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Rating Approach To Sukuk: A MARC Perspective
By Ratings Research, Malaysian Rating Corporation Berhad

OVERVIEW

MARC regards 'Sukuk' as certificates of investment. Our view of Sukuk falls in line with that of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) which defines Sukuk as 'certificates of equal value representing undivided shares in ownership of tangible assets, usufruct (legal right to derive profit from property), and services or in the ownership of the assets of particular projects or special investment activity'. Depending on the basic structure, the Sukuk can exhibit characteristics of debt and/or equity or asset-backed securities if securitisation elements are present.

The appeal of Sukuk as a funding source has grown tremendously with an increasingly larger investor base. This can be attributed to its appeal as a Syariah-compliant alternative to conventional fixed-income instruments. The importance of supporting real economic activities mean that Sukuk could be issued against existing assets that are income-generating, new assets, or to fund infrastructure projects. These assets are then able to generate future income and/or returns i.e. profits to be shared or repay the Sukukholders. Apart from commonly providing the means for private entities to obtain funding through issuing corporate Sukuk, the public sector or governments are also able to raise financing through issuing sovereign Sukuk. The global Sukuk market for both government and corporate is expected to see a new record of issuance this year (2011: US$85 billion). Although much stronger growth is anticipated in the Gulf Cooperation Council (GCC) countries, Malaysia is still expected to remain the dominant Sukuk market. Reflecting a steady demand for Syariah-compliant capital market instruments, the outstanding Sukuk raised by corporates domestically is estimated to be around RM173.2 billion as at end-October 2012, accounting for 58% of the total corporate bond market valued at RM299.6 billion*(source: Bondweb)*.

Sukuk issuance can be structured in a number of different ways depending on the type of underlying assets and/or specific financing needs of the issuing entity. Based upon the permissible Islamic financing transactions, the issuer or issuance may involve a variety of Sukuk instruments as illustrated in the following sections.

MARC'S GENERAL RATING APPROACH TO SUKUK

Within the general framework as applied in any rating methodology, the rating(s) are derived through an in-depth analysis and thorough evaluation involving:

- identification of the risk criteria as well as assessment of key risk parameters and mitigants;
- conducting sensitivity analysis on the critical risk factors; and
- performing benchmarking exercise where available.

From an analytical standpoint, MARC's rating of Sukuk essentially involves (i) evaluating the underlying structure as well as assessing the key transaction parties; (ii) analysing the income or cash flow generation ability of the underlying asset, project or business activity financed; (iii) assessing the strength of available credit enhancement, if any; (iv) assessing the adequacy and robustness of structural protection; and (v) the impact of key legal issues on the Sukuk structure.

In common with MARC's conventional debt and Islamic debt rating scales, the long-term Sukuk rating scale comprises eight rating categories ranging from 'AAA_{IS}' to 'D_{IS}', while the short-term rating scale ranges from '$MARC\text{-}1_{IS}$' to '$MARC\text{-}D_{IS}$'. The differentiated Sukuk rating scale is consistent with our view that Sukuk are supposed to represent ownership interests in underlying asset(s) and the resulting returns from the asset(s).

SUKUK STRUCTURES RATED BY MARC

As at October 2012, MARC has rated a total of 58 issuances of ringgit-denominated (RM) Sukuk with an aggregate value of RM71.52 billion. Back in 2001, MARC successfully rated the ground-breaking USD368.0 million Sukuk Al-Ijarah issuance by First Global Sukuk Inc (under MARC International, a subsidiary of MARC). First Global Sukuk Inc was the first US dollar-denominated Sukuk issuance involving a corporate, Kumpulan Guthrie Berhad.

In the following sections, key highlights of Sukuk transactions rated by MARC are provided.

I. Sukuk Al-Ijarah Structures

MARC has rated a number of Sukuk Al-Ijarah structures, all of which have involved an issuer SPV, usually a wholly-owned subsidiary of the Seller of the assets. The SPV funds the purchase of the assets by issuing Sukuk which represents beneficial ownership in the assets. The assets are leased to entities affiliated to the seller or to the seller in exchange for periodic rental payments which are matched to the periodic distributions under the Sukuk. The seller issues a purchase undertaking to repurchase the SPV's interest in the asset on maturity or any interim date at a pre-determined price. At maturity or on a dissolution event, the SPV sells the asset(s) back to the seller and redeems the Sukuk.

a) Asset-based Sukuk Al-Ijarah

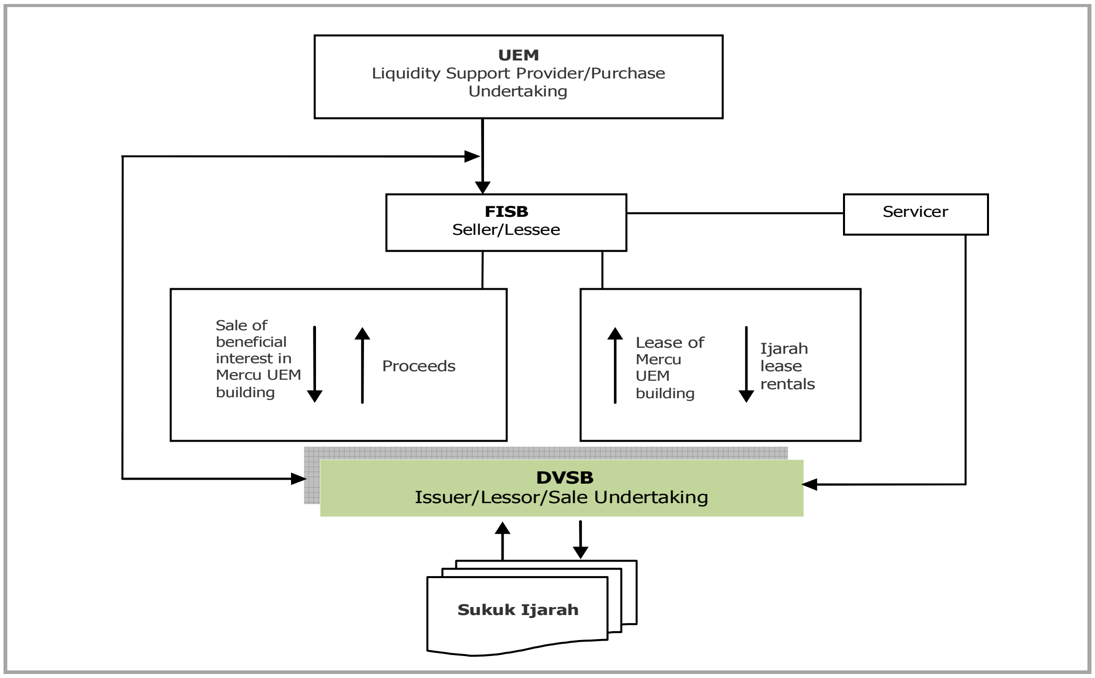
As shown in Exhibit 1, Diversified Venue Sdn Bhd (DVSB) is a special purpose vehicle which was set up to purchase the beneficial interest in the Mercu UEM building from its parent, First Impact Sdn Bhd (FISB), a wholly-owned subsidiary of UEM Group Berhad (UEM). The purchase was financed by the proceeds raised from the Sukuk Al-Ijarah issuance. DVSB will hold the beneficial ownership of the building on trust for the Sukukholders under the terms of the Declaration of Trust.

