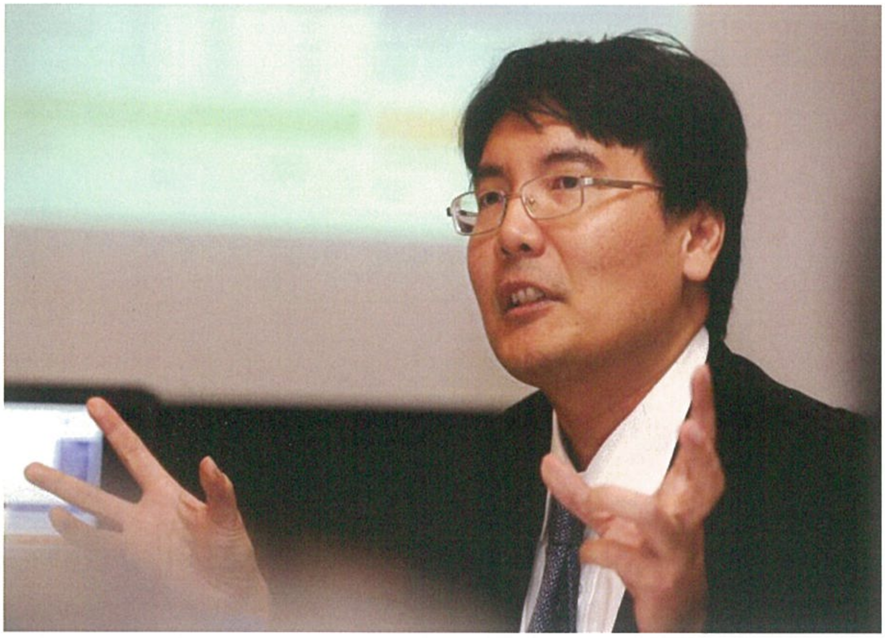
ALL BUSINESS DAILY
The Malaysian Reserve
IN ASSOCIATION WITH
International New York Times

Raising sukuk to cost more for firms

Alexander Winifred Tuesday, September 15, 2015



Uncertainties on the timing of Fed's rate lift-off has impacted bond market performance across all markets, not just Malaysia's, says Meor Amri. (TMRpic)

Companies will need to pay more to borrow money through sukuk even as Malaysia, the global driver of Islamic finance, faces jitters amid a harsher economic environment and heightened political risk.

"Higher premiums would be necessary to attract investors and to provide investors with reasonable buffers against higher interest rates in the event US hikes its interest rates by year-end," said Meor Amri Meor Ayob, CEO of Bond Pricing Agency Malaysia.

Aside from some domestic-specific uncertainties, the factors that are said to be affecting the Malaysian sukuk market — low oil prices, slower exports growth — are also similarly affecting other emerging markets and oil exporting countries, Meor Amri told *The Malaysian Reserve* (*TMR*).

Uncertainties as to the timing of the US Federal Reserve (Fed) rate lift-off has impacted bond market performances across all emerging markets, not just Malaysia's, said Meor Amri.

In such an environment, foreign investors and domestic investors are "certainly" going to be more cautious with their investments, Meor Amri said.

To seek better yields from issuers, investors will leverage on sentiment-driven concerns on Malaysia's heightened political risk, on exhibit during the Bersih rallies late August, said Yeap Kar Chun, an analyst at FundSuperMart, an investment advisory.

Oil and gas companies seeking to raise sukuk debt could also face a "jittery" market due to low crude oil prices, FundSuperMart's Yeap said.

SapuraKencana Petroleum Bhd, the world's largest tender rig operator, saw a recent US$200 million (RM864 million) seven-year sukuk issuance taken up by a single institutional investor.

The company offered a 4.85% yield on the bond, considered as relatively attractive. Investors are rethinking how they price risk, said Hasif Murad, a research analyst at Aberdeen Islamic Asset Management Sdn Bhd.

Foreign fund managers are trying to be more cautious and are holding on to more cash in order to shield themselves against market volatility, Hasif said.

As a result, they are likely to demand higher prices to compensate for the higher volatility, said the analyst. This will affect a slew of local firms that are planning issuances this year.

One of them is Tenaga Nasional Bhd's planned issuance of up to RM10 billion to build and operate a power plant project that it took over from Ministry of Finance-owned 1Malaysia Development Bhd.

Telco services provider Time dotCom Bhd also has plans to offer a five-year RM1 billion sukuk this year, although it has not set a date for the offering yet.

Etiqa Takaful Bhd said Time dotCom may have to pay around 150 basis points (bps) or 5.32% over the sovereign to attract buyers, Bloomberg reported.

"Our focus here at Aberdeen will be at how the issuance gets priced," said Hasif, adding that 150-160 bps over the sovereign would be a "decent" yield for the sukuk.

As a direct result of Bank Negara Malaysia's (BNM) decision to suspend its sukuk issuance, the global sukuk market is expected to stall this year, but at the same time open up other fund raising opportunities.

For the first-half of 2015, sukuk issuance worldwide dropped by 42.5%, according to ratings group Standard & Poor's, which has sharply revised its forecast for the year from US$100 billion-US$115 billion to US$50 billion-US$60 billion. Out of the US$116.4 billion global issuance in 2014, BNM issuances totalled about US$45 billion. Sukuk issuances have dropped every year for the last three years.

In 2013, global Islamic bonds totalled US$116.9 billion, a 15% drop from a record US$137.1 billion raised in 2012.

"There will be an impact on the global sukuk issuances due to volatility in the global financial, commodities and exchange markets which may result into lower than anticipated sukuk issuances," said Ijlal Alvi, CEO of the International Islamic Financial Market, a Bahrain-based organisation that sets standards for the Islamic capital and money market.

However, the future potential of sukuk in the medium term still looks positive, Ijlal said.

"There is enough interest from existing as well as new entrants to keep the issuance level moving forward which includes sovereigns, quasi sovereigns and the under-utilised corporate sector," Ijlal told *TMR*.

As of Sept 6, there are around 28 major issuances in the global sukuk pipeline, about half of which originate at Arab nations.

Debt levels in major economies in the Gulf Cooperation Council such as Saudi Arabia are low, a factor that would support demand in those countries, said Ijlal.

A mong t hese a re a n ongoing programme by the Jeddah-based Islamic Development Bank, which increased its ceiling from US$10 billion to US$25 billion in June.

In August, Saudi Electricity Co, the largest Gulf utility, received approval from its executive committee to set up a sukuk programme worth as much as US$1.5 billion and seek loan financing worth US$2.3 billion.

“Despite the reduction in oil prices, governments are continuing with development and infrastructure projects and in many cases, sukuk is the obvious choice to fund such activities,” Ijlal said.