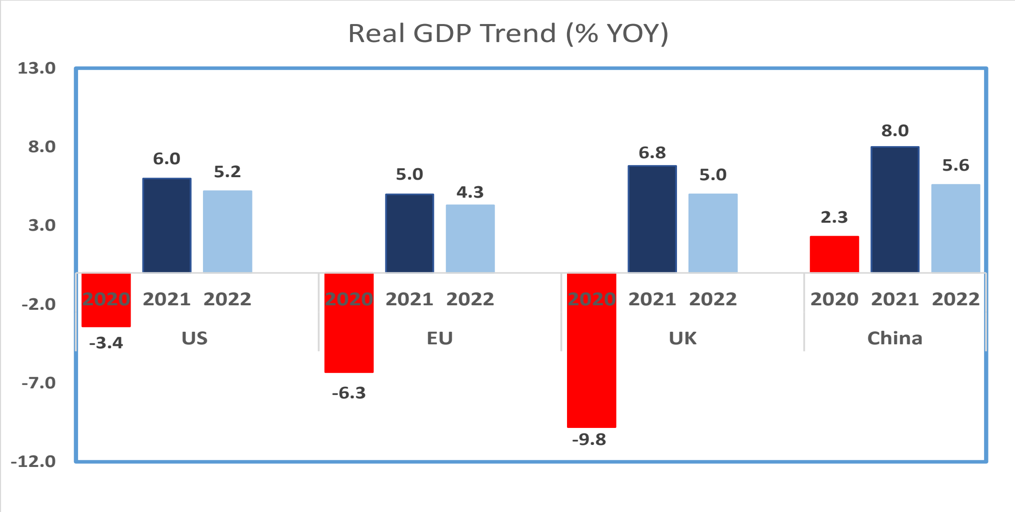
What is in store for 2022?

***In the US**, brace for higher yields on the premise that central banks led by the Fed would begin to accelerate the unwinding of ultra-loose monetary policy introduced in the commencement of the COVID-19 pandemic. Nevertheless the rise of the Omicron variant may further complicate the path to higher yields and steeper curves as worries surface over economic risks. The latest in a series of economic stimulus packages including the latest by President Biden's ~i.e. a $2 trillion one labelled "Build Back Better", may yet ignite inflationary pressures as supply concerns mount. Hence, **we are underweight USTs** in the face of inflationary pressures also brought about by supply-chain bottlenecks amid a steady jobs market. Hence this leads us to **prefer inflation-linked securities over nominal UST's**. **Expect 10Y UST to range higher between 1.60-1.90% levels**. Expect action to be centered at the front and intermediate maturities on Dot Plot concerns. Risks to the above include a resurgent flare-up in US-China trade relationship and/or geopolitical tensions. The outlook for both IG and HY bonds for 2022 is expected to be robust with estimates issuances totaling $300b and $400b; a drop of ~10% from 2021.*

***On the local front** we are cautiously optimistic over growth prospects of the Malaysian economy in 2022. Evolvement of the Omicron variant which is highly infectious although less deadly, has reignited concerns over reimposition of stricter movement controls. Continuous accommodative policy measures from both fiscal and monetary fronts are expected to help underpin recovery in the domestic economy going forward. **We expect MYR government bonds to be pressured in line with rising global bond yields.** Despite our higher projected **gross supply of government bonds projected @ RM167.0b,** expect decent support for primary tenders from well-diversified base of investment institutions and inter-bank participants. The near-completion of earlier withdrawal schemes from EPF should augur well for both the primary and secondary market in 2022. Whilst the short-end may have priced in earlier rate adjustments and seem steadier, **we opine that the local govvies curve may steepen. Our 10Y MGS yield target is within 3.60-3.80%.** As for **corporate bond/Sukuk issuances, we expect potential gross issuances of RM100-120b (**with maturities of about RM73.2b) in 2022. We continue to predict spillover of secondary market trades into the **AAA-AA-part of the yield curve** as investors seek alpha amid the rising interest rate regime.*

Growth expected to be slower in 2022…

Global growth is expected to notch steady i.e. 4.9% in 2022 (2021: projected growth of 5.9%) based on IMF revised growth outlook published In October 2021. This is marginally lower by 0.1% from an earlier forecast of 5.0% back in July 2021 and is mainly due to "supply disruptions for advanced economies and worsening pandemic dynamics for the lower-income producing nations". However this may be partially offset by stronger near-term prospects among mainly commodity-exporting emerging markets and developing economies. Nevertheless the rapid spread of Delta and new variants like Omicron have increased uncertainty over the speed of resolve as policy choices become more challenging with limited room to maneuver.



