

Islamic Finance *news* *Awards* Deals of the Year 2009

Perhaps we should all be surprised at how good 2009 turned out to be in the Islamic capital markets. Despite the struggles of Dubai and its real estate market, the Sukuk market showed organic growth at a rational rate, and the overall Islamic financial market reflected the demand for infrastructure, project and trade finance in the key markets of the GCC and Southeast Asia.

Even in Europe, there was important progress. In selecting the Deal of the Year, many factors, and several important firsts, including the Monetary Authority of Singapore, Petronas and GE Capital, had to be taken into account. But in the end, it was the struggle to introduce the right mix of financial concepts and new laws into the civil law context of Indonesia that prevailed and the IDR and USD

issuances of the Republic of Indonesia are awarded jointly as a reflection of this process and its importance to the market as a whole.

On the less happy side, we did contemplate a “Best Restructuring” award but somehow, it just didn’t make sense. On the one hand, we only had one relevant submission this year; perhaps there will be more for 2010. On the other hand, we couldn’t help but wonder – an award for fixing what you broke? It’s something that we need to ponder, for at least a year.

Certain categories stand out above others, notably the Sukuk, Project Finance and Infrastructure, and Ijarah segments drew numerous excellent nominations.

Deal of the Year:

Republic of Indonesia; Perusahaan Penerbit SBSN IDR5.6 Trillion (US\$595 million) Domestic Sukuk

Led by Barclays Capital, HSBC and Standard Chartered the US\$650 million transaction closed on the 23rd April 2009, at the exact moment that the global capital markets were declared dead.

This deal, which should have been our winner, heralded the revival of the global Sukuk market and put the global debt markets back on the respirator. Twelve hard years after the Asian Crisis, Indonesia demonstrated strong domestic fundamentals, good domestic economic management, and improved credit in the issuance of their BB rated securities (Fitch). These five year Ijarah securities applied the new Sukuk and beneficial ownership laws, which have now demonstrated that the economic potential of the Indonesian market may be financed applying Islamic capital market tools from international sources. Structured as a 144A transaction, the Sukuk generated strong interest from US investors among the universe of 230 investors.

But, we have selected another Indonesia deal. In their second domestic issuance within a six month period, the Republic of Indonesia firmly established their new Sukuk and beneficial rights rules. The IDR 5.6 trillion (US\$595 million)

domestic transaction, the Republic of Indonesia achieved broad domestic distribution with 39% of the deal sold to private individuals; 10.9% went to housewives! Whereas the US dollar Republic of Indonesia Sukuk demonstrated Indonesia’s economic progress, the domestic Sukuk has deep importance in the establishment of a domestic pricing and credit quality benchmark. Having pursued a systematic approach to solving complex legal challenges based in the difference of theories underlying common law/Shariah (similar, not the same in problem solving approaches) and civil law, the domestic transaction opens the gates to the development of a robust domestic Islamic capital market.

Honorable mentions for Deal of the Year: These include Monetary Authority of Singapore, GE Capital, and Petronas were among many of the important contributors to the development of the global Islamic market. In another year, they would have stood alone at the top, or jostled together for the lead. But, in 2009, the confidence of Indonesia to enter the global securities markets with a 144A Sukuk Al Ijara offering is the top achievement.

Sovereign Deal of the Year:

Republic of Indonesia; Perusahaan Penerbit SBSN Indonesia I US\$650 million Global Sukuk; AND Republic of Indonesia; Perusahaan Penerbit SBSN IDR 5.6 Trillion Domestic Sukuk

The joint winners are the two Republic of Indonesia deals: US\$650 million global Sukuk of April 2009 and IDR 5.6 trillion domestic Sukuk of the 25th February 2009. These represent the culmination of domestic reforms allowing the

issuance of Sukuk on a replicable basis. The transactions were the largest Indonesian issuances, and helped to kick off 2009 as well as allowing for the future development of the domestic corporate market in a robust manner.

Cross Border Deal of the Year:

IDB Trust Services SG\$200 million Investment Sukuk

Generally, the nature of the Islamic capital market is cross border. The typical deal involves the marshalling of resources from diverse capital sources in multiple locations. Therefore, the Cross Border winner has to demonstrate a clear distinction in order to win.

