

24 April 2024

Global Economics & Market Strategy

Kesturi: Brownfield Highway with 24 to 35bps Pickup

- ◆ We are Outperform Konsortium Lebuhraya Utara-Timur (KL) Sdn Bhd (Kesturi) senior sukuk given the mature brownfield highway concession and the 24bps to 25bps pickup over AA3 benchmarks. The inter-city highway concession operator saw strong traffic growth in FY6/23, recording an average annual daily traffic (AADT) of 223.1k vehicles, a 33.5% YoY improvement and 15.6% higher than pre-pandemic levels in FY6/19. In 1H FY24, AADT further improved to 235.6k, which is 6.1% above MARC Ratings base case. The growing number of vehicles (record vehicle sales in 2023) and increased traffic congestion during peak hours have benefitted toll ways linking densely populated and well-established areas in the Klang Valley and Kuala Lumpur.
- ◆ Singapore: Softer Inflation May Not Persist In 2Q24. We keep Singapore's headline and core inflation forecasts at 3.5% and 2.8% in 2024, with the balance of risks tilted to the upside. Headline inflation decelerated to 2.7% YoY in March 2024, from prior 3.4% in February, against our forecast of 3.3%.
- ◆ US Treasuries (UST): The UST curve twisted as the front-end yield dipped lower while the long-end trended higher after the 2YR auction. The first day of the three auctions saw decent coverage of 2.66x with USD69bn allocated. The 2YR/10YR/30YR UST yields moved by -3.9bps/-0.9bps/+1.4bps, respectively.
- ◆ Malaysia Bond: Malaysian Corporate Bonds volume traded was MYR946mn, compared to the previous day of MYR862mn. The top traded bond was **Danainfra 4.34% 10/36** with MYR160mn traded. **Government Bond Index** returned 0.03% with a trading volume of MYR3,443mn, higher compared to MYR1,081mn previously. The top traded bond was **MGS 3.478% 6/24** with MYR1,280mn traded.
- ◆ **Key Events – Wednesday:** Indonesia policy rate | **Thursday:** Malaysia Mar CPI, US 1QA GDP and jobless claims | **Friday:** Japan policy rate and Apr CPI, Singapore Mar IP, US Mar PCE

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Fixed Income Return Snapshot

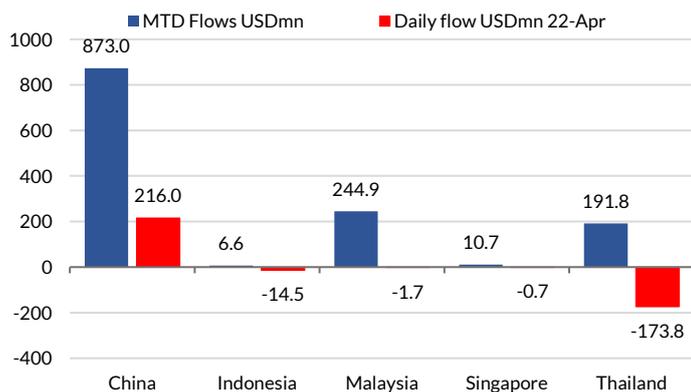
	1D Δ (%)	7D Δ (%)	1M Δ (%)
MGS 10YR	0.05	-0.03	-0.85
MYR Govt Bond	0.03	-0.12	-0.28
US Treasuries	0.10	0.41	-1.77
Global Bond	0.23	0.53	-1.88
AxJ IG Bond	0.16	0.33	-1.16

10-Year Yields (%)

	23-Apr	1D bps Δ	7D bps Δ
China	2.226	-1.8	-4.6
Indonesia	7.045	1.8	17.5
Japan	0.884	0.0	1.9
Malaysia	3.960	0.1	2.2
Singapore	3.387	-1.4	0.9
Thailand	2.748	0.0	2.4
US	4.601	-0.9	-6.7
MYR AAA	4.143	0.0	3.0
MYR AA	4.334	0.0	2.1
MYR A	5.836	0.0	1.4

Source: Bloomberg, RHB Economics & Market Strategy.

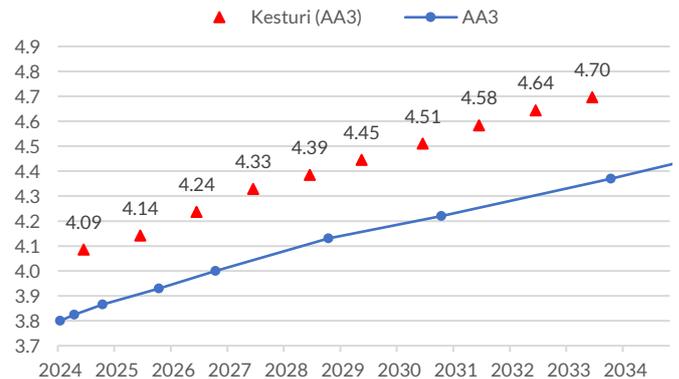
Figure 1: MTD/Daily Fund Flows to Regional Bonds (USDmn)



Source: EPFR, RHB Economics & Market Strategy.

