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#WhatWeThink

Ringgit Corporate Bonds 2025: Expect modest widening of credit spreads

4 March 2025

We expect that in 2025, credit spreads will see a modest widening but remain tight from a historical perspective. Spreads had already widened since mid-2024, and this corresponded with technical charts suggesting a move away from overvalued levels (from spreads 2 sd. below their five-year mean) (Exhibit 2). Corporate bond yields down from post-Covid highs and recent tight spreads (5Y and 10Y AAA and AA1 spread dipping suggest duration risk premium was undervalued. We further base our outlook for a ***modest*** spread widening in coming quarters on the following factors:

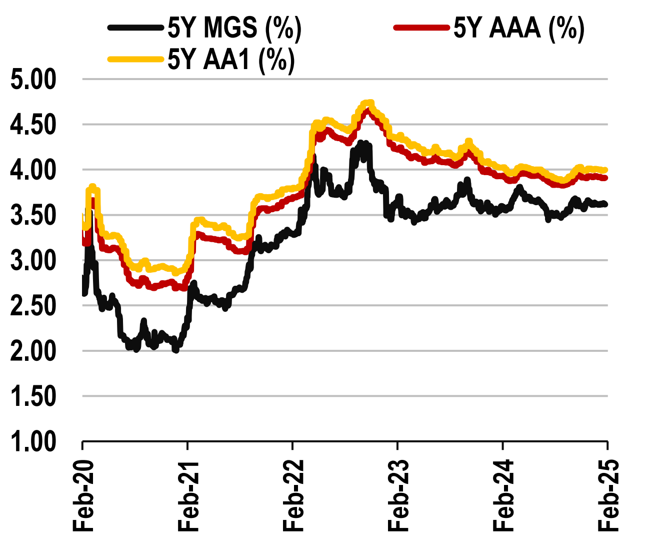
1) Stable credit conditions alongside firm GDP growth,
2) Lagging numbers in gross and net PDS issuances,
3) New Monies/demand on uptrend, and
4) Global rates coming down.

We expect net Private Debt Securities (PDS) issuances to increase modestly in 2025 as GDP grows further and investments/capacity expands. We note that 2024 gross issuance exceeded 2023 but lagged the 2022 number, owing to the lack of large/infra projects requiring debt financing. Our anticipation is for **gross issuance of PDS in 2025 of at least MYR130 billion** (2023: MYR126 billion, 2024: MYR137 billion). A modest number thus limits the upside to credit spread levels. Meanwhile, our calculations indicated maturing PDS in 2025 will amount to MYR76.9 billion. In addition, bonds with call options expected to be exercised in 2025 is estimated to amount at MYR20.9 billion. If we minus off our gross issuance expectation of MYR130 billion with the MYR76.9 billion maturing papers and callable papers of MYR20.9 billion, then our estimate of **net PDS issuance in 2025 will come up to MYR32.2 billion** (2024: MYR25.2 billion). Thus, for 2025, net issuance will show a modest increase y/y, which should support our view of a controlled normalization in spreads this year.

New monies/demand: We calculated an estimate of new monies at local insurance companies and the EPF for 2025 (based on data up to 2023 from BNM monthly publications and EPF annual reports). We think overall new monies available at these long-term real players (not including other large investors such as KWAP, TH, PNB, banks, etc.) look large. If their total new monies come up to c. MYR150 billion as per our estimate, and **if 15-20% are allocated for the PDS market, then total PDS allocation (from just a portion of all investors) should already total MYR30 billion in 2025 (almost equal to net issuance expectation of MYR32.2 billion)**.

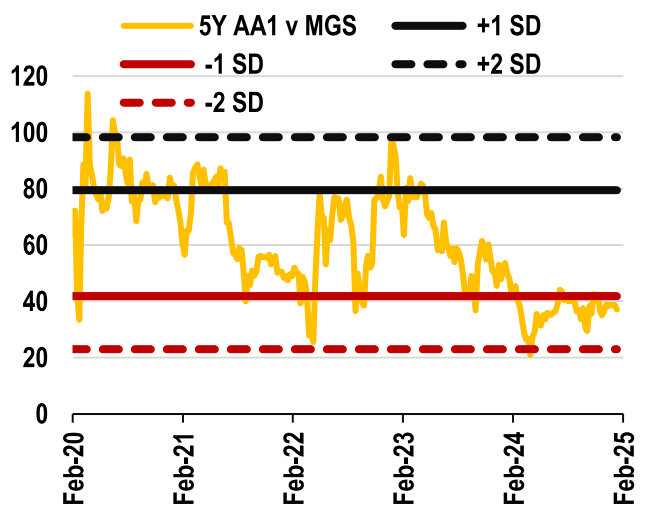
Opportunities in the PDS space. We continue to favour AAA government-related and infra/utilities bonds. However, we think investors should look for spreads widening as sign for buying-on-dips. In the past year, usual suspects like Air Selangor, PASB, Tenaga and PLUS, were picked up sporadically amid the downward yield environment. Along the AA rating segment, we like issuers growth-sensitive sectors such as plantations, real estate, and consumer-related names.