Source: IMF

Key themes in 2022 include tighter US monetary policy whilst the Fed plans tapers its bond purchase program

The Fed recently revealed its decision to wind-down its asset purchase program as the economy showed substantial progress in terms of both jobs market and heightened inflation towards a typical central bank's goals of maximum employment and price stability. The Fed said it decided to keep the target range for the federal funds rate at 0-0.25%, which is where the target range has remained since an emergency rate cut in March 2020. Minutes from the November 2021 Fed meeting show members were concerned about inflation and willing to tighten policy should it continue to run hot. The meeting summary noted that the officials would be willing to raise interest rates "sooner than participants currently anticipated." They also indicated at the meeting that they feel conditions warrant a reduction in monthly asset purchases, with some members pushing for a more aggressive tapering. In its last FOMC on 16th December, the Fed confirmed its wind-down in asset purchases from $15b in November to $30b per month in December, January, February and finally ending with $15b in March. Policy-makers penciled in three (3) interest rate increases next year in the dot-plot projections. Meanwhile, swaps tied to FOMC meeting dates also briefly priced in three (3) rate hikes by December 2022 before edging back to ~65bps; with the initial hike being fully priced into the May 2022 meeting.

US 2Y/10Y and 5Y/30Y yield spreads in 2021

Source: Bloomberg

From policy perspectives, investors will also be eagerly watching developments and upcoming policies which saw the BOE hike rates. The yield curve compressed from April-November 2021 as the ravaging pandemic surprisingly caused the Fed to put asset tapering on the back-burner. Despite the 2s10s spread moving sideways in the last month of 2021 due to the grappling Omicron issue (see above graph) on one side versus the pace at which the Fed is expected to normalize monetary policy to fight inflation on the other, **we'd expect a steeper yield curve going forward as investors adopt "negative duration"**.

Steadier oil prices may also see levels retrace higher in 2022. The US Energy Information Administration (EIA) in its recent Energy Outlook projects crude oil prices to average @ USD66/barrel for WTI and USD70/barrel for Brent; somewhat similar to 2021. The expected strength in global economic indicators (barring further flare-up in COVID-related variants) in 2022 could indicate an uptick in oil demand with both China and India leading the pack. The futures markets are similarly showing high prices for near-term contracts compared with longer-dated contracts, a situation known as backwardation. Low crude oil inventories, both globally and in the United States, have put upward price pressure on near-dated crude oil contracts, whereas longer-dated crude oil contract prices are lower, likely reflecting expectations of a more balanced market. Hence demand is expected to maintain for this year and subsequently benefit the government of Malaysia.

Growth for the Malaysian economy is expected to improve to circa 5.5-6.5% in 2022 as monetary policy is expected to stay accommodative

The Ministry of Finance (MOF) expects the Malaysian economy to expand between 5.5-6.5% in 2022, pushing higher from the estimated 3-4% growth for 2021. However our full-year GDP projection for 2021 and 2022 is +3.1% and +6.1% respectively. While growth outlook remains decent, there is little pressure for monetary policy tightening barring further upside growth risks. We maintain our view for BNM to leave OPR unchanged in 1H2022 with a potential 25bps hike in 2H2022. In our view, key variables include momentum in the world recovery, extent of the supply chain disruptions, strength in real demand as pent up demand dissipates, sustainability of the current spike in consumer sentiments and the pace of revival in business investment.

SCHEDULE OF MONETARY POLICY MEETINGS IN 2022		
MPC Meet No	Date	
1	20-Jan-22	(Thurs)
2	03-Mar-22	(Thurs)
3	11-May-22	(Wed)
4	06-Jul-22	(Wed)
5	08-Sep-22	(Thurs)
6	03-Nov-22	(Thurs)

Source: BNM, HLBB Global Markets Research

Local inflation may be a non-event in 2022 as bond movements expected to be dictated by higher interest rate regime in the US due to persistent inflationary pressures and asset-tapering activities

Official MOF forecasts of inflation for 2022 is pegged at a moderate 2.1% YOY, tapering-off from the 2.4% expected in 2021. Whilst we expect local inflation to undershoot 2.5% levels for 2021; the current impact of higher global crude oil price and food commodity prices on Malaysia's CPI is less significant given the government's subsidies and impositions on price ceilings. However, the prospect of local inflation being capped in 2021 will be superseded by higher interest rate regime in the US due to persistent inflationary pressures and QE tapering; putting most global bond yields under pressure.

Fiscal consolidation to improve in 2022, narrowing towards deficit target of 6.0% from 6.5% in 2021; expect higher gross supply of Government Bonds…

As we progress to 2022, we expect the Federal Government's fiscal consolidation to continue facing challenges in meeting the reduced targeted fiscal deficit target of 6.0% of GDP; given the realistic growth target and revenue projection which may have some upside. The Federal Government revenue is expected to increase to RM234.0b in 2022, up 5.9% from the revised RM221.0b in 2021. This is primarily due to higher tax revenue collection via both CITA and PITA totaling RM77.9b (2021: RM72.1b). Development expenditure is expected to ramp up to a record high of RM74.5b; along with the expected rise in operating expenditure as the government realizes the importance of pump-priming the economy going forward. (Note: Budget 2021 was calibrated based on oil price assumption of $68/barrel versus $66/barrel for next year).

