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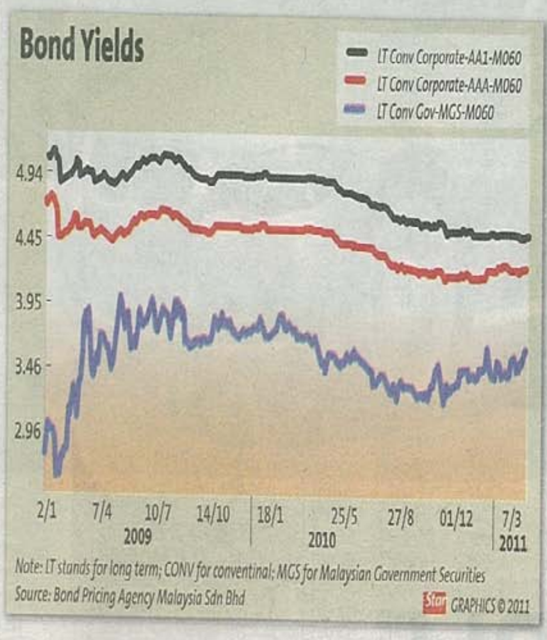

Good time for corporates to issue bonds

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KUALA LUMPUR: Bond yields are bottoming out and it is an opportune time for corporates to raise financing before interest rates climb on inflationary pressure and other factors.

Realising this, corporates are already looking to issue bonds although some are hampered by project timing in the sense that these jobs may not be awarded yet or ready for commencement.

"This is good for projects that are starting and even for general funding purposes," said Datuk Lee Kok Kwan, deputy CEO and treasurer of CIMB Group, adding that liquidity in the system was ample.

Pointing to the fact that Bank Negara was mopping up liquidity through raising of the statutory reserve requirement (SRR) by 1% (thus mopping up RM7 billion), he noted that the first quarter was relatively quiet for bond issuance.

With a lot of maturities, and hence cash, coming onstream, there is also no dearth of investors in the bond market.

"Against the outlook for higher interest rates in relation to global economic recovery and external inflationary pressures, corporates should not lose out on this window of opportunity," said Kwan.

Over the long term, corporate bond yields are on a downtrend while those of Malaysian Government Securities (MGS) have moved up (*see chart*)

"A lot of corporates are making enquiries on bond issuance," said Meor Amri Meor Ayob, CEO of Bond Pricing Agency Malaysia (BPAM). "For those whose projects have not started, the issue is what do they do with the proceeds for which there is

> TURN TO B3

CEO: Time is money

> FROM B1

a holding cost. "Time is money," he said. "Even if rates increase in the second half of the year, bond issuance for projects is still viable against good credit appetite and vibrant economic growth."

Despite three increases in the overnight policy rate last year, bond yields had not moved up very much, as the yields were not dependent on interest rates alone but also on assessment of credit risk and economic conditions.

Foreign holdings of Malaysian bonds according to Bank Negara data had surged from RM50bil in 2009 to RM138bil as of last month (RM5bil to RM37bil for Bank Negara bills; RM199mil to RM1.1bil for treasury bills and RM31bil to RM79bil for MGS).

The Malaysian bond market has grown from RM418bil in 2005 to RM795bil.

The equity market is bigger with a market capitalisation of RM1.3 trillion; however, a BPAM study last year indicated that the risk return from the bond market was eight times while that of the equity market was just two times.