To facilitate the sale and leaseback transaction, DVSB concurrently leased the building to FISB for a period corresponding to the tenure of the Sukuk programme, and thus the latter will make rental payments as the lessee. Under the Service Agency Agreement, FISB is also responsible for the ordinary maintenance and repair expenses.

Located at KL Sentral, Kuala Lumpur, the Mercu UEM building serves as the corporate headquarters for the UEM group, which is involved in four major businesses, namely expressways, engineering and construction, township and property development, and asset and facility management.

UEM has provided an unconditional and irrevocable agreement to purchase the beneficial interest in the Mercu UEM building from DVSB at a later date. The rating assigned to Sukuk Al-Ijarah of AA_{IS} reflects the credit strength of UEM which provides liquidity support to this sale-and-leaseback transaction. UEM's assigned senior unsecured rating of AA, meanwhile, is based on the group's strong business and financial profile as well as its favourable financial flexibility stemming from its status as a wholly-owned entity of Khazanah Nasional Berhad, the government's investment holding company.

Exhibit 1: DVSB Transaction Structure



b) Asset-backed Sukuk Al-Ijarah

A bankruptcy-remote special purpose vehicle, ABS Logistics Berhad (ABS Logistics) issued Sukuk under a programme which consisted of RM100.0 million nominal value Class A, RM20.0 million nominal value Class B and RM40.0 million nominal value of Class C Senior Sukuk, RM44.5 million nominal value Class D Mezzanine Sukuk and RM95.5 million nominal value Class E Subordinated Sukuk. (The Class D and Class E Sukuk are unrated.) ABS Logistics acquired a portfolio of 23 warehouses from integrated logistics provider, Tiong Nam Logistics Holdings Berhad (Tiong Nam) and/or its subsidiaries for RM191.5 million. It then entered into an Ijarah (lease) agreement with Tiong Nam Logistics Solutions (TNLS) for a period of up to ten years.

Periodic distributions and capital repayments on the Sukuk are funded by monthly Ijarah rentals made by the lessee during the tenure of the transaction as well as the proceeds from either the repurchase of the properties via a call option exercised by the lessee or sale of the properties to third parties prior to the final legal maturity. The call option's exercise price will be the higher of the market value of the properties and the aggregate amount required to redeem all the outstanding Senior Sukuk and any accrued profit.

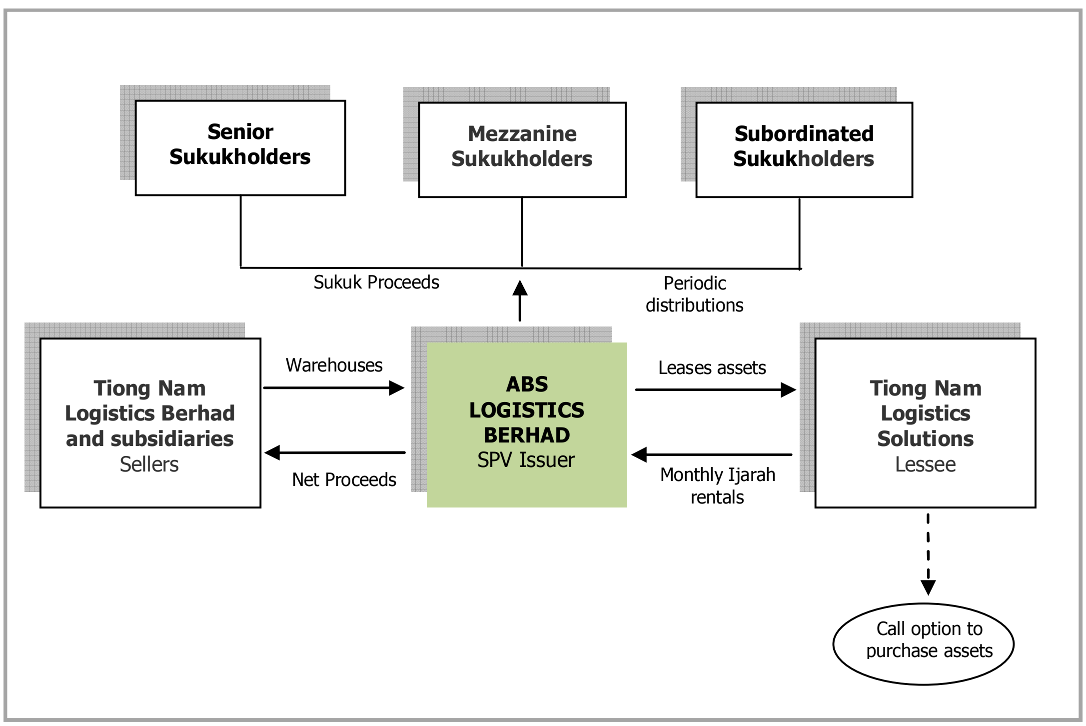
The securitised properties comprise 23 industrial warehouses located in seven states. The portfolio is exposed to moderate concentration risk with its top ten tenants contributing a substantial portion of its total rental revenue. The Ijarah rentals are, however, fixed for the purposes of the transaction irrespective of the actual rental collections at TNLS which would be a function of rental rates in the warehouse market as well as actual occupancy rates at those warehouses (refer Exhibit 2).