FEDERAL GOVT REVENUE & EXPENDITURE RM (Billion)	2020	2021e	2022f
Revenue	225.1	221.0	234.0
Operating Expenditure	224.6	219.6	233.5
Current balance Surplus/(Deficit)	0.5	1.4	0.5
Gross Development Expenditure	51.4	62.0	75.6
less: loan recoverables	1.3	0.8	0.6
Net Development Expenditure	49.5	59.8	74.5
Misc: COVID-19 Fund	38.0	39.0	23.0
Overall surplus/(deficit)	87.5	(98.8)	(97.5)
Fiscal Deficit as a % of GDP	**6.2**	**6.5**	**6.0**

Source: MOF Fiscal Outlook 2022, HLBB Global Markets Research

Higher gross MGS/GII supply in 2022 @ circa RM167b; net supply slightly higher @ RM88.5b

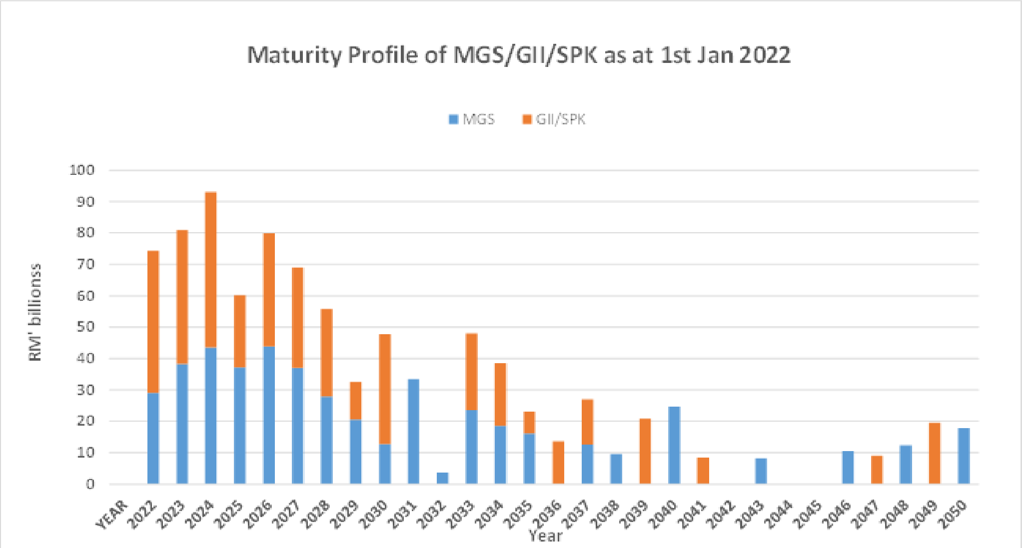
RM (Billion)	2020	2021e	2022f
Federal Govt deficit	87.6	98.8	97.5
MGS/GII Maturities	73.4	73.7	78.2
Projected SPK switch	-	(6.0)	(9.0)
1MDB cash proceeds	(10.5)	-	-
Misc. (adjustments)	(2.0)	0.5	-
PETRONAS special dividend	-	(7.0)	-
Net Govt Bond Supply (MGS/GII)	75.1	86.3	88.5
Gross Supply (MGS+ GII only)	**148.8**	**160.0**	**166.7**

Source: MOF Fiscal Outlook 2022, HLBB Global Markets Research

Quarter	2022	Stock	Monthly Maturity (RM'm)	Quarterly Maturity (RM'm)
	JAN			
1	FEB			
	MAR	MGS 3/22 & GII 3/22	11,400 & 6,800	18,200
	APR	GII 4/22	11,000	
2	MAY			
	JUN			11,000
	JUL	SPK 7/22 & GII 7/22	9,000 + 10,000	
3	AUG	MGS 8/22	10,500	
	SEP	MGS 9/22	11,000	40,500
	OCT			
4	NOV	GII 11/22	8,500	
	DEC			8,500
	Total		78,200	78,200

Source: BPAM, Bloomberg, HLBB Global Markets Research

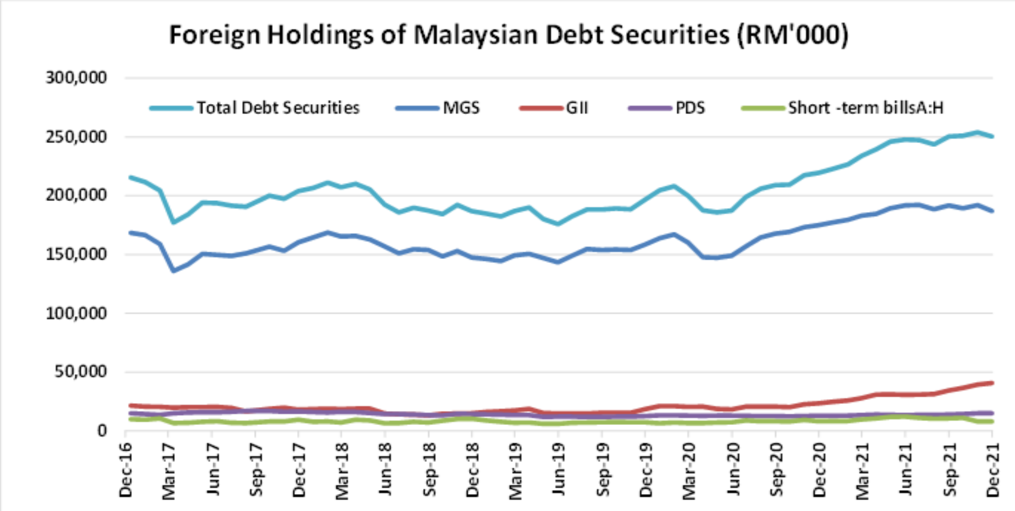
Going into 2022, investors should look out for **sizeable maturity windows in Q3** from scheduled MGS/GII maturities. Funds from maturing MGS/GII is expected to return as reinvestments into the MYR government bond space. Total combined MGS/GII maturities for 2022 will amount to circa RM78.2b versus this year's RM73.7b. Nevertheless, we expect reinvestment flows to remain supportive of MYR bond dynamics.