Exhibit 1: PDS vs MGS yields (%)



Sources: Bloomberg, AmBank Economics

Exhibit 2: MYR corporate bonds spreads (bps)



Sources: Bloomberg, AmBank Economics

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Malaysian Corporate Bonds: *Modest* widening of credit spreads anticipated

Bias towards wider spreads, but not too much

More widening of credit spreads is a possibility, but spreads remain narrow historically. We expect that in 2025, credit spreads will see a modest widening but remain tight from a historical perspective. Spreads had already widened since mid-2024, and this corresponded with technical charts suggesting a move away from overvalued levels — spreads extending away from 2-sd. below their five-year mean (see Exhibit 2). Corporate bond yields down from post-Covid highs and recent very tight spreads (5Y and 10Y AAA and AA1 spread dipping sub-20 bps) suggest duration risk premium was undervalued, especially on the lower ratings (AA and A) segment.

Outlook for corporate bonds based on:
… credit conditions
… supply outlook
… new cash in hand/demand for PDS
… interest rate outlook

We further base our outlook for a ***modest*** spread widening in coming quarters on the following factors:

1) Stable credit conditions alongside firm GDP growth,
2) Lagging numbers in gross and net PDS issuances,
3) New Monies/demand on uptrend, and
4) Global rates coming down.

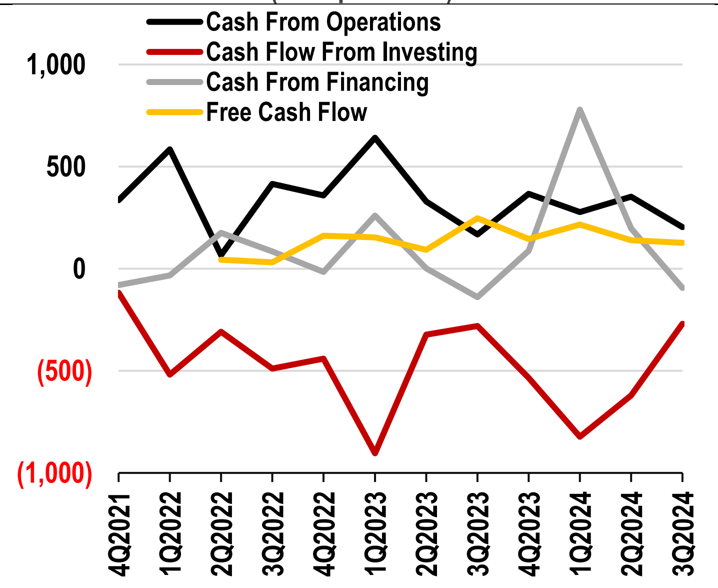
Stable credit conditions

Credit conditions are Stable, by looking at rating actions and financials of large cap companies

Corporate financial and credit conditions in Malaysia are currently stable. We attribute this to steady economic growth and business conditions since 2024 which contributed to improvements in corporate sector returns, cashflows, debt levels, and less impetus for repricing of credit risks.

