IFN CORPORATE MALAYSIA

Opening doors to new opportunities

VOLUME 3 ISSUE 2, 2018

Islamic private equity: An increasingly active channel

Private equity and venture capital align well with the principles of Islamic finance – so why don't we hear more about them? The sector can often fly under the radar but in fact, many deals are indeed Shariah compliant especially across the Islamic world – and as the Islamic finance industry gains in profile, the Shariah compliant private equity element is also emerging out of the woodwork.

So what is the difference between private equity and venture capital, to start with? In general, it is a question of focus.

Venture capital firms tend to invest in a variety of start-ups with promising growth potential, buying 50% or less of a diversified portfolio of companies with an investment volume rarely topping US$10 million per company. In comparison, private equity firms will usually focus on one company, often more mature, which they will buy outright and then streamline and update to increase revenues and value before selling on at a profit. While venture capital deals are often structured on a straightforward cash/equity basis, the higher value private equity deals can utilize more complex funding structures including a debt-based element.

What makes these deals Shariah compliant? First, they must only invest in Shariah compliant companies. However, that does not always mean an expensive Shariah audit or the maintenance of a Shariah board of scholars, so if you are a corporate seeking potential investors, do not despair. It is the private equity firm's responsibility to ensure its Shariah compliance, and it will usually have its own Shariah board to approve activities while of course it also adheres to Islamic principles when it comes to raising and investing funds. The investments it makes will be based on a screening process to ensure that the target company does not operate in an area forbidden by Shariah principles (for example, gambling or pornography) along with certain other criteria, such as the requirement that its

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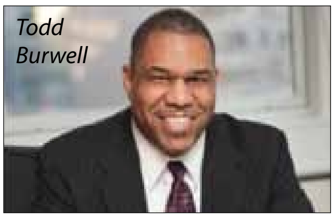
New issuers underpin Sukuk pipeline for the first quarter

2017 was the year of the sovereign Sukuk, with issues emerging from key players including Saudi Arabia, Oman and Indonesia as well as new sovereign entrants including numerous African nations. It can seem as if these giant issuances are a long way away from the day-to-day funding needs of the average corporate – what does a US$9 billion debut Sukuk from Saudi Arabia have to do with your working capital financing requirements? The answer, however, may be more than you might think. 4

Shariah compliant trade finance gains momentum as conventional banks eye up the Islamic sector



A few years ago, the global financial crisis caused many conventional players to pull back from their trade financing activities, leaving a gap in the market for Islamic banks to step in and gain a foothold. Now, however, those roles are reversed – and with trade booming across the Islamic world, conventional banks are looking towards Islamic options in a bid to capture new opportunities. 5

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financing cannot be interest-based, or that it has only a certain limited amount of leveraging. Usually, the firm will appoint its own Shariah advisor to oversee the investment contract and investment structure, and to ensure the ongoing operations of the acquired firm are in accordance with Islamic principles.

When financing a private equity investment, Islamic firms have a number of options available to them. One of the most popular methods is a profit-sharing partnership, or Mudarabah. Here, the investor provides capital to the entrepreneur in order to undertake a business or investment activity. This is similar to a conventional private equity/venture capital relationship between the capital provider and entrepreneur. However, while profits are shared on a pre-agreed ratio, losses are born by the capital provider alone, making it an attractive option for the target – although perhaps less so for the investor!

Another alternative is the concept of joint enterprise or partnership, known as Musharakah. Here, both partners share the profits and losses of the enterprise, making it a more egalitarian option. The structure allows the financier of a project or company to achieve a return in the form of a portion of the actual profits earned according to a predetermined ratio (rather than by charging interest, for example), while also sharing in the risk of the project. All partners contribute funds and all partners have the right to exercise executive powers.

> **“Although Islamic private equity has been a relatively quiet sector, recent activity has picked up as the industry gains profile – and Islamic private equity investors are spreading their wings and looking further afield for a wider and more diverse range of opportunities”**

Finally, an agency-based structure known as Wakalah is the third popular method for private equity investment. In this case, one party (the principal) authorizes another party (the agent) to act on its behalf, based on a set of agreed terms and conditions.

Jassim Alseddiqi, CEO of ADFG

Under all of these structures, certain caveats are in place. For example, there must be express provision and understanding between all parties involved that any profit from an Islamic private equity or venture capital investment must be based on returns from investment, with no guaranteed profit return. There must usually also be a provision for the reinvestment of any profits with a capital provider company.

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Although Islamic private equity has been a relatively quiet sector, recent activity has picked up as the industry gains profile – and Islamic private equity investors are spreading their wings and looking further afield for a wider and more diverse range of opportunities – which could benefit corporates seeking funding.

In February 2018 Abu Dhabi Financial Group (ADFG), a leading global investment group, announced that its subsidiary ADCorp, the first Islamic financial institution based in the Abu Dhabi Global Market (ADGM), had concluded its fundraising and deployed a significant portion of its total capital of over US$100 million. The funds are being deployed in order to finance companies with solid business plans and exceptional potential for growth.

"As access to financing has become increasingly limited in recent years, we recognized an opportunity to create a Shariah compliant financial institution that could leverage ADFG's reputation, track record and network. ADCorp is fulfilling this vision by serving a specialized market of companies that require funding in order to further grow their businesses. We are extremely pleased with our solid and active capital base and expect ADCorp to achieve profitability over the next 12 months," said Jassim Alseddiqi, CEO of ADFG and the executive chairman of ADCorp.

In Bahrain, newly formed private equity company Dividend Gate Capital (DGC) is pioneering a new approach to business growth for Bahrain's SME segment, targeting opportunities with businesses operating in sectors such as food & beverage, construction services, industrial, e-commerce and fintech. This firm aims to build growth in these sectors for the equity group as well as the companies that they invest in, in order to create value across the chain.

"Our vision is that private equity should not be passive. We see our role as dynamic partners in enterprise and business development. DGC will lead from the front by setting the highest standards in corporate governance and business ethics. In addition, we will be bringing our own enterprise expertise to create an eco-entrepreneurial platform to build prosperity and dividends for both the stakeholder companies and equity partners," said Khaled Mohamed Al Hammadi, DGC co-founder and CEO. "Our measurement for success is calculated not only by the financial dividends that our partners will be receiving but also in the valuable, enduring and socially responsible businesses that we will be creating with our stakeholders that will add to wealth and job creation in the Kingdom."