Source: BPAM, HLBB Global Markets Research

Foreign holdings of both MYR Government Bonds and overall MYR bonds rose between 12-13% each as at 30th November @ RM227.7b and RM250.4b

The average monthly foreign holdings of MYR government bonds for 2021 jumped to RM220.8b overall compared to 2020's RM182.0b despite the spike in yields due to various factors ranging from FTSE Russell WGBI weightage for MYR bonds, political concerns at the helm with the change in Prime Minister, higher fiscal deficit resulting in additional supply concerns and also QE tapering activities in the US which is expected to push rates higher. Since its lowest levels in January 2021, foreign holdings of overall MYR bonds rose steadily from RM219.4b in December 2020 before ending at RM250.4b as at end-November 2021. This even easily surpassed previous year-end closing levels.



Source: Bloomberg, BNM, HLBB Global Markets Research

MGS/GII tenders in 2021 remained decent despite paranormal global and local events; with overall BTC ratios lower at 2.07x versus 2.22x in 2020…

Government bond tenders in 2021 ended the year on a weaker average BTC ratio of 2.07x as opposed to the 2.22x in 2020. Worthy of note was the strong interest from the reopening of 10Y GII, 15Y MGS and also new issuance of 15Y GII bond auction in 2021. Despite taking into account several prominent events for the year surrounding:

- the COVID-19 pandemic which caused various movement restrictions impacting economic activities
- both the Fed and BNM staying pat on US and Malaysian interest rates
- potential changes in the country's weightage in FTSE Russell WGBI
- the recent release and approval of the 2022 National Budget which entails among others a smaller but still sizeable fiscal deficit of 6.0% (2021: projected 6.5%) resulting in fears of additional supply concerns
- earlier downgrade of Malaysia's long-term issuer default rating from A- to BBB+/Stable by Fitch Ratings
- Impact of various withdrawal schemes i.e. i-Lestari, I-Sinar and i-Citra from EPF potentially disrupting its active secondary market activities
- QE tapering involving reduction in monthly bond-buying by the Fed/Treasury ultimately giving ride to higher interest rates in the US,

the bond auction/tender exercises garnered decent interest from both onshore and off-shore investors. However the weaker Ringgit and attractive yield-carry in a low-rate global environment that saw a deluge of ~$17 trillion of global debt is believed to have whetted the appetite of foreign investors in the MYR Bond market. Likewise, the well-diversified and depth of investment institutions in the country is expected to be forthcoming.

We append below again excerpts from our recent Fixed Income Auction calendar 2022 report dated 21st December detailing this year's tender exercises.

