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Fewer corporate bond issues in H1 this year

MARC confident bond issues will pick up in second half

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PETALING JAYA: The issuance of new corporate bonds has been on the decrease in the first half of the year as compared with the same period last year.

According to Bond Pricing Agency Malaysia chief executive officer Meor Amri Meor Ayob, about RM20bil worth of bonds (excluding sovereign bonds) were issued in the first half, some 33% less than the RM30bil issued in the first half of 2009.

Additionally, the RM20bil new corporate bonds were only about 33% of the total new issuance of corporate bonds last year, he said.

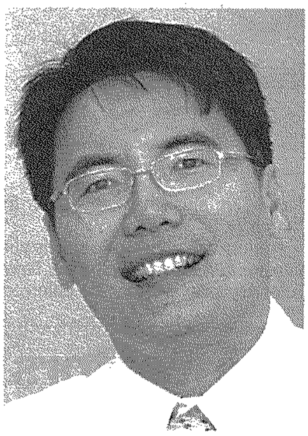
He said only 139 new bonds were issued since the beginning of the year versus 177 in the same period last year.

"New bond issuances peaked in April with issuances amounting to RM9.1bil," he said.

Meor Amri said bond issuances made during the year were mainly by financial institutions and construction companies.

"We can see that the funds raised in the corporate bond market are primarily to inject liquidity into our local financial system.

"This is evident from the fact that AmBank, RHB Bank, Bank Pembangunan Malaysia Bhd and UOB (Malaysia) Bhd (which have all been active in the debt markets thus far) and Cagamas Bhd have raised a total of RM9bil in the first half of the year," he said.



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The bulk of debt capital raised also points in the direction of Khazanah-related companies, civil engineering contractors and highway operators as well as gaming companies.

Malaysian Rating Corp Bhd (MARC) head of fixed income research Wan Murezani Wan Mohamad said primary market activity in the ringgit corporate bond market in the first half continued to lag signs of an improving economy and an apparent return of confidence in the global capital market.

"Activity in the primary market remained muted, partly contributed by the ongoing concern over the credit risk of issuers in the lower investment grade.

"While the risk premiums for the *AAA* and *AA*-rated bonds have narrowed, premiums for the *A* band remain wide and have yet to reflect a rebound in the economic growth," he said, adding that another reason was the substitution of bond market funding with bank loans.

However, MARC is confident that bond issuance will pick up in the second half of the year based on bond deals in the pipeline and upcoming Danajamin-guaranteed bond issues.

MARC, which rated the first Danajamin-wrapped bonds programme in the country of up to RM200mil by Syarikat Kapasi Sdn Bhd recently, expects about RM2bil to RM3bil more of such programmes to be issued in the market this year.

RAM Rating Services Bhd chief executive officer Liza Mohd Noor said: "Companies that have not issued bonds before are planning offers this year. We have also noted renewed interests among foreign issuers to tap the ringgit market."

The latest foreign name to tap the local market is National Bank of Abu Dhabi, which last month raised RM500mil from the domestic bond market.

"There are a few more in the pipeline," Liza said.

She expects the domestic bond market activity to be well supported by improving economic conditions, coupled with the 10th Malaysia Plan with its emphasis on high-value infrastructure projects and sector liberalisation.

Kenanga Investment Bank chief executive officer Lee Kok Khee said the number of new issuances had picked up in the past few months after a long hiatus – from the end of 2009 moving into the first quarter of 2010. "Since March 2010, primary issuances have been on the upward trend.

"Issuers were seen trying to lock in lower rates before the overnight policy rate rises further," he said.

He believes the market will likely see more new issuances in the coming months as issuers seek to lock in their borrowing costs with demand likely to come from the healthcare and education sectors.