

06 Oct 2017

Tan Jack Fong
 Analyst
 Fixed Income Research
jackfong@marc.com.my

Lee Si Xin
 Analyst
 Fixed Income Research
sixin@marc.com.my

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

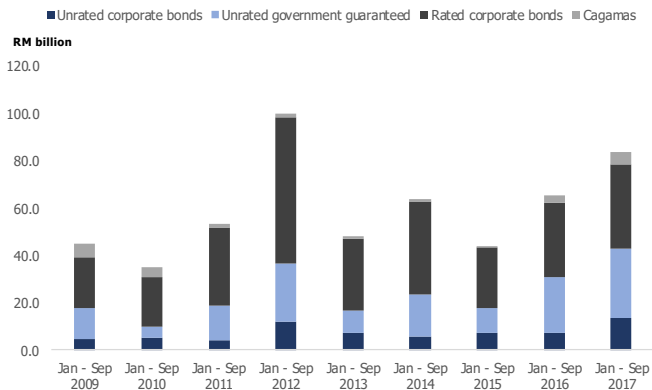
The composition of Islamic corporate bonds has been hovering at around 70% and above of the total gross issuance for the past five years. In the first three quarters of 2017, its gross issuance rose to RM58.1 billion, the highest since 2012. Ongoing large issuances from the unrated GG segment and corporate 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.

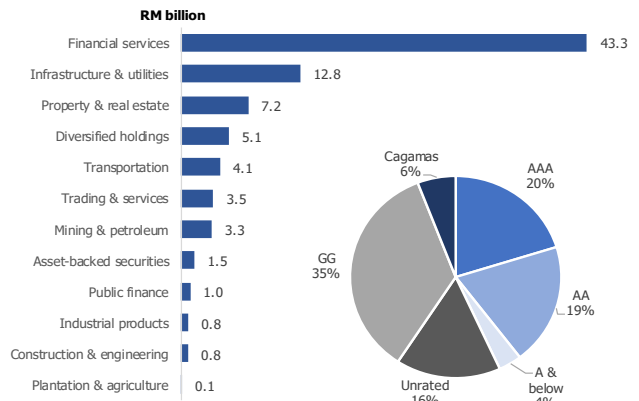
Please read disclaimer on the last page of this report

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



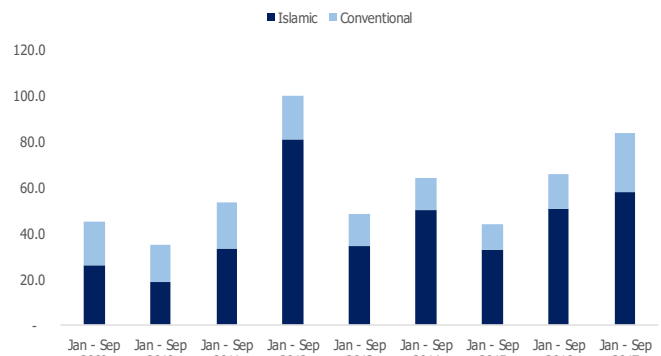
Source: BPAM, MARC Fixed Income Research

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

THIS PAGE IS INTENTIONALLY LEFT BLANK

----- Disclaimer -----

Copyright © 2017 Malaysian Rating Corporation Berhad and any of its subsidiaries or affiliates ("MARC") have exclusive proprietary rights in the data or information provided herein. This document is the property of MARC and is protected by Malaysian and international copyright laws and conventions. The data and information shall only be used for intended purposes and not for any improper or unauthorised purpose. All information contained herein shall not be copied or otherwise reproduced, repackaged, transmitted, transferred, disseminated, redistributed or resold for any purpose, in whole or in part, in any form or manner, or by any means or person without MARC's prior written consent.

Any opinion, analysis, observation, commentary and/or statement made by MARC are solely statements of opinion based on information obtained from issuers and/or other sources which MARC believes to be reliable and therefore, shall not be taken as a statement of fact under any circumstance. MARC does not and is in no position to independently audit or verify the truth and accuracy of the information contained in the document and shall not be responsible for any error or omission or for the loss or damage caused by, resulting from or relating to the use of such information. NEITHER MARC NOR ITS AFFILIATES, SUBSIDIARIES AND EMPLOYEES, GIVE ANY EXPRESS OR IMPLIED WARRANTY, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTY AS TO THE ACCURACY, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR USE OF ANY SUCH INFORMATION.

This document is not a recommendation to buy, sell or hold any security and/or investment. Any user of this document should not rely solely on the credit rating and analysis contained in this document to make an investment decision in as much as it does not address non-credit risks, the adequacy of market price, suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security concerned.

MARC and its affiliates, subsidiaries and employees shall not be liable for any damage or loss arising from the use of and/or reliance on documents produced by MARC or any information contained therein. Anyone using and/or relying on MARC's document and information contained therein solely assumes the risk in making use of and/or relying on such document and all information contained therein and acknowledges that this disclaimer has been read and understood, and agrees to be bound by it.

© 2017 Malaysian Rating Corporation Berhad

Published and Printed by:

MALAYSIAN RATING CORPORATION BERHAD (Company No.: 364803-V)
19-07, 19th Floor, Q Sentral, 2A Jalan Stesen Sentral 2, Kuala Lumpur Sentral, 50470 KUALA LUMPUR
Tel.: +603 2717 2900 Fax: +603 2717 2910 E-mail: marc@marc.com.my
Homepage: www.marc.com.my