

19 March 2024

Global Economics & Market Strategy

MYR Bond: Market Perform on Aeon Credit Service

- ◆ **MYR Bond: We are Market Perform on Aeon Credit Service (M) Bhd (AA3/A1, Stable) Senior and Subordinated sukuk.** ACSB's sukuk yields are tight against similarly rated peers in the financial sector, signifying investors' confidence in the company, its subordinated 3/30 sukuk trades at significantly low premium against its A1 peers, indicating a rich valuation. Nevertheless, the leading consumer financing company boasts industry leading net interest margins in relation to its exposure its higher risk lending profile. Expectations of extraordinary support from its ultimate parent, AEON Co., Ltd, also underpins the financial flexibility attributed to ACSB. In its recent third quarter financial quarter ended 11/23, gearing improved to 3.3x from 3.4x in FY2/22, while NPL saw uptick to 2.73% from 1.75% from two years ago in 11/23.
- ◆ **US Treasuries (UST) yields rose across the curve amid central bank heavy meeting week.** The 2YR/10YR/30YR UST yields rose by +0.4bps/+1.8bps/+1.9bps, respectively.
- ◆ **Malaysia Bond Wrap: Malaysian Corporate Bonds** traded with a volume of MYR609mn on the Friday, lower than MYR1,102mn the day before. The top traded bond was **PRASARANA 4.75% 2/31** with MYR90mn traded. **Government Bond Index** increased 0.03% on Friday with a traded volume of MYR2,130mn, lower compared to MYR3,349mn the previous trading day. The top traded bond was **MGS 3.478% 6/24** with MYR359mn traded.
- ◆ **Key Events – Tuesday:** Japan policy rate decision, US policy rate decision and jobless claims | **Wednesday:** China loan prime rate, Indonesia policy rate decision, UK Feb CPI | **Thursday:** UK policy rate | **Friday:** Japan Jan CPI, Malaysia foreign reserves

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Fixed Income Return Snapshot

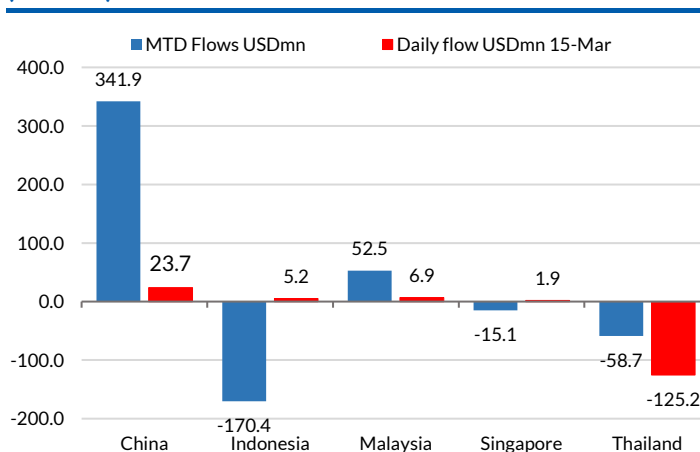
	1D% Δ	7D% Δ	1M% Δ
MGS 10YR	0.05	-0.40	-0.16
MYR Govt Bond	0.03	-0.08	0.32
US Treasuries	-0.08	-1.25	0.12
Global Bond	-0.04	-1.14	0.71
AxJ IG Bond	-0.04	-0.75	0.39

10-Year Yields (%)

	18-Mar	1D bps Δ	7D bps Δ
China	2.293	-2.7	-1.2
Indonesia	6.637	0.0	2.3
Japan	0.762	-1.6	0.8
Malaysia	3.868	0.2	4.5
Singapore	3.105	0.7	13.7
Thailand	2.534	-0.1	3.0
US	4.325	1.8	22.6
MYR AAA	4.066	0.0	-2.1
MYR AA	4.271	0.0	-3.7
MYR A	5.830	0.0	-2.2

Source: Bloomberg, RHB Economics & Market Strategy.