The approach taken to rate ABS Logistics' Class A, Class B Senior Sukuk was firstly to estimate the net cash flow (NCF) that could be generated by the securitised properties on a sustainable basis, looking through property market cycles. Once the sustainable cashflow was determined, MARC applied a capitalisation rate of 10% to arrive at the DCF valuation of the property. The DCF valuation was then used to size the Class A and Class B Senior Sukuk tranches, based on applicable loan-to-value (LTV) limits for the target rating levels of AAA_{IS} and AA_{IS} respectively. The decision to apply asset-backed methodology was predicated on elements of securitisation being present in the transaction, including the 'true-sale' of the warehouses and the option to sell the properties to third parties. The rating of the Class C Senior Sukuk, meanwhile, reflects an unconditional and irrevocable guarantee provided by Malayan Banking Berhad.

The amortising structure of the Sukuk significantly reduces refinancing risk with projected LTVs for Class A and B Senior Sukuk Ijarah reducing to 25.3% and 37.9% respectively at maturity. Of the RM100.0 million of Class A Senior Sukuk, RM60.0 million is expected to be paid down prior to its final legal maturity. Including the projected reserve account balance of RM3.55 million and collection account balance of RM11.3 million at the end of year 10, the net amount of Class A and Class B exposed to refinancing risk prior to their respective final legal maturity will be a modest RM45.2 million.

MARC also carried out a shadow rating on Tiong Nam consistent with our guidelines for property-backed transactions in which there is a single seller/lessee or the lessees are affiliated to the seller. MARC requires the lessee to be rated at least A- for any structure that has AAA tranche(s).

Exhibit 2: ABS Logistics Berhad Transaction Structure



II. Sukuk Al-Musyarakah Structures

MARC has also rated a number of Sukuk Musyarakah transactions, the majority of which have involved SPV issuers. In Malaysia, the application of the Musyarakah structure can be found in a wide range of Sukuk transactions including receivables-backed issuances, project financing, contract financing and forming ventures or investments in Syariah-compliant activities and/or businesses. The typical transaction configuration of Sukuk Musyarakah in our rating universe is as follows: Investors enter into one or a series of Musyarakah ventures (partnership agreements) between themselves to finance the Musyarakah venture. The Musyarakah venture could take the form of undertaking specific contracts or services or directly invest in various Syariah-compliant activities in return for deferred payments or a fixed stream of lease payments for constructed assets.

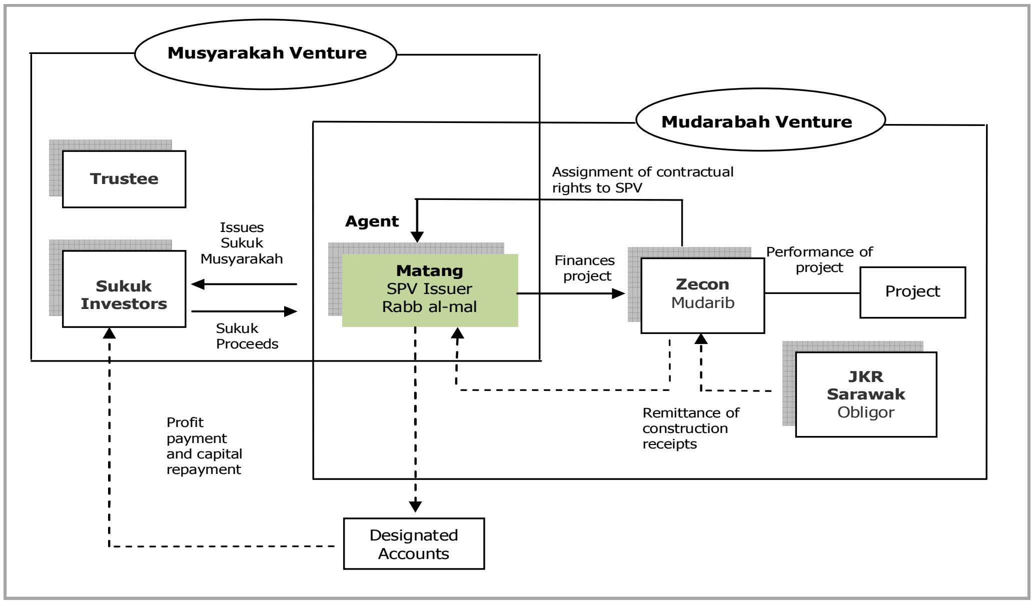
The Musyarakah appoints the issuer to carry out the venture in an agent's capacity and to receive the capital contribution in Musyarakah. The issuer issues Sukuk Musyarakah in return for the capital contributions. The issuer could be a SPV or the corporate itself. Where the issuer is a SPV and the transaction involves the financing the construction of assets, there could be a back-to-back arrangement with a corporate related to the SPV to construct the asset. Upon completion of construction, which would be funded from the Sukuk issuance proceeds, the assets will be leased to the corporate with the lease payments sized to cover the return on the Sukuk and principal repayment of the Sukuk on the scheduled dissolution date of the respective Musyarakah ventures. The corporate also irrevocably undertakes to purchase the Sukuk upon occurrence of a scheduled dissolution or dissolution event. MARC has also rated a transaction in which the completed asset would be sold to the corporate in exchange for deferred payments.

a) Sukuk Musyarakah without Purchase Undertaking

Matang Highway Sdn Bhd (Matang), a wholly-owned subsidiary of Zecon Berhad (Zecon), was established with a single purpose to undertake the issuance of RM70.0 million Sukuk Musyarakah. The proceeds from the Sukuk were used to refinance Zecon's existing debts and to finance working capital requirements for the turnkey contract awarded by Jabatan Kerja Raya Sarawak (JKR Sarawak) to Zecon for the design and construction of a highway linking Kuching City to the State of Sarawak's proposed new Federal Administrative Centre (FAC) (Matang Route Project). Matang and Zecon entered a Mudarabah arrangement under which Matang acts as capital provider for the turnkey contract and Zecon acts as the entrepreneur. Zecon was the turnkey contractor for the highway. Sukukholders invest in trust assets comprising Matang's rights, entitlements, benefits and interest under the turnkey contract, the designated accounts under the proposed issue structure and other permitted investments. Cashflows generated from construction under the turnkey contract fund profit payments and capital repayments under the fully amortising three-year Sukuk.