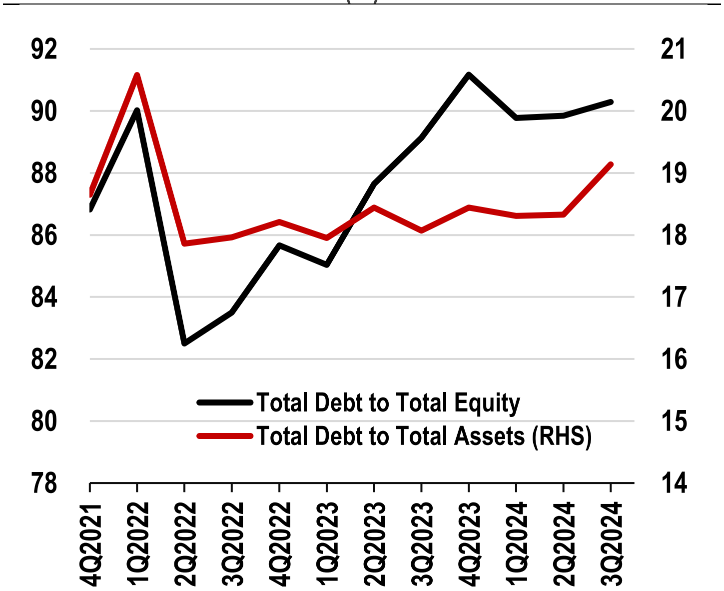
- **Cash flows look healthy**. We use aggregated financial numbers from Bloomberg of public-listed companies in Malaysia. Up to the end of 3Q2024, we note that cash flows (CF) from operations have improved since 3Q2023, while corporates were showing signs of capacity expansion via increased CF from financing and negative CF from investing. At the same time, operating margins and returns on assets remained healthy, suggesting firm profitability outlook. We think these factors contributed to the stock market rally in 2024.
- **Corporate balance sheet levels are also healthy**. Assets has grown further, though accompanied with a rise in liabilities as corporates expand capacity. Debt-to-equity remained controlled around the 90% level and debt versus assets are below 20%.
- **Rating downgrades and negative rating outlooks look contained** with signs of improvements, as we have seen a **rise in Positive outlooks** since 2023. RAM and MARC numbers show that debt facilities downgraded was six (6) in 2024 (2023: 11), while facilities' upgrade also totaling six (6) in 2024 vs. 12 in 2023.

Exhibit 3: Cash Flows of Malaysia's public-listed companies (MYR per share)



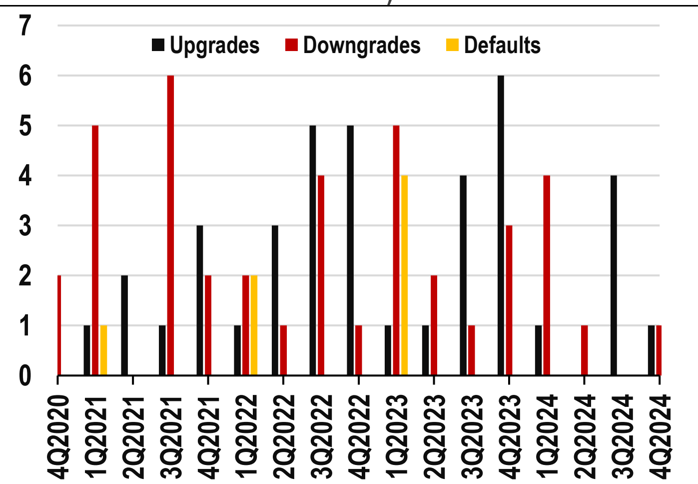
Sources: Bloomberg, AmBank Economics

Exhibit 4: Debt Ratios of Malaysia's public-listed companies (%)



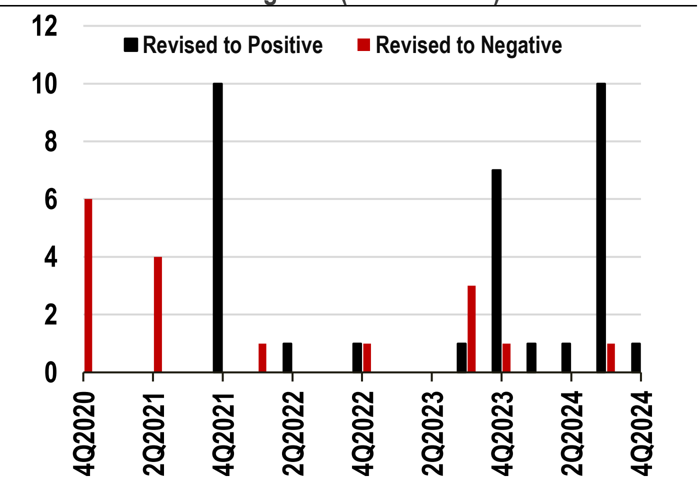
Sources: Bloomberg, AmBank Economics

Exhibit 5: RAM and MARC ratings upgrade vs downgrades (# of facilities)



Sources: RAM, MARC, AmBank Economics

Exhibit 6: RAM and MARC ratings outlook more Positive than Negative (# of facilities)