Asian countries are also pushing for the development of Islamic private equity and venture capital. In January 2017, Securities Commission Malaysia launched the Islamic fund and wealth management blueprint to promote, among others, the growth of private equity. In May 2017 KT Portfoy announced the first Islamic venture capital fund in Turkey, partnering with Green Power to focus on renewable energy investments. And in the last quarter of 2016, the Bruneian Ministry of Finance, Japan's SBI Holdings and the IDB launched a new US$100 million private equity fund, looking at all sectors except oil and gas.

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New issuers underpin Sukuk pipeline for the first quarter

2017 was the year of the sovereign Sukuk, with issues emerging from key players including Saudi Arabia, Oman and Indonesia as well as new sovereign entrants including numerous African nations. It can seem as if these giant issuances are a long way away from the day-to-day funding needs of the average corporate – what does a US$9 billion debut Sukuk from Saudi Arabia have to do with your working capital financing requirements? The answer, however, may be more than you might think.

Sovereign Sukuk are a very different kettle of fish to corporate issuance, with their own unique objectives – usually either to raise capital for public spending projects, or to raise profile within the global debt capital market. With the squeeze on oil prices impacting emerging market governments and pushing many into deficit, diversifying their funding has been an imperative and Islamic structures have been instrumental in doing so.

Global Sukuk issuance in 2017 exceeded US$95 billion, of which over US$50 billion was accounted for by sovereigns, according to data from Moody's – making up over 70% of total issuance. "Sovereigns have underpinned a recovery in the global sukuk market this year, with their issuance increasing by 50 per cent in the first eight months of 2017," said Christian de Guzman, a Moody's vice president and senior credit officer. Saudi Arabia alone raised a total of US$17 billion last year, almost 40% of total sovereign Sukuk issued.

But these state forays are not as remote from your own corporate financing requirements as you might think. There is a proven trickle-down effect from public to private sector activity, and this is perhaps even more pronounced in the Shariah compliant marketplace than in the broader conventional space.

The standard process is for a sovereign Sukuk to set a precedent and create a yield curve. This is often then followed by financial institutions, with Islamic banks leading the way and issuing their own paper, and government-related or state-owned entities (GREs). Finally, once the path is well-trodden, corporate issuers then come to market to take advantage of this new funding source that has been opened up by earlier participants. This is a tried-and-tested route in Islamic finance-focused markets from Malaysia to Oman, the UAE to Pakistan – and it is now being demonstrated once more.

Just as the corporate Sukuk market in 2015 saw a boost following a strong year for sovereign Sukuk in 2014, so we can expect a further boost for corporate Sukuk in 2018-19 following the sovereign rush of the previous year. Conditions are also similar – tightening liquidity, concerns over credit conditions and an increased Federal Reserve rate spooking emerging markets. Investors are already pushing corporate treasurers to consider new sources of funding.

So what have we seen so far in 2018? Over the first quarter, frenetic activity in the private sector would seem to be supporting this scenario.

> **"There is a proven trickle-down effect from public to private sector activity, and this is perhaps even more pronounced in the Shariah compliant marketplace than in the broader conventional space"**

First, we are seeing increased issuance from financial institutions and GREs. In February Dubai Islamic Bank listed a US$1 billion issuance on Nasdaq Dubai, while while First Abu Dhabi Bank (FAB) concluded the issuance of its inaugural US$650 million Sukuk, listed on the London Stock Exchange. Noor Bank is looking at a long-term Sukuk issuance this year, as is Kuwait's Boubyan Bank. In Malaysia, Maybank Islamic recently issued RM250 million (US$63.79 million) in Islamic commercial papers, while in Turkey VarifBank has applied to sell up to TRY500 million (US$127 million) in Sukuk and in the UK Al Rayan Bank debuted a brand new and pioneering mortgage-backed security transaction. And in countries where the Sukuk market is less well developed, financial institutions are also starting to get in on the act, marking the second stage in the process. In Nigeria, for example, state-backed mortgage guarantor Nigeria Mortgage Refinance Co (NMRC) is planning to issue a debut NGN1 billion (US$2.75 million) Sukuk facility, possibly by June.

This swelling pipeline is supporting increased confidence levels, and previous issuers are starting to return to market. Emirates Airline, which first tapped the Islamic debt capital market in 2015, returned in March with a sophomore US$650 million issuance which was very well-received. Saudi real estate developer and veteran issuer Dar Al Arkan issued its fifth tranche of Sukuk issuance with a size of SAR1.88 billion (US$501.1 million). The paper, which has a five-year tenor and a profit rate of 6.88% per annum, received significant interest from international market participants with the orderbook reaching SAR4.5 billion (US$1.2 billion). In Malaysia, a multitude of corporates have crowded into the Sukuk market over the past month: including leading infrastructure group Gamuda, conglomerate Bina Darulaman and retail giant Aeon Co.

These success stories are now stimulating new visitors to the market. In Saudi Arabia, home finance firm Bidaya announced a debut SAR500 million (US$133.3 million) Sukuk program to fund its medium-term financing strategy, while developer Salman Abdullah Bin Saedan Real Estate Group is also planning a debut issuance this year - the first tranche of a US$1 billion Sukuk program.

While conditions may still be somewhat challenging, Islamic bonds offer corporates a valuable new method of diversification – one which more and more firms are now recognizing to be of interest in their bid to expand funding sources and achieve the best price for their buck. The substantial sovereign Sukuk issuances last year have paved the way for further private sector activity, and we can expect more new issuers to join the market throughout the year.

Shariah compliant trade finance gains momentum as conventional banks eye up the Islamic sector

A few years ago, the global financial crisis caused many conventional players to pull back from their trade financing activities, leaving a gap in the market for Islamic banks to step in and gain a foothold. Now, however, those roles are reversed – and with trade booming across the Islamic world, conventional banks are looking towards Islamic options in a bid to capture new opportunities.

Any business involved in cross-border trade understands the vital importance of an efficient and flexible line of credit – and competition between banks is only a good thing, as it creates better pricing conditions for the corporate client. Across the Islamic world, this competition is hotting up, as banks recognize the rapid growth and high levels of opportunity in Muslim markets and jockey to provide alternative solutions for potential new clients. Trade from Muslim countries is worth a whopping US$3.5 trillion – bigger than the entire Islamic finance industry put together – and almost 20% of this is between Muslim countries themselves, making it a no-brainer for providers to explore Shariah compliant options.

