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Corporate bond issuances rose 27.3% in the first three quarters of 2017

Malaysia's corporate bond issuances surged by RM17.9 billion or 27.3% to RM83.4 billion in the first three quarters of 2017, compared to RM65.5 billion in the same period last year, and was the highest since 2012. In the third quarter alone, gross issuance totalled RM28.6 billion, an increase of RM1.4 billion or 5.3% from the second quarter. The prospects of a stronger ringgit and more hawkish central banks in advanced economies had spurred corporate bond issuers to increase issuances before financing conditions become tighter. We expect total gross issuance of corporate bonds to be between RM90.0 billion and RM100.0 billion this year.

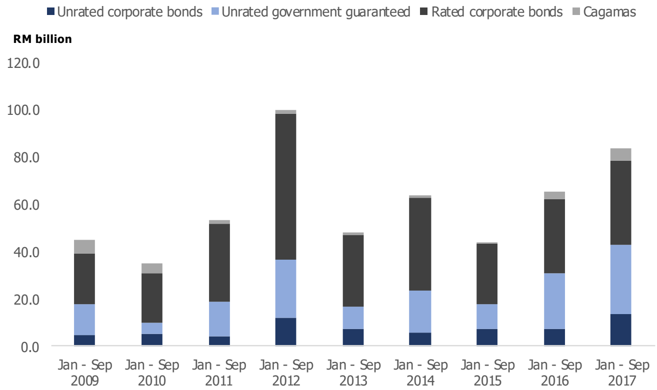
Rise in unrated bond issuances
The significant rise in issuances in the first three quarters of 2017 was led by, among others, the unrated bond segment, namely government-guaranteed (GG) and unrated corporate bonds. Total issuance of unrated bonds surged to RM42.5 billion compared to just RM30.6 billion in the same period last year. In the first three quarters of 2017, total unrated GG issues amounted to RM29.1 billion, the highest gross issuance recorded. The growth in the gross issuance of unrated GG bonds continued to be supported by issuers in the financial services sector to finance ongoing large infrastructure projects. Among the top issuers were DanaInfra Nasional Bhd, Lembaga Pembiayaan Perumahan Sektor Awan (LPPSA) and GovCo Holdings Bhd. Meanwhile, the trend of issuing unrated corporate bonds is underpinned by the removal of mandatory credit ratings for bonds which allows issuers to save on issuance costs. Year-to-date, the unrated corporate bonds segment was dominated by SapuraKencana TMC Sdn Bhd, ValueCap Sdn Bhd and Boustead Holdings Bhd with issuance amounts of RM3.3 billion, RM1.0 billion and RM1.0 billion respectively.

Modest growth in rated corporate bonds
Compared to unrated bonds, growth in gross issuance in the rated corporate bonds segment was modest. Year-to-date, gross issuance had risen by RM4.3 billion to RM36.0 billion. Support for issuances within this segment came in the form of a lower yield environment amid higher interest rate expectations, recovery of global crude oil prices, a firmer ringgit and a more positive outlook on the Malaysian economy. Activities in the rated corporate bonds segment were led by CIMB Bank Bhd, GENM Capital Bhd and YTL Power International Bhd with issuance amounts of RM3.0 billion, RM2.6 billion and RM2.5 billion respectively. Combined with Cagamas, the total issuance size of rated bonds from corporate issuers came in at RM40.9 billion for the first three quarters, compared to RM34.9 billion in the same period last year.

Sukuk gaining ground
The composition of Islamic corporate bonds has been hovering at around 70% and above of the total gross issuance for the past five years. In the first three quarters of 2017, its gross issuance rose to RM58.1 billion, the highest since 2012. Ongoing large issuances from the unrated GG segment and corporate bond issuers from the mining & petroleum, and infrastructure & utilities sectors were the main growth drivers of Islamic corporate bond issuances.

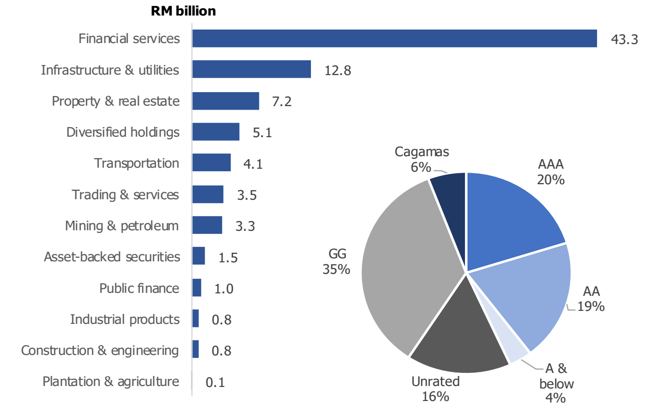
Outlook
Moving forward, we expect the gross issuance of corporate bonds to reach the highest level since 2012. However, we expect the trend to normalise going into 2018 on account of expected further monetary policy normalisation in advanced economies. At the macro level, Malaysian GDP growth is expected to normalise to its trend growth of around 5% in line with the moderation in commodity prices in 2018. As for Islamic bonds, we expect its proportion in the Malaysian market to rise amid growing investor interest following the inclusion of Sukuk into widely watched bond indices, as well as accommodative government regulations.

Exhibit 1: Corporate bond issuances by segment in the first three quarters since 2009



Source: BPAM, MARC Fixed Income Research

Exhibit 2: Corporate bond issuances by sector in the first three quarters of 2017



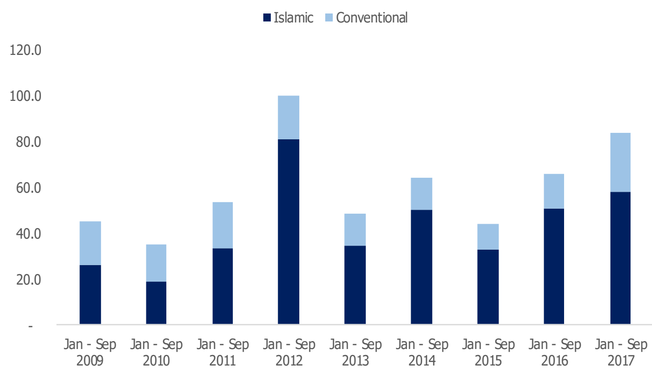
Source: BPAM, MARC Fixed Income Research

Exhibit 3: Top corporate bond issuers for the first three quarters of 2017 excl. Cagamas (in RM billion)

Unrated Corporate Bonds		Unrated Government Guaranteed		Rated Corporate Bonds	
SapuraKencana TMC Sdn Bhd	RM 3.3	DanaInfra Nasional Bhd	RM 7.2	CIMB Bank Bhd	RM 3.0
Valuecap Sdn Bhd	RM 1.0	LPPSA	RM 6.8	GENM Capital Bhd	RM 2.6
Boustead Holdings Bhd	RM 1.0	GovCo Holdings Bhd	RM 4.2	YTL Power International Bhd	RM 2.5
Rukun Juang Sdn Bhd	RM 1.0	PTPTN	RM 4.0	Tenaga Nasional Bhd	RM 2.0
Merdeka Kapital Bhd	RM 0.9	Prasarana Malaysia Bhd	RM 4.0	Public Bank Bhd	RM 2.0

Source: BPAM, MARC Fixed Income Research

Exhibit 4: Composition of gross issuance of conventional & Islamic corporate bonds in the first three quarters since 2009



Source: Bloomberg, MARC Fixed Income Research

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