The initial rating of AA-$_{IS}$ on the Sukuk Musyarakah was based on the credit quality of the sole obligor, JKR Sarawak, and assumed satisfactory performance of Zecon under the turnkey contract. MARC's assessment of obligor credit quality took into consideration the prompt payment record of JKR Sarawak under the turnkey contract and the implicit government support for the Federal Government-approved project. Consideration was given to protective covenants under the proposed issue structure and the designated accounts capture construction receipts in respect of the turnkey contract. Although this financing structure is essentially non-recourse to the originator of the trust assets, Zecon was subsequently depended upon to meet the Sukuk obligations due to unforeseen delay in construction progress of the highway, and deviation from expected collections. This triggered MARC's downgrade of the Sukuk rating to A_{IS} in the second year of the issuance. The sukuk was eventually redeemed in full, with credit support from Zecon.

Exhibit 3 : Matang Highway Transaction Structure



b) Receivables-backed Sukuk Musyarakah

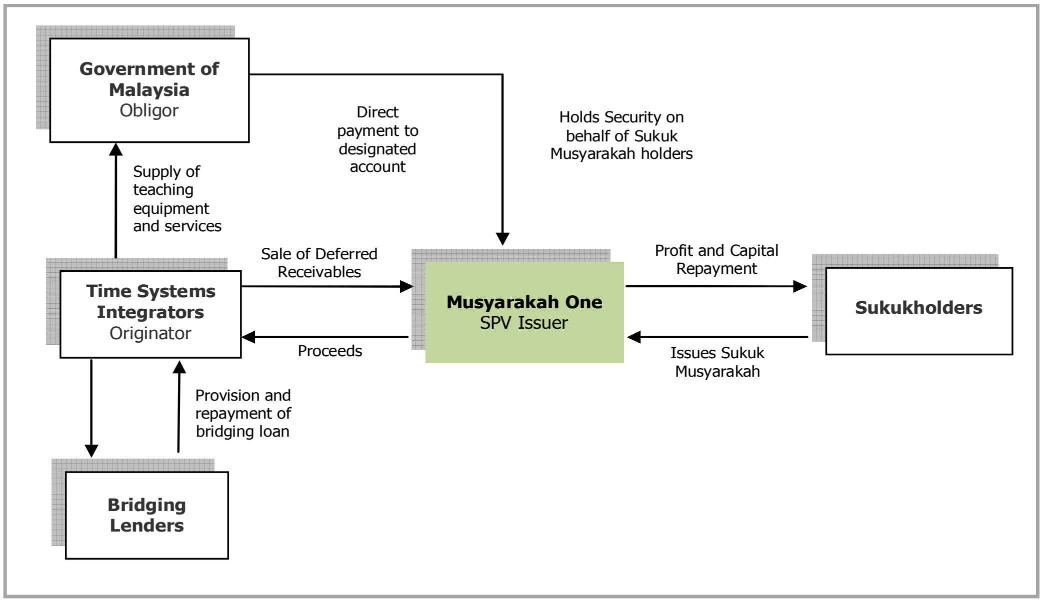
Musyarakah One Capital Berhad's (Musyarakah One) RM2.5 billion Sukuk Musyarakah Programme provides an example of a receivables-backed sukuk issuance rated on the basis of the credit quality of the sole obligor, the Government of Malaysia (GOM). The receivables backing the sukuk constituted irrevocable and unconditional obligations of the GOM.

Musyarakah One was a special purpose vehicle incorporated for the purpose of issuing sukuk musyarakah to finance the acquisition of receivables from TIME Systems Integrators Sdn Bhd (TSI). Under the Sukuk Musyarakah Programme (the Programme), government receivables generated from TSI's supply contracts were sold on a periodic basis to Musyarakah One via an absolute legal assignment. Investors in the Sukuk Musyarakah are beneficial owners of the receivables.

The receivables comprised the rights, title, interests and benefits to the GOM's payment obligations to TSI, pursuant to the contract and letter(s) of award to supply teaching equipment and for the provision of related services to various schools in the context of teaching science and Mathematics in English. Subsequent to each delivery of equipment and/or services, the GOM issued a Sijil Utama, which stipulated the contract sum payable by the GOM as well as the repayment schedule in respect of the contract sum, which was to be on a deferred payment basis. The Sijil Utama represents the GOM's irrevocable and unconditional obligation to pay the agreed contract sum in accordance with the stipulated schedule without any right of set-off or provision for acceleration in the event of default under the Programme.

Sukukholders were not exposed to performance risk as receivables are securitised subsequent to delivery, installation, testing and commissioning of teaching equipment. In addition, the GOM did not have the right to set-off any claims against the securitised receivables. The payment profile for the Sukuk mirrored the payments from the GOM under the Sijil Utama.