One issue that has hitherto held back the widespread usage of Islamic trade finance solutions is the absence of standardized documentation to expedite the process and allow conventional and Islamic banks to transact easily with each other across the supply chain. In March 2018 however, this was addressed with the signing of an MoU between the Bankers Association for Finance & Trade (BAFT, a leading conventional international financial services association) and the International Islamic Financial Market (IIFM, a standard-setting body focused on the standardization of Islamic financial contracts and product templates), to work towards the creation of a master risk participation agreement to support Islamic trade finance.

BAFT introduced its master risk participation agreement (MRPA) to support secondary sales of trade finance assets over 10 years ago, and it has become the industry benchmark for such trade finance transactions. The joint IIFM-BAFT Islamic Risk Participation Agreement (IMRPA) will incorporate the practical considerations for funded and unfunded risk participations in trade assets within a Shariah compliant framework.

"BAFT is proud to partner with IIFM to introduce some much-needed standardization to the market in support of Islamic trade," said Tod Burwell, the president and CEO of BAFT. "Their expertise in Islamic finance, coupled with our practical experience in trade risk participations, can hopefully find commonality and develop document standard that will prove beneficial."

"The IIFM/BAFT agreement will have a tremendous impact," said Shamzani Hussain, managing director and head of Islamic banking at First Abu Dhabi Bank (FAB). "Standardized documentation is one of the biggest boxes we need to tick in order to grow the sector. It will make it easier for a wider range of counterparties to get involved in Islamic trade finance transactions, agree on terms and be more comfortable from both a Shariah compliant and a commercial perspective. We will definitely see more activity in Islamic trade finance following the introduction of the master agreement."

Islamic trade finance is already seeing increasing levels of activity as conventional banks look to leverage the opportunities within the Islamic world. Most recently, Barclays Bank unveiled a new Islamic trade financing product in Kenya to offer Shariah compliant facilities including working capital and guarantees – the latest in a line of conventional banks stepping into the Islamic space.

Now, the focus is on developing new solutions to provide a more efficient service to clients – and here, it is technology that is playing a leading role, with banks racing to roll out new platforms and products that take advantage of the rapidly developing fintech space. In March 2018, the UAE's Noor Bank became the first Islamic institution to become an associate member of FCI, the global representative factoring network and association. Noor Bank is one of very few banks to provide Islamic factoring - offering clients immediate liquidity facility on unpaid invoices through a factoring software system that has been modified to comply to Shariah principles. Additionally, Noor Bank also recently partnered with Euler Hermes to receive trade credit insurance - offering its clients credit protection against buyer defaults.

Standard Chartered and HSBC, two leading players in the Islamic trade finance space, are both working on alternative fintech solutions that could be applied to the Islamic space. HSBC in February confirmed that it was ready to launch a series of pilots for live trade finance blockchain transactions, having worked on the project since August 2016 – a first for the sector and one that could revolutionize client services. Standard Chartered is also believed to be testing blockchain applications, and in October 2017 provided the financing for the successful completion of the first blockchain-enabled trade finance transaction for a global logistics company, a joint venture between trade finance platform TradeIX and global insurer AIG.

Software provider Temenos has also undertaken a proof of concept to support letters of credit (LoCs) using distributed ledger technology. "Although this was based on conventional LoCs, it can easily support Murabahah LoCs, Musharakah LoCs, Ijarah LoCs and Musawwamah LoCs and other forms of Islamic LoC contracts," said product manager Fadi Yazbeck. "Islamic trade finance has lagged from a technology perspective. But now it no longer needs to play catch-up – Shariah compliant solutions can now offer the same advanced functionality as conventional trade finance solutions."

With both documentation and application advancing in leaps and bounds, Islamic trade finance is certainly a sector to watch for 2018.

Banks get busy as Islamic finance activity outpaces conventional market

The growth of the Islamic finance sector will continue to outstrip the growth of conventional assets across core Islamic finance markets in coming years, as demand for Shariah compliant financial instruments rises, according to new data from Moody's Investors Service. This is evidenced not only by the strong performance of Islamic banks, but by the expanding and increasingly innovative product suite of Shariah compliant commercial solutions available to corporate customers.

In the GCC, Islamic banking penetration reached 45% of the total banking market in September 2017 – up from 31% in 2008. Saudi Arabia remains the largest market for Islamic finance overall, with Islamic financing assets worth US$292 billion as of September 2017, while Oman is the fastest-growing Islamic banking market, growing by 20% in the first nine months of 2017 to achieve a market share of 13%.

"The increased market share was led by the GCC largely driven by continued retail demand for Shariah compliant financial services in Muslim-majority countries, which drove strong financing growth of around 5% in the first nine months of 2017, compared to 2% growth in conventional bank financing over the same period," said Nitish Bhojnagarwala, a vice president and senior analyst at Moody's.

This growth is sparking a wealth of new options for corporates to access commercial Islamic lending products, with innovative new channels and elements appearing.

In Dubai, a new innovation fund is to offer direct Shariah compliant loans to entrepreneurs, start-ups and SMEs for the first time. The AED2 billion (US$544.6 million) Mohammed Bin Rashid Innovation Fund (MBRIF), an initiative of the UAE's Ministry of Finance operated by Emirates Development Bank (EDB), already issues bank guarantees to help finance entrepreneurs in the creative sector, but has not previously offered start-up loans.

"Things were slow last year [when it came to making awards through the fund]," said EDB chief executive Haitham Kamhiyah. "Banks find it risky to lend to SMEs on their own, so we want to move things along. "We are reviewing our business plan and products for 2018 and are introducing a Shariah compliant loan from

Dubai International Financial Center

this year. We are hopeful that 2018 will be a very successful year."

EDB will offer Shariah compliant loans of up to seven years to MBRIF participants, at interest rates ranging between 7-9% - almost half the typical 12-14% rates currently offered by commercial banks for SME financings.

March also saw the announcement by Dubai Investments of a brand new wholesale Islamic bank to serve business customers – the first home-grown wholesale Islamic bank in the emirate. The US$100 million Arkan Bank, to be based in the Dubai International Financial Center, will offer a fully integrated range of Shariah compliant banking services and investment products to corporate and institutional clients through core business lines of corporate banking, asset management, investment banking and treasury.

