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SUKUK FOCUS

February 2013

2012: Riding the Momentum

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The global sukuk market scaled new heights in terms of issuance in 2012, continuing the growth trajectory set the year before; sukuk issuance leapt 50.3% to USD139.2 billion (2011: USD92.7 billion).

Sovereign sukuk also maintained its foothold in the global arena last year, with Malaysia, Qatar (whose USD4 billion sukuk heralded the country's second issuance after 9 years) and Turkey (with its maiden origination) making significant contributions in terms of issue value and milestones.

This year's first edition of Sukuk Focus will chronicle the issuances that had made 2012 a success.

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Sukuk Wrap-up 2012: Riding the Momentum

Sukuk issuance wave set to continue

Sukuk charted another stellar year in 2012 in terms of issuance with an impressive haul of USD139.3 billion – an increase of 50.3% from the previous year. The picture looks set on remaining healthy going forward, with global demand for sukuk projected to rise to USD900 billion by 2017 from the estimated USD300 billion in 2013¹. A strong issuance pipeline is expected, with an additional USD27 billion already announced for 2013. Saudi Arabia is expected to emerge as a key player in the sukuk market, with a projected 20% of total issuance.

Meanwhile, Malaysia is well poised to maintain its dominance in terms of the overall value of sukuk issuance. Besides yet another record issuance year, the sukuk market will be boosted by notable issues from the likes of the General Authority of Civil Aviation (“GACA”) II, Saudi Aramco, Saudi Basic Industries Corporation (SABIC), Mining Company Ma’aden, National Commerce Bank, food producer Almarai Company and Savola Group Company all originating from Saudi Arabia. For the first time, the governments of Egypt and Jordan expect to raise funds through sukuk. Tilal Development Company, an Omani real-estate developer, is envisaged to issue the first sukuk in Oman.

The overall development of the sukuk market points to a steady growth momentum, with the industry looking forward to issuances from a number of emerging markets, particularly Oman and Egypt. Amid the sukuk market’s prolific growth during 2002-2012 - spurred by record issuances in the last 2 years - demand is anticipated to continue outstripping supply in the short to medium term.

Based on data from Thomson Reuters Zawya (“TRZ”), the sukuk market expanded 53% between 2002 and

2012. One noticeable trend that has continued through to 2012 was the rise of sovereign sukuk issuance. On average, such sukuk accounted for 54% of all sukuk issued between 2002 and 2012.

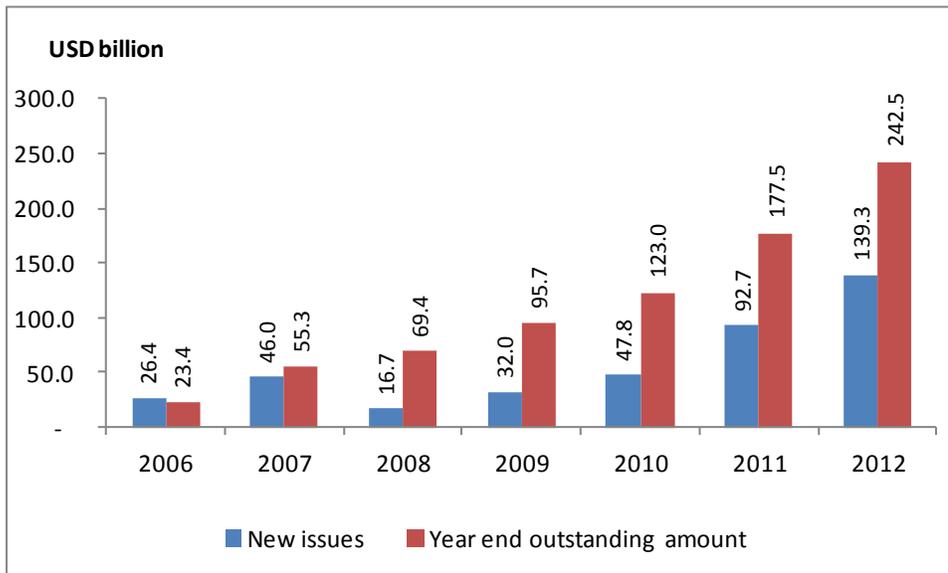
Scaled new heights in 2012

The sukuk market scaled unprecedented heights in 2012, confirming its status as the fastest-growing segment within Islamic finance. Last year kicked off at a blistering pace, with USD20.3 billion of issuance in January alone (i.e. +59.6% y-o-y). This had come on the back of a successful 2011, which had seen the topping of earlier peaks and had helped drive the market’s momentum. New issues amounted to USD139.3 billion in 2012, translating into a 50.3% y-o-y surge and bringing the total value of outstanding sukuk to USD243 billion at the end of the year (refer to Chart 1).

