IFN CORPORATE OMAN

Opening doors to new opportunities

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Outlook 2018: The right time to raise in the Islamic market

The Islamic debt capital market had a tremendous year in 2017. While the corporate Sukuk sector continued its steady climb, giant sovereign Sukuk issuances from Malaysia and Saudi Arabia contributed a combined U$48 billion (61%) to the 2017 total, contributing to an estimated 45% increase in issuance over 2016 and pushing the Sukuk market to its highest levels since 2014. But can 2018 live up to the weight of expectations? Looking at performance so far, the future is looking bright…

There are undeniable pressures on the global debt capital market in 2018. Geopolitical considerations and regional tensions aside, and despite a recovery in oil prices, concerns over interest rate hikes from the Federal Reserve are making emerging markets investors jumpy, while tighter global liquidity conditions overall are casting a shadow over the market.

However, this holds true for bonds as well as Sukuk, and on the Islamic front there is much cause for optimism. If you are a corporate looking to raise capital in 2018, then there is a long list of excellent reasons to consider Islamic issuance – many of which have been covered in depth and frequency within these pages. A wider investor base, a deep pool of liquidity, an array of flexible and versatile instruments and a high level of government support, to name but a few.

But don't just take our word for it – let's look at the facts. This month, we kick off IFN Corporate 2018 with a look at some of the key markets for Islamic finance around the world – and a rundown of their impressive performance.

In Malaysia, one of the biggest markets for Islamic finance and a pioneer in the Sukuk sector, corporates are spoiled for choice. A booming Sukuk market, buoyant Islamic lending and upcoming regulatory developments look set to make Shariah compliant capital raising even more attractive for corporates in 2018.

Islamic banking loan growth outpaced conventional banking loan growth in Malaysia last year, underpinned by a supportive regulatory regime which aims to boost the share of Islamic loans to 40% of Malaysia's domestic loans by 2020, from 30%. "The conducive operating backdrop should continue to support industry growth over the next few years," said Fitch Ratings in a February 2018 report.

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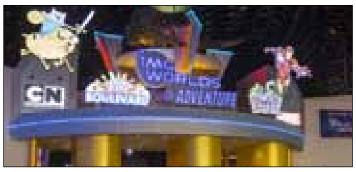

2018 has kicked off with a bang, and the bank lending market continues to remain buoyant with a series of substantial syndicated deals that suggest its continued strength despite fears of declining liquidity as a result of rising interest rates and increased regulatory burden. 5

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Liquidity has improved in the Islamic banking system, with the liquidity coverage ratio (LCR) rising to 147% by end-2017 from 110% at end-2015. This was helped in part by strong growth in corporate term deposits over the last few years, suggesting that corporate needs are increasingly being met by Islamic providers.

> **"2018 looks very exciting for us as there are a number of corporate issuances that are around the corner and some of these will bring innovation into the market"**

Corporate Sukuk issuance is also outpacing the conventional market, continuing an upwards trajectory that has been climbing steadily since 2015. According to data from Securities Commission Malaysia (SC), total corporate Sukuk issuance increased by 35% in 2017 to RM87.65 billion (US$22.52 billion), up from RM64.82 billion (U$16.65 billion) in 2016 and RM57.57 billion (US$14.79 billion) in 2015. In comparison, just RM37.23 billion (US$9.56 billion) in corporate bonds were issued in 2017, giving corporate Sukuk a 28% share of the total debt capital market compared to 12% for conventional corporate instruments.

SC has also confirmed plans to launch a framework to facilitate corporate bond and Sukuk investment for retail investors in the first quarter of 2018, which should open up the market to a far wider range of investors and can only prove beneficial to the corporate issuer.

Over in the GCC, the outlook is also optimistic with corporate issuance expected to pick up in 2018. "There could be a number of private/corporate issuers going into the markets," confirmed Romy Buchari, the head of syndication and capital markets at Emirates Islamic Bank. "However, we expect continuing trend of more sovereign and GRE-linked issuers in the foreseeable future. Despite the fact that oil prices have seen some positive rebound lately, governments around the region are diversifying funding sources and debt capital markets, including Sukuk markets, will be one of the main focus to raise external financing from."

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There are some hotspots however, where corporate issuance is gathering genuine momentum – due in no small part to the support of government authorities. In Saudi Arabia, for example, a recent update to the Companies Law seems to suggest that going forward, all corporates raising finance will be required to do so on a Shariah compliant basis – a move that could be a gamechanger for the domestic Sukuk market (for more information, see Regulation, p.7).

In the UAE, a flurry of financial institutions have set the pace for the year, with multiple banks and financial institutions raising new Islamic capital (for more information, see Capital Markets, p.4).