"The bank will initially focus on the GCC region and subsequently build scale and reach across its business lines, products and geographies to become the top-tier Islamic wholesale bank in the region and global arena," said Khalid bin Kalban, managing director and CEO of Dubai Investments, and the founder and chairman of Arkan Bank.

"The US$100 million Arkan Bank, to be based in the Dubai International Financial Center, will offer a fully integrated range of Shariah compliant banking services and investment products to corporate and institutional clients through core business lines of corporate banking, asset management, investment banking and treasury"

"Our aim is to… capitalize on the increasing demand for Shariah compliant banking services witnessed in the global market," said Mohammad Alqahtany, managing director and chief executive officer of Abwab Capital, and the founder and managing director of Arkan Bank.

Pakistan moves forward, Malaysia looks to fintech and financial institutions law gets feedback

Regulation and compliance are vital pillars of the Islamic finance industry, and rigorous adherence is what provides confidence in the market, perpetuates a positive reputation and supports stable and market-driven progress. We bring you the latest regulatory news from the around the world, with activity from governments to central banks to industry bodies combining to improve oversight and encourage a robust environment where corporates can have faith that their finances are supported by a firm rule of law.

Pakistan introduces new standards

The Securities and Exchange Commission of Pakistan (SECP) has introduced three new international auditing and accounting standards to improve regulation and governance of the Shariah compliant financing sector.

"SECP granted approval to its Islamic finance department for the adoption and notification of the three additional Shariah standards," said the SECP. "The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Shariah standards have been notified after a thorough consultative process."

The adopted standards include Shariah Standard No 17 on Investment Sukuk, Shariah Standard No 18 on Possession (Qabd) and Shariah Standard No 23 on Agency and the Act of an Uncommissioned Agent (Fodooli), according to the SECP.

"Geared towards development and growth of Islamic finance, [we have] been replicating the best international practices as laid down by Islamic Financial Services Board (IFSB) through its regulations and policy guidelines," it added. "As a step further towards harmonization and standardization in the business practices of Islamic financial institutions, the SECP has been adopting the accounting and Shariah standards from time to time."
AAOIFI is an international standard-setting body based in Bahrain that prepares accounting, auditing, governance, ethics and Shariah standards for Islamic financial institutions and the industry.

CIBAFI advises AAOIFI on new draft standard for financial institutions

The General Council for Islamic Banks and Financial Institutions (CIBAFI) has provided comments to AAOIFI on its recently released Exposure Draft for the new Governance Standard for Islamic Financial Institutions (GSIFI) No.10: Shariah Compliance and Fiduciary Ratings for Islamic Financial Institutions.

Fundamentally, CIBAFI members raised some concerns on the purpose of the draft and potential parties that would be interested in it. "It was not explicitly clear how far customers and other counterparties would understand and use ratings of this kind, therefore whether they would have any commercial value," noted CIBAFI.
"On the other hand, any regulator with a sufficient interest in Shariah governance to consider mandating such a rating would be more likely to impose Shariah governance requirements on firms and supervise them directly. It is therefore unclear how Shariah compliance ratings would fit into the Shariah governance structure in different jurisdictions. This in turn raises the question of what purpose a standard in this area would serve for the Islamic finance industry."

On a separate note, CIBAFI recommended for more time to be spent on having discussions and views with different stakeholders from different jurisdictions, and involvement perhaps of a few rating agencies in the process to avoid any biased views and opinions.

CIBAFI also expressed its appreciation of the work that AAOIFI does to maintain sound practices of the Islamic financial services industry.

Malaysian central bank to launch new VBI scorecard

For corporates keen on ethical practices, Malaysia is about to make the choice of bank a whole lot easier with the introduction of a new value-based intermediation (VBI) scorecard for Islamic banks scheduled for October this year.

"VBI is very much a game changer in Islamic finance as it gives equal weight to both economic value creation and upholding ethical values," said director of Islamic banking at Bank Negara Malaysia, Mohd Zabidi Md Nor.

The scorecard comprises quantitative and qualitative elements measuring a number of different segments.

"For quantitative elements, it singles out the elements of financing that focuses on the triple bottom line, namely social, environmental (or ecological) and financial," said Zabidi.

Nine Islamic banking institutions in Malaysia already participate in the VBI Community of Practitioners (Bank Islam, Bank Muamalat, CIMB Islamic, Agrobank, HSBC Amanah, Maybank Islamic, AmBank Islamic, Alliance Islamic and Standard Chartered Saadiq).

Giant step forward for Omani corporate

Oman's Golden Group, a privately-owned conglomerate with interests across multiple industries, has made history with the issuance of the first tranche of the country's largest ever corporate Sukuk program. The OMR200 million (US$520.4 million) program was approved by the regulator in November 2017, and the inaugural OMR50 million (US$130 million) issuance hit the market in February 2018 to phenomenal response.

The Omani government launched its debut sovereign Sukuk in 2015, and since then the country has gradually developed into an exciting forum for corporate Islamic issuance as businesses become familiar with the opportunities and gain confidence in the yield curve.

> **"With a wide investor split covering banks, insurance companies, government institutions, family offices, high net worth individuals and even corporate investors, the issuance received exceptionally strong demand"**

The conglomerate's move to raise funds Islamically comes amid plans by local financial institutions to also tap the Islamic capital markets, leveraging on new Sukuk regulations issued last year.

The five-year issuance from Golden Group offers an ideal template for corporate issuers new to the market who might be considering the option of Islamic fundraising. Privately placed and with no onerous listing obligations, the deal was structured under a well-known and easy-to-use agency contract (Wakalah), with additional characteristics tailored to the group's unique requirements.

For example, the issuance has 100% security coverage mortgaged in the favor of Sukukholders, with the obligor providing a negative pledge with an additional 20% (of the issuance amount)-worth of real estate assets. This is to ensure the security coverage is well-buffered if the valuation of the mortgaged asset falls. The negative pledge will provide a cushion if there is a shortfall on the mortgage to ensure full security for the entire duration of the tenor.

In addition, the facility carries a personal guarantee from the chairman of Golden Group, Salim Ahmed Al Ghazal – rare in a Sukuk issuance, but instrumental in inspiring confidence from local and regional investors.