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

Figure 2: Kesturi (AA-) offers 24bps to 35bps pickup above the AA3 benchmark



Source: BPAM, RHB Economics & Market Strategy.

See important disclosures at the end of this report

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Corporate Bond Idea

- ◆ **We are Outperform Konsortium Lebuhraya Utara-Timur (KL) Sdn Bhd (Kesturi) senior sukuk given the mature brownfield concession and the 24bps to 25bps pickup over AA3 benchmarks.** The inter-city highway concession operator saw strong traffic growth in FY 6/23, recording an average annual daily traffic (AADT) of 223.1k vehicles, a 33.5% YoY improvement and 15.6% higher than pre-pandemic levels in FY 6/19. In 1H FY24, AADT further improved to 235.6k, which is 6.1% above MARC Ratings base case. The growing number of vehicles (record vehicle sales in 2023) and increased traffic congestion during peak hours have benefitted toll ways linking densely populated and well-established areas in the Klang valley and Kuala Lumpur.
- ◆ **The remaining 35 years of its concession agreement ending in August 2059 should ensure even the longest maturing sukuk at 2033 have sufficient repayment capacity.** The MYR1.89bn of outstanding sukuk offers relatively better supply and liquidity to investors. The highway's coverage metrics are expected to perform strong even under stressed scenario which assumes no toll rate increases and a one-year delay in compensation payment from the government, under these scenarios, the minimum finance service coverage ratio is projected at 1.79x, with an average of 3.80x from FY24 to FY34, according to MARC Ratings.

Financial Highlights

	2019	2020	2021	2022	2023
Toll revenue	176	154	155	190	281
Government compensation	0	-	21	36	79
Operating profit	138	116	117	158	249
Profit before tax	-10	-36	-27	12	106
Operating margin	78	75	75	84	89
Profit Before Tax	-10	-36	-27	12	106
Net CFO	155	133	134	166	258
CFO interest coverage	1	1	1	2	3
Cash Balance	201	180	151	133	171
Total Debt	2298	2289	2264	2213	2123
Total Equity	198	165	96	99	175
D/E ratio (x)	12	14	24	22	12

Source: Company, MARC, RHB Economics & Market Research

- ◆ **MYR Bond: (18/4/24) We are Outperform Malaysia Airports Holdings Bhd (MAHB, AAA) Perpetual 5.75% 12/24 as the YTM of 4.48% is attractive for a 8 months tenure, a good yield booster money market funds.** Meanwhile the senior sukuk are Market perform as we deem yields are at fair value. MAHB is the operator of 39 airports in Malaysia, its shares are closely held by institutions, pension funds and GLCs.

Malaysian Aviation Commission expects passenger traffic to recover to pre-pandemic levels as they project 93.9-107.1m passengers in 2024. So far, February YTD traffic grew significantly by 21.4% to 15.3m from 12.6m a year ago. Consensus expects revenue to grow further by 26% to MYR6.2bn by FY25, while adjusted net income to grow by 137% to MYR920mn. For FY23, revenue improved by 57% YoY to MYR4.9bn from MYR3.1bn in FY22, contributed by growth across all segments particularly aeronautical and non-aeronautical, while net income grew 274% to MYR486mn from MYR130mn. As a result, FY23 credit quality showed YoY improvements across all metrics with the net D/E ratio falling from 0.41 to 0.30, and CFO/Interest expense strengthening from 4.0 to 7.4.

- ◆ **USD Bond: (17/4/24) We are keeping our Outperform call on Resorts World Las Vegas LLC (RWLV, BB+, S&P) given the still-attractive c. 74bps spread against the BB+ benchmark. Meanwhile, we downgrade Genting New York (GENNY, BB+, S&P) to Market perform, as we think valuations are fair post rally.** Since our Overweight call on RWLV and GENNY in Aug-2023 ([Read here](#)), both names benefitted from the spread tightening due to the US HY rally as well as idiosyncratic factors. RWLV generated total returns of between 12.6% to 14.5%, while GENNY recorded returns of between 8.5% to 9.1%, both significantly outperformed the Bloomberg USD HY index return of 6.61%.

We keep the outperform call on RWLV despite the halving of the spread against BB+ curve from c.140bps to c.74bps, in addition, the healthy pickup should be able to cushion any near-term rise in UST yields. In FY23, Genting Bhd's US and Bahamas operation (which includes RWLV) reported jump in revenue and earnings, recording a higher 16% YoY revenue to MYR5.97bn and higher 46% YoY in adjusted EBITDA to MYR1.4bn.