And in Oman, one of the smallest and yet most vibrant markets on the Islamic finance map, the pace is most certainly picking up.

"After a brief hiatus in the corporate Sukuk market since the first corporate Sukuk (that is, the Tilal Sukuk) back in 2013, Sukuk issuances by corporates are on the rise again," said Asad Qayyum, a senior association at Al Busaidy, Mansoor, Jamal & Co in Oman. "Recently, we have seen issuances by MB Holdings Group, Meethaq Islamic Bank (retail Sukuk) and the Golden Group Sukuk program establishment. These are in addition to the multiple Sukuk issued by the Government of Oman through its wholly owned corporate entity in Oman. Currently, we are aware of at least three corporate issuers who are closely looking at local and international issuances in Oman."

The implementation of the new Sukuk Regulations has helped spur this growth in Oman, as it has provided a regulatory framework and certainty within which issuers can work. The regulations also set out protections for the investors and their rights, which has raised confidence in the market. In addition, Oman's Capital Markets Authority and the Central Bank of Oman have been instrumental in promoting the Islamic finance industry in Oman and the exponential growth the industry has seen has been largely due to these two regulatory authorities.

"Currently, we are aware of at least three corporate issuers who are closely looking at local and international issuances in Oman"

"2018 looks very exciting for us as there are a number of corporate issuances that are around the corner and some of these will bring innovation into the market. The issuers may be entities in the real estate space and also issuers who are oil and gas players or in the technology, media and telecom industry," said Asad.

"The corporate Sukuk market is different jurisdiction by jurisdiction," said Bashar Al Natoor, the global head of Islamic finance at Fitch Ratings. "For example, Malaysia has an extremely vibrant, deep and diverse local Sukuk market. In comparison, the UAE is the most active in terms of international corporate issuance. Each has its own benefits, and the development of both domestic and cross-border issuance has tremendous benefits for the global Islamic capital market."

Sovereigns and financial institutions certainly took the biggest slice of the Sukuk pie last year, and dominated the headlines as well as sucking up much of the liquidity from the market. In 2018 however, despite the adverse economic and geopolitical pressures, market conditions look promising – and these giant issuances have paved the way for the private sector to follow suit.

"Our expectation is U$110 billion Sukuk issuance in 2018," said Bashar. "That's a significant number and although much of this will be accounted for by sovereigns, this is one of the requirements that the Sukuk market needs in order to create a yield curve and provide benchmarks for corporates to follow. We are optimistic for the coming year."

Top of the pops: What's hot and what's not in Islamic DCM?

It's been a busy start to the year, with deals coming out left, right and center as corporates get cracking on their fundraising strategies for 2018. And with banks seeking to conserve their capital and boost reserves ahead of Basel III implementation in March, more businesses are turning towards the capital market as corporate lending tightens. So what are the top trends so far this year, and where are we seeing the most growth?

Financial frenzy

First of all, the banks are leading the way – creating a wide open path for private sector corporates to follow in their footsteps as they rush to raise funds. The first two months of 2018 have seen a flurry of activity, with experienced hands across key jurisdictions in Malaysia and the GCC tapping the market, while new entrants are also making waves.

On the 31st January Dubai Islamic Bank (DIB) launched the first dollar-benchmarked Sukuk transaction from the GCC this year, with a five-year US$1 billion senior unsecured Sukuk. The deal achieved a final profit rate of 3.625% and final price guidance of MS+115bps, which the bank said was a reflection of solid demand. The issuance received 120 orders globally, including from the Middle East, Europe, Asia and North America, and was almost twice oversubscribed with an orderbook of US$1.83 billion from banks, sovereign wealth funds and asset managers. The transaction will list on NASDAQ Dubai and the Irish Stock Exchange.

"We are delighted with our successful return to the market with this landmark Sukuk issuance of US$1 billion", said Dr. Adnan Chilwan. Group CEO DIB. "This is the second time that DIB has raised a billion dollar senior Sukuk in as many years effectively leading with the first deal of 2018 and re-opening the market in the GCC. The tremendous investor interest from across the globe is clearly exhibited by the strong and widespread subscription demonstrating not only the continued attraction of DIB as a quality credit, but also the resilience of the Sukuk market in general."

The bank was followed by First Abu Dhabi Bank (FAB), which mandated banks in January for a proposed US dollar five-year Sukuk to be listed in London, expected to be over US$500 million as part of its US$2.5 billion Sukuk program. Also in January, Sharjah Islamic Bank printed AED266.8 million (US$72.41 million)-worth of convertible Sukuk, while Kuwait's Noor Financial Investment and Malaysia's CIMB Islamic also have deals in the pipeline expected early this year