With a wide investor split covering banks, insurance companies, government institutions, family offices, high net worth individuals and even corporate investors, the issuance received exceptionally strong demand and achieved a profit rate of 6.5%, highlighting the demand for Islamic paper in the market and blazing a new trail for more corporates to follow suit.

Salim Ahmed Al Ghazal

> **"The facility carries a personal guarantee from the chairman of Golden Group"**

The group will use the proceeds to construct hotels in Oman under the Rotana & Mercure brand name.

Perpetual program on the cards for Malaysian corporate

UMW Holdings, one of Malaysia's leading industrial enterprises, in March announced plans for a RM2 billion (US$511.6 million) perpetual Sukuk program, designed to improve its borrowing structure by enabling it to access longer-term funding from the capital market. Although not yet executed, this strategy portrays a compelling solution for corporate clients keen to achieve a similar extension of their diversified funding requirements.

Badrul Feisal Bin Abdul Rahman, president & CEO, UMW Holdings

What is a perpetual Sukuk? The key differentiation is that because the paper does not mature, it is treated as equity rather than as debt – thereby offering a wide range of potential uses and appealing to a whole different class of investor seeking equity-type securities.

"The nature of the perpetual Sukuk allows it to be treated as part equity from a rating perspective and as 100% equity from an accounting perspective, thereby strengthening UMW's balance sheet," explained a UMW spokesperson.

This offers obvious advantages for the corporate issuer, both in terms of achieving a strong rating and attracting a robust investor base.

In a filing with Bursa Malaysia on the 22nd March, Maybank Investment Bank announced on behalf of UMW Holdings that its Perpetual Sukuk Program had been assigned a preliminary rating of 'A1' with a positive outlook by RAM Rating Services, reiterating the appeal of a perpetual structure.

Proceeds from the exercise will be used by the group to finance its debt obligations and/or capital requirements, investments, general corporate purpose and capital expenditure.

CIMB Investment Bank and Maybank are the joint principal advisers, joint lead arrangers and joint lead managers of the program, while CIMB Islamic Bank and Maybank Islamic are the joint Shariah advisors.

Other corporates have also been successful in issuing perpetual Sukuk programs, a trend that appears to be gaining some momentum. Most recently, Saudi Investment Bank (SAIB) issued a SAR1 billion (US$266.52 million) perpetual Sukuk in March 2018 in order to diversify the bank's funding sources and extend its maturity profile. In Malaysia, Yinson Holdings also recently announced plans to establish a perpetual Sukuk Mudarabah program with a combined limit of RM1.5 billion (US$382.84 million), while in 2017 plantation giant Sime Darby successfully raised RM2.2 billion (U$546.9 million) through a perpetual issuance.

> **"The nature of the perpetual Sukuk allows it to be treated as part equity from a rating perspective and as 100% equity from an accounting perspective, thereby strengthening UMW's balance sheet"**

CORPORATE

AEON ISSUES SUKUK

Malaysia's AEON Co has printed a RM100 million (US$25.52 million) Islamic commercial paper (ICP) maturing on the 20th April 2018, according to a statement on the Bond and Sukuk Information Exchange.

GAMUDA SELLS ISLAMIC NOTES

Leading Malaysian infrastructure group Gamuda has printed an Islamic medium-term note (IMTN) for RM400 million (US$102.07 million). The paper, which carries a maturity of five years, has a profit rate of 4.79%. The issuance was arranged by Maybank Investment Bank.

EMIRATES RETURNS TO SUKUK MARKET

Emirates Airline has successfully executed a US$600 million Sukuk facility, expected to be admitted into listing and trading on the Irish Stock Exchange and on NASDAQ Dubai.

BINA DARULAMAN ISSUES NOTE PROGRAM

Malaysia's Bina Darulaman has issued a RM50 million (US$12.78 million) Islamic commercial paper (ICP) maturing on the 19th June. The paper, arranged by Maybank Investment Bank, is rated 'MARC-2 IS'.

AL DZAHAB SELLS NOTES

Malaysia's Al Dzahab Assets on the 16th March issued five Islamic medium-term notes (IMTNs) worth a combined RM207 million (US$52.91 million).

The papers, arranged by Hong Leong Investment Bank, have three, five, seven and nine-year (two papers) tenors. RAM Ratings gave the following ratings: the three-year, five-year and seven-year papers are rated 'AAA', while one nine-year paper is rated 'AA3'. The remaining nine-year paper is not rated.

DAR AL ARKAN FLOATS SUKUK

Saudi Arabia's Dar Al Arkan Real Estate Development Company has issued the fifth tranche of Sukuk issuance with a size of SAR1.88 billion (US$501.1 million). The paper, which has a five-year tenor and a profit rate of 6.88% per annum, received significant interest from international market participants.

BIDAYA LAUNCHES NEW SUKUK PROGRAM

Saudi's Bidaya Home Finance has rolled out its debut Sukuk program for SAR500 million (US$133.27 million). Bidaya hired Ashmore Investment to arrange the program while Albilad Capital was appointed as the dealer.

GAS MALAYSIA ISSUES ISLAMIC FACILITIES

Gas Malaysia has issued a RM30 million (US$7.67 million) three-year Murabahah Islamic medium-term note which will mature on the 9th March 2021 and a three-month Islamic commercial program worth RM50 million (US$12.79 million) which will mature on the 8th June 2018.

SKYCORP ISSUES SHORT-TERM SUKUK

Malaysia's Skyworld Capital has floated an Islamic commercial paper for the amount of RM4 million (US$1.02 million). The issuance, which has a tenor of three months, was arranged by UOB Malaysia.

IRANIAN MINING FIRMS PLAN SUKUK

Three subsidiaries of Iran's Middle East Mines Industries Development Holding Company (MIDHCO) plan to float Sukuk instruments to finance their remaining expansion projects and boost their capital.

Sirjan Iranian Steel Company, Butia Iranian Steel Company and Babak Iranian Copper Company will issue separate Sukuk Ijarah papers for the amount of IRR4 trillion (US$106.09 million), IRR3.6 trillion (US$95.48 million) and IRR3 trillion (US$79.57 million) respectively. The four-year facilities will be tradable on the Iran Fara Bourse's second market and will bear interest of 16%.