Sukuk charted another stellar year in 2012 in terms of issuance with an impressive haul of USD139.3 billion – an increase of 63% from the previous year

¹According to estimates by Ernst & Young

Chart 1: Global sukuk issuances and outstanding (by value) from 2006 to 2012



Source: Zawya, IFIS, KFHR

Last January, significant sukuk issues made their debut; a substantial portion was represented by Projek Lebuhraya Utara-Selatan Berhad's USD9.7 billion sukuk. The second-largest issuance had taken the form of a single-tranche transaction by GACA, valued at USD4 billion. Proceeds from this 3-times-oversubscribed sukuk will be used to finance the development of Saudi Arabia's King Abdulaziz International Airport. Other sukuk issues in January 2012 included the 2.8-times-oversubscribed USD500 million Mudaraba and Wakala sukuk of First Gulf Bank, i.e. the second tranche of its USD3.5 billion programme. Proceeds from this will be used to diversify the bank's funding base and secure long-term USD funding to expand its loan book. At the same time, Tamweel issued the first USD300 million tranche of its USD1 billion programme, after having delayed it in late 2011 amid the turbulent global conditions. The proceeds from this will allow Tamweel to repay some of its debts while growing its mortgage lending business. In Malaysia, Sarawak Energy Berhad

issued a USD801.7 million second tranche of its USD5 billion Musharakah programme.

On the flip side, sukuk issuance almost halved to USD10.9 billion in February 2012, amid a more subdued market. Instability in the Middle East may have played a part in this, against the backdrop of rising tension in Syria and Egypt. Although these countries have not been active in Islamic finance, their problems have indirectly affected the global financial markets. Despite the bedlam, UAE conglomerate Majid Al Futtain came out with a USD400 million sukuk at the beginning of the month; this represents part of a USD1 billion programme to finance its group expansion. The issuance proved to be a success, having been oversubscribed 4 times. Malaysia's Maxis Bhd issued a substantial sukuk offering in 1Q 2012, valued at USD810.7 million; this is to finance its capital expenditure.

In March 2012 Abu Dhabi National Energy Company opted to diversify its funding avenues by tapping into

the Malaysian market, issuing USD215 million out of its USD1.2 billion Sukuk Murabahah programme. Al Marai Company, the Gulf region's biggest dairy firm, issued its maiden USD266.6 million Mudarabah and Murabaha sukuk. On the Malaysian front, Khazanah Nasional issued a 7-year USD357.8 million exchangeable sukuk programme while Encorp Systembuilt issued its USD527 million Sukuk Murabahah programme; the latter was 5 times oversubscribed. Malaysian Airline System ("MAS") issued a USD330 million of its USD833 million perpetual sukuk programme in June 2012. The first tranche of the hybrid equity capital structure was regarded as the first such issuance from an aviation company. The sukuk programme is part of MAS' USD2.83 billion financing plan that will be used to fund the purchase of 23 new planes including six Airbus A380s as well as for working capital.

Other notable issues followed in the middle of the year with Gulf Investment Corporation issuing the second USD52.9 million tranche of its USD 1.2 billion Sukuk Wakalah bi Istithmar sukuk programme (launched in 2011). On 19 June, Islamic Development Bank went to market with another tranche amounting to USD800 million of its USD6.5 billion sukuk programme. On the sovereign front, Qatar's USD4 billion, two-tranche sukuk – priced at USD2 billion each – entered the market. The 5 and 10-year sukuk were the Qatari government's second after nine years. Development Bank of Kazakhstan's 5-year ringgit sukuk (USD75.5 million) also proved to be a milestone, with the issuance being the first sukuk issued by the Commonwealth of Independent States (CIS) country, which will likely spur more issues in Central Asia's largest economy.