MGS/GII issuance pipeline in 2022

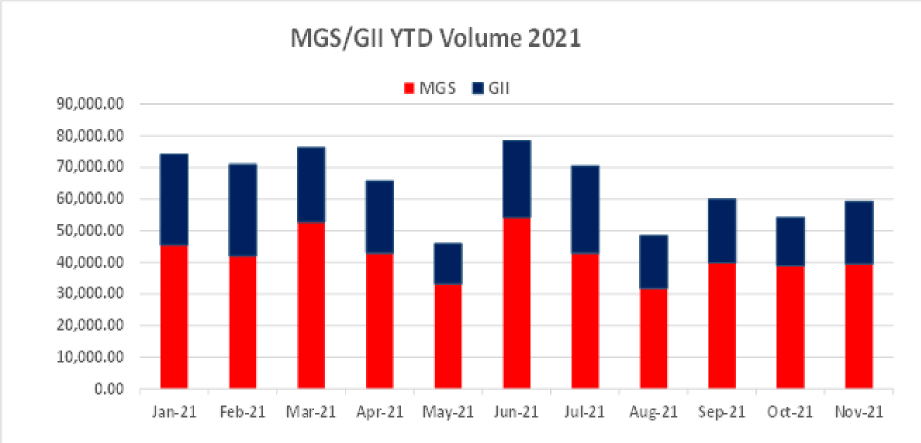
No	Stock	Tenure (yrs)	Tender Month	Quarter	Projected Issuance Size (RM mil)	Private Placement X
1	5-yr reopening of MGS (Mat on 11/26)	5	Jan	Q1	5,000	
2	10.5-yr new Issue of MGS (Mat on 7/32)	10	Jan	Q1	4,500	
3	15-yr Reopening of GII (Mat on 07/36)	15	Jan	Q1	4,500	
4	5-yr Reopening of GII (Mat on 09/27)	5	Feb	Q1	4,500	
5	30-yr Reopening of MGS (Mat on 06/50)	30	Feb	Q1	4,500	X
6	7-yr Reopening of GII (Mat on 10/28)	7	Feb	Q1	4,500	
7	15-yr Reopening of MGS 04/37	15	Mar	Q1	4,500	
8	20-yr Reopening of MGII 09/41	20	Mar	Q1	4,500	X
9	3-yr Reopening of MGS 03/25	3	Mar	Q1	5,000	
10	10.5-yr New Issue of MGII (Mat on 10/32)	10	Apr	Q2	4,000	
11	20.5-yr New Issue of MGS (Mat on 10/42)	20	Apr	Q2	5,000	X
12	15-yr Reopening of MGII 07/36	15	Apr	Q2	4,000	X
13	7-yr New Issue of MGS (Mat on 04/29)	7	Apr	Q2	4,500	
14	30-yr New Issue of MGII (Mat on 05/52)	30	May	Q2	5,000	X
15	10-yr Reopening of MGS (Mat on 07/32)	10	May	Q2	5,000	
16	3-yr Reopening of MGII 10/25	3	May	Q2	4,500	
17	15-yr Reopening of MGS 04/37	15	Jun	Q2	4,000	X
18	5-yr Reopening of MGII 09/27	5	Jun	Q2	4,000	
19	30-yr Reopening of MGS 06/50	30	Jun	Q2	4,000	X
20	10-yr Reopening of MGII (Mat on 10/32)	10	Jul	Q3	5,000	X
21	20-yr Reopening of MGS (Mat on 10/42)	20	Jul	Q3	5,000	X
22	7-yr Reopening of MGII 07/29	7	Jul	Q3	5,000	
23	5-yr Reopening of MGS 11/27	5	Aug	Q3	5,000	
24	20-yr Reopening of MGII 09/41	20	Aug	Q3	5,000	X
25	15-yr Reopening of MGS 04/37	15	Aug	Q3	5,000	X
26	3-yr Reopening of MGII 10/25	3	Sep	Q3	4,500	
27	7-yr Reopening of MGS (Mat on 04/29)	7	Sep	Q3	5,000	
28	15.5-yr New Issue of MGII (Mat on 03/38)	15	Sep	Q3	5,000	
29	3-yr Reopening of MGS 03/25	3	Oct	Q4	5,000	
30	10-yr Reopening of MGII (Mat on 10/32)	10	Oct	Q4	5,000	X
31	20-yr Reopening of MGS (Mat on 10/42)	20	Oct	Q4	5,000	X
32	7-yr Reopening of MGII 07/29	7	Nov	Q4	4,500	
33	5-yr Reopening of MGS 11/27	5	Nov	Q4	4,500	
34	30-yr Reopening of MGII (Mat on 05/52)	30	Nov	Q4	4,000	X
35	10-yr Reopening of MGS (Mat on 07/32)	10	Dec	Q4	4,500	
36	3-yr Reopening of MGII 10/25	3	Dec	Q4	4,500	
	Gross MGS/GII supply in 2022				167,000	

Source: Bloomberg, BNM, HLB Global Markets Research

Trading volume for MGS/GII wilted y/y in 2021 by 26% to ~RM752m on lower liquidity but EM flows showed improvement...

Trading volume for MYR Government Bonds shot up from about RM150.6b in 1Q 2021 to RM190.6b in 2Q before easing slightly to RM182.2b in Q3; and finally falling sharply to RM153.6b in 4Q2021. The vanishing liquidity during the final quarter was evident following the release the increase in both statutory debt to GDP ratio from 60% to 65% and elevated fiscal deficit of above 6.0% handle coupled with the asset tapering activities by the Fed which resulted in spiking global bond yields. The subsequent low holiday-month staffing levels due to the traditional year-end festivities and holidays, was also a telling factor. Nevertheless, overall demand was mainly seen in the shorter off-the-runs i.e. 20-22's (on lower

OPR expectations earlier in the year) and also the more liquid 3Y, 5Y and 10Y benchmarks on bargain-hunting activities for relative values amid cheaper MYR and muted inflation. Local institutional investors were seen leading the charge followed by inter-bank participants, lifers and also fund managers. MGS generally ended the year with yields spiking sharply between 36-100bps across most tenures; reversing prior years' rally. The much-watched 10Y benchmark MGS 4/31, jumped 91bps to 3.56% as at 31st December.



