

28<sup>th</sup> Oct 2025

In the name of God, Most Gracious, Most Merciful.

I continue with another post regarding the dynamics of the cost of debt of KLCI constituents (ex-banks), the 10-year Malaysian government bond yield and the synthetic cost of debt that is derived from interest coverage ratios.

My understanding is:

1. By principle, corporate debt is riskier than government debt
2. Due to the perceived risk, corporate debt will have higher default spread or a premium above the interest rate (OPR) than government bonds have on their premium.
3. At any given time, coupon rates and yields of corporate debt should be higher than government bonds'.

But then I remembered stories about some companies issue debt and bonds for less than the 10-year government bond yield. The table below showed the cost of debt of KLCI constituents (ex-banks), the 10-year gov bond yield and the synthetic cost of debt using a model from Stern NYU School of Business by Aswath Damodaran.

The reason why I include the synthetic cost of debt because I intrinsically believe that the capacity of a company to serve interest payments (Interest Coverage Ratio) should be directly proportional to its credit rating and default spread values. And I agree with the simple model Damodaran used, so I borrowed it.

Assumptions:

1. OPR is taken from 2024 at 3%
2. The 10-year bond yield is taken from TradingView around last week at around 4.4%
3. Data was calculated manually; I have no access to Bloomberg
4. Data was taken from 2024 annual reports
5. Borrowings, bonds and lease liabilities constitute as debt

Here's what I found:

1. The premium for the 10-year government bond is 1.4% while the average default spread is 2.19%, the median default spread is 2%. This means investors are asking for an additional 0.79% for taking more risk on average.
2. 5 firms within the KLCI have its cost of debt lower than the 10-year gov bond yield. They are highlighted red. (I did double check)
3. 2 firms within the KLCI have its cost of debt lower than the OPR at 3% (2024). (I did double check)
4. It seems that RAM does not use the interest coverage ratio (ICR) as a major determinant for credit rating as firms with very low ICR received AA ratings.

5. YTLPOWER has the second worst ICR at 1.25 and was given AA1 by RAM as opposed to CCC by the synthetic rating.

6. YTL has the worst ICR at 0.84 and was given AA1 by RAM even though there were not enough operating earnings to cover interest costs. The synthetic rating gave it a CCC.

From here, I conclude:

1. I have zero understanding on how RAM value these companies.
2. The synthetic rating is very consistent at determining credit rating and implied cost of debt
3. Some companies with very low borrowing costs are what I consider getting special treatment from their lenders 😊. It doesn't make sense from the lender perspective why the interest is so cheap.
4. A 0.79% mean delta between corp debt and the 10-year gov bond yield suggests lenient default premium.

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Reference	
Interest Rate	3.00%
Government Bond Yield Premium	1.40%
10-Year Gov Bond Yield	4.40%

Debt is defined as borrowings plus lease liabilities as they are the biggest component of interest bearing liabilities in RM '000, 000

No. Code Company		Actual Values				Synthetic Rating Calculations	
		Default Sprd	Cost of Debt	RAM Credit	Default Spread	Cost of Debt	Credit Rating
1	5326 99 SPEED MART RETAIL HOLDINGS BERHAD	2.07%	5.07%		0.75%	3.75%	AAA
2	1015 AMMB HOLDINGS BHD						
3	6888 AXIATA GROUP BERHAD	3.85%	6.85%		6.50%	9.50%	B
4	6947 CELOMDIGI BERHAD	1.67%	4.67%	AAA	2.00%	5.00%	A-
5	1023 CIMB GROUP HOLDINGS BERHAD						
6	5398 GAMUDA BHD	-0.78%	2.22%	AA3	1.80%	4.80%	A
7	5819 HONG LEONG BANK BHD						
8	5225 IHH HEALTHCARE BERHAD	4.25%	7.25%		2.00%	5.00%	A-
9	1961 IOI CORPORATION BHD	1.25%	4.25%		0.75%	3.75%	AAA
10	2445 KUALA LUMPUR KEPONG BHD	0.91%	3.91%	AA1	2.00%	5.00%	A-
11	1155 MALAYAN BANKING BHD						
12	6012 MAXIS BERHAD	2.18%	5.18%		1.80%	4.80%	A
13	3816 MISC BHD	1.64%	4.64%		3.50%	6.50%	BB
14	5296 MR D.I.Y. GROUP (M) BERHAD	2.06%	5.06%		0.75%	3.75%	AAA
15	4707 NESTLE (M) BHD	1.88%	4.88%		0.75%	3.75%	AAA
16	5183 PETRONAS CHEMICALS GROUP BHD	1.89%	4.89%		1.00%	4.00%	AA
17	5681 PETRONAS DAGANGAN BHD	9.10%	12.10%		0.75%	3.75%	AAA
18	6033 PETRONAS GAS BHD	1.87%	4.87%		0.75%	3.75%	AAA
19	4065 PPB GROUP BHD	1.76%	4.76%		0.75%	3.75%	AAA
20	8869 PRESS METAL ALUMINIUM HOLDINGS BERHAD	2.34%	5.34%	AA1	0.75%	3.75%	AAA
21	1295 PUBLIC BANK BHD						
22	7084 QL RESOURCES BHD	2.56%	5.56%		0.75%	3.75%	AAA
23	1066 RHB BANK BERHAD						
24	5285 SD GUTHRIE BERHAD	-0.27%	2.73%	AAA (MARC)	0.75%	3.75%	AAA
25	4197 SIME DARBY BHD	2.44%	5.44%		2.00%	5.00%	A-
26	5211 SUNWAY BERHAD	0.36%	3.36%		3.50%	6.50%	BB
27	4863 TELEKOM MALAYSIA BHD	2.87%	5.87%	AAA	1.00%	4.00%	AA
28	5347 TENAGA NASIONAL BHD	1.94%	4.94%	AAA	3.50%	6.50%	BB
29	4677 YTL CORPORATION BHD	2.39%	5.39%	AA1	10.00%	13.00%	CCC
30	6742 YTL POWER INTERNATIONAL BHD	2.34%	5.34%	AA1	10.00%	13.00%	CCC