In September 2012, Turkey finally offered its first sovereign sukuk in the international markets, raising USD1.5 billion and marking its long-awaited entry into the Islamic capital markets; this sets the benchmark for more corporate sukuk from the republic. Other notable issues include Sabana REIT's SGD80 million sukuk (USD69.6 million), which was listed on the Singapore stock exchange. In the meantime, sukuk kept being

issued, with many Asian and Gulf issuers venturing abroad to other regions increasing cross-border flows.

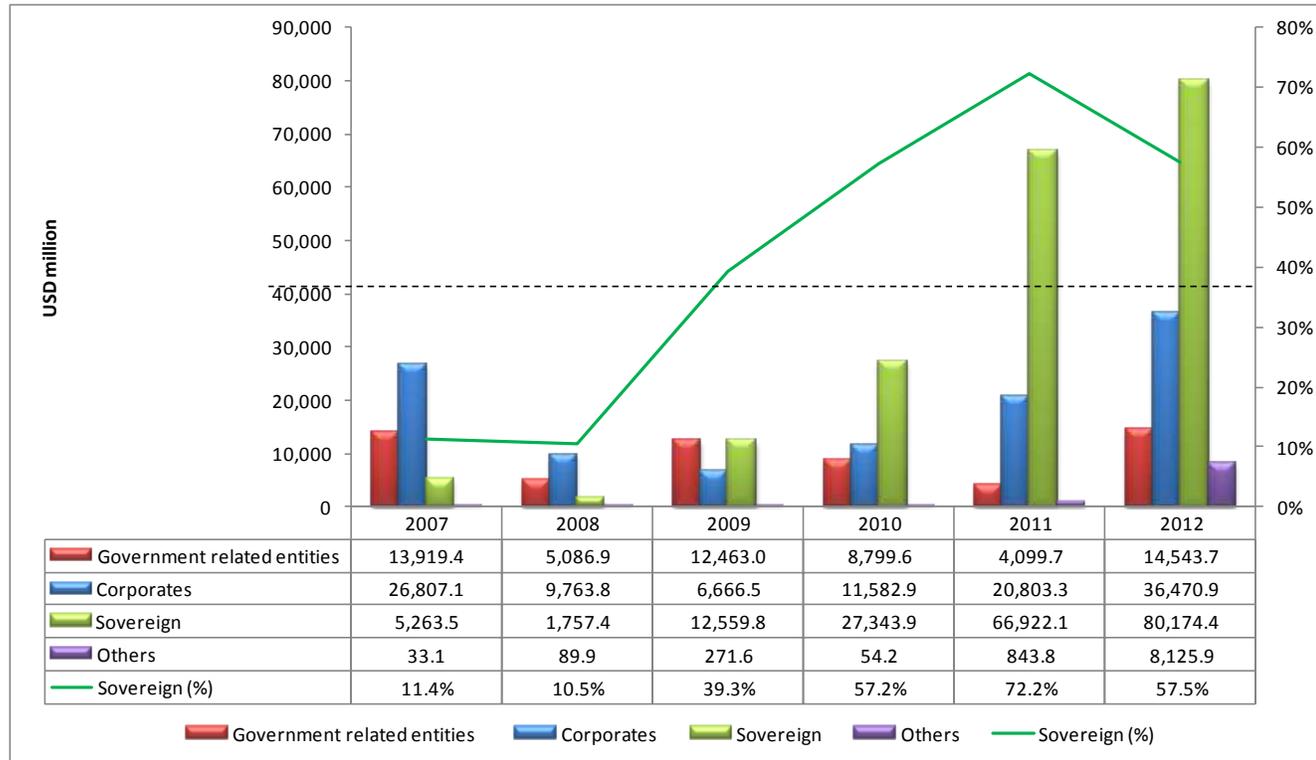
Notable issuances during November include the global US dollar sukuk by the Indonesian government. A total of USD1 billion was raised under a sukuk Ijarah structure for a 10-year tenure. Other issuances include the USD1 billion issuance by Abu Dhabi Islamic Bank. Used to support the bank's capital structure, the perpetual sukuk attracted more than 15 times in book orders.

The rise of sovereign sukuk

A prominent theme in the sukuk arena that carried through from 2010 to 2012 is the increasingly diverse range of countries that has looked to sovereign issuance as a method of financing. Sovereign sukuk are starting to find their feet as a valuable and viable tool to raise public funding.