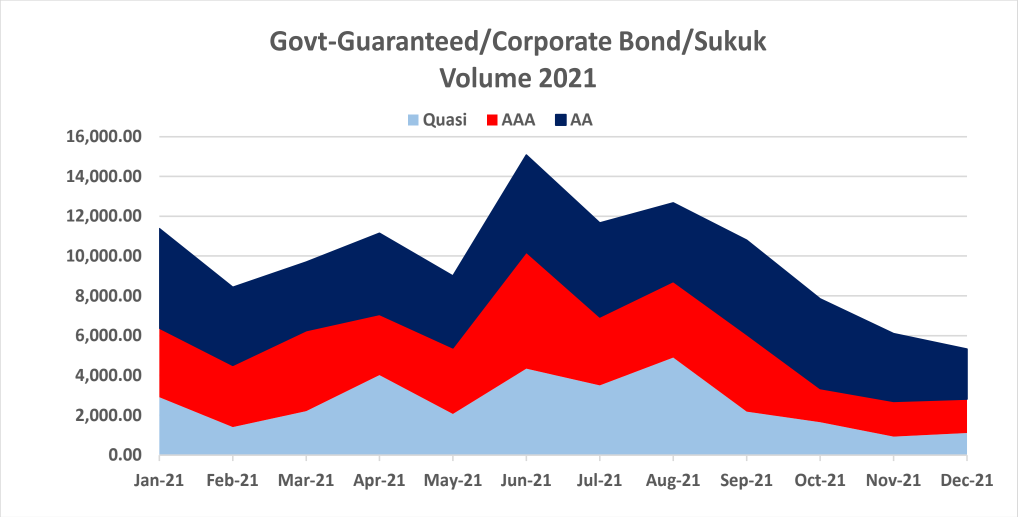
Source: BPAM, Bloomberg, HLB Global markets Research

Primary issuance prints for Corporate Bonds/Sukuk in 2021 boosted by the following names:

To recap, 2021 shaped up to be a solid year as 2021 issuances totaled RM116b; more than previous year's issuances totaling RM103b in 2020. The primary market was boosted by Government-guaranteed (GG) bond issuances followed by the notable prints from the power-generation sector which together contributed almost 35% of total issuances. This was followed by followed by the utilities, infrastructure and banking/finance sector. Overall top five (5) corporate bonds/Sukuk issuances were:

- DANAINFRA NASIONAL BERHAD (circa RM10b)
- PRASARANA MALAYSIA BERHAD (circa RM6b)
- SARAWAK ENERGY BERHAD (circa RM5b)
- PERBADANAN TABUNG PENDIDIKAN TINGGI NASIONAL (circa RM5b)
- LEMBAGA PEMBIAYAAN PERUMAHAN SEKTOR AWAM (circa RM3b)

Also worth noting were the substantial issuances of non-GG bonds especially from Khazanah-controlled SPV's i.e. DANGA Capital Bhd, DANUM Capital Berhad, PR1MA Corporation Malaysia, Pengurusan Air SPV Berhad (shift seen from GG to AAA-rated issuances), semi-quasi body i.e. CAGAMAS Bhd, CIMB Bank Bhd, PLUS Bhd, Tenaga Nasional Bhd, and MMC.



Source: BPAM, Bloomberg, HLBB Global Markets Research

The actives i.e. top volume generating Corporate Bonds for 2021 which are noted for both volume and frequency of secondary market trades comprised of both Govt-Guaranteed and Corporate/Sukuk names as follows:

- LPPSA 9/24, 9/36, 2028 tranches
- DANAINFRA 7/24, 5/31, 11/47, 4/38, 2/49, 5/41, 2028, 2029, 2032 tranches
- PRASA 9/22, 3/31, 3/34, 2026 tranches
- JKSB 7/23
- GOVCO 2024, 2031, 2032 tranches
- KHAZANAH 2022 tranches
- PR1MA 6/24
- PTPTN 2024 tranches
- CAGAMAS 5/23, 2022, 2024 tranches
- DANGA 2/26, 2033 tranches
- DANUM 5/23, 2/26, 2/34
- AMAN 2022, 2023 tranches
- AIR SELANGOR 12/30
- PASB 2024, 2028 tranches
- PLUS 1/22, 1/29, 1/38
- TNB 8/33, 8/37
- Petroleum Sarawak 3/28, 3/31
- SEB 7/24, 8/25, 6/26, 1/27, 7/29, 4/31, 12/32
- UEM Sunrise 2023, 2024 tranches
- MANJUNG 11/31
- Sarawak Hidro 8/27,8/30
- BGSM 12/22, 8/25
- EDRA 7/31, 7/35, 7/37, 2030, 2034 tranches
- JEP 2030 tranches
- YTL Power 10/24, 5/27 and 2023 tranches
- MMC 11/27, 8/28
- KLK 9/22
- WCT 5/22
- MACB 12/22, MAHB 2114NC24 Perps
- GENM Capital 2023 tranches, GENTING 2034 tranches
- PKNS 2022, 2023 tranches

- Fortune Premier 2023 tranches
- INFRACAP 4/28, 4/31 tranches
- IMTIAZ 2022 tranches
- MAYBANK 2117NC24, 2117NC26 perps
- Bank Islam 2030NC25 and 2028NC23
- AFFIN Islamic 2117NC23 and AFFIN Bank 2118NC23 perps
- HLFG 2029NC24
- CIMB 2029NC24
- MBSB 2031NC26
- RHB 2029NC24
- Sabah Development 7/26

Corporate bonds/Sukuk issuance trend for 2022 projected at gross supply of circa RM100-120b

In terms of Corporate Bonds/Sukuk supply for 2022, we are projecting a gross supply of RM100-RM120b with net issuance of about RM26.8-46.8b due to sizeable maturities of about RM73.2b (excluding Commercial Papers). In comparison, total corporate bond issuance rose to about RM116b in 2021 (2020: RM103b) amid the rise in unrated issues. The Corporate Bonds/Sukuk issuances in 2021 circa RM116b mentioned above was seen tracing only slightly higher than our earlier RM90-110b gross supply projections.