BANKING

VARIFBANK APPLIES FOR SUKUK

Turkey's Vakifbank Islamic has applied to issue Sukuk for the amount of TRY500 million (US$126.99 million). No tenor or details of underlying assets were given for the deal, which will be sold to qualified investors via an asset leasing company.

MAYBANK ISSUES SUKUK

Malaysia's Maybank Islamic has issued a RM250 million (US$63.79 million) Islamic commercial paper (ICP) maturing on the 18th March 2019. The paper, arranged by Maybank Investment Bank, is rated 'P1' by RAM Ratings.

SABAH CREDIT CORP ISSUES SUKUK

Malaysia's Sabah Credit Corporation has issued a RM70 million (US$17.94 million) Islamic commercial paper (ICP) maturing on the 7th September. The paper, arranged by AmInvestment Bank, is rated 'P1' by RAM Ratings.

NIGERIA MORTGAGE REFINANCE CO PLANS SUKUK

Nigeria Mortgage Refinance Co (NMRC), Nigeria's state-backed mortgage guarantor, is planning to issue a debut Sukuk facility, possibly by June. Underwriting terms for the NGN1 billion (US$2.75 million) paper have been set and work with regulators is progressing.

OSK PLANS SUKUK

Malaysia's OSK Holdings has confirmed with the Securities Commission Malaysia plans to set up a RM1.8 billion (US$461.08 million) Islamic medium-term note (IMTN) program and subsequently float an IMTN facility under it. The program is unrated and has a perpetual tenor, whereas the IMTN facility under it shall have a tenor of more than one year as determined by OSK, provided that the tenor of the issuance is not perpetual. Maybank Investment Bank and RHB Investment Bank are the joint principal advisors, joint lead arrangers, joint lead managers and joint bookrunners for the program.

BOUBYAN CONSIDERS SUKUK

Kuwait's Boubyan Bank plans to expand its activities by increasing capital or by issuing a Sukuk facility for a minimum of US$250 million in 2019, according to CEO Adel Abdul Wahab Al-Majed.

SOVEREIGN

SAUDI PRINTS SUKUK

The Saudi Ministry of Finance has completed a new Sukuk issuance worth SAR4.85 billion (US$1.29 billion) under its Saudi Arabian Government SAR-denominated Sukuk program, according to a statement.

The paper was printed in three tranches, with the first tranche at a size of SAR2.6 billion (US$693.03 million) maturing in 2023, the second tranche at SAR1.85 billion (US$493.12 million) maturing in 2025 and the third tranche at SAR400 million (US$106.62 million) maturing in 2028.

INDONESIA AUCTIONS SUKUK

The Ministry of Finance has raised IDR8.9 trillion (US$646.68 million) from its latest auction of Shariah securities. IDR13.06 trillion (US$948.95 million)-worth of bids were received for the six securities reopened comprising: SPNS07092018 issued at a discounted yield, PBS002 with a yield of 5.45%, PBS004 with a yield of 6.1%, PBS012 with a yield of 8.88%, PBS016 with a yield of 6.25% and PBS017 with a yield of 6.13%.

QATAR AUCTIONS SUKUK

The Qatar Central Bank has conducted an auction for its five-year Sukuk, according to an official announcement. The facility, which was floated for the amount of QAR900 million (US$245.99 million), carries a yield of 3.95% and will be maturing on the 12th March 2023.

IRAN ISSUES INFRASTRUCTUE SUKUK

The Ministry of Economic Affairs and Finance of Iran has printed Sukuk for the amount of IRR2 trillion (US$52.9 million). Proceeds from the paper, guaranteed by the Management and Planning Organization, will be used to fund the construction of the Tehran-Qom-Isfahan high-speed railroad. The 42-month Musharakah facility has an annual interest rate of 20%, paid every six months.

IRAN DEBUTS NEW LEASE-BASED SUKUK

The Social Security Organization of Iran has issued the nation's first-ever equity-backed lease-based (Ijarah) Sukuk for IRR10 trillion (US$266.27 million). The Sukuk facility has a nominal rate of 20% and a tenor of one year. The underlying asset for the facility is 7.89% of 'PTAP1' shares priced at IRR1,266 (3.37 US cents) per share. Bank Refah will act as the guarantor of the facility, paying the principal and interest in case of default.

SOUTH AFRICA COULD RETURN TO MARKET

South Africa is looking to float a second Sukuk facility in the fiscal year starting the 1st April. According to Tshepiso Moahloli, the chief director of liability management at the National Treasury, the potential rand-denominated Sukuk issuance could garner strong interest, particularly from Islamic asset managers as well as Islamic banks, and is expected to set a benchmark for local corporate issuers to tap the market. The size of the paper would "depend on market interest and timing."

SHARJAH ISSUES SUKUK

The emirate of Sharjah has issued a 10-year Sukuk facility for the amount of US$1 billion with no new issue premium. The deal is the emirate's largest issuance and the first transaction from its medium-term note program.

IDB LISTS SUKUK IN DUBAI

The Islamic Development Bank (IDB) listed a US$1.25 billion Sukuk on Nasdaq Dubai. The listing brings the number of Sukuk listings by the IDB on the exchange to nine with a total value of US$11.5 billion, making it one of the largest Sukuk issuers on NASDAQ Dubai.

IILM PRINTS SUKUK

The International Islamic Liquidity Management Corporation (IILM) floated two series of short-term Sukuk for US$500 million each on the 14th March, according to an announcement. The three-month issuance has a profit rate of 2.45% and received a total orderbook of US$1.51 billion, whereas the six-month issuance has a profit rate of 2.7% and garnered a total orderbook of US$1.04 billion.

Separately, the IILM also floated another two series of short-term Sukuk for US$500 million each on the 20th March. The three-month issuance has a profit rate of 2.45%, whereas the six-month issuance has a profit rate of 2.7%.