Figure 1: MTD/Daily Fund Flows to Regional Bonds (USDmn)



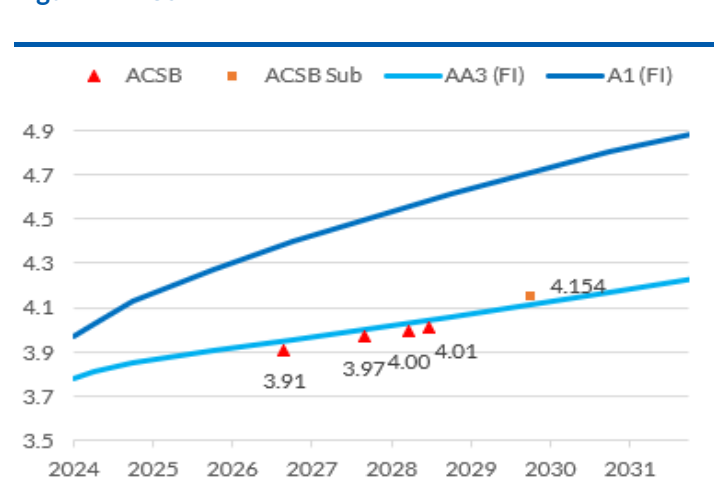
Source: EPFR, RHB Economics & Market Strategy.

The data tracks a universe of local and foreign fund managers.

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Figure 2: ACSB



Source: BPAM, RHB Economics & Market Strategy.

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Corporate Bond Idea

- ◆ **MYR Bond: (19/3/24) We are Market Perform on Aeon Credit Service (M) Bhd (AA3/A1, Stable) Senior and Subordinated sukuk.** ACSB's sukuk yields are tight against similarly rated peers in the financial sector, signifying investors' confidence in the lending company. The leading consumer financier boasts industry leading net interest margins in relation to its exposure its higher risk lending profile. Expectations of extraordinary support from its ultimate parent, AEON Co., Ltd, also underpins the financial flexibility attributed to ACSB.
- ◆ **Its recent third financial quarter ended 11/23 saw mixed results with revenue higher by 3.1% QoQ to MYR486mn while profit before tax fell by 30% QoQ to MYR111.4mn.** Impairment losses crept higher by 51.6% QoQ to MYR182.8mn. Gearing improved to 3.3x from 3.4x in FYE2/22, while NPL saw uptick to 2.73% from 1.75% from a year ago in 11/22.

AEON CREDIT SERVICE M BHD

MYRmn (FYE Feb)	FY20	FY21	FY22	FY23	9M23
Revenue	1,745	1,707	1,706	1,838	1,558
EBITDA	1,041	1,041	1,189	1,179	841
Interest Expense	325	358	331	316	177
Net Income	274	224	355	408	300
CFO	-911	1,158	1,003	-98	-537
FCF	-979	1,110	949	-116	-560
Capex	-68	-48	-54	-17	-23
Cash in Bank	133	440	509	391	291
Total Debt	8,269	7,717	7,436	8,045	9,006
Total Asset	10,435	10,231	10,141	11,117	12,233
Total Equity	1,757	1,893	2,201	2,525	2,714
Net Margin	16%	13%	21%	22%	19%
ROE*	16%	12%	16%	16%	15%
Debt/Equity	4.71	4.08	3.38	3.19	3.32
Net Debt/Equity	4.63	3.84	3.15	3.03	3.21
CFO/Interest	-2.8	3.2	3.0	-0.3	-3.0
EBITDA/Interest	3.2	2.9	3.6	3.7	4.8
CFO/Debt Service***	-0.8	1.0	0.9	-0.1	-0.6
EBITDA/Debt Service***	0.9	0.9	1.1	1.1	1.0

* Non-annual income statement and cash flow are annualized

** Debt service is interest expense plus 10% of total debt

Source: Bloomberg, RHB Economics and Market Strategy

- ◆ **MYR Bond: (15/3/24) We maintain our Outperform call on Golden Agri Resources 4/27 (GGR) (AA2) issued under Golden Assets International Finance Ltd).** We think yields are attractive given the company's status as the largest plantation company in Indonesia. GGR is Based in Singapore, it operates mainly in Indonesia. The company is involved in the cultivation and harvesting of palm oil, as well as in refining, processing, and marketing palm oil products.