The rise of Singapore into its new role as an Islamic finance hub is demonstrated by two transactions, one of which is the Islamic Development Bank's (IDB) SG\$200 million (US\$144 million) Sukuk led by Standard Chartered. SG\$200 million Trust Certificates were issued under IDB's US\$1.5 billion Trust Certificate Issuance Program. The transaction benefitted from changes introduced by the Monetary Authority of Singapore (MAS) in July 2009. MAS's new rules expanded the types of securities which financial

institutions (subject to MAS' regulation) may hold as part of their minimum liquid assets with the central bank. This change meant that such financial institutions can now buy and repo Singapore dollar-denominated securities issued by any AAA rated supranational, sovereign or sovereign-guaranteed company with the central bank.

IDB's Sukuk transaction is an important milestone in the development of the Singapore Sukuk market. It is the first Singapore dollar-denominated Sukuk issued by a foreign issuer as well as being the largest Sukuk issue to date in the Singapore market. This AAA rated security helped the IDB to diversify its funding resources. This exercise is an important test drive for the IDB's planned Sterling issuance in 2010.

Most Innovative Deal of the Year:

Cagamas RM915 million Medium Term Notes

Generally, these awards have been biased against tawarruq structures. As a rule, these loan equivalents are filled with important challenges that require debate elsewhere. Yet, Cagamas' March 2009 issuance of RM915 million (US\$271 million) of Tawarruq based securities tested the concepts which are now the basis of Bursa Malaysia's Suq Al Sila.

The key element of innovation is a clear Tawarruq process which is transparent and based on a new, previously not widely used commodity, Crude Palm Oil. The structural flow is in a regulated environment, which until now has not been the case for any form of commodity Murabahah transaction.

Awards for Corporate Finance Related Deals

Project & Infrastructure Finance Deal of the Year:

PAAB Musharakah & Ijarah Program

This was an extremely tough choice between important transactions including the Saudi Bin Ladin Group's SAR 3.15 billion (US\$840 million) syndicated construction finance, the Rabigh Electricity Company US\$1.9 billion construction facility, Saudi Hollandi Bank's US\$180 million of construction facilities for Arabian Amines, or Al Dur IWPP US\$1.6 billion deal. Standing out in this crowded field was CIMB Investment Bank's arrangement for Pengurusan Aset Air Berhad (PAAB) of a RM20 billion (US\$5.92 billion)

Sukuk issuance. This mega deal allowed PAAB to finance the acquisition of water assets, rights, liabilities and land from various state operators in Malaysia.

The transaction combines Ijarah and Musharakah to facilitate the different status of acquisition arrangements. The Ijarah is applied to existing assets whereas the Musharakah is applied to future acquisitions and prospective construction.

Sukuk Deal of the Year:

GE Capital Sukuk

Indonesia, the Islamic Development Bank, Monetary Authority of Singapore, Petronas, Khazanah Nasional, 1Malaysia Development, Tourism Development and Investment Company all entered the Sukuk market with dynamic offerings in 2009. Indeed, the Sukuk market was surprisingly active. In honor of this, we have selected GE Capital's US\$500 million Regulation S International Sukuk as the top Sukuk apart from Indonesia.

GE Capital is the first high grade US corporate issuer to enter the Sukuk market. This five-year Sukuk al Ijara was coordinated globally by Citibank and Goldman Sachs, with Liquidity House and National Bank of Abu Dhabi as joint

bookrunners, Bank Islam Brunei as joint lead manager and Standard Chartered as co-manager. The transaction was listed on the London Stock Exchange and Bursa Malaysia with a secondary listing on NASDAQ Dubai.

The deal is based on aircraft as the underlying leased assets. Distribution was strong in the GCC (82%), East Asia (27%) and Europe (11%). Although GE Capital is no stranger to the GCC and East Asian markets, this represents a major step forward for American corporates, showing that the Islamic capital market is free from politics and focused on asset quality and credit metrics.

Corporate Finance Deal of the Year:

Petronas US\$1.5 billion Global Sukuk

With GE Capital entering the Sukuk market, Zain KSA securing a US\$2.6 billion in a syndicated Tawarruq, selecting a winner in this category was very challenging.