IFN CORPORATE

Group Managing Editor Lauren McAughtry lauren.mcaughtry@REDmoneygroup.com

Editor Vineeta Tan vineeta.tan@REDmoneygroup.com

Senior Copy Editor Kenny Ng kenny.ng@REDmoneygroup.com

Journalist Durgahyeni Mohgana Selvam durgahyeni.selvam@redmoneygroup.com

Head of Production Hasnani Aspari hasnani.aspari@REDmoneygroup.com

Senior Production Manager Norzabidi Abdullah zabidi.abdullah@REDmoneygroup.com

Finance Manager Fatimah Omar fatimah.omar@redmoneygroup.com

Deputy Publisher & Director Geraldine Chan geraldine.chan@REDmoneygroup.com

Managing Director Andrew Tebbutt andrew.tebbutt@REDmoneygroup.com

Managing Director & Publisher Andrew Morgan andrew.morgan@REDmoneygroup.com

Published By: REDmoney

MALAYSIA
Suite 22-06, 22nd Floor, Menara Tan & Tan, 207, Jalan Tun Razak
50400 Kuala Lumpur, Malaysia
Tel: +603 2162 7800 Fax: +603 2162 7810

UAE
PO Box 126732, 3rd Floor, X2 Tower, Jumeirah Lake Tower (JLT), Jumeirah Bay, Dubai, UAE
Tel: +971 4 427 36 23 Fax: +971 4 431 4614

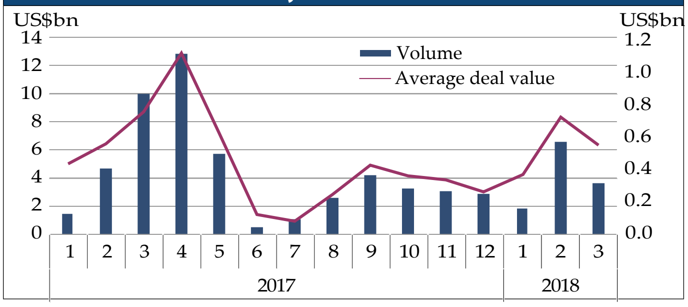
UK
Level 1, Devonshire House, 1 Mayfair Place
London W1J 8AJ, United Kingdom
Tel: +447412 806 386, +44 7469 32 7031

Top Issuers of Global Sukuk

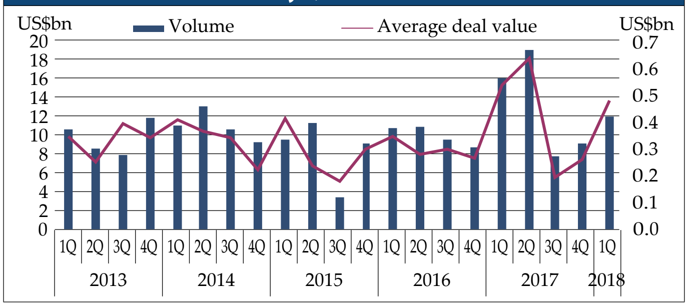
12 Months

Issuer	Nationality	Market	US$ (mln)	Tranches	Managers
Saudi Arabia	Saudi Arabia	Euro market public issue	9,000	2	BNP Paribas, Citigroup, Deutsche Bank, HSBC, JPMorgan, Saudi National Commercial Bank
Indonesia	Indonesia	Euro market public issue	3,000	2	Deutsche Bank, First Abu Dhabi Bank, HSBC, Mandiri Sekuritas, Standard Chartered Bank
Indonesia	Indonesia	Euro market public issue	3,000	2	Abu Dhabi Islamic Bank, CIMB Group, Citigroup, Dubai Islamic Bank, HSBC
Saudi Aramco	Saudi Arabia	Domestic market public issue	3,000	1	Alinma Bank, Gulf International Bank, HSBC, Riyad Bank, Samba Capital, Saudi Fransi Capital, Saudi National Commercial Bank
Oman	Oman	Euro market public issue	2,000	1	Alizz Islamic Bank, Citigroup, Dubai Islamic Bank, Gulf International Bank, HSBC, JPMorgan, Standard Chartered Bank
Turkey	Turkey	Euro market public issue	1,250	1	Dubai Islamic Bank, HSBC, Standard Chartered Bank
Islamic Development Bank	Saudi Arabia	Euro market public issue	1,250	1	Emirates NBD, Goldman Sachs, Gulf International Bank, HSBC, Maybank, National Bank of Kuwait, Natixis, Standard Chartered Bank
Islamic Development Bank	Saudi Arabia	Euro market public issue	1,250	1	Dubai Islamic Bank, First Abu Dhabi Bank, Gulf International Bank, HSBC, Maybank, Natixis, Standard Chartered Bank, Warba Bank
Islamic Development Bank	Saudi Arabia	Euro market public issue	1,250	1	CIMB Group, Citigroup, Emirates NBD, Gulf International Bank, HSBC, Natixis, Standard Chartered Bank, Sumitomo Mitsui Financial Group
China General Nuclear Power	Malaysia	Domestic market public issue	1,246	33	CIMB Group, Maybank, RHB Capital

Global Islamic Bond Volume by Month

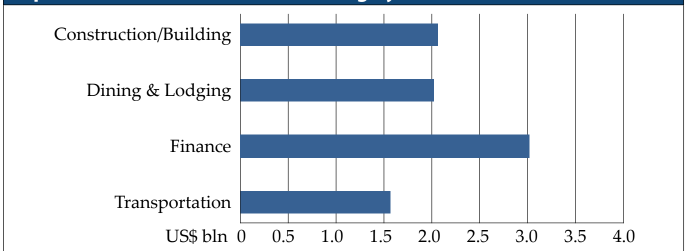


Global Islamic Bond Volume by Quarter



Top Islamic Finance Related Financing by Sector

12 Months



Top Global Islamic Bookrunners

12 Months

	Bookrunner Parents	US$ (mln)	Iss	%
1	**CIMB Group**	6,106	47	11.03
2	**Maybank**	5,913	46	10.68
3	**HSBC**	5,516	21	9.97
4	**Standard Chartered Bank**	3,343	22	6.04
5	**Citigroup**	3,193	9	5.77
6	**JPMorgan**	2,640	6	4.77
7	**RHB Bank**	2,524	29	4.56
8	**Dubai Islamic Bank**	2,487	14	4.49
9	**Deutsche Bank**	2,399	5	4.33
10	**AmInvestment Bank**	2,364	27	4.27