- ◆ 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 with a sticky US inflations means the 10YR MGS should trade at a slightly higher bound above the recent averages at around 3.75% to 3.90% this year.
- ◆ Read our 2024 2Q Outlook here: [RHB Global Risk Sentiment Index - We Remain Optimistic on Global Growth](#).

MYR Yields vs RHB Year-end Forecast

	Last Yield %	Forecast		Yield Changes (bps)				
		2024F	Pickup	1D	1W	1M	3M	YTD
MGS 3YR	3.596	3.30	30	0.3	2.5	13.2	19.0	12.6
MGS 5YR	3.756	3.50	26	0.2	1.5	18.8	19.5	18.5
MGS 7YR	3.884	3.60	28	-0.5	1.7	12.9	14.6	16.2
MGS 10YR	3.960	3.80	16	0.1	2.2	10.7	15.0	22.9
MGS 15YR	4.071	3.90	17	0.3	2.6	9.3	7.9	8.0
MGS 20YR	4.173	4.05	12	-0.1	2.9	10.6	7.4	7.1
MGS 30YR	4.249	4.13	12	0.3	2.8	5.9	2.2	0.2
AAA 3YR	3.846	3.90	-5	0.0	3.4	4.8	0.9	-0.5
AAA 10YR	4.143	4.40	-26	0.0	3.0	7.4	-0.2	-3.8
AAA 15YR	4.250	4.55	-30	0.0	3.1	7.8	-4.1	-8.5
AA 3YR	4.014	4.10	-9	0.0	2.9	5.3	-2.3	-2.6
AA 10YR	4.334	4.60	-27	0.0	2.1	5.6	-2.9	-7.9
AA 15YR	4.486	4.75	-26	0.0	0.6	4.4	-9.4	-12.7
A 3YR	5.057	5.05	1	0.0	1.5	4.1	-14.6	-18.1
A 10YR	5.836	6.26	-42	0.0	1.4	4.5	-11.6	-22.4
A 15YR	6.224	6.78	-56	0.0	1.0	2.4	-20.2	-27.9

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
GII MURABAHAH 2/2024 3.804% 08.10.2031	160	3.854	3.866	-1
GII MURABAHAH 4/2015 3.990% 15.10.2025	150	3.436	3.416	2
MGS 3/2019 3.478% 14.06.2024	75	3.293	3.247	5
MGS 2/2020 2.632% 15.04.2031	62	3.890	3.888	0
MGS 3/2018 4.642% 07.11.2033	62	3.963	3.963	0
MGS 2/2019 3.885% 15.08.2029	56	3.758	3.731	3
MGS 3/2016 3.900% 30.11.2026	52	3.526	3.522	0
MGS 3/2011 4.392% 15.04.2026	41	3.520	3.502	2
MGS 1/2020 4.065% 15.06.2050	33	4.254	4.256	0
MGS 1/2019 3.906% 15.07.2026	32	3.528	3.528	0

Quasi-Government Bonds

Name	Traded Amount (MYR 'm)	Last Traded Yield	Previous Traded Yield	Δ Bps
CAGAMAS MTN 3.690% 29.8.2024	100	3.520	-	-
PASB IMTN 4.400% 03.06.2027- Issue No. 41	80	3.834	3.878	-4
PASB IMTN 4.560% 31.01.2030 - Issue No. 43	80	3.957	3.880	8
PLUS BERHAD IMTN 4.891% 11.01.2036 -Sukuk PLUS T27	40	4.040	4.029	1
DANUM IMTN 3.140% 13.05.2027 - Tranche 8	30	3.748	3.760	-1
PLUS BERHAD IMTN 5.750% 12.01.2037 -Sukuk PLUS T15	30	4.070	4.068	0
CAGAMAS IMTN 2.780% 30.09.2024	25	3.498	3.517	-2
PTP IMTN 3.740% 21.04.2026 (Series 3 Tranche 7)	15	3.845	3.825	2
-	-	-	-	-
-	-	-	-	-

Corporate Bonds

Name	Traded Amount (MYR 'm)	Last Traded Yield	Previous Traded Yield	Δ Bps
F&NCAP IMTN 4.680% 05.10.2027	60	3.857	3.846	1
RHBBANK MTN 3652D 28.4.2031	60	3.848	3.827	2
DRB-HICOM IMTN 5.100% 12.12.2029	30	4.796	4.792	0
JOHORCORP IMTN 4.540% 06.07.2033	20	4.038	4.008	3
LDF3 IMTN 5.770% 23.08.2032	20	4.841	4.817	2
LDF3 IMTN 6.040% 23.08.2035	20	4.973	4.975	0
LDF3 IMTN 6.230% 21.08.2037	20	5.102	5.107	0
SARAWAKHIDRO IMTN 4.34% 09.08.2024	20	3.554	3.584	-3
TENAGA IMTN 27.08.2038	20	4.179	4.059	12
TENAGA IMTN 3.250% 10.08.2035	20	4.068	4.060	1

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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