Nonetheless, Petronas' US\$1.5 billion landmark entry into the Islamic bond market is the winner as the Corporate Finance Deal of the Year. Launched by Morgan Stanley as global coordinator and with CIMB and Citibank as joint bookrunners, this 12th August 2009 deal signaled the de-

coupling of the Islamic credit markets from the western markets and sparked a strong finish for the 2009 Sukuk market.

This was the largest Asian bond deal outside of Japan. A universe of diverse underliers were sold to the Sukuk issuer and structured to be substituted by the originator over the life of the Sukuk.

Ijarah Deal of the Year:

Qatar Airways Syndicated Islamic Finance Facility

On the one hand, Ijarah has become the safe tool for Islamic finance during the recession. This provides a clear safe method of delivering credit whilst controlling the asset that represents the credit vehicle.

On the other hand, the proliferation of Ijarah deals has made the method become standardized and mundane. This is not a bad thing, but makes it more difficult to define a standout winner. In this environment, the Qatar Airways acquisition of a Boeing 777-200LR worth US\$150 million

is notable. Foremost, the deal pulled together a diverse syndicate led by Standard Chartered Bank.

The cross border universe of participating banks was impressive: Bank Islam Malaysia, DBS Bank, Masraf Al Rayan, Maybank Investment Bank, Sumitomo Mitsui Bank Corporation Europe and the Islamic Bank of Asia. In addition to the pure lease element, this deal included a Tawarruq cash facility allowing collateralized liquidity for the airline.

Structured Finance Deal of the Year:

Zain KSA US\$2.6 billion Murabahah Refinancing

In a year of many highly structured deals, Zain KSA's Wa'ad Profit Rate Swap arranged by Banque Saudi Fransi and Calyon is the winner. The transaction applies an auction of exposures relating to the notional amount, and covers the risk for US\$2.2 billion of exposure. This is believed to be

the largest Profit Rate Swap in 2009. The fledgling Islamic derivatives field has often lacked the capacity to provide for the management of large exposures. The Zain Profit Rate Swap demonstrates substantial capacity despite a difficult market.

Syndicated Deal of the Year:

Saudi Bin Ladin Group Multi-Purpose Islamic Credit Facility

Even as the Sukuk markets demonstrated their resilience, the syndicated markets were dynamic in 2009. Important deals were syndicated for Al-Aqar KPJ REIT, Kulim and Mumtalakat. But the Saudi Bin Ladin Group's (SBL) SAR3.15 billion (US\$840 million) syndicated deal represents an important achievement at the onset of 2009. This complex syndication demonstrated that the GCC financial markets were not dead. The multi-structure syndicated facility allowed SBL to initiate the fast track construction of the

Girls' University Campus Project for King Saud University.

The syndication covers multiple guarantee and cash facilities on a Shariah compliant basis, which collectively give SBL the certainty of funding for a project of critical importance to the Kingdom of Saudi Arabia. Dubai Islamic Bank was the mandated lead arranger, sole bookrunner, investment agent, Shariah advisor & security agent of this complex deal.

Murabahah & Trade Finance Deal of the Year:

PT Angels Products Structured Murabahah Trade Finance

Year in and year out, the top nominees for true trade finance reflect dynamic markets in Turkey and Indonesia. This year's runner up is Turkey's Ozkan Demir Celik, but Angels was the runaway winner, thanks to The International Islamic Trade Finance Corp (ITFC) performing its role of leading the way in market and structure development.

The ITFC, an arm of the Islamic Development Bank, arranged this October 2009 trade finance facility for the import of raw sugar to Indonesia. The US\$25 million

facility is a three-month revolving warehouse facility. This Murabahah to Purchase Order process allows Angels to take delivery of small quantities of sugar on a spot basis whereas ITFC buys in bulk.

An important element of this transaction is that ITFC provides a well structured Murabahah credit process to Angels, but does so within traditional collateral management rules, and is managed to meet Angels actual consumption needs.