Taking into account the prospects of continued economic recovery amidst the challenging COVID pandemic-era, along with the continuation of big-ticket infrastructure projects and potential rising interest rates as well, we opine that gross corporate bond issuance to fall within the range of RM100-120b in 2022. Some of these mega infrastructure-related projects include but not limited to:

- completion of MRT2 and LRT3 in Klang Valley
- commencement of MRT3 in Klang Valley
- completion of ECRL (estimated costs ~RM40b)
- completion of Pan-Borneo Highway
- completion of elevated highways i.e. SUKE and DASH in Klang Valley
- completion of electrification and double-tracking of Gemas-Johor Bahru Rail
- completion of Klang valley Double Tracking Rail (KVDT2)
- completion of cross-border Rapid Transit System Link from JB to Woodlands, Singapore
- completion of West Coast Expressway (estimated costs~RM5b)

The steady supply of GG-bonds due to the continued roll-out of mega infrastructure projects may see slight strains in widening yield-risk as investors search for higher yields along the credit spectrum. Expect further fund-raising activities to surge via bond-issuances as the equity markets saw tremendous rights issues and private placements last year which substantially increased market capitalization. Expect both government-related bodies and corporates to take the lead with the attractive potential savings associated with issuance costs via unrated bonds as a sweetener. Decent demand metrics by the relatively well-diversified and depth of investing institutions on the buy-side should augur well. The strong institutional investor base consisting of pension and provident funds, lifers, takaful, asset management, unit trust and fund management companies are expected into relatively liquid Malaysian debt capital markets. Going forward, many i**nstitutional investors are expected to incorporate SRI frameworks into their investment guidelines with portfolio decisions guided by Environmental, Social and Governance (ESG) factors**

Credit rating changes noted in 2021, involving 10 credit upgrades and 8 downgrades by both RAM and MARC