In FY23, net profit normalised 73% YoY to USD198mn from a bumper year in FY22, while core net profit fell 72% YoY to USD284.3mn. This was mainly driven by the higher effective tax rates of 31% in 2H23 and higher unit costs that rose 0.6% YoY to USD325/tonne. GGR guided that unit costs to fall 3-5% YoY to around USD310/tonne in 2024. Its fresh fruit bunches (FFB), crude palm oil (CPO) and palm kernel (PK) production all fell by 4.5%, 4.1% and 3.6% YoY, respectively. Meanwhile, its FFB and CPO yield per hectare fell 3.0% and 1.9% YoY. Debt-to-equity ratio remains healthy at 0.59x, while cash from operation interest coverage is at 2.5x.

- ◆ **MYR Bond: (12/3/24) We are Market perform on IJM Land's (IJML) perpetual sukuk (A2), although yields are below-benchmark, the credit quality is underpinned by a subordinated guarantee by IJM Corporation (IJMC, AA3).** IJMC extends an unconditional and irrevocable subordinated guarantee to IJML. IJML was previously listed on the Main Market of Bursa Malaysia before becoming a wholly owned subsidiary property arm of IJMC through the privatisation which was completed in Mar 2015. Constructions activities are taken by IJMC, while its property developments are mostly under IJML.

IJMC 9MFY24, net profit rose 118% YoY, while core net profit increased 34% YoY. This was mainly due to better than expected property division that saw its profit before tax (PBT) rose 97% YoY as its work in progress for ongoing projects with higher profit margins were good. PBT of its industrial segment increased 17% YoY due to higher deliveries of piles and ready-mixed concrete. Construction arm PBT fell 27% YoY as its new projects have yet to pick up pace. Meanwhile, its orderbook rose to 43% YoY to MYR6.6bn. Unbilled sales dropped 26% YoY to MYR2.5bn. Credit metrics remains healthy with debt-to-equity ratio at 0.51x, while CFO interest coverage ratio is at 3.7x.

- ◆ The complete list of our bond coverage can be found [here](#).

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MGS/GII Idea

- ◆ Our expectations of an unchanged OPR of 3.00% in 2024 means the 10YR MGS should trade at around 3.70% to 3.85% this year.
- ◆ Read our 2024 Outlook here: [Light at The End of the Tunnel – A Better 2024 GDP Backdrop](#).

MYR Yields vs RHB Year-end Forecast

	Last Yield %	Forecast		Yield Changes (bps)				
		2024F	Pickup	1D	1W	1M	3M	YTD
MGS 3YR	3.461	3.30	16	0.6	1.7	6.4	-1.5	-0.9
MGS 5YR	3.583	3.50	8	0.7	3.3	3.9	2.0	1.2
MGS 7YR	3.766	3.60	17	0.8	3.3	-0.8	3.7	4.4
MGS 10YR	3.868	3.75	12	0.2	4.5	3.6	11.3	13.7
MGS 15YR	3.986	3.90	9	1.0	3.2	-1.1	-0.5	-0.5
MGS 20YR	4.068	4.05	2	0.1	2.1	-0.9	-3.1	-3.4
MGS 30YR	4.184	4.13	5	0.2	0.9	-3.2	-5.7	-6.3
AAA 3YR	3.801	3.90	-10	0.0	-0.6	-1.3	-9.0	-5.0
AAA 10YR	4.066	4.40	-33	0.0	-2.1	-4.5	-16.4	-11.5
AAA 15YR	4.179	4.55	-37	0.0	-3.3	-5.9	-22.7	-15.6
AA 3YR	3.996	4.10	-10	0.0	-1.1	-0.5	-6.7	-4.4
AA 10YR	4.271	4.60	-33	0.0	-3.7	-3.7	-17.3	-14.2
AA 15YR	4.472	4.75	-28	0.0	-4.0	-4.4	-17.6	-14.1
A 3YR	5.049	5.05	0	0.0	-3.8	-8.0	-20.2	-18.9
A 10YR	5.830	6.26	-43	0.0	-2.2	-8.1	-21.4	-23.0
A 15YR	6.271	6.78	-51	0.0	-2.9	-10.7	-23.8	-23.2