Tawarruq Deal of the Year:

Cagamas RM915 million Medium Term Notes

In a number of environments, Tawarruq is a preferred financing tool due to a lack of regulation for other Islamic methods. In Malaysia, the broadening of the Islamic tool kit has allowed Tawarruq to become another business choice.

With the launch of the new commodities house in Malaysia, Cagamas tested the applicable concepts through the issuance of RM915 million (US\$270 million) of securities.

The March 2009 transaction applied methods which now apply to the Suq al Sila at Bursa Malaysia and demonstrated the efficacy of using alternative markets and commodities

(crude palm oil in this case) for Tawarruq transactions. The securities are issued and traded on the same basis as the Sukuk al Dayn under domestic Securities Commission rules in Malaysia.

Honorable mention: This goes to Sarawak Energy's RM1.6 billion (US\$473 million) arranged by AmlInvestment Bank, CIMB Investment Bank, RHB Islamic Bank, KFH-Malaysia and Maybank Islamic; and Mobily which raised SAR1.5 billion (US\$400 million) with Riyad Bank, SAMBA, HSBC Saudi Arabia, and the National Commercial Bank as lead arrangers.

Wakalah Deal of the Year:

IFC Hilal Sukuk al-Istithmar

Hilal Sukuk Company, the inaugural issuance of the International Finance Corp, was managed by KFH-Bahrain and co-led by HSBC, Dubai Islamic Bank and Liquidity Management House. The issuing vehicle mandates the IFC to invest in emerging markets with Islamic tools.

This US\$100 million issuance was oversubscribed. The transaction was the first debt security to be cleared and settled through NASDAQ Dubai's Clearance and Settlement Depository.

Awards for Equity & Related Transactions

Equity Deal of the Year:

Gulf Finance House Convertible Tawarruq Facility

The 2009 markets were quiet for "Islamic" equity deals. Privately placed funds were the most active segment.

The most notable deals hit in November with the Maxis IPO, ADIB perpetual, and Gulf Finance House of Bahrain's (GFH) quasi equity offering.

Following a difficult year, GFH shored up its liquidity and capital through a series of rights issues and equity

placements. Management was proactive in assuring that the investment bank would build strong links with important capital partners like Macquarie and Deutsche Bank.

A key step in this exercise was the completion of a convertible Tawarruq structure. Deutsche Bank arranged the US\$100 million transaction which was placed with a Luxembourg structured investment vehicle, Sonata Securities.

IPO of the Year:

MAXIS

In a year that saw most investors trying to recover their funds and move them to safe havens, the Islamic IPO space was notably quiet. But on the 19th November 2009, Maxis offered 20% of its paid up capital or 2.25 billion shares. The US\$3.3 billion transaction was the largest

IPO in Malaysia and Southeast Asia in 2009. Advised by CIMB, which was also joint global coordinator/bookrunner/managing underwriter, the transaction achieved broad global distribution and achieved a diverse investor base.

Mudarabah Deal of the Year:

Abu Dhabi Islamic Bank Tier 1 Mudarabah Certificates

JP Morgan advised Abu Dhabi Islamic Bank on the issuance of Tier 1 AED2 billion (US\$545 million) Mudarabah notes.

These notes were issued in response to the Government of Abu Dhabi's initiative to inject additional capital into the financial system. The Sukuk are expected to pay an

annualized return of 6% per annum. The five-year Sukuk represent non-voting, non-cumulative perpetual securities and are callable subject to certain conditions.

Honorable mention: This goes to Saudi Hollandi's SAR275 million (US\$73 million) Sukuk.

M&A Deal of the Year:

MMC Corporation

Perhaps the clear leader advising mergers and acquisitions in 2009's Islamic financial space was Maybank Investment Bank. Its advisory for the MMC Corp acquisition was the best transaction for 2009. Maybank IB advised MMC's acquisition of Senai Airport Terminal Services and Aliran

Ihsan Resources. The MMC Group benefits from the SATS Acquisition as it can leverage on SATS to capitalize on the growth potential of Iskandar Malaysia as SATS operates in the State of Johor.

Musharakah Deal of the Year:

Sunway Platinum Success Musharakah Financing

The submissions for Musharakah ranged from the mega deal in the form of Danga Capital Sukuk issued for Khazanah and Pengurusan Aset Air deal, to the right sized. Maybank Islamic Bank's RM132 million (US\$39 million) Musharakah Mutanaqisah term financing for Sunway Platinum Success

is the winner. This property financing assisted the obligor in refinancing conventional debt at the Monash University Sunway Campus. Widely applied for property, this declining balance partnership represents an excellent example of the concept at work as a replacement of traditional debt.

Real Estate Deal of the Year:

TDIC Sukuk Limited

Despite the ills raised around it, real estate remained an active sector in 2009. Al Ghurair Center raised over US\$345 million in a dual currency transaction which included a Musharakah liquidity facility; Al-Aqar KPJ REIT syndicated an RM250 million (US\$74 million) acquisition facility, and Maybank closed the Sunway Platinum deal.

HSBC and Standard Chartered Bank. The transaction underliers represent participation in the beneficial rights of the property under development.

But Tourism Development & Investment Company of Abu Dhabi made an important entrance into the market with a US\$1 billion issuance led by Abu Dhabi Commercial Bank,

In a manner akin to a more traditional declining balance partnership, the structure is a diminishing muslaha and represents an innovation that allows one to manage certain risks associated with clarity of property title, and eases the cost of re-titling property during the life of a deal.

Awards for Country Deals

Bahrain:

Al Dur IWPP Ijarah Islamic Financing Facility

With the Central Bank of Bahrain returning to the global market with its CBB International Sukuk Company (No. 2) issuance of US\$750 million Ijarah Sukuk and the sovereign wealth fund Mumtalakat's syndicated aircraft lease in support of Gulf Air, our Bahrain choice was indeed very difficult. But Al Dur IWPP's US\$1.6 billion independent water and power project stood out.

The delays resulted in a creative multi-source financing which contended for Project & Infrastructure Finance winner. In this deal, there is a blend of conventional and Islamic funding, with US\$90 million provided as a Wakalah-Ijarah facility and US\$200 million provided as an Istisna-Ijarah facility.

Under development by GDF Suez and GIC, the transaction required re-evaluation following the collapse of the financial markets in September 2008.

Financed against a 25-year offtake, Al Dur is a long term financing provided by Al Rajhi, Saudi Fransi, Calyon and The Islamic Bank of Asia.

Indonesia:

Republic of Indonesia; Perusahaan Penerbit SBSN Indonesia I US\$650 million Global Sukuk; AND Republic of Indonesia; Perusahaan Penerbit SBSN IDR 5.6 Trillion Domestic Sukuk

In the IDR5.6 trillion (US\$595 million) domestic transaction, the Republic of Indonesia achieved broad domestic distribution with 39% of the deal sold to private individuals – 10.9% of the deal went to housewives! Whereas the US dollar Republic of Indonesia Sukuk demonstrated Indonesia's economic progress, the domestic Sukuk has deep importance in the establishment of a domestic pricing

and credit quality benchmark. Having pursued a systematic approach to solving complex legal challenges based on the difference of theories underlying common law/Shariah (similar, not the same in problem solving approaches) and civil law, the domestic transaction opens the gates to the development of a robust domestic Islamic capital market.

Kuwait:

Burgan Company for Well Drilling Trading & Maintenance Syndicated Ijarah Facility

It was a thin year for Kuwait as the domestic banks and investment companies worked through their challenges. This created a unique opportunity for Kuwait-controlled UK bank Gatehouse Bank to lead a US\$125 million syndicated

lease facility for Burgan Company for Well Drilling. BNP Paribas and Liquidity Management House joined Gatehouse in providing four new drilling rigs which are used for the lessee's business with Kuwait Oil Company.

Malaysia:

PAAB Musharakah & Ijarah Program

As the richest Islamic capital market, Malaysia is a tough market from which to choose a winner: Petronas, Khazanah Nasional and so many other deals rank as market leaders. Yet, it is the mega deal – Pengurusan Aset Air Berhad's RM20 billion Sukuk issuance – that edges ahead of the

pack. This important financing supports the consolidation and modernization of the national water industry in Malaysia using a unique combination of Ijarah and Musharakah to facilitate the different acquisition elements.

Pakistan:

Pakistan International Airline Corporation Domestic Sukuk Ijarah

Although Dubai Islamic Bank Pakistan's financing of Pakistan Mobile Communications was an important transaction, Standard Chartered Saadiq's arrangement of Pakistan International Airlines' first domestic Sukuk

wins. PIA was able to raise five-year PKR6.8 billion (US\$80 million) funding via an adjustable Ijarah deal. National Bank of Pakistan, Habib Bank, United Bank and Meezan joined Saadiq in arranging the deal.

Qatar:

Qatar Airways Syndicated Islamic Financing Facility

Like Kuwait, Qatar was less active than many expected in 2009. The GBI Submarina shares placement by Masraf Al Rayan was a good contender. But the Qatar Airways acquisition of a Boeing 777-200LR in a US\$150 million lease deal led by Standard Chartered Bank is the winner.

Standard Chartered was able to build a multi-continental syndicate including Bank Islam Malaysia, DBS Bank, Masraf Al Rayan, Maybank Investment Bank, Sumitomo Mitsui Bank Corporation Europe and the Islamic Bank of Asia.

Saudi Arabia:

Saudi Electricity Corporation Sukuk

Saudi Bin Ladin, Arabian Amines, Zain KSA and Rabigh Electricity all generated strong competition for the best Saudi Arabian deal of 2009. But Saudi Electricity Corp's (SCECO) SAR7 billion (US\$1.9 billion) Sukuk is the stand out. This transaction came immediately after the Capital Markets Authority made it easy to list Sukuk on the Saudi Arabian exchange Tadawul. The early listing of SCECO is

a clear encouragement to the domestic Sukuk market. The SCECO transaction kept alive the global Sukuk market momentum established in the first half with its June 2009 issuance. The transaction is based on the acquisition of service, levy and charge rights. HSBC and SAMBA Capital were the lead arrangers on this AA- rated deal (Fitch).

Singapore:

Monetary Authority of Singapore Sukuk Ijarah Program

The Islamic Development Bank's Singapore dollar deal is important, but impossible without the Monetary Authority of Singapore's (MAS) inaugural SG\$200 million issuance. This ranks as one of the first and most important deals of 2009, coming in January. The Islamic Trust Certificate

program was jointly arranged by Standard Chartered and the Islamic Bank of Asia and executed on a reverse inquiry basis. A novel feature of the Ijarah certificates is that they represent forward lease contracts.

Turkey:

Ozkan Demir Celik Structured Murabahah Financing Facility

The clear winner for Turkish deal of the year is Citibank's arrangement of trade facilities for Ozkan Demir Celik. This syndicated US\$40 million syndicated raw material

Murabahah import facility represented the entrance of a middle market Turkish firm into the Islamic financing space.

United Arab Emirates:

TDIC Sukuk Limited Trust Certificates

Abu Dhabi Islamic Bank, DIB Sukuk Company and Al Ghurair Centre were all important UAE deals. In fact, the UAE space was much more active, and Dubai more positive than the press might indicate. In this competitive environment, Tourism Development & Investment Company of Abu Dhabi wins with its creative US\$1 billion issuance. Led by Abu

Dhabi Commercial Bank, HSBC and Standard Chartered Bank, this transaction represents the opening of the Abu Dhabi market and a unique approach to financing real estate development through the issuance of securities based on diminishing muslaha.

United Kingdom:

Scottish Coal GBP 12.5 million Ijarah Financing

The Bank of London and the Middle East (BLME) showed the way forward for the relatively small UK-based Islamic banks with its focused corporate finance business. BLME arranged GBP12.5 million (US\$20.2 million) in a

lease financing for Scottish Coal in a deal that allows for periodic funding throughout 2009. Unlike the gargantuan structured leases of 2008, this is believed to be the UK's largest Shariah compliant leasing deal in 2009.

USA:

GE Capital does not win as it is explicitly an offshore issuance for a US corporate.

Yemen:

Sabafon ECA-backed Asset Murabahah Financing

In a deal arranged by HSBC, SABAFON secured US\$5.7 million of ECA-supported Murabahah credit for the import

of telecommunications equipment from Nokia Siemens in Germany and Finland.

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