Exhibit 4 : Musyarakah One Transaction Structure



c) Sub-lease backed Sukuk Musyarakah

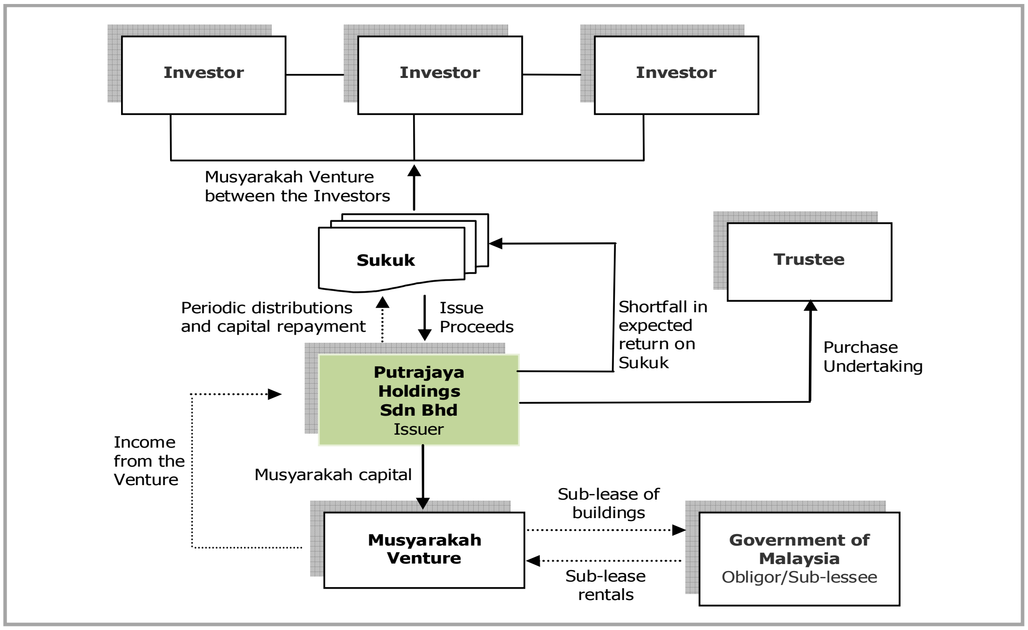
Under the Putrajaya Holdings Sdn Bhd's (PjH) up to RM1.5 billion Nominal Value Sukuk Musyarakah Medium Term Notes Programme, a Musyarakah Venture was formed to invest in the trust asset comprising PjH's rights, entitlements and benefits under a sub-lease agreement with the GOM in relation to 15 blocks of fully completed government buildings referred to as Parcel E.

PjH is the concessionaire and developer of Putrajaya, Malaysia's Federal Administrative Capital. Under a concession agreement and supplemental concession agreement with the GOM, PjH has a contractual obligation to construct government buildings in return for a 25-year lease of the buildings and land. The buildings and land are sub-leased to the GOM upon completion for a corresponding 25-year period for specified rental income streams with provisions for upward revision of rental. Maintenance of the buildings will be undertaken and borne entirely by the GOM.

PjH holds the trust asset on trust absolutely for itself and consequently for the Sukukholders. The latter are entitled to one-off distributions and/or periodic distributions from the sub-lease payments from the GOM based on a pre-agreed ratio. Should the sub-lease payments from the GOM fall short of the expected return, PjH has to cover the shortfalls. The sukukholders shall pay any return above the expected return to PjH, the appointed manager of the Musyarakah Venture, as incentive fee.

PjH also provides a purchase undertaking to purchase the sukuk from the trustee upon occurrence of a scheduled dissolution or dissolution event. MARC assigned a AAA_{IS} rating to the Sukuk issuance on the basis of the contractual lease rentals payable by the GOM (rated AAA) in respect of Parcel E, and PjH's senior unsecured debt rating of AAA. PjH's strong earnings and cash flow generating ability as well as superior financial flexibility derived from its majority ownership by Petroliam Nasional Berhad (Petronas) through KLCC (Holdings) Sdn Bhd and Khazanah Nasional Berhad provided support for its senior unsecured debt rating of AAA.

Exhibit 5: Putrajaya Holdings Transaction Structure



d) Sukuk Musyarakah with Purchase Undertaking

MARC assigned an initial rating of AAA_{IS} to Projek Lebuhraya Usahasama Berhad's (PLUS Berhad) RM23.35 billion Sukuk Musyarakah Programme under which senior secured sukuk was subsequently issued to part fund the acquisition of assets and liabilities of PLUS Expressways Berhad (PEB), including PEB's Malaysian highway concession assets. The senior secured sukuk ranks equal to other senior unsecured sukuk in PLUS Berhad's capital structure; however, repayment of the senior unsecured sukuk has been guaranteed by the Government of Malaysia (GoM). The guaranteed unsecured sukuk (GG Sukuk) will mature after the expiry of the rated programme.

The sukuk rating, which fundamentally represents MARC's government-related issuer rating on PLUS Berhad, benefited from a rating uplift due to perceived support from the Government of Malaysia (GoM). The two-notch support uplift from PLUS Berhad's standalone credit assessment incorporates the government's strong track record of providing support to the tolled expressways concessions that comprise the tolled expressways portfolio of PLUS Berhad as well as the guarantee by the government for the unsecured sukuk to be issued by the company. MARC took into account the government's high direct and indirect ownership level and golden share in PLUS Berhad. The rating agency's view that GoM would have significant commitment and incentives to ensure the financial stability of PLUS Berhad was premised on the economic significance of key transportation links, namely the North South Expressway (NSE) and the Penang Bridge, in PLUS Berhad's tolled expressways portfolio, as well as the adverse repercussions of a default on the senior secured sukuk for the guaranteed unsecured sukuk arising from cross-default provisions.

MARC's standalone credit risk assessment of AA for PLUS Berhad, meanwhile, reflects the following credit strengths: the NSE's history of strong performance and the stability of tolled traffic on the expressway, the trajectory of steady growth in traffic volumes for most of the tolled expressways comprising PLUS Berhad's tolled expressways portfolio, the geographic diversity afforded by the five tolled expressways relative to single asset projects and the company's majority government ownership.