Sources: RAM, MARC, AmBank Economics

Lagging PDS issuances (vs. demand), partly reflecting lessened project financing

The lagging PDS issuance hardly compensates for the strong demand

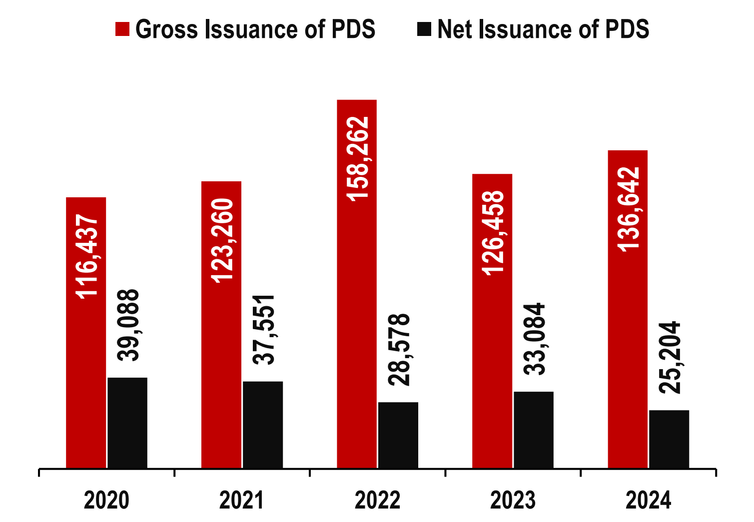
Lagging numbers in gross and net PDS issuances stopped credit spreads from widening too much. We note the credit spread compression in 2023-2024, including where quasi-government and AAA spreads tightened to sub-10 bps and 20 bps, respectively, were in large part due to a lack of new supply of bonds, especially in net issuance amount. The lower net issuance of PDS in 2024, as per our calculation of data taken off the Bond Pricing Agency of Malaysia (BPAM), totaled MYR25.2 billion. This is smaller than the MYR33.1 billion net issuance in 2023. The steadier *gross* issuances in 2024 contributed to the wider credit spreads, but the sluggish *net* issuance (that is, after correcting for PDS maturities during the year) limited the upside to spreads.

Supply lagging Demand. The lagging net issuance of PDS in 2024 of MYR25.2 billion hardly compensates for the strong demand. We note that the net allocation by players in the onshore fund management industry (Exhibit 8) (excluding other large buyers such as banks and large pension funds) for fixed income papers was already a net increase of about **MYR20.3 billion** in 2024.

More cash in the hands of investors

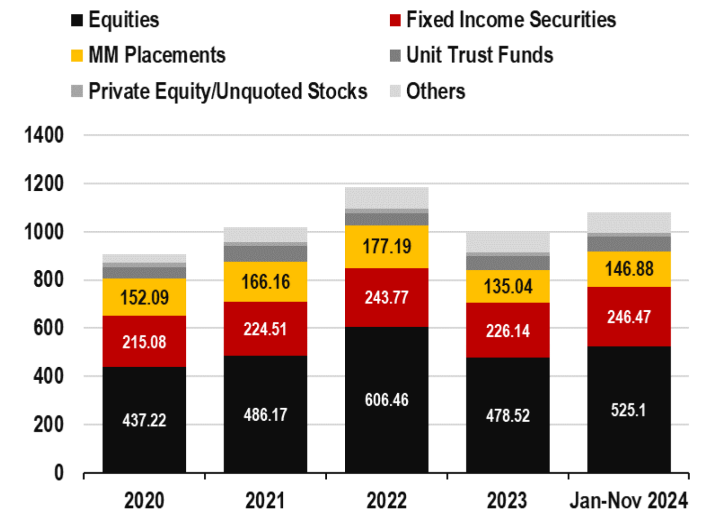
New Monies: Furthermore, we calculated an estimate of **new monies** at local insurance companies and the EPF for 2025 (Exhibit 12) (based on available data up to 2023 from BNM monthly publications and EPF annual reports). We think overall new monies available for these long-term real players (not including all other large investors such as KWAP, TH etc.) also look large. If their total new monies come up to c. MYR150 billion as per our estimate, and if about 15-20% are allocated for the PDS market, then total PDS allocation should already total **MYR30 billion**.