In September 2012, Turkey finally offered its first sovereign sukuk in the international markets, raising USD1.5 billion and marking its long-awaited entry into the Islamic capital markets

Chart 2: Issuance of global sovereign sukuk (by value), 2007 to 2012



Source: IFIS, KFHR

Since the inception of the sukuk market, the value of sovereign sukuk issued cumulatively as at end-December 2012 stands at USD194 billion. Based on data from Islamic Finance Information Service (“IFIS”), sovereign sukuk has been the main booster of the sukuk market, with a significant 145.1% y-o-y increase (or USD66.9 billion) in 2011 (2010: USD27.3 billion). In 2012, the amount of sovereign sukuk issued summed up to USD80.2 billion. Of those, Malaysia and Saudi Arabia were the frontrunners in the issuance of sovereign sukuk accounting for a respective 74% and 8%.

Record sovereign issuances from countries such as Indonesia and Qatar, and promising debutantes such as Saudi Arabia, Turkey, Kazakhstan and a growing number of African countries, are all contributing to a

vibrant global sukuk market. This is one of the leading drivers in the development of the Islamic finance industry, creating new opportunities and encouraging corporate sukuk to follow suit.

Last year was marked by positive moves from the Middle East, including a substantial upswing in public spending on the back of lofty oil prices, coupled with more upbeat investor sentiment and increasing interest in more diverse funding sources. As investors recover from the debt-restructuring debacle, demand is once again rising for high-quality offerings; the region is experiencing a slew of sovereign fund-raising efforts to support economic growth. As mentioned earlier, Qatar launched its 9-year sovereign sukuk in July 2012, i.e. a USD4 billion 2-tranche Ijarah issue. The sukuk programme had attracted an exceptionally robust order

book, which was six times oversubscribed, highlighting the strong global demand for Islamic sovereign papers.

Bahrain had also remained active in the sukuk market with a USD750 million sukuk in June, which had elicited USD1.8 billion of demand. The Qatari and Bahraini issues spiked up Gulf sovereign sukuk last year, aided by international enthusiasm for Islamic liquidity to fund public infrastructure.

In the last 5 years, however, Indonesia has been stepping up its sovereign-paper programme, with the introduction of new sukuk laws and more favorable legislation to encourage issuance. The country recently announced a further 15% increase in infrastructure investment for 2013, which will also be funded by sovereign debt. The substantial Indonesian requirements for public infrastructure and project finance should boost sovereign issuance and attract more interest over the next 2 years. The Indonesian government expects infrastructure spending to exceed USD72 billion over the next 5 years, and is keen to follow Malaysia and the Gulf region's example on tapping Islamic liquidity to help finance this.

Potential sovereign sukuk boom in 2013

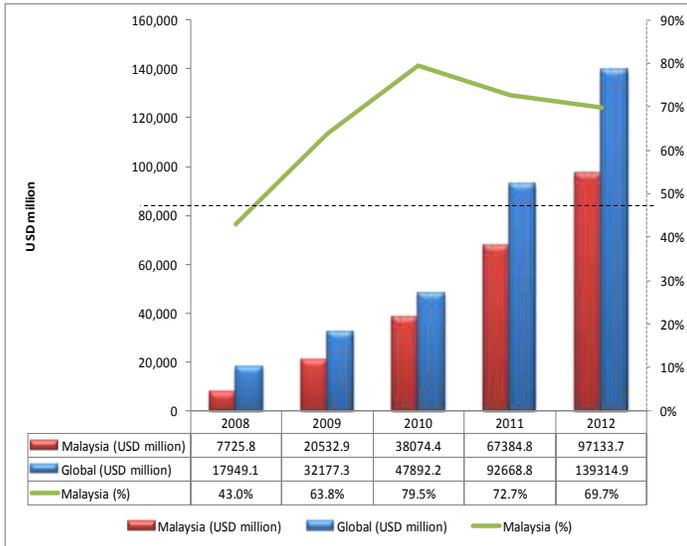
Following in the footsteps of these trailblazers are a multitude of new countries keen to tap the opportunities offered by Islamic investments. As mentioned earlier, both Kazakhstan and Turkey made significant contributions in the global sukuk market. Elsewhere, Africa is also in the picture, with the announced maiden USD200 million sovereign sukuk from Senegal and a potentially 5-7 years Nigeria sovereign sukuk². Last May, Egypt announced that it was planning a USD2 billion sovereign sukuk. In the meantime, the long-awaited South African sovereign sukuk amounting to an estimated USD5-7 billion is expected to be issued to both domestic and international investors, particularly in the Middle East.