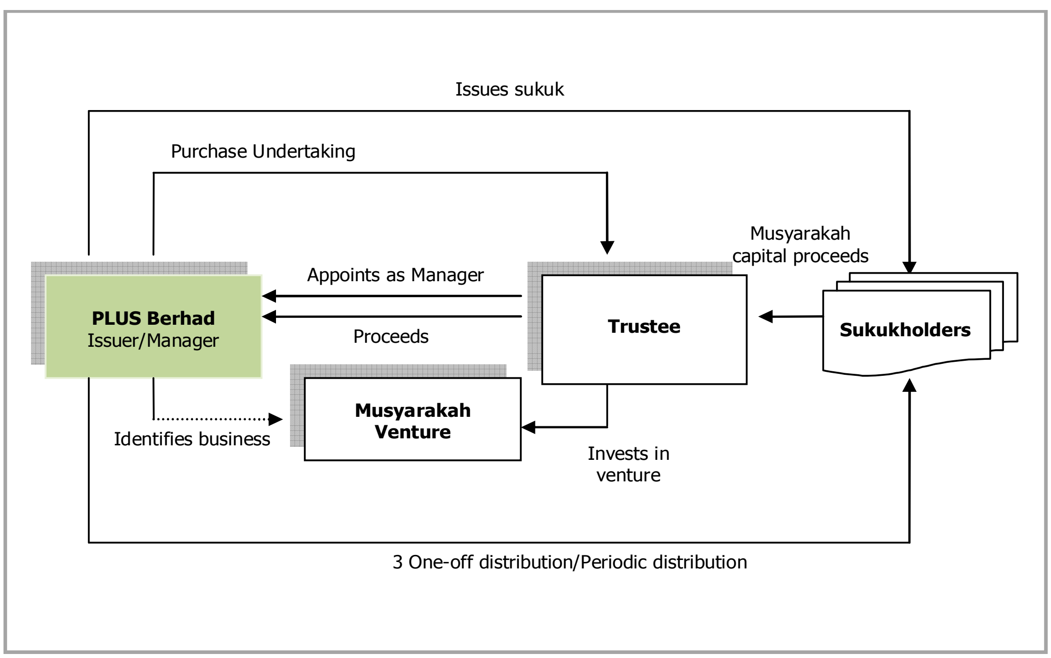
These strengths are tempered by the inherent risks in toll expressway projects which include the sensitivity of traffic volumes to economic cycles and the opening of competing routes, as well as PLUS Berhad's aggressive capital structure. PLUS Berhad's paid-in equity capital will be modest, at RM50 million, relative to the debt in capital structure which includes an additional RM3.35 billion of Redeemable Convertible Unsecured Loan Stocks (RCULS) subordinated to the RM23.35 billion senior sukuk and RM11.0 billion GG Sukuk.

Investors of each tranche of sukuk are required to form a Musyarakah venture as part of the financing arrangement, via subscription of the relevant sukuk. The Musyarakah Partnership subscribes sukuk to be issued by PLUS Berhad, which will hold underlying assets on trust for the benefit of the sukukholders (refer to Exhibit 6) and will repay the sukuk with future operating cash flows from the acquired portfolio of tolled expressways, the concessions of which will be novated to the issuer.

The sukuk represent the undivided proportionate interest of the respective sukukholders in the Musyarakah venture. Income from the Musyarakah venture shall be distributed periodically to the sukukholders. The periodic distribution shall be made semi-annually or such period to be determined prior to each issuance of the sukuk. In the event of any shortfall between the periodic distribution and the expected periodic distribution for such relevant period, PLUS Berhad shall make good any difference. Any income in excess of the expected periodic distribution shall be retained by PLUS Berhad as an incentive fee.

PLUS Berhad has provided a purchase undertaking to purchase the sukuk from the trustee by entering into a sale agreement and pay the exercise price on either the maturity date of the sukuk or on the dissolution date, whichever is earlier. PLUS Berhad shall be entitled to set off the exercise price with any top-up payments made.

Exhibit 6 : PLUS Berhad Transaction Structure



e) *Sukuk Musyarakah issued by an Islamic Financial Institution*

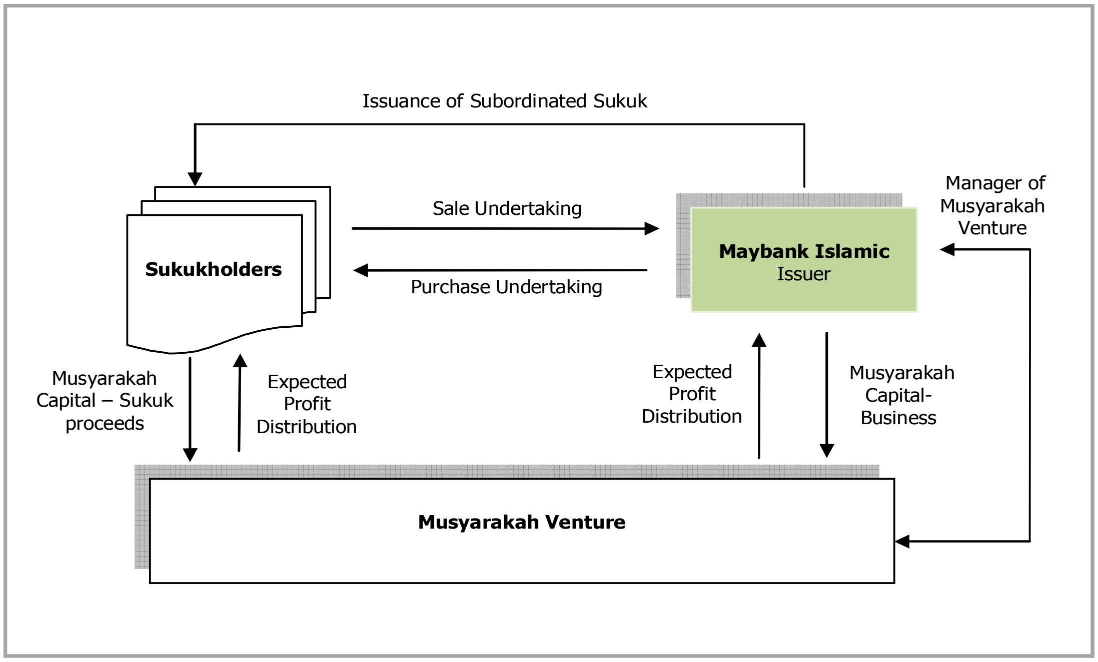
Maybank Islamic Berhad's (Maybank Islamic) up to RM1 billion Islamic Subordinated Sukuk is an example of a Sukuk Musyarakah issuance by a financial institution for the purposes of raising Tier-2 capital. The Subordinated Sukuk was rated one notch lower than Maybank Islamic's financial institution rating to reflect the subordinated position of the sukuk relative to Maybank Islamic's depositors and other senior creditors. The approach that MARC has taken with respect to the financial institution rating of Maybank Islamic is to equalise the subsidiary's rating with that of its parent, Malayan Banking Berhad (Maybank) (currently rated AAA). Maybank Islamic's obligations are expected to benefit from the full support and credit strength of the Maybank Group.