Source: BNM, Bloomberg, RHB Economics & Market Strategy

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Daily Top 10 Trade (Previous Trading Day)

Government Bonds

Name	Traded Amount (MYR 'm)	Last Traded Yield	Previous Traded Yield	Δ Bps
MGS 3/2019 3.478% 14.06.2024	359	3.153	3.3	-15
GII MURABAHAAH 3/2015 4.245% 30.09.2030	241	3.757	3.766	-1
MGS 1/2014 4.181% 15.07.2024	232	3.031	3.056	-2
MGS 2/2019 3.885% 15.08.2029	197	3.638	3.648	-1
MGS 3/2016 3.900% 30.11.2026	99	3.410	3.402	1
MGS 3/2018 4.642% 07.11.2033	87	3.861	3.868	-1
MGS 1/2019 3.906% 15.07.2026	84	3.364	3.399	-4
GII MURABAHAAH 5/2013 4.582% 30.08.2033	70	3.868	3.862	1
MGS 4/2019 3.828% 05.07.2034	61	3.853	3.872	-2
GII MURABAHAAH 1/2019 4.130% 09.07.2029	61	3.638	3.649	-1

Quasi-Government Bonds

Name	Traded Amount (MYR 'm)	Last Traded Yield	Previous Traded Yield	Δ Bps
PRASARANA IMTN 4.75% 26.02.2031 - Series 9	90	3.823	3.799	2
TPSB IMTN 4.360% 19.11.2032 - Tranche No 4	80	3.951	3.928	2
PTPTN IMTN 2.900% 25.10.2030	30	3.787	3.930	-14
DANAINFRA IMTN 3.180% 24.02.2031 - Tranche 18	20	3.823	3.967	-14
DANAINFRA IMTN 4.480% 20.10.2031 - Tranche No 51	20	3.844	3.864	-2
PASB IMTN 4.140% 04.06.2038 - Issue No. 40	20	3.975	4.030	-6
PTPTN IMTN 4.580% 28.02.2034	20	3.949	3.912	4
DANAINFRA IMTN 4.820% 01.04.2048 - Tranche No 90	10	4.182	4.189	-1
DANAINFRA IMTN 5.170% 26.11.2048 - Tranche No 84	10	4.188	4.179	1
DANAINFRA IMTN 5.240% 22.11.2047 - Tranche No 132	10	4.178	4.270	-9

Corporate Bonds

Name	Traded Amount (MYR 'm)	Last Traded Yield	Previous Traded Yield	Δ Bps
Infracap Resources Sukuk 3.69% 15.04.2026 (T1 S3)	50	3.684	3.924	-24
HLFG Perpetual Capital Securities (Tranche 2)	34	4.766	22.114	-1735
TOYOTA CAP MTN 1827D 30.1.2025 - MTN 5	30	3.778	3.894	-12
Infracap Resources Sukuk 4.12% 14.04.2028 (T1 S4)	20	3.788	3.917	-13
JOHORCORP IMTN 4.540% 06.07.2033	20	3.979	4.028	-5
OSK RATED IMTN 4.490% 13.09.2030 (Series 004)	20	3.997	3.999	0
PSEP IMTN 4.540% 22.02.2030 (Tr3 Sr2)	20	3.864	3.895	-3
SDPROPERTY IMTN 3.420% 03.12.2027	20	3.878	3.897	-2
UEMS IMTN 5.250% 14.04.2025	15	4.000	4.240	-24
JOHORCORP IMTN 4.800% 06.07.2038	10	4.109	4.114	0

Source: BPAM, RHB Economic & Market Strategy

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RHB Credit Strategy Rating Definitions

Recommendation	Time Horizon	Definition
Outperform	6 to 12 months	A corporate bond's expected relative performance versus a defined reference (i.e. AA3 peers or a corporate bond index)
Market perform	6 to 12 months	
Underperform	6 to 12 months	
Speculative	Indefinitely	The bond's repayment ability is highly uncertain
Not Rated (NR)	Indefinitely	Not under coverage

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