Exhibit 7: PDS gross and net issuances 2020-2024 (MYR million)



Sources: BPAM, AmBank Economics

Exhibit 8: Asset Allocation of Fund Management industry (MYR billion)



Sources: Securities Commission

Equity offerings may be small but there is constant growth

PDS issuances growth lagging the equity market. BNM data (see Exhibit 9) on private sector capital raising (equity and bond markets) show weak-to-mixed trend since 2018/2019 and continuing during the Covid years. Domestic economic growth risks during Covid, and political risks circa 2018 and 2022 elections, resulting in a lack of business funding needs, were the major causes in lessened private sector funding

Reduced capital raising

needs during these years, in our opinion. Periods of monetary policy normalization such as in 2018 and rate hikes post Covid also reduced the appetite for capital raising. We further note that even though equity raising had been very small compared to the debt market in the past 10 years, there had been a more consistent improvements for equities. For the debt market, the trend had been more sporadic. We think the debt market situation was made worse by the slowing infrastructure funding requirements in recent years, post the fund raising for projects such as the MRT, LRT, MRL, and the recent batch of completed highways.

Project finance needs were slower

Debt issuances by sector in 2024. Meanwhile, in 2024, we note issuances from within the Electricity, Gas and Water, Construction, and the Transport, Storage and Communications sectors, were particularly lower compared with 2023. Instead, in 2024, PDS raising were led by the **Finance**, Business **Services** and **Real Estate** related sectors. What we can surmise from this trend is that project finance needs were slower in 2024 but replaced by the more (economic) growth-sensitive sectors. In fact, we've noticed rising issuance from companies within growth-sensitive sectors such as **Consumer/Retail**.

Issuances from within the Real Estate sector was substantial last year, in our opinion. During the year, we estimate total issuance from the Real Estate sector amounted to MYR25-30 billion, where the notable issuances include:

- KLCCP Stapled group (AAA) MYR1.95 billion sukuk,
- Suria KLCC S/B (AAA) MYR600 million IMTN,
- UEM Sunrise (AA-) MYR700 million MTN,
- Non-rated Southkey Megamall MYR1.0 billion MTN (i.e. Midvalley South Tower project), as well as
- Smaller issuances from the likes of Eco World, SunREIT, Atrium REIT, KIP REIT, YTL REIT, Avaland, Hap Seng, and Mah Sing etc.

An increase in AA rated issuances owed to an increase in business funding needs amid an economic recovery

GGs and issuance by ratings. During the pandemic years of 2020-2021, issuances were led by quasi-government issuers, comprising funding for infrastructure-related GG (government-guaranteed) projects and funding for various government led enterprises. These include debt offerings by Danainfra Nasional Berhad, Malaysia Rail Link S/B (MRL) (funding for the East Coast Rail Link project), and Prasarana Malaysia Berhad, as well as offerings from government-related SPVs such as Felda (agriculture sector), PTPTN (student loans), and LPPSA (housing). However, there was a drop in GG funding in 2022-2024 averaging MYR21 billion per year, from MYR33 billion in 2020 and MYR31 billion in 2021. We think lessened funding requirements for infra-related and construction projects contributed to the decline in GGs. Nevertheless, there was an increase in AA rated issuances during 2022-2024 which we think owed to an increase in business funding needs amid an economic recovery.

Selected large offerings in 2024. Just to recap, some of the large issues in 2024 include.

GGs:

- Danainfra (GG) issued MYR6.1 billion. Maturities 2031 up to 2054.
    - Danainfra bonds with c.10Y maturities were priced at coupon/profit rate of 3.91%-3.97%.
    - Danainfra bonds with c.20Y maturities were priced at coupon/profit rate 4.16%-4.18%.
- Prasarana (GG) issued MYR3.2 billion issued in 2024.
    - Prasa 10Y bonds priced at coupon/profit rate 3.97%.
    - Prasa 20Y at coupon/profit rate 4.09%.

AAA:

- Pengurusan Air SPV (AAA) issued MYR2.7 billion.
  - 10Y at coupon/profit rate 4.14%.
- Pengurusan Air Selangor S/B issued MYR1.2 billion.
  - 10Y at coupon/profit rate 3.85%.
- Cagamas issued a huge MYR7.9 billion.
  - 10Y at coupon/profit rate 4.04%.