Based on the Islamic partnership principle, i.e. Musyarakah, the Subordinated Sukuk issuance will involve the investors (Sukukholders) together with Maybank Islamic entering into a Musyarakah Agreement as partners (Musyarakah Partners) for the sole purpose of undertaking a venture (Musyarakah Venture) to directly invest in the Syariah-compliant activities or business of Maybank Islamic (Business). Maybank Islamic then issues the sukuk and the proceeds raised from the Sukukholders are used as capital contribution of the Sukukholders to the Musyarakah Venture. Maybank Islamic will concurrently contribute its Business as capital contribution into the Musyarakah Venture and declare that it holds on trust over all its interest in the Business for the benefit of itself and the Sukukholders (refer to Exhibit 7). In essence, the sukuk represent the Sukukholders' undivided proportionate ownership in the Musyarakah Venture.

Maybank Islamic is appointed as the manager of the Musyarakah Venture and the Sukukholders consented that any excess profit from the expected periodic distribution will be retained by the manager as an incentive fee. Profit derived from the Musyarakah Venture is distributed based on a pre-agreed profit sharing ratio determined prior to the issuance of the sukuk while losses shall be borne in proportion to each of the partner's contribution towards the Musyarakah. The expected return to the Sukukholders under the Musyarakah Venture will be the yield for the sukuk up to the respective maturity date. Income from the Musyarakah Venture will be distributed semi-annually in the form of periodic distribution while any shortfall between the expected periodic distribution and the actual income generated from the Musyarakah Venture during the relevant period will be paid by Maybank Islamic as an advance part payment of the exercise price.

Similar to structures that involve purchase and sale undertakings, in this case, Maybank Islamic undertakes to purchase the Sukukholders' interest in the Musyarakah Venture from the trustee for and behalf of the Sukukholders at an exercise price upon redemption of the sukuk/occurrence of defined dissolution events/regulatory event/optional redemption by Maybank Islamic. Conversely, the Trustee undertakes (for and on behalf of the Sukukholders) to issue a sale undertaking in favour of Maybank Islamic. Based on the aforementioned, MARC's rating assessment of the sukuk is premised on the underlying credit strength of Maybank Islamic to service and fulfill all its financial obligations under the Islamic Subordinated Sukuk Facility.

Exhibit 7 : Maybank Islamic Transaction Structure



III. Sukuk Al-Murabahah Structures

The transaction involving Sukuk Murabahah is relatively straightforward. The Murabahah contract is between a buyer who is in need of financing, and buys from a seller on credit upon fixing the future payment date. Although the deferred price can be higher than the spot price, the mark-up or profit is declared and can be incorporated into the selling price.

a) Project Finance Sukuk Murabahah

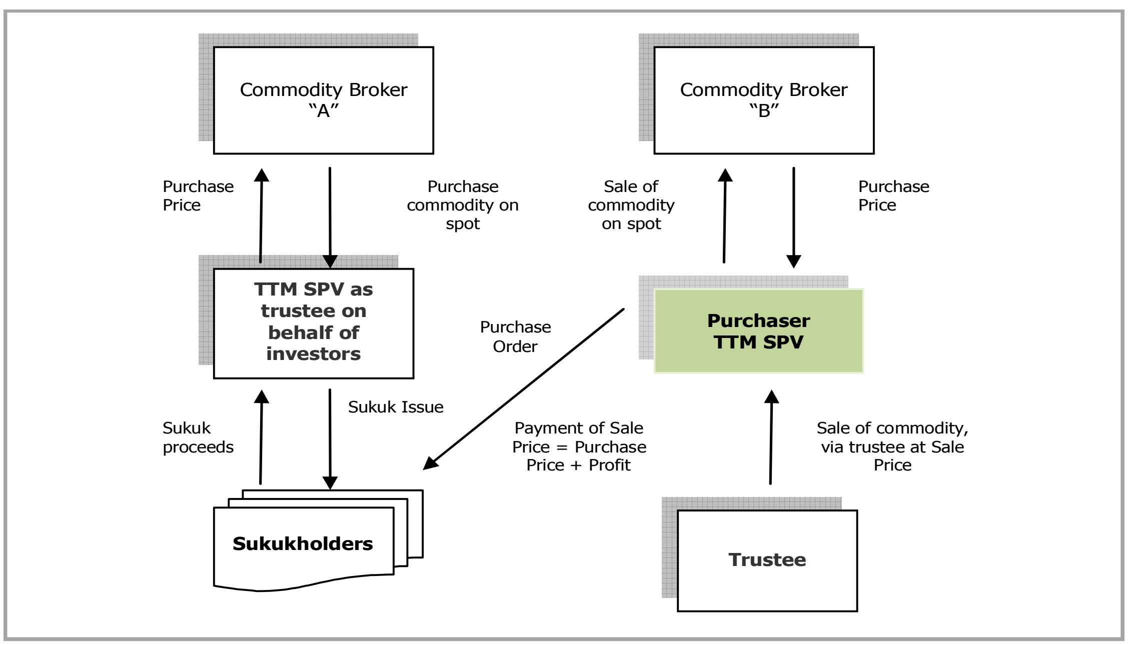
In this transaction, TTM Sukuk Berhad (TTM SPV) was established as a special-purpose funding vehicle to undertake the issuance of RM600 million Sukuk Murabahah. As shown in Exhibit 8, the proceeds from the sukuk were loaned to parent Trans Thai-Malaysia (Thailand) Ltd (TTMT) and subsequently used to fund the capital costs and working capital requirements for the second phase of the Trans Thailand-Malaysia gas pipeline and separation project (TTM Project Phase II). TTMT is the owner and operator of the TTM Project Phase II, a 50:50 joint venture of Malaysia's national oil company Petroliam Nasional Berhad Petronas) and Thailand's PTT Public Company Ltd (PTT). A key consideration is that the TTM Project presently supplies a meaningful share of Peninsular Malaysia's and Thailand's natural gas needs. The sukuk repayments are sourced through future cash flows generated from assets which benefited from the sukuk funding.

The initial rating of AAA_{IS} on the sukuk reflected MARC's assessment of TTMT's overall creditworthiness with the benefit of uplift from shareholders' support. While TTMT's payment sources for debt taken to fund the first and second phases of the TTM Project are linked to the respective revenue streams generated by the operating assets financed, the credit risk of the sukuk is driven more by TTMT's overall creditworthiness than the performance of the Phase II pipelines as a result of provisions on cross-acceleration and cross-default in the sukuk and existing Phase I debt as well as TTMT-level financial covenants. The initial rating on the sukuk also took into account TTMT's extremely strong shareholder support, evidenced by direct bridging loans and equity injections. The TTM Project is viewed by MARC as strategic to the two national oil companies.