CREDIT RATING UPGRADE/DOWNGRADE 2021

Issuer/issuance	Agency	Date of rating	Previous/Outlook	Current/outlook	Action
Dar Al-Arkan Real Estate Development Company long- and short-term corporate credit ratings	RAM	15-Jan-21	A3/P2/Postive	A3/P2/Stable	↓
Cendana Sejati Sdn Bhd RM360 million Senior Sukuk Murabahah Medium Term Notes Programme	RAM	23-Feb-21	C3/Negative	D	↓
AMMB Holdings Berhad (inc AmBank, AmIslamic, AmInvestment) Corporate Credit Ratings	RAM	05-Mar-21	AA2/Stable	AA3/Stable	↓
MEX I Capital Berhad RM1.35 bil Sukuk Musharakah (2014/2031)	RAM	19-Mar-21	BB1/Negative	C3/Negative.	↓
YTL Corporation Berhad RM2 bil Medium-Term Notes (MTN) Programme (2013/2038) RM5 bil Commercial Papers Programme and MTN Programme (2019/2044)	RAM RAM	07-Apr-21 07-Apr-21	AA1/P1/Stable AA1/P1/Stable	AA1/P1/Negative AA1/P1/Negative	↓
Kedah Cement Sdn Bhd RM500 mil Sukuk Wakalah Programme (2017/2024)	RAM	07-Apr-21	A1/P1/Positive	AA3/P1/Stable	↑
Zamarad Assets Berhad Tranche 1 Class B Sukuk Murabahah	RAM	08-Apr-21	AA2/Positive	AAA/Stable	↑
SPR Energy (M) Sdn Bhd Senior Sukuk Ijarah of RM580 mil	RAM	15-Jun-21	AA3/Stable	AA3/Negative	↓
PremierAuto Assets Berhad RM20 million Senior Class B Notes	RAM	22-Jun-21	AA1/Stable	AAA/Stable	↑
TRIplc Medical Sdn Bhd RM639 mil Senior Sukuk Murabahah	RAM	01-Jul-21	AA1/Negative	AA1/Stable	↑
Menara ABS Berhad RM345 mil Tranche A1 to A4	RAM	28-Jul-21	AAA/Stable to AA3/Stable	AA2/Negative to A3/Negative	↓
BNP Paribas Malaysia Berhad Sukuk Murabahah Programme of up to RM110.0 mil	RAM	20-Sep-21	AA2/Stable	AA1/Stable	↑
Golden Assets International Finance Limited RM5 bil Islamic Medium Term Notes Programme (2012/2027)	RAM	27-Sep-21	A1/Stable	AA3/Stable	↑
Zamarad Assets Berhad Tranche 2 to 5 Sukuk Murabahah	RAM	03-Nov-21	AA2/Stable	AAA/Stable	↑
Jati Cakerawala Sdn Bhd RM540 mil Sukuk Murabahah (2013/2023)	RAM	16-Nov-21	A1/Stable	AA3/Stable	↑
SEP Resources (M) Sdn Bhd RM150 mil Islamic Medium Term Notes	RAM	16-Nov-21	AA1/Stable	AA1/Positive	↑
Lebuhraya Kajang-Seremban Sdn Bhd's (LEKAS) RM633 mil Junior Sukuk Istisna' (2007/2025)	RAM	06-Jan-20	C2/Stable	C2/Negative	↓
Cypark Ref Sdn Bhd RM550 mil SRI Sukuk Murabahah Programme (2019/2041)	RAM	17-Dec-21	AA3/Stable	AA3/Negative	↓
RHB Bank Berhad and its banking subsidiaries Financial institution ratings	RAM	17-Dec-21	AA2/Stable	AA2/Positive	↑
Quantum Solar Park (Semenanjung) Sdn Bhd RM1.0 billion Green Sustainable and Responsible Investment (SRI) Sukuk	MARC	05-Mar-21	A+ IS/Stable	AA- IS/Positive	↑
MEX II Sdn Bhd RM1.3 billion Sukuk Murabahah Programme RM150.0 million Junior Bonds	MARC	26-Mar-21	BB IS B	C IS C	↓
Kimanis Power Sdn Bhd RM650.0 million Sukuk Programmes	MARC	20-May-21	AA- IS/Stable	AA IS/Stable	↑
Alpha Circle Sdn Bhd RM140 million Senior Sukuk Musharakah RM55 million Junior Sukuk Musharakah	MARC	05-Oct-21	BBB-IS/Negative BB-IS/Negative	BB-IS/Negative B-IS/Negative	↓
TSH Sukuk Murabahah Sdn Bhd RM150 million Medium-Term Notes (IMTN) Programme and RM50 million Commercial Papers (ICP) Programme	MARC	05-Oct-21	A+ IS/Stable MARC1-IS/Stable	A+ IS/Positive MARC1-IS/Positive	↑
Konsortium Lebuhraya Utara-Timur (KL) Sdn Bhd (Kesturi) RM2.3 billion Sukuk Musharakah (Senior Sukuk) and RM180 million Redeemable Secured Junior Bonds	MARC	13-Oct-21	AA-IS/Stable A-/Stable	AA-IS/Negative A-/Negative	↓
Segi Astana Sdn Bhd RM415.0 million ASEAN Green Medium-Term Notes (MTN) facility	MARC	15-Oct-21	AA-/Negative	A+/Negative	↓
Northport (Malaysia) Bhd Islamic Commercial Papers (ICP) Programme and Islamic Medium-Term Notes (IMTN) Programme	MARC	24-Nov-21	AA-IS/Stable MARC1-IS/Stable	AA-IS/Positive MARC1-IS/Positive	↑
Senai-Desaru Expressway Berhad RM1.89 billion Islamic Medium-Term Notes Programme (Restructured Sukuk)	MARC	09-Dec-21	BBB-IS/Negative	BB-IS/Negative	↓
Serba Dinamik Holdings Berhad Islamic Medium-Term Notes Programme (IMTN)	MARC	10-Dec-21	BB-IS/Negative	C-IS	↓
Fortune Premiere Sdn Bhd RM3.0 billion Multi-Currency Islamic Medium-Term Notes Programme	MARC	16-Dec-21	AA-IS/Stable	AA-IS/Negative	↓

Source: RAM; MARC; HLBB Global Markets research

Based on the table above, the majority of credit rating changes in 2021 **involved a mixture of upgrades, downgrades and also rating outlook**. Among the notable ones, high profile banking group AmBank together with its subsidiaries i.e. AmBank, AmBank Islamic and Aminvestment Bank saw its corporate credit rating notch one (1) rung lower from AA2/Stable to AA3/Stable due to the heavy penalty amounting to RM2.83b fine pertaining to 1MDB. Also in the limelight were highway toll-operators Senai-Desaru Expressway Bhd's RM1.89b IMTN and MEX II's RM1.3b Sukuk Murabahah program and RM150m Junior bonds downgraded from BB-IS to C-IS and B to C respectively during the year. On the positive side we note improved credit metrics for KIMANIS Power Sdn BH's RM650m Sukuk programme and Quantum Solar Park (Semenanjung) Sdn Bhd's RM1.0b Green SRI Sukuk which ended one (1) notch higher to AA IS/Stable and AA- IS/Stable. Overall, the credit quality/metrics of the rated portfolios interestingly saw almost equal number of bond issuances with both improved credit metrics and also deterioration in **Outlook**; primarily as some corporations overcame the economic downturn due to the COVID-19 pandemic faster compared to some which succumbed to the various movement restrictions during the year. However, we foresee an improvement in the credit metrics for highway operators, logistics, utilities, and construction and sectors on account recovery in global economy this year.

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