

RAM

RATINGS

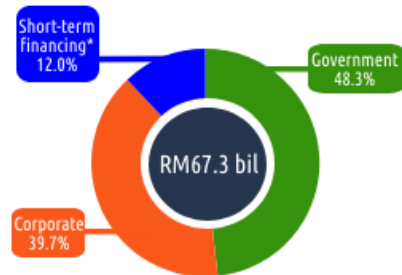
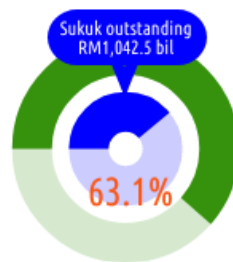
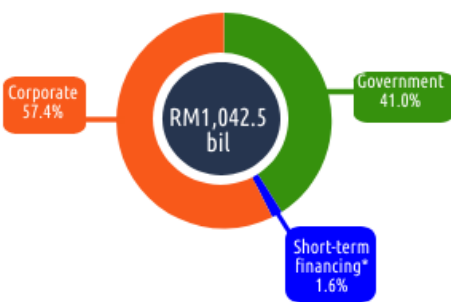
SUKUK SNAPSHOT

MALAYSIAN SUKUK MARKET

(as at end-March 2021)

RM1,042.5 bil
Malaysian Outstanding Sukuk

RM67.3 bil
Malaysian Sukuk Issuance



Outstanding Sukuk by Type

Outstanding Sukuk vs Outstanding Conventional Bonds

Sukuk Issuance by Type

* Short-term financing includes short-term corporate debt securities and quasi-government short-term securities

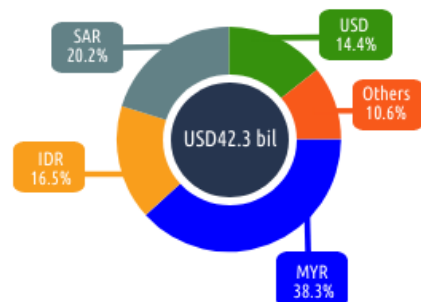
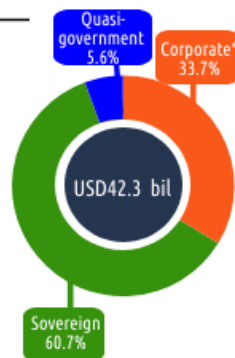
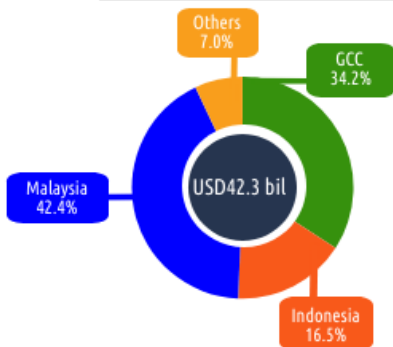
Sources: BPAM, RAM

GLOBAL SUKUK MARKET

(as at end-March 2021)

USD605.5 bil
Global Outstanding Sukuk

USD42.3 bil
Global Sukuk Issuance



Sukuk Issuance by Region

Sukuk Issuance by Type

Sukuk Issuance by Currency

* Corporate includes quasi-government

Sources: Eikon-Thomson Reuters, MOF Indonesia, OJK, RAM

Abbreviations

BNM	Bank Negara Malaysia (Central Bank of Malaysia)
Bonds	Refers to both sukuk and conventional bonds
GCC	Gulf Cooperation Council countries comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates
GDP	Gross domestic product
GII	Government Investment Issue
GoM	Government of Malaysia
JENDELA	Jalanan Digital Negara Plan
LCY	Local currency
LRT2	Light Rail Transit Line 2 Project
MGS	Malaysian Government Securities
MOF	Ministry of Finance
MRT2	Mass Rapid Transit Line 2 Project
OJK	Otoritas Jasa Keuangan (Financial Services Authority)
OPEC	Organisation of the Petroleum Exporting Countries
PDS	Private debt securities

Charts¹

Chart 1: Global sukuk issuance by country in 1Q 2021	1
Chart 2: Global sukuk issuance by type of issuer in 2019-1Q 2021	1
Chart 3: Sovereign sukuk issuance by top five countries in 1Q 2020 vs 1Q 2021.....	5
Chart 4: Corporate and quasi-government sukuk issuance by top five countries in 1Q 2020 vs 1Q 2021	5
Chart 5: Global sukuk issuance in 1Q 2021 (by currency).....	6
Chart 6: Outstanding global sukuk as at end-March 2021.....	6
Chart 7: Outstanding Malaysian sukuk in 1Q 2021	7
Chart 8: Malaysian sukuk issuance in 1Q 2021 (by type of issuer).....	6
Chart 9: Malaysian sukuk issuance in 1Q 2021 (by sector)	6
Chart 10: Foreign holdings of Malaysian sukuk in 1Q 2021	7

¹ **Disclaimer:** Due to rounding adjustments, some figures in the document may not add up precisely to the totals and percentages may not precisely reflect the absolute figures.

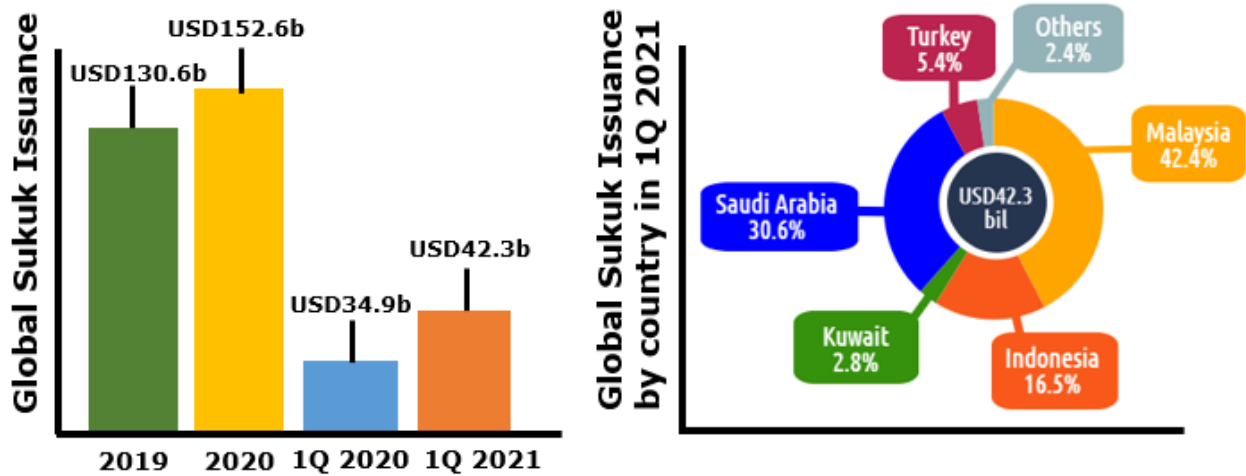
Analytical Contact:

Siew Suet Ming
Technical Director
Islamic Finance
(603) 3385 2585
suetming@ram.com.my

#1

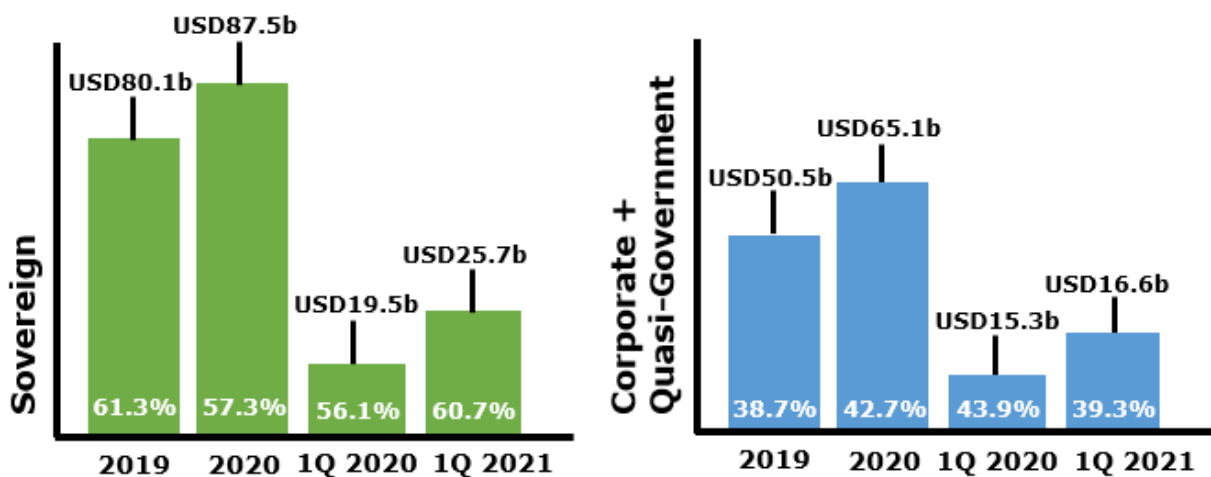
Global sukuk issuance increased 21.2% to USD42.3 bil in 1Q2021

Chart 1: Global sukuk issuance by country in 1Q 2021



Sources: RAM, Eikon-Thomson Reuters

Chart 2: Global sukuk issuance by type of issuer (2019-1Q 2021)



Sources: RAM, Eikon-Thomson Reuters

Note: Percentages represent contribution to total global sukuk issuance

- Despite the economic challenges wrought by the coronavirus pandemic, the global sukuk market recorded a 21.2% y-o-y increase in issuance to USD42.3 bil in 1Q 2021 (1Q 2020: USD34.9 bil). Both segments – sovereign as well as corporate and quasi-government sectors – contributed to the overall rise in global sukuk issuance. Total sovereign issuance surged 31.8% to USD25.7 bil (1Q 2020: USD19.5 bil) while corporate and quasi-government sukuk issuances climbed up 8.5% to USD16.6 bil (1Q 2020: USD15.3 bil).
- Malaysia led global sukuk issuance with a 42.4% market share (USD17.9 bil) in 1Q 2021, followed by Saudi Arabia (30.6% or USD12.9 bil), Indonesia (16.5% or USD7.0 bil), Turkey (5.4% or USD2.2 bil) and Kuwait (2.8% or USD1.2 bil). Cumulatively, sukuk issues from these five countries accounted for 97.7% of global issuance.
- In 1Q 2021, sovereign sukuk issues continued to drive market performance, constituting 60.7% (USD25.7 bil) of overall global sukuk issuance. Corporate and quasi-government issuance made up the other 39.3% (USD16.6 bil). Overall, key markets like Malaysia (+39.8% y-o-y) and Indonesia (+89.2%) recorded significant increases in sukuk issuances. By contrast, the GCC region posted a 12.7% y-o-y fall to USD14.4 bil for the quarter (1Q 2020: USD16.5 bil). The decline was mainly led by its corporate and quasi-government sectors, which experienced a 37.3% drop to USD5.2 bil (1Q 2020: USD8.3 bil).
- The overall decline in GCC sukuk issuance reflects the shift to conventional bond issuance due to their shorter time to market and lower documentation costs. In the same quarter, conventional bond issuance soared 176.4 % to USD47.8 bil.

Core sukuk markets	Total global sukuk issuance in 1Q 2020		
	Sovereign	Corporate and Quasi-Government	Total issuance
Malaysia	USD6.0 bil (47.0%)	USD6.8 bil (53.0%)	USD12.8 bil
Indonesia	USD3.6 bil (97.6%)	USD0.09 bil (2.4%)	USD3.7 bil
GCC	USD8.1 bil (49.3%)	USD8.4 bil (50.7%)	USD16.5 bil

Core sukuk markets	Total global sukuk issuance in 1Q 2021		
	Sovereign	Corporate and Quasi-Government	Total issuance
Malaysia	USD7.8 bil (43.7%)	USD10.1 bil (56.3%)	USD17.9 bil
Indonesia	USD6.9 bil (99.0%)	USD0.07 bil (1.0%)	USD7.0 bil
GCC	USD9.2 bil (63.9%)	USD5.2 bil (36.1%)	USD14.4 bil

Sources: RAM, Eikon-Thomson Reuters

- An interesting trend that has been a boon for the sukuk market in recent years is the uptick in environmental, social and governance (ESG)-related Islamic PDS. While there have been issuances of sustainability conventional bonds or green sukuk, the Malaysian sovereign's sukuk issuance on 28 April 2021 marked the first global sustainability sukuk. Malaysia went to market with its first sustainability USD800 million 10-year Islamic trust certificates. Its return into the USD market also included a USD500 million 30-year tranche. Sukuk received strong investor interest, with the issue being oversubscribed by 6.4 times and led to the government upsizing it from the original issue amount of USD1 bil. This maiden issuance via a special purpose vehicle – Malaysia Wakala Sukuk – is in line with the GoM's recently launched Sustainability Development Goals (SDG) Sukuk Framework.
- Malaysia's SDG sukuk debut joins a growing number of issuers that have entered the capital market to fund ESG-related projects. The Indonesian government is the world's most prolific issuer of green sukuk at present, having offered four such issues valued at USD2.8 billion as at end-2020.

Issuer	Amount Issued	Amount Issued (USD)	Issue Date
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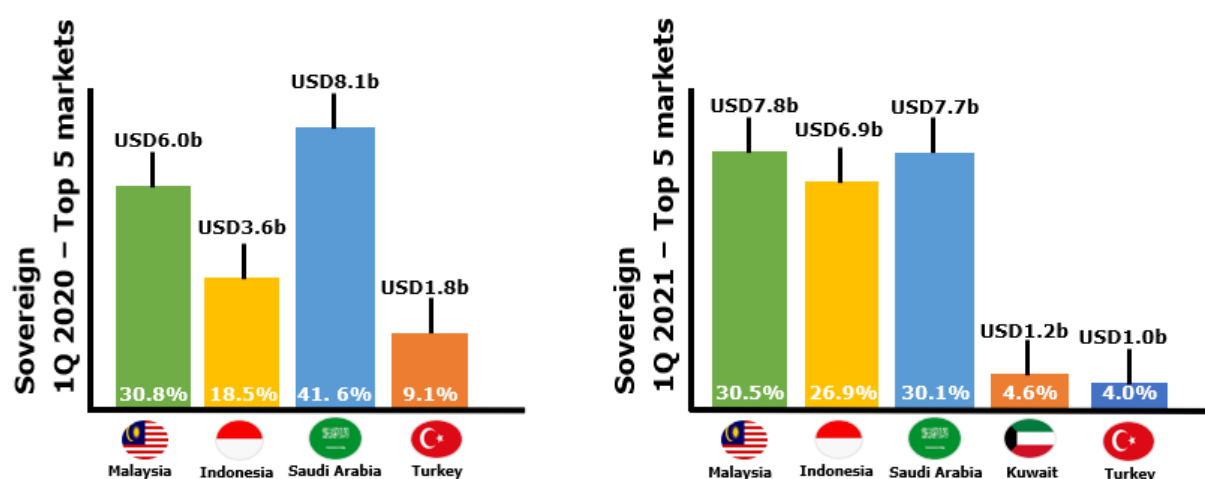
Republic of Indonesia (SBSN INDO III)	USD1.25 bil	USD1.25 bil	1 Mar 2018
Republic of Indonesia (SBSN INDO III)	USD750 mil	USD750 mil	20 Feb 2019
Republic of Indonesia (Sukuk Tabungan Seri)	IDR1.459 tril	USD86.2 mil	28 Nov 2019
Republic of Indonesia	USD750 mil	USD750 mil	17 Jun 2020

Source: Pioneering the Green Sukuk – Three Years On, World Bank, October 2020

#2

Malaysia moves into pole position as top sovereign sukuk market position in 1Q 2021

Chart 3: Sovereign sukuk issuance by top five countries (1Q 2020 vs 1Q 2021)



Sources: RAM, Eikon-Thomson Reuters, MOF Indonesia, Otoritas Jasa Keuangan

Notes: Percentages represent contribution to total sovereign issuance

- In 1Q 2021, Malaysia's and Indonesia's sovereign sukuk issues registered respective growth rates of 30.0% and 91.4% to USD7.8 bil and USD6.9 bil. Their aggregate issuance accounted for 57.4% of total global sovereign sukuk. Funding budgetary expenditure in support of each country's stimulus packages to revive their economies continued to drive their sukuk issuances.
- BNM's Economic and Monetary Review 2020 (released in March 2021) projects Malaysia's GDP to expand around 6.0%-7.5% in 2021, underscored by a pick-up in domestic activities and stronger external demand. However, future GDP performance hinges on the progress of the COVID-19 vaccination programme, supported by the GoM's various stimulus packages. Unfortunately, the nascent recovery in labour market conditions, improved manufacturing and commodity output and ongoing infrastructure projects (e.g. MRT2, LRT2 and JENDELA) have again been retarded by efforts to flatten the COVID-19 infection curve. The current full nationwide lockdown has been extended to 28 June 2021.
- The surge in Indonesian sovereign sukuk issuance in 1Q 2021 was driven by support for the government's pandemic-induced fiscal initiatives. In 2020, the country's fiscal stimulus expenditure comprised 3.8% of its GDP; this is estimated to increase to 4.2% in 2021. Public expenditure includes relief for households, the vaccine rollout and health-related costs.
- Saudi Arabia, charted a 4.9% y-o-y drop in sukuk issuance in 1Q 2021. Nevertheless, its public spending drive, which started in 2017, remained a key heavyweight in support of the GCC's overall sovereign sukuk issuance in the same period. Similar to its GCC neighbours, Saudi Arabia's future public expenditure will likely be fuelled by expectations on its fiscal deficit, which is influenced by crude oil prices. In 2020, the

government of Saudi Arabia introduced measures such as tripling its value-added tax and removing a cost-of-living allowance to replenish the nation's coffers that had been depleted by the pandemic and soft global demand for crude oil.

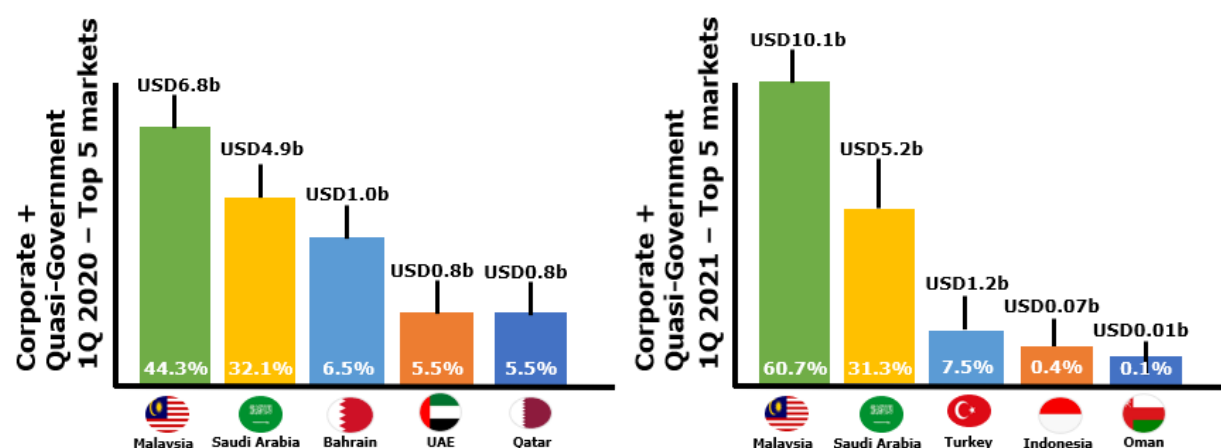
Core sukuk markets in the GCC	Budget deficit % to GDP	Real GDP		
		2020e	2021f	2022f
Saudi Arabia	-4.2%	-5.4%	2.0%	2.2%
UAE	-1.3%	-6.3%	1.0%	2.4%
Bahrain	-9.1%	-5.2%	2.2%	2.5%
Kuwait	-6.8%	-7.9%	0.5%	3.1%
Qatar	1.4%	-2.0%	3.0%	3.0%
Oman	-4.4%	-9.4%	0.5%	7.9%

Respective sources from:

- 1) International Monetary Fund, April 2021
- 2) Global Economic Prospects, World Bank, January 2021
- 3) Saudi Arabia: <https://www.imf.org/en/News/Articles/2021/04/30/mcs050321-saudi-arabia-staff-concluding-statement-of-the-2021-article-iv-mission>
- 4) Bahrain: <https://www.imf.org/en/News/Articles/2021/03/22/pr2175-bahrain-imf-executive-board-concludes-2021-article-iv-consultation>

- The price of Brent crude briefly touched USD70/barrel in early March 2021, after OPEC+ announced that it would extend production cuts through April. According to World Bank estimates, prices are expected to average USD56/barrel in 2021 and USD60 in 2022, as demand slowly returns to pre-pandemic levels and OPEC+ gradually lifts output. Nevertheless, mounting uncertainty over the containment of the pandemic and the progress of global vaccination programmes will exert an impact on oil demand. These factors are likely to influence the GCC's fiscal policies and their contingent impact on near-term government spending.

Chart 4: Corporate and quasi-government sukuk issuance by top five countries (1Q 2020 vs 1Q 2021)



Sources: RAM, Eikon-Thomson Reuters

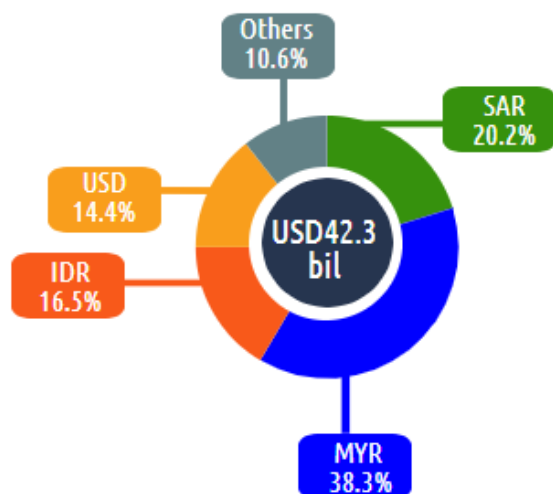
Note: Percentages represent contribution to total corporate and quasi-government issuance

- In 1Q 2021, total corporate and quasi-government sukuk issuance improved 8.5% y-o-y to USD16.6 bil (1Q 2020: USD15.3 bil). Malaysia maintained its pole position, with private sector issuance swelling 48.5% to USD10.1 bil (1Q 2020: USD6.8 bil). Saudi Arabia retained its second ranking with a 31.3% market share; corporate and quasi-government issuance advanced 6.1% y-o-y to USD5.2 bil (1Q 2020: USD4.9 bil). The issuance originated from Islamic Development Bank (IDB), the kingdom's sole corporate issuer in 1Q 2021. The USD5.2 bil sukuk is listed as the world's biggest sustainability and ESG sukuk to date.
- In the same period, Turkey's private sector sukuk issuance escalated from only

USD0.09 bil to USD1.2 bil. Given the difficult Turkish economic condition and volatility in the lira, public sector participation banks were the primary corporate issuers. This reflects the Turkish authorities' intention to use participation banks as an additional tool to help finance the economy and the government's ambitious plans to double market share to 15% by 2025.

#3 Ringgit sukuk topped issuance chart

Chart 5: Global sukuk issuance in 1Q 2021 (by currency)



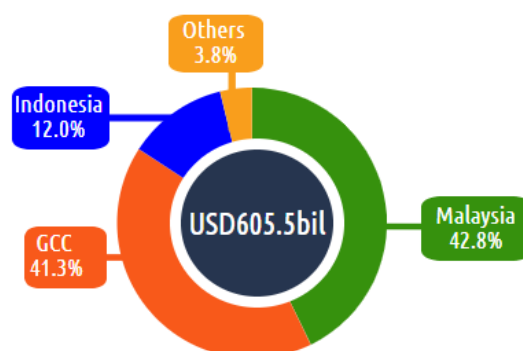
- Ringgit-denominated sukuk made up 38.3% (USD16.2 bil) of overall issuance in 1Q 2021, ahead of the Saudi riyal (20.2%) and the Indonesian rupiah (16.5%). USD-denominated sukuk placed fourth (14.4% or RM6.1 bil).
- In 1Q 2021, active LCY domestic sukuk markets in Malaysia, Saudi Arabia and Indonesia sustained their momentum in providing a steady supply of sukuk.

Sources: Eikon Thomson Reuters, MOF Indonesia, OJK, RAM

#4 Outstanding global sukuk rose 21.8% to USD605.5 bil as at end-March 2021

Chart 6: Outstanding global sukuk as at end-March 2021

- New issues outpaced redemptions in core sukuk markets, pushing the outstanding value of global sukuk up to USD605.5 bil as at end-March 2021 (end-March 2020: USD497.3 bil).
- Malaysia's sukuk market held on to its lead, accounting for 42.8% of outstanding global sukuk as at the same date.

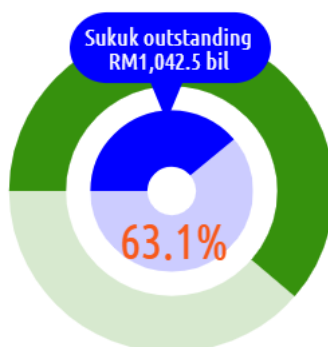


Sources: Eikon Thomson Reuters, RAM

#5

Outstanding Malaysian sukuk advanced to RM1,042.5 bil as at end-March 2021

Chart 7: Outstanding Malaysian sukuk as at end-1Q 2021



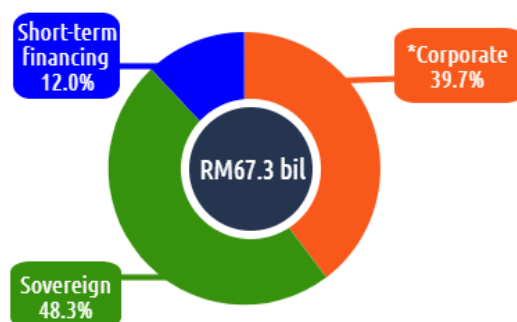
Sources: BPAM, RAM

- The amount of outstanding Malaysian sukuk had climbed up 7.7% y-o-y to RM1,042.5 bil as at end-March 2021 (end-March 2020: RM967.9 bil).
- Intermediation in the domestic capital markets has been a key catalyst in driving Malaysia's economic growth. Asian Bonds Online ranked Malaysia second after Korea in terms of outstanding debt market value to GDP for 1Q 2021. As at end-March 2021, this stood at 122.8% of GDP (or USD397.8 bil).
- Sukuk's dominance amid overall outstanding PDS is mainly driven by its steady issuance (supported by its developed Islamic finance ecosystem and tax incentives for Sukuk issuance), which has historically represented 67.0% of total LCY sukuk on average. Stripping off government and BNM issuances, the figure would rise to 73.2% of total corporate issuance (including quasi-government). This trend is expected to continue because of the strong demand for Islamic investment assets from a broader base of investors.

#6

Malaysian sukuk issuance hit RM67.3 bil in 1Q 2021

Chart 8: Malaysian sukuk issuance in 1Q 2021 (by type of issuer)



Sources: BPAM, RAM

*Note: Including Quasi-Government

- Continued public spending on COVID-19-related stimulus measures had pushed GII issuance up 49.1% to RM32.5 bil in 1Q 2021 (1Q 2020: RM21.8 bil). Similarly, MGS jumped 22.5% to RM24.5 bil (1Q 2020: RM20.0 bil) to support increased expenditure to combat the pandemic. The overall 21.7% y-o-y spike in total sukuk to RM67.3 bil (1Q 2020: RM55.3 bil) partly mitigated the 11.8% y-o-y decline in conventional bond issuance, bringing total PDS issuance to RM100.1 bil in 1Q 2021.

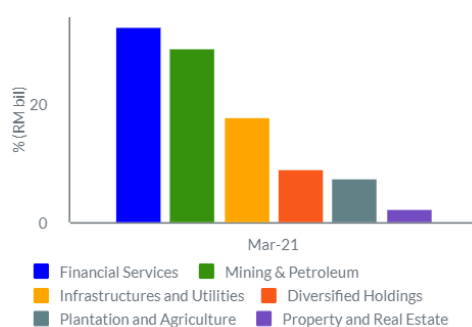
YTD	GII	BNM	Corporate (incl quasi-government)	Short-term	Total sukuk issuance
March 2020	RM21.8 bil	RM4.2 bil	RM15.5 bil	RM13.8 bil	RM55.3 bil
March 2021	RM32.5 bil	-	RM26.7 bil	RM8.2 bil	RM67.3 bil
Y-o-y	49.1%	-	72.3%	-41.3%	21.7%

YTD	MGS	BNM	Corporate (incl quasi-government)	Short-term	Total conventional issuance
March 2020	RM20.0 bil	RM6.0 bil	RM1.3 bil	RM9.9 bil	RM37.2 bil
March 2021	RM24.5 bil	-	RM4.9 bil	RM3.4 bil	RM32.8 bil
Y-o-y	22.5%	-	276.9%	-65.7%	-11.8%

- Despite a tepid economic performance since the outbreak of the pandemic in early 2020, corporate issuance of sukuk and conventional bonds had accelerated to RM26.7 bil (end-March 2020: RM15.5 bil) and RM4.9 bil (end-March 2020: RM1.3 bil) respectively as at end-March 2021. On 16 May 2021, BNM's Monetary Policy Committee kept the Overnight Policy Rate unchanged at 1.75%. The present low interest rates will likely encourage private sector issuance, albeit at a slower pace than last year's.

#7 Financial services sector dominated ringgit sukuk issuance

Chart 9: Malaysian sukuk issuance in 1Q 2021 (by sector)



Sources: BPAM, RAM

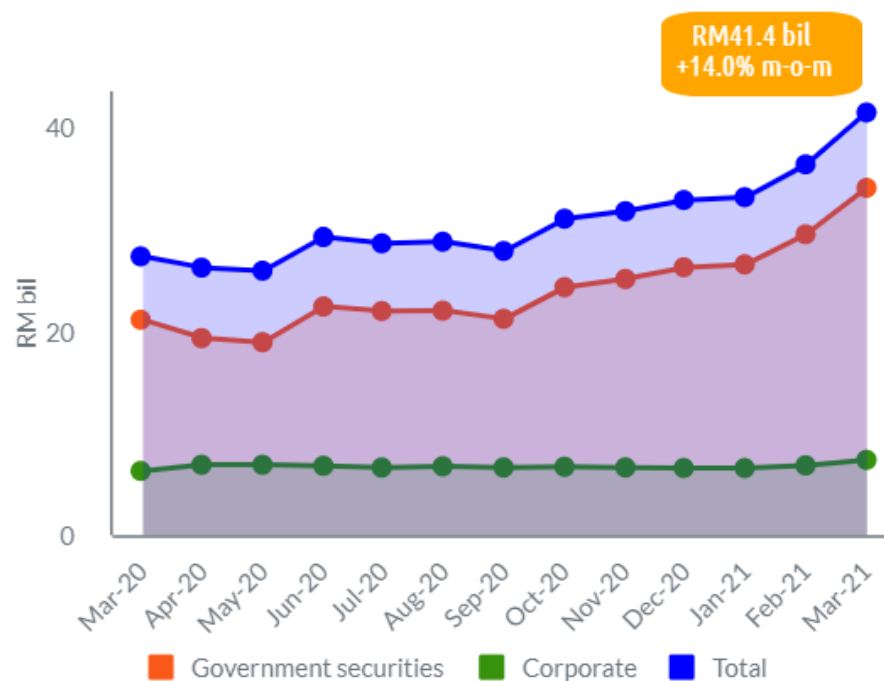
- The top five corporate sukuk issuers in 1Q 2021:
 - Sapura TMC Sdn Bhd (RM6.4 bil)
 - Lembaga Pembiayaan Perumahan Sektor Awam (RM4.0 bil)
 - Maybank Islamic Berhad (RM4.0 bil)
 - Tanjung Bin Energy Sdn Bhd (RM3.0 bil)
 - DanaInfra Nasional Berhad (RM2.2 bil)

Source: BPAM League Tables 1Q 2021

- Similar to historical trends, the financial services sector still dominates the local sukuk market in 1Q 2021, underpinned by its sizeable issuance value.

#8 Foreign holdings

Chart 10: Foreign holdings of Malaysian sukuk in 1Q 2021



Sources: BNM, RAM

- Foreign holdings of Malaysian bonds kept rising in March 2021, marking the eleventh successive month of net foreign buying. The RM5.9 bil of net foreign inflow (February 2021: RM7.2 bil) lifted the total value of foreign bond holdings to RM239.7 bil by month-end. The steady inflow of foreign funds translated into the highest foreign participation rate since April 2018. The foreign participation rate, as proxied by foreign holdings as a percentage of total outstanding bonds, stood at 14.5% as at end-March 2021.
- Foreign demand was broad-based in March, with a net inflow for all government securities (both long- and short-term) and corporate bonds. Overall purchases were led by MGS and GII, which summed up to RM4.5 bil for the month - slightly lower than the RM5.6 bil in February. At the same time, demand for corporate bonds also strengthened, with a net inflow of RM562.5 mil (February 2021: RM327.0 mil).
- The healthy foreign appetite is partly attributable to FTSE Russell's announcement in March 2021 to remove Malaysia from its watchlist for potential exclusion from the World Government Bond Index (WGBI). The favourable development and the prospect of remaining as an index component supported buying momentum, and should underpin further demand.

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RAM Rating Services Berhad

Level 8, Mercu 2
KL Eco City
No. 3, Jalan Bangsar
59200 Kuala Lumpur

T: (603) 3385 2488
F: (603) 3385 2582
E: ramratings@ram.com.my
W: www.ram.com.my



RATINGS

RAM Rating Services Berhad
Level 8, Mercu 2
KL Eco City
No.3, Jalan Bangsar
59200, Kuala Lumpur
Malaysia

T: +603 3385 2488
F: +603 3385 2582
E: ramratings@ram.com.my
W: www.ram.com.my