The subsequent rating affirmation, meanwhile, reflected the project's satisfactory performance and cash flow generation since Phase II became fully operational in June 2010. Project debt service coverage for the six months to June 30, 2011 (1HFY2011) was within base case projections. The reliability of future cash flow, going forward, is supported by the credit strength of sole project offtaker PTT and contractual capacity revenues which are expected to be more than adequate to service debt payments. As anticipated and incorporated in the initial rating, MARC further noted that company-level cash flow protection measures are stronger than that at project level (Phase II), providing additional support for the sukuk rating. In addition, the rating continued to incorporate support uplift based on the project's economic importance and the financial strength of project sponsors, particularly the creditworthiness of PETRONAS. The sukuk rating is not constrained by Thailand's foreign currency rating notwithstanding the fact that TTMT and the sole offtaker are domiciled in Thailand and project revenues are denominated in the USD or THB equivalent. MARC believes that transfer and convertibility risks are adequately mitigated by the perceived strong incentive on the part of national oil company PETRONAS to provide ringgit liquidity in the event foreign exchange restrictions are imposed by the Thai government and affect TTMT's ability to convert THB-denominated payments into USD for onward remittance to TTM SPV.

Under TTM SPV's RM600 million Sukuk Murabahah, the sukuk were issued under the principle of Murabahah based on the Commodity Murabahah structure. This is based on the concept of Tawarruq, which involves a purchasing and selling agent to trade Syariah-compliant commodities at deferred payment basis at cost plus profit. TTM SPV is appointed as the purchase trustee for the Sukukholders to buy the commodity and irrevocably undertakes to purchase the commodity from the Sukukholders. TTM SPV purchases the commodity at a purchase price equivalent to the sukuk proceeds and thereafter sells the commodity at an amount equal to the purchase price. In return, Sukukholders are entitled to receive the Murabahah Sale Price (purchase price plus profit) payable by TTM SPV on a deferred basis. The source of repayment for the sukuk comes from TTMT's repayment of the intercompany loan which has been structured to match the quantum and maturity of the sukuk.

Exhibit 8 : TTM Sukuk Berhad Transaction Structure

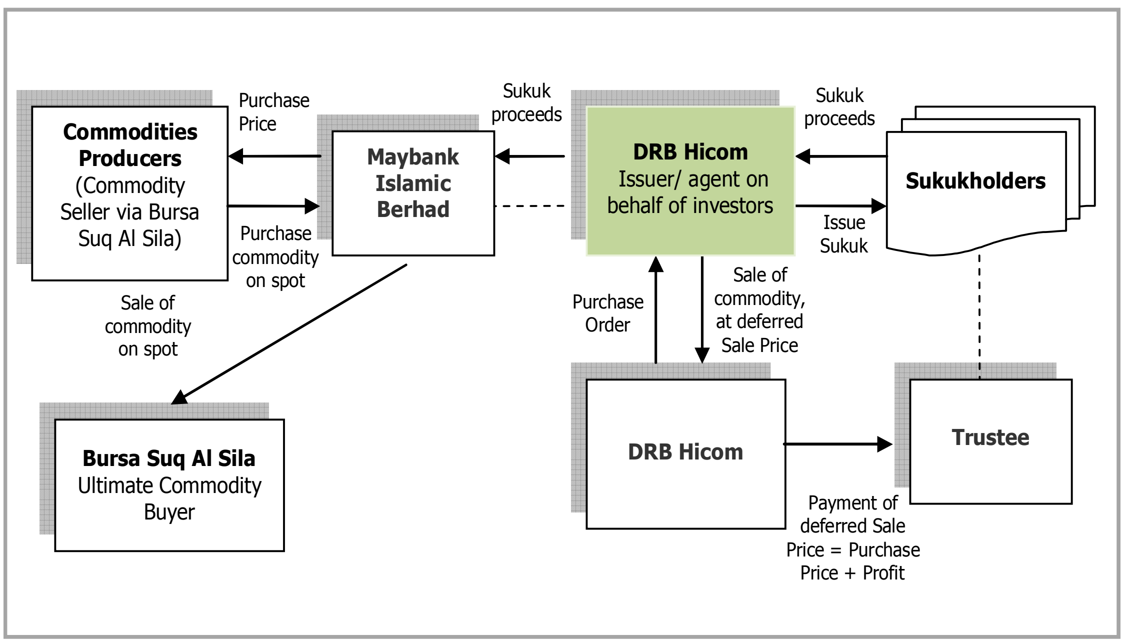


b) *Corporate Sukuk Murabahah*

DRB-Hicom Berhad's (DRB-Hicom) RM1.8 billion Islamic Medium Term Notes Programme provides an example of an issuance by a corporate/conglomerate with diverse interests in the automotive, service concessions, financial services and property sectors. MARC's rating on the programme is entirely based on the credit risk of DRB-HICOM. The initial rating of AA-$_{IS}$ had reflected the investment holding company's manageable debt maturity profile as well as the group's business line diversity which MARC believed would contribute to higher future earnings stability, a strong market position in the domestic automotive industry, the overall positive momentum in group operating profitability, and the reasonable dividend capacity of its operating subsidiaries. The rating on the sukuk and rating outlook will be primarily driven by the credit quality of DRB-Hicom.

The structure for the sukuk issuance under the rated programme is based on the Syariah principle of Murabahah via Tawarruq arrangement. As shown in Exhibit 9, in the first leg of the transaction, DRB-HICOM as the issuer of the Sukuk Murabahah, is appointed as agent (wakeel) for the sukukholders to buy Syariah-compliant commodities from the commodity seller equal to the amounts disbursed under the facility. In the second leg of the transaction, the commodities will be purchased by DRB-HICOM from the sukukholders' appointed agent in the Bursa Suq Al Sila at cost price plus a profit margin on a deferred basis. Sukukholders are thus entitled to receive the purchase price plus profit payable by DRB-HICOM on a deferred basis.

Exhibit 9 : DRB Hicom Berhad Transaction Structure



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