Snapshot of Malaysian sukuk landscape

Malaysia continued to dominate the global sukuk market with issues mainly to fund infrastructure development. Besides the PLUS issuance, regular issues were made by the Malaysian government and central bank, amounting to a total of USD63 billion. Overall, Malaysia issued USD97.1 billion of sukuk last year, accounting for 69.7% of the total (refer to Chart 3). As with the global scene, Malaysian sukuk issuances have hit a record high. The market continues to be boosted by encouraging demands for ringgit-denominated sukuk and a comprehensive regulatory framework. In addition, continuous development plans especially in the infrastructure sector ensured the growth of the sukuk market. Infrastructure projects will also be boosted by the National Economic Transformation Plan which charts the ongoing development plans over the next decade. This factor also underlines the importance of Malaysia in the global sukuk market, with Malaysia continuing to dominate as the destination choice for sukuk issuances. This is reflected in Malaysia's continued dominance over the years where the country has been the largest issuer for several years, although notable players such as Saudi Arabia and the UAE are expected to increase their market shares in 2013.

² According to Zawya Sukuk Monitor

Chart 3: Sukuk issuances from 2008 to 2012 (Malaysia versus global)

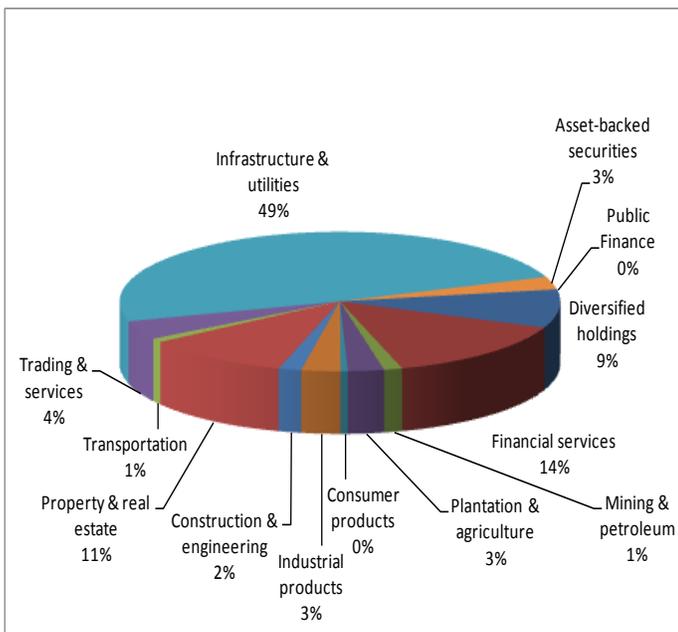


Source: IFIS, KFHR

4 sectors actively issued rated corporate sukuk last year: infrastructure and utilities; financial services; diversified holdings; and property and real estate (refer to Chart 3). The infrastructure and utilities sector remained in the top spot, wresting 49% of the market's total rated sukuk, despite a decrease of 2% from December 2011. This was followed by financial services (14%), property and real estate (11%), and diversified holdings (9%). The remainder stemmed from trading and services (4%), industrial products (3%), and asset-backed securities (3%).

