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Cagamas returns to bonds after Treasuries tumble

By Ray Chan | 19 April 2017

The Malaysian mortgage lender shrugged off market volatility with a $350 million three-year deal.

Cagamas, Malaysia's national mortgage lender, returned to the overseas bond market for the first time in two years this week, raising $350 million from a three-year bond despite rising nervousness among international investors.

The company, which turned to debt investors after the long Easter weekend, got a decent although not overwhelming response to its bond. The deal generated demand of around $575 million at the peak level, allowing the issuer to increase the size of the bond by $50 million beyond its initial $300 million target.

The investment grade rated borrower appeared to be a good fit for the market backdrop this week. Some Asian investors are starting to fret about potential sources of volatility, pointing to the dramatic tightening of US Treasury rates as a sign that the party might be coming to an end.

The three-year Treasury yield was trading at around 1.4% on Tuesday, down 20bp in just a month. The 10-year Treasury yield has dropped even further, plummeting from 2.6% to 2.2% during the same period.

"Such a sharp drop in yields underscores the level of jitters in this market," a Singapore-based bond investor told *FinanceAsia*, blaming rising geopolitical risk — including tension on the Korea peninsula — for the flight to Treasuries.

This only made a deal for Cagamas more attractive. The company priced its deal with a spread of 115bp over Treasuries, which worked out to a 2.53% coupon. Had Cagamas come to the market a month earlier, the coupon would have been around 2.75%, adding another $770,000 to its annual interest costs.

Bankers working on the deal pointed to Export-Import Bank of Malaysia's October 2021 bond as a valuation benchmark, given their similar status and policy importance to the government. The bond was trading at 96bp over the five-year US treasury yield when Cagamas launched its deal, equivalent to a G-spread of 104bp.

According to a sales note from a non-syndicate bank, Cagamas' outstanding $500 million 2.745% 2019 bond was trading at a Z-spread of 93bp, suggesting fair value of the new issue was around 125bp over the three-year US Treasury yield. (Z-spreads and G-spreads allow bankers to compare bonds with different maturity dates.)

HSBC, Standard Chartered and Maybank managed the deal for Cagamas. They initially approached investors with initial price talk of around 125bp over the three-year US Treasury yield, before narrowing the Reg S deal to between 110bp and 115bp over the curve.

Cagamas was not the only issuer in the market on Tuesday. Korea Resources, a state-owned energy company, barely covered its $425 million five-year bond. The A1/A+ rated company captured $500 million of demand from 52 accounts, after meeting both 144A and Reg S investors.

In the secondary market, Cagamas' April 2020 bond was trading slightly wider on Wednesday, yielding 120bp/118bp over three-year US Treasuries on Wednesday morning.

The company plans to use the proceeds for working capital, general corporate purposes and general financing or refinancing requirements.

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