AA1:

- YTL Power International (AA1) issued MYR2.7 billion.
  - 7Y at 4.01%-4.09%.
  - 12Y at 4.18%.
  - 15Y at 4.195%-4.30%.
- Johor Plantations Group (AA1) issued MYR1.3 billion.
  - 10Y at coupon/profit rate 4.04%

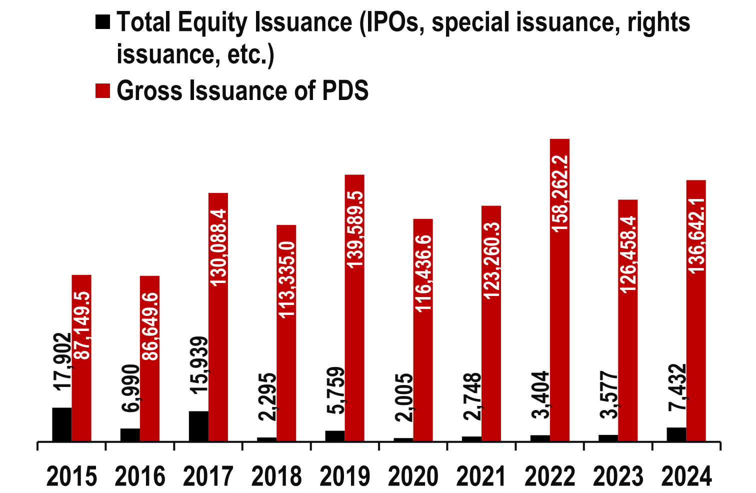
AA2:

- Benih Restu Bhd (AA2), in the plantations sector backed by Genting Berhad
  - MYR1.2 billion issued where a 10Y tranche was competitively priced at 4.08%.

AA3:

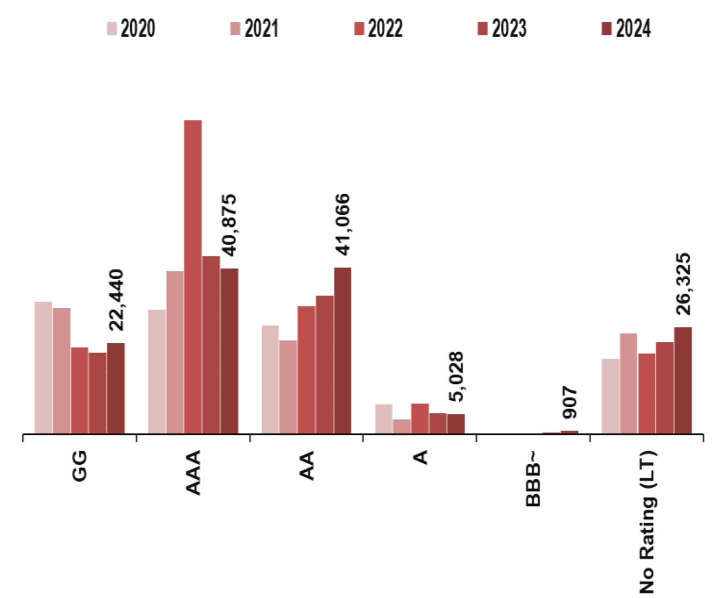
- AEON Credit Service (AA3), in the consumer/retail sector.
  - MYR1.1 billion issued where 5Y tranches were priced at 4.01%-4.26%.
- FGV Holdings Berhad (formerly Felda Global Ventures Berhad) issued MYR500 million papers out of MYR3.0 billion Sukuk Murabahah Programme.
  - 5Y tranches issued at 4.86-4.99% profit rate.

Exhibit 9: Equity vs corporate bond issuances (MYR million)



Sources: BPAM, BNM, AmBank Economics

Exhibit 10: Issuance of PDS according to credit ratings (MYR million)



Sources: BPAM, BNM, AmBank Economics

Exhibit 11: Corporate bond issuances by Sector (MYR million)

	Agriculture, Forestry and Fishing	Construction	Electricity, Gas and Water	Finance, Insurance, Real Estate and Business Services	Government and Other Services	Manufacturing	Mining and Quarrying	Transport, Storage and Communications	Wholesale, Retail Trade, Hotels and Restaurants	Total
2015	1,265	4,181	13,660	55,606	6,359	1,515	0	2,850	204	85,639
2016	1,248	7,414	10,820	46,323	10,984	1,523	0	6,835	150	85,298
2017	151	12,169	14,362	76,340	11,408	1,180	0	5,005	1,389	122,004
2018	89	5,949	13,608	73,821	4,347	1,820	0	2,905	411	102,950
2019	2,055	4,268	7,584	101,275	7,215	2,230	0	2,566	1,732	128,924
2020	20	8,759	10,870	71,000	6,048	1,747	500	3,085	2,052	104,080
2021	2,221	7,063	19,646	71,932	6,316	1,887	0	2,480	869	112,412
2022	2,148	10,823	12,545	106,462	5,186	6,281	500	5,539	328	149,810
2023	647	8,230	18,537	71,298	9,179	1,478	0	7,082	545	116,996
2024	169	4,843	8,975	87,068	4,727	3,065	0	2,781	1,844	113,472

Sources: BNM, AmBank Economics

Exhibit 12: AmBank's Estimate of New Monies at local Insurance Companies and EPF (MYR billion)

	Life Insurance	General Insurance	Takaful	EPF
2016	42.11	14.05	4.01	59.53
2017	49.56	14.15	4.36	66.43
2018	47.50	14.62	5.04	54.32
2019	57.60	14.46	6.39	67.20
2020	57.73	14.27	6.38	58.58
2021	52.38	14.29	8.17	(8.89)
2022	49.62	15.46	9.24	32.49
2023	62.64	16.14	8.46	91.67
2024 (estimate)	55.62	14.04	6.34	62.08
2025 (forecast)	54.28	14.56	7.59	76.87

Sources: BNM, EPF, AmBank Economics

Our expectations for 2025

Spreads set to widen on technical terms, after ultra tightness recently

Credit improvements, lagging issuances, strong demand, and generally southward trajectory of rates

Modest widening of credit spreads is a possibility, but spreads will remain narrow historically. We expect credit spreads will see a modest widening rest of this year but remain tight from a historical perspective. We note that spreads had already widened since mid-2024, and this corresponded with technical charts suggesting a move away from overvalued situations. Meanwhile, credit yields coming down from post-Covid highs and very tight spreads (5Y and 10Y AAA and AA1 spread dipping sub-20 bps) suggest duration risk premium is undervalued, especially on lower ratings (AA and A) segment. We further base our outlook for *modest* widening in coming quarters on the following factors:

1) Improvements in credit health alongside firm GDP growth,
2) Lagging numbers in gross and net PDS issuances,
3) New Monies on uptrend, and
4) Global rates coming down.

Our PDS yield and spread projections

Our take is that for 5Y PDS (GGs up to AA1 ratings), their indicative yields should hover around the 3.75%-4.20% band rest of the year. For their spreads vs MGS: GG (quasi-government) spreads should widen to 10-15 bps; AAA to 25-35 bps; and AA1 to 35-45 bps. *(However, please note that for individual issuers, their spreads will ultimately be determined by credit factors and timing of issuance)*.

Modest increase in new PDS supply

We expect net PDS issuances to increase modestly in 2025 as GDP grows further and investments/capacity expands. We note that 2024 issuances exceeded 2023 but overall pace lagged the 2022 number***. Our anticipation is for gross issuance of PDS in 2025 of at least MYR130 billion (2023: MYR126 billion, 2024: MYR137 billion).*** Malaysia's economic growth and business expansion should drive the gross amount. However, a modest gross number will limit the upside to PDS yields in the coming year, thus limiting the upside to spread levels. Meanwhile, our calculations indicated maturing PDS in 2025 will amount to MYR76.9 billion. In addition, bonds with call options expected to be exercised in 2025, we estimate at MYR20.9 billion. If minus off our gross issuance expectation of MYR130 billion with the MYR76.9 billion maturing papers and **callable papers** of MYR20.9 billion, then ***our estimate of net PDS issuance in 2025 will come up to MYR32.2 billion***. Recall that our estimate of net PDS issuance in 2024 amounted to MYR25.2 billion. Thus, for 2025, net issuance will show a modest increase y/y, which supports our view of a controlled normalization in credit spreads this year.

For investors picking up ringgit PDS this year, we think the following are major factors to consider:

Credit factors remain paramount

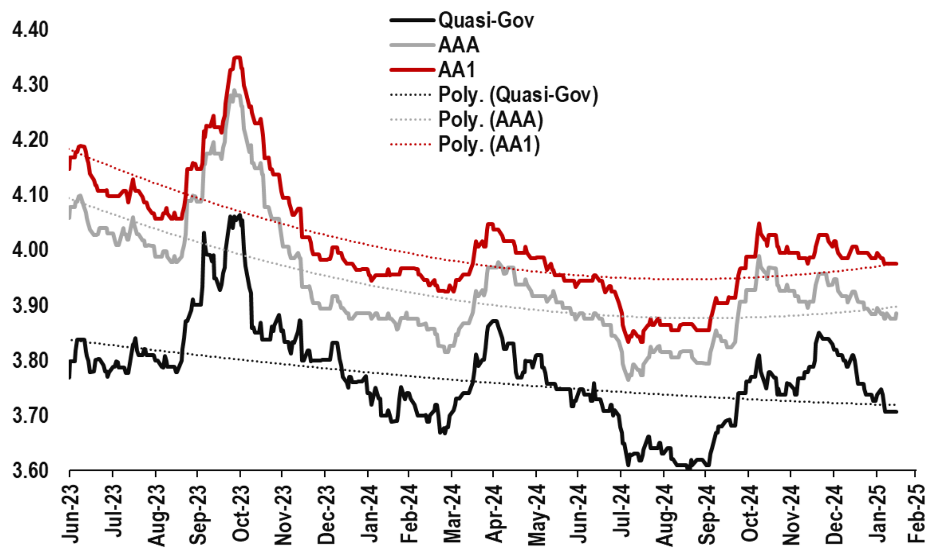
Buy on dips

GGs/quasi-government: In terms of new supply, we expect there will be more quasi-government offerings incoming this year, but the pace may remain slow/subdued. We think offerings will remain lagging amid the continued slack in announcements of new infra projects. Investors may be on the watch for news on speculated new projects such as the Penang LRT. Beyond that, issuers such as **Danainfra/Prasarana** may continue to issue papers though these may be the raising of cash for capital expenditure/overheads not related to new projects. We note that in the past year, yield realignment remained reoccurring along the Danainfra and Prasarana curves which presented trading opportunities (yield pickup/profit taking/switching opportunities).

AAA. Good credits remain a paramount factor for investors, in our opinion. We continued to favor AAA government-related and infra/utilities-related issuers. However, we think investors should also look for spreads widening as sign for buying-on-dips. In the past year, usual suspects like **Air Selangor, PASB, Tenaga** and **PLUS**, were picked up sporadically as their curves realigned.

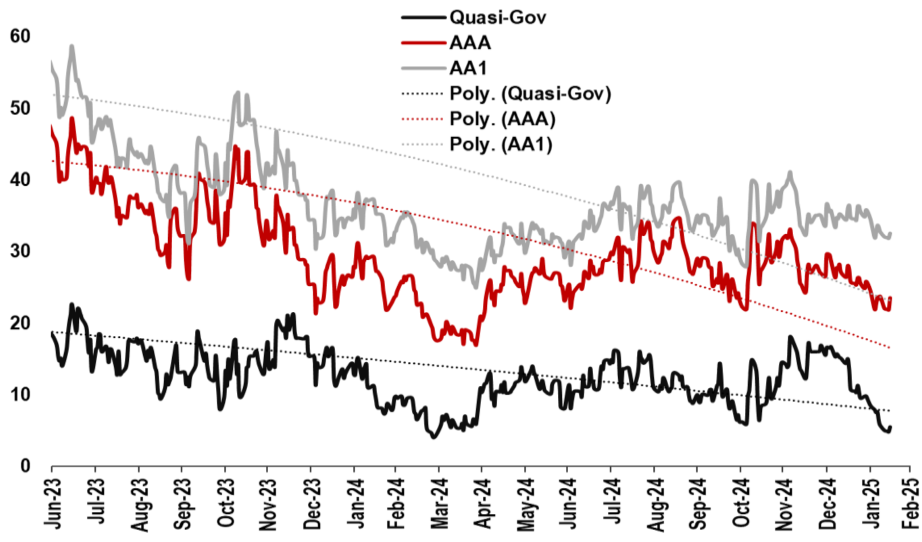
AA. Past 1-2 years, AA rated yields had moved down by slightly a faster pace than the quasi and AAA segments yields (Exhibits 13-14), because investors were on the lookout for yield pickup and had willingly moved to non-GG/AAA segments. Looking at Exhibit 13, there is chance for AA yields to rise if curves normalize, and markets take into account longer-term economic growth/inflation outlook. We think AA-rated names in the **consumer related** sectors, **real estate, plantations, power** sector (where CF should be healthy) are the better credits to pick up. In addition, **banking** sector papers (e.g., sub-debt) could also provide opportunities. In 2025, callable bank debt amounts to MYR12.1 billion, and this amount could be ploughed back into bank sub-debts.

Exhibit 13: Indicative PDS yields of 5Y quasi-government, AAA and AA1 rated papers (June 2023-February 2025) (%)



Sources: BPAM, AmBank Economics

Exhibit 14: Indicative PDS spreads of 5Y quasi-government, AAA and AA1 rated papers (June 2023-February 2025) (bps)



Sources: BPAM, AmBank Economics

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