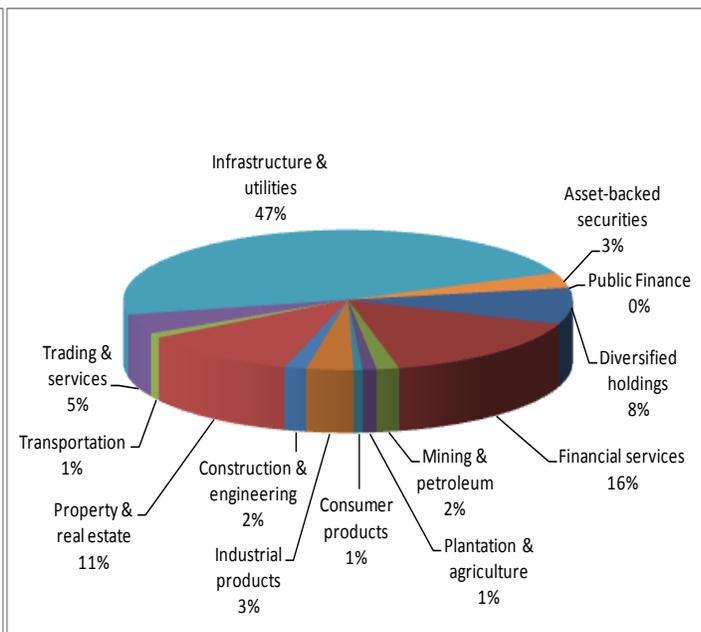
Chart 3: Value of corporate sukuk issued and rated, by economic sector

As at end-December 2012



Note: Total value = RM459 billion
Source: RAM, FAST, BNM

As at end-December 2011



Note: Total value = RM386 billion

Looking forward to 2013: Record likely to be broken again

2013 is expected to be another record year, with new countries finalising legislation on sukuk issuance. The increase in global sukuk issuance is forecasted mainly driven by further regulatory and legislative developments. Sovereign sukuk is also trending upwards

amid government initiatives to spur domestic infrastructure projects. The continuous development of legislation from various countries (such as Oman - where the Capital Market Authority has completed the initial regulatory and legislative draft for sukuk in October 2012) will promote more sukuk issuance, thus boosting positive sentiments and the sukuk market as a whole.

Sovereign sukuk is also trending upwards amid government initiatives to spur domestic infrastructure projects

Malaysian Sukuk Market

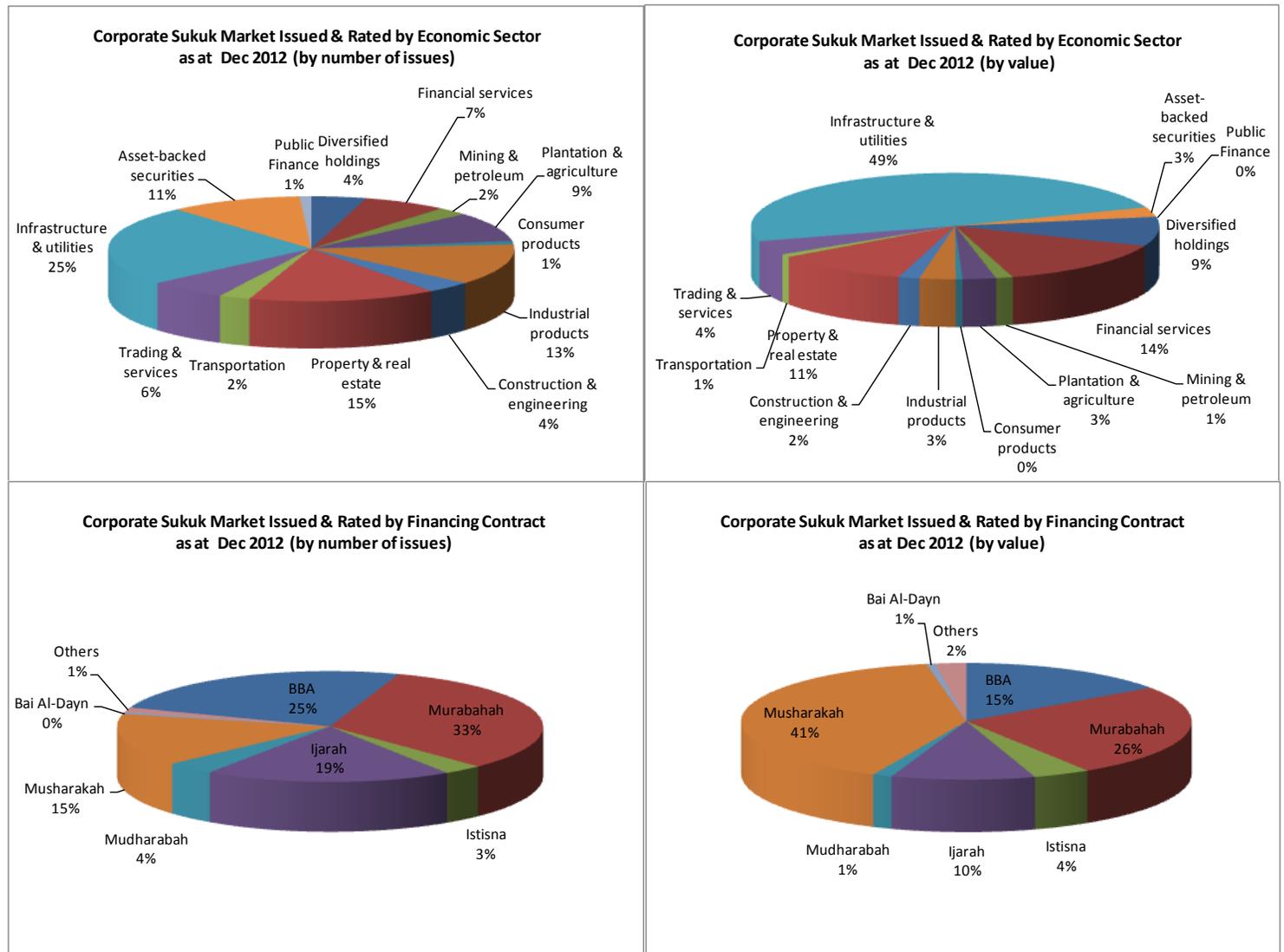
Malaysian Rated Corporate Sukuk Market League Table of Lead Managers as at 31 December 2012 by Programme Value

	RM Million	%
CIMB Investment Bank Berhad	32,915	49.8%
Standard Chartered Bank Malaysia Berhad	8,000	12.1%
Maybank Investment Bank Berhad	6,440	9.8%
HSBC Amanah Malaysia Berhad	4,973	7.5%
RHB Investment Bank Berhad	4,143	6.3%
HSBC Bank Malaysia Berhad	3,410	5.2%
AmInvestment Bank Berhad	1,500	2.3%
Hong Leong Investment Bank Berhad	1,025	1.6%
Bank Muamalat Malaysia Berhad	1,023	1.5%
The Royal Bank of Scotland Berhad	750	1.1%
Affin Investment Bank Berhad	643	1.0%
OCBC Bank (Malaysia) Berhad	643	1.0%
Kenanga Investment Bank Berhad	525	0.8%
Deutsche Bank (Malaysia) Berhad	20	0.0%
Hong Leong Islamic Bank Berhad	20	0.0%
OSK Investment Bank Berhad	-	0.0%
Public Investment Bank Berhad	-	0.0%
United Overseas Bank (Malaysia) Berhad	-	0.0%
	66,028	100.0%

The value of consortium issues have been equally divided by the number of lead managers of a consortium

Source : RAM

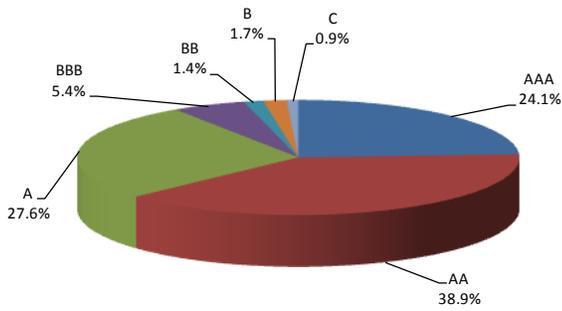
Malaysian Sukuk Market (Rated Sukuk)



Source: RAM

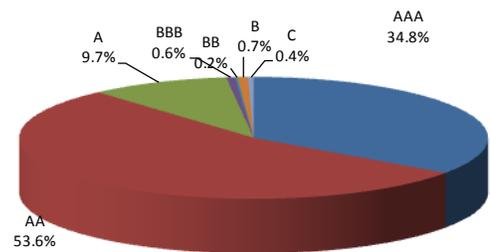
Sukuk Rated by RAM

**RAM Ratings-Rated Sukuk (long-term)
as at Dec 2012 (by number of issues)**



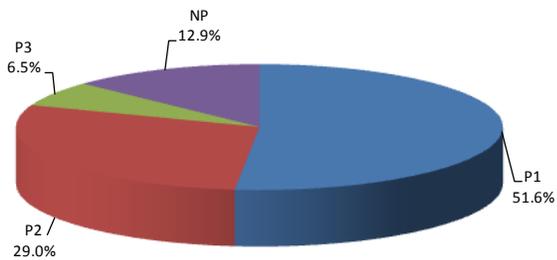
Total number of issues = 352

**RAM Ratings-Rated Sukuk (long-term)
as at Dec 2012 (by value)**



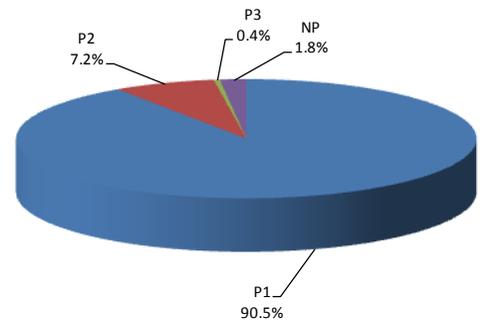
Total value = RM359billion

**RAM Ratings-Rated Sukuk (short-term)
as at Dec 2012 (by number of issues)**



Total number of issues = 31

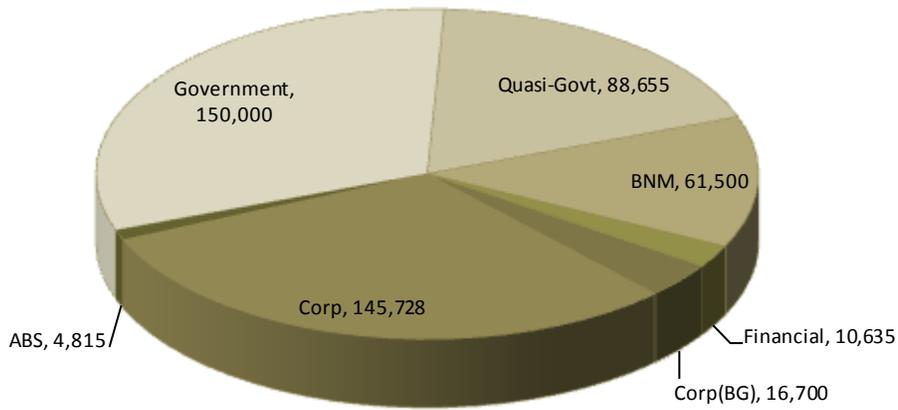
**RAM Ratings-Rated Sukuk (short-term)
as at Dec 2012 (by value)**



Total value = RM19 billion

Source: RAM

Sukuk - Total Outstanding Sukuk (RM million) as at 31 December 2012



Source: BPAM

Top Ten Sukuk Facilities in 2012

Facility Code	Facility Name	Instrument	Maturity Date	Facility Limit
201200041	SUKUK PERUMAHAN KERAJAAN	MTN	31-Dec-55	999,999,999,999.99
201200003	PLUS BERHAD RM23.35 BILLION SUKUK PROGRAMME	MTN	12-Jan-37	23,350,000,000.00
201200004	PLUS BERHAD RM11.0 BILLION GUARANTEED SUKUK PROGRAMME	MTN	12-Jan-39	11,000,000,000.00
201200042	DANAINFRA RM8.0 BILLION GUARANTEED ICP/IMTN PROGRAMME	CP/MTN	20-Jul-62	8,000,000,000.00
201000046	IDB TRUST USD6.5B TRUST CERTIFICATE ISSUANCE PROGRAMME	Undisclosed	27-Oct-10	6,500,000,000.00
201200079	TPSB RM5.311B SUKUK PROGRAMME	MTN	19-Nov-32	5,311,000,000.00
201200078	GOLDEN ASSET RM5.0 BILLION SUKUK MURABAHAH PROGRAMME	MTN	19-Nov-27	5,000,000,000.00
201200063	CTX RM5 BILLION SUKUK PROGRAMME	MTN	27-Aug-27	5,000,000,000.00
201200060	TANJUNG BP RM4.5 BILLION SUKUK IJARAH	MTN	16-Aug-29	4,500,000,000.00
201200013	TBEI RM4500 MILLION SUKUK MURABAHAH UNDER TAWARRUQ (COMMODITIES MURABAHAH) PRINCIPLE	MTN	16-Mar-32	4,500,000,000.00

Source: BPAM

Sukuk Focus

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