Top Islamic Finance Related Financing Deal List

12 Months

Credit Date	Borrower	Nationality	US$ (mln)
17th May 2017	**Dubai Airports**	UAE	2,999
30th Mar 2017	**Saudi Binladin Group**	Saudi Arabia	1,867
15th Aug 2017	**Al Motasaliha**	UAE	1,835
18th Dec 2017	**Ma'aden Aluminum**	Saudi Arabia	1,782
11th May 2017	**Jumeirah Group**	UAE	1,450
3rd Dec 2017	**GEMS MENASA (Cayman)**	UAE	1,250
13th Oct 2017	**DanaInfra Nasional**	Malaysia	948
3rd Jul 2017	**ME Investments**	UAE	681
27th Apr 2017	**United Telecommunication**	Oman	600
11th Oct 2017	**PR1MA Corporation Malaysia**	Malaysia	592

Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
15-Mar-18	**Emirates Group**	UAE	Sukuk	Euro market public issue	600	Abu Dhabi Islamic Bank, BNP Paribas, Citigroup, Dubai Islamic Bank, Emirates NBD, First Abu Dhabi Bank, HSBC, JPMorgan, Noor Bank, Standard Chartered Bank
14-Mar-18	**Dar Al-Arkan Real Estate Development**	Saudi Arabia	Sukuk	Euro market public issue	500	Alkhair Capital (Dubai), Deutsche Bank, Dubai Islamic Bank, Emirates NBD, Goldman Sachs, Nomura, Noor Bank, Standard Chartered Bank
13-Mar-18	**Gamuda**	Malaysia	Sukuk	Domestic market public issue	102	AmInvestment Bank, CIMB Group
08-Mar-18	**Islamic Development Bank**	Saudi Arabia	Sukuk	Euro market public issue	1,250	CIMB Group, Citigroup, Emirates NBD, Gulf International Bank, HSBC, Natixis, Standard Chartered Bank, Sumitomo Mitsui Financial Group
07-Mar-18	**Sharjah**	UAE	Sukuk	Euro market public issue	1,000	Dubai Islamic Bank, HSBC, Sharjah Islamic Bank, Standard Chartered Bank
28-Feb-18	**Prasarana Malaysia**	Malaysia	Sukuk	Domestic market public issue	767	Affin Hwang Capital, AmInvestment Bank, CIMB Group, Kenanga Investment Bank, Maybank
26-Feb-18	**First Abu Dhabi Bank**	UAE	Sukuk	Euro market public issue	650	Citigroup, First Abu Dhabi Bank, Kuwait Finance House, Saudi National Commercial Bank, Standard Chartered Bank
22-Feb-18	**Indonesia**	Indonesia	Sukuk	Euro market public issue	3,000	Abu Dhabi Islamic Bank, CIMB Group, Citigroup, Dubai Islamic Bank, HSBC
20-Feb-18	**MKD Kencana**	Malaysia	Sukuk	Domestic market public issue	308	Maybank

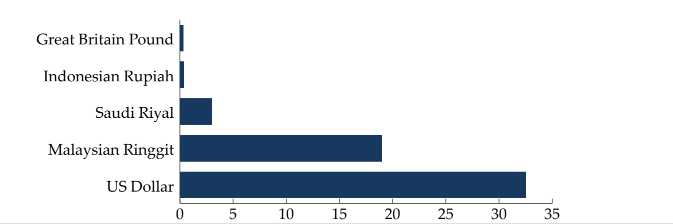
Top Islamic Finance Related Financing Bookrunners

12 Months

	Bookrunner	US$ (mln)	No	%
1	**First Abu Dhabi Bank**	923	5	21
2	**Abu Dhabi Islamic Bank**	817	4	18
3	**Maybank**	674	3	15
4	**Arab Banking**	428	6	10
5	**Standard Chartered Bank**	227	4	5
6	**Noor Bank**	206	3	5
7	**Qatar Islamic Bank**	165	2	4
8	**Emirates NBD**	153	3	3
9	**Abu Dhabi Commercial Bank**	149	2	3
10	**National Bank of Kuwait**	100	1	2

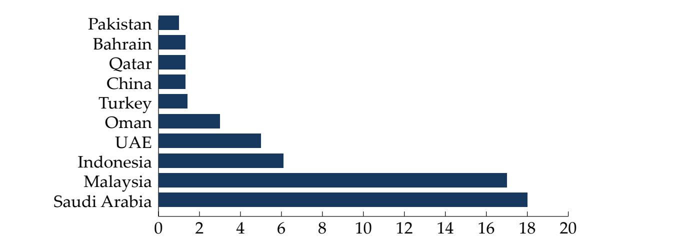
Sukuk Volume by Currency US$ (billion)

12 Months

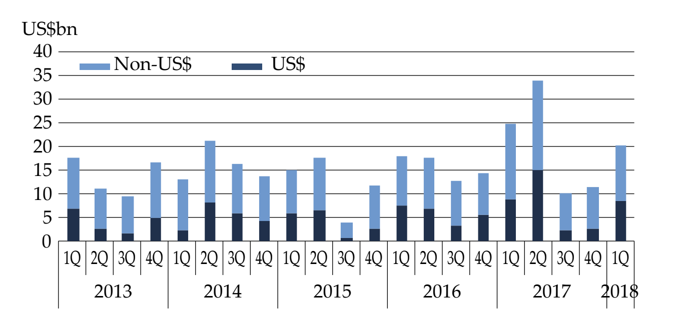


Sukuk Volume by Issuer Nation US$ (billion)

12 Months

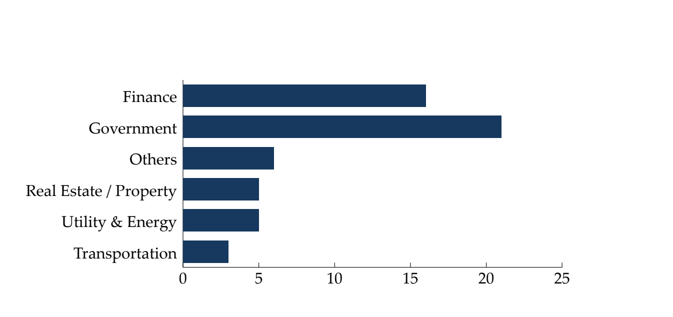


Global Islamic Bond Volume - US$ Analysis



Global Sukuk Volume by Sector

12 Months



If you feel that the information within these tables is inaccurate, you may contact the following directly: Mayumi Ohira (Media Relations)
Email: mayumi.ohira@dealogic.com
Tel: +852 3698 4700

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