

## GLOBAL SUKUK BEGINS 2014 WITH MOMENTUM

A year ending high for Q4 sukuk issuances, combined with news of multiple high profile debut issuances planned for 2014, has provided fresh momentum for the fastest growing sector of the Islamic finance industry.

**29 January 2014**

## Global sukuk issuances rebound in 4Q13 as various stakeholders ignite fresh momentum into the fast expanding sector of the Islamic finance industry

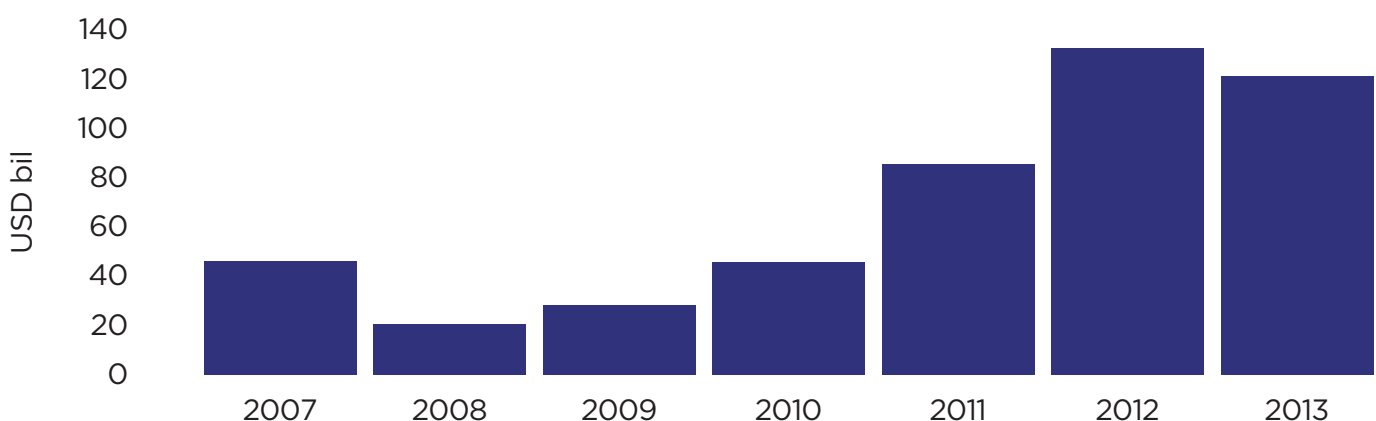
**During 4Q13, global sukuk issuances amounted to USD36.7bln, making it the most performing quarter of 2013 in terms of new issuances.**

The global sukuk market once again breached the USD100bln mark in terms of new issuances with total issuances amounting to USD119.7bln as at end-2013. In the 4Q 2013, sukuk issuances totalled USD36.7bln, higher than the USD21.8bln issuances in 3Q13, USD26.7bln issued in 2Q13 and USD34.5bln issued in 1Q13<sup>1</sup>. The global sukuk market witnessed a fresh momentum during 4Q13 ignited by a number of high profile developments in the sector. The momentum was spearheaded by the landmark announcement in October 2013 by the British government to issue a maiden sovereign sukuk in the 1Q14. The announcement by United Kingdom was followed

by similar sovereign announcements made by the jurisdictions of Hong Kong, South Africa, Luxembourg and Oman during the last quarter of 2013. A number of other jurisdictions including the likes of France, Kenya and Ireland are also considering options to float sovereign sukuk in 2014. The sukuk sector also got a boost from key announcements and issuances by multilateral organisations. For instance, the International Islamic Liquidity Management Corporation (IILM) issued its second tranche of USD490mln short-term sukuk instruments in November 2013. Meanwhile, the Islamic Development Bank announced to issue a USD10bln sukuk to be listed on the Dubai NASDAQ in 2014, with plans to make this issuance regular on an annual basis. Furthermore, the Asian Development Bank (ADB) is also reported to be considering to float a maiden sukuk in 2014.

### Global Sukuk Issuance Trend (2007-2013)

Source: Bloomberg, IFIS, Zawya, KFH Research Limited



<sup>1</sup> KFH Research Limited

Malaysia continued to be the global sukuk market leader with more than USD24bln or approximately 67% of total issuances of 4Q13, reflecting a quarterly growth of 44.7% as compared to the USD16.72bln issuances in 3Q13. The GCC market saw the biggest increase in issuance value in 4Q13 with total issuances amounting to USD10.54bln, a more than seven-fold increase compared to the just over USD1.4bln issuance in 3Q13. The increase in the GCC issuances were spearheaded by the SAR15.2bln (USD4.05bln) sukuk issuance by Saudi Arabia's General Authority of Civil Aviation (GACA), which represents 2013's largest sukuk in terms of issue size. Saudi Arabia led the GCC region with issuances over USD6.4bln in 4Q13 as compared to the USD719.1mln issuance in 3Q13. The GCC sukuk market also witnessed the debut entry of the Sultanate of Oman with a corporate sukuk issuance worth USD130mln in November. Other notable issuers for 4Q13 include inaugural sukuk issuance in Nigeria by the State of Osun worth USD70.62mln, inaugural sukuk issuance in Luxembourg worth USD20mln, and also return of the United Kingdom to the global sukuk market with an issuance worth USD13.57mln.<sup>2</sup>

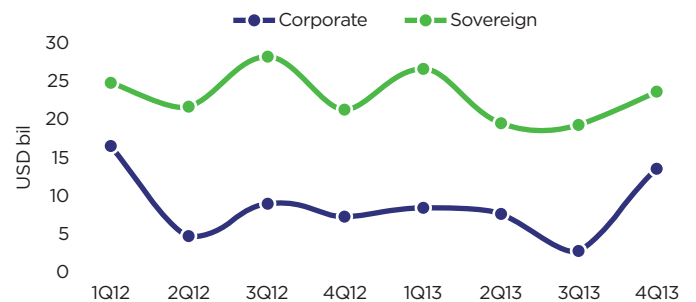
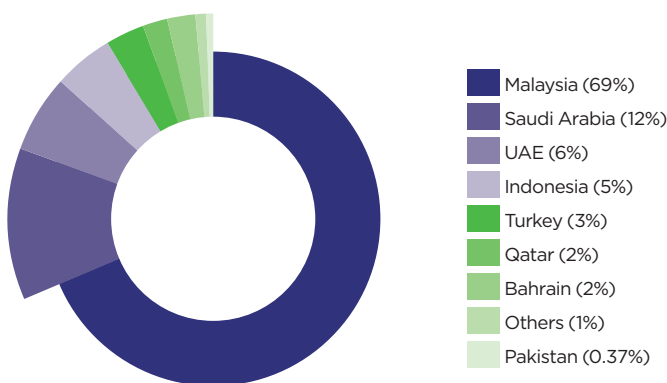
their share in total yearly issuances to over USD88.1bln for 2013. Notably, the corporate sukuk issuances witnessed a major rebound in 4Q13 with issuances amounting to just under USD13.3bln, an almost five times increase from a less than USD2.68bln issuance in 3Q13 when prospects of a tighter US monetary policy suppressed corporate sukuk issuances.

**Global Sukuk New Issuances by Domicile (2013)**

Source: Bloomberg, IFIS, Zawya, KFH Research Limited

**Sukuk Issuances by Issuer Type (1Q12 to 4Q13)**

Source: Bloomberg, IFIS, Zawya, KFH Research Limited  
\*Includes all government-related entities.



In terms of issuances by type, sovereign and quasi-sovereign sukuk issuances have continued to be the key drivers of the global sukuk market with issuances worth USD23.4bln in 4Q13, taking

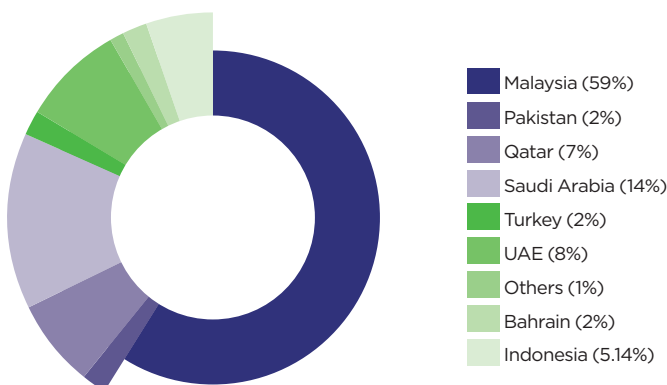
In terms of sukuk issuances by sector, during 4Q13, governments led with a 45% market share (9M13: 69.5%), followed by financial services at 17.12% (9M13: 6.9%), transport with 16.37% (9M13: 3.1%), and telecommunications at 9.25% (9M13: 0.41%). In terms of currency, issuances during the 4Q13 have largely been driven by local currency dominated sukuk, with the Malaysian Ringgit representing the largest share of 63.22% of the issuance value, which however is lower compared to the 75.1% issuance value in the previous quarter. Saudi Riyals were second with a 16.9% share of the issuance value in 4Q13. However, on an annual basis, the US Dollar issuances witnessed increase in proportional contribution with a 15.02% share of total issuances in 2013 as compared to the 13.9% share in 2012. In addition, 4Q13 saw the inaugural entry of sukuk denominated in Omani Riyals (OMR) and Nigerian Naira (NGN) as both domiciles debuted in the global sukuk market during this quarter. Please refer Appendix I for Selected Notable Global Sukuk Issuances (2013).

<sup>2</sup> KFH Research Limited

Overall, global outstanding sukuk reached USD269.42bln as at end-2013, a 17.5% y-o-y growth (2012: 29.9% y-o-y). Malaysia stands out as the only sukuk market with global outstanding above USD100bln while Saudi Arabia, the UAE, Qatar and Indonesia follow significantly behind. As at end-2013, there was USD158.3bln worth of sukuk yet to mature in Malaysia, while sukuk outstanding in the GCC totalled USD85.3bln.<sup>3</sup>

**Global Sukuk Outstanding by Domicile (2013)**

Source: Bloomberg, IFIS, Zawya, KFH Research Limited

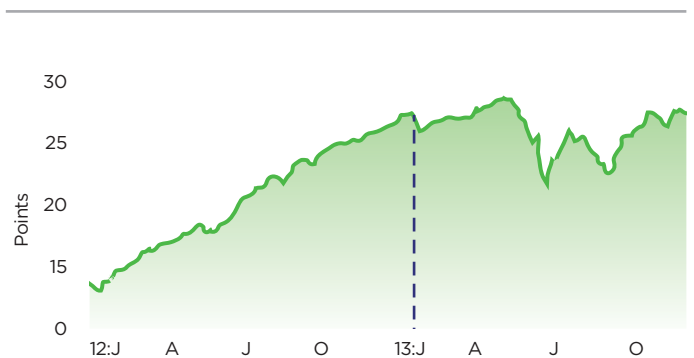


In terms of sukuk performances for 4Q13, sukuk have returned 1.26% during the 4Q13, lower than the 1.71% return recorded in 3Q13, according to the HSBC/Nasdaq SKBI Total Return Index, which tracks returns on an emerging markets sukuk portfolio. In general, 2013 has been a volatile year for the fixed-income instruments market as a whole. The HSBC/Nasdaq SKBI Total Return Index, witnessed a three year record loss due to the potential Fed taper in the second quarter of 2013. The returns have recovered since then as in September 2013, the Fed announced against tapering its monthly bond purchases until further improvements were witnessed in the US economic fundamentals. The SKBI generated total returns of 0.65%

during 2013, much lower compared to the returns of 9.69% during 2012 and 7.13% returns in 2011.

**HSBC/Nasdaq SKBI Total Return Index**

Source: HSBC/Nasdaq, KFH Research Limited  
SKBI – Overall Sukuk Benchmark



**Future Outlook**

Moving in 2014, the global sukuk industry is expected to continue being one of the fastest growing segments of the Islamic finance industry. Over the years, the global pool of Shariah-compliant funds have become an attractive source for various sovereigns, government-related entities and corporates to tap into in order to meet their financing needs. A number of high profile issuances are already in the pipeline for 2014 including among others debut sovereign issuances from United Kingdom, Luxembourg, South Africa, Senegal, Oman, Tunisia and Mauritania. Malaysia will continue to be the global leader for sukuk issuances in 2014 as a number of infrastructural development projects stream in under the Malaysian government’s economic transformation programme. As of Dec-2013, Malaysian sukuk market already had a healthy pipeline of more than 20 issuances lined up for 2014, worth over USD3bln in indicative issuance size. The GCC region will also be a critical driver for sukuk issuances on the back of vast infrastructure and capital expenditure plans in

<sup>3</sup> KFH Research Limited

the region over the next ten years. Based on the announced pipelines, 2014 will also witness the return of France into the corporate sukuk sector after its inaugural and only issuance in 2012. Meanwhile, the more established markets of Indonesia, Pakistan, Turkey and Singapore also have sukuk announced in the pipeline

for issuances in 2014. Overall, 2014 is likely to witness another exciting year for sukuk issuances as the industry continues to attract newer jurisdictions, including non-Muslim economies, into the fastest growing segment of the Islamic finance industry.

### APPENDIX 1 Selected Notable Global Sukuk Issuances (2013)

Issuer	Structure	Country	Currency	Issue Date	Issue Size (USD mln)	Tenor (Year)	Sector
Riyad Bank	Combination	Saudi Arabia	SAR	Nov-13	1,066.87	7	Financial Services
Ooredoo Tamweel Limited	Murabahah	Qatar	USD	Dec-13	1,250	5	Telecommunications
Government of Turkey	Ijarah	Turkey	USD	Oct-13	1,250	5	Government
General Authority of Civil Aviation	Murabahah	Saudi Arabia	SAR	Oct-13	4,056.7	10	Transport
Almarai Company	Combination	Saudi Arabia	SAR	Sep-13	453.21	5	Food & Beverage
SBG Sukuk Limited	Murabahah	Saudi Arabia	SAR	Jul-13	266.67	1	Construction
The Republic of Turkey	Ijarah	Turkey	TRY	Aug-13	941.94	1	Government
Perusahaan Penerbit SBSN Indonesia	Ijarah	Indonesia	USD	Sep-13	1,500	5.5	Government
SIB Sukuk Company III Limited	Wakalah	UAE	USD	Apr-13	500.0	5	Financial Services
TF Varlik Kiralama	Murabahah	Turkey	USD	May-13	500.0	5	Financial Services
Sadara Basic Services Company	Musharakah	Saudi Arabia	SAR	Apr-13	2,000.0	16	Industrial Manufacturing
IDB Trust Services Limited	Wakalah	Saudi Arabia	USD	May-13	1,000.0	5	Government
Dana Gas Sukuk Limited	Mudharabah	UAE	USD	May-13	850.1	5	Power & Utilities
Dar Al-Arkan Sukuk Company	Wakalah	Saudi Arabia	USD	May-13	450.0	5	Real Estate
Power & Water Utility Company	Wakalah	Saudi Arabia	SAR	May-13	666.7	20	Corporate
ABT Sukuk	Murabahah	Turkey	USD	May-13	200.0	10	Financial Services
TNB Northern Energy	Combination	Malaysia	MYR	May-13	528.8	4-23	Power & Utilities
DEWA Sukuk 2013 Ltd	Ijarah	UAE	USD	Mar-13	1,000	5	Power & Utilities
DIB Tier 1 Sukuk Ltd	Mudharabah	UAE	USD	Mar-13	1,000	6	Financial Services
Medjool Ltd	Wakalah	UAE	USD	Mar-13	1,000	10	Transport
Saudi Electric Global Sukuk Co II	Bai' Istijrar	Saudi Arabia	USD	Mar-13	2,000	10-30	Power & Utilities
Republic of Turkey	Ijarah	Turkey	TRY	Feb-13	855.8	2	Government
Dubai DOF Sukuk	Ijarah	UAE	USD	Jan-13	750	10	Government
Asya Sukuk Co Ltd	Murabahah	Turkey	USD	Mar-13	250	10	Financial Services
Golden Assets International Finance	Murabahah	Mauritius	MYR	Mar-13	80.5	3	Agriculture
Perusahaan Penerbit SBSN Indonesia	Ijarah	Indonesia	IDR	Feb-13	1,547.9	3	Government

Source: Bloomberg, IFIS, Zawya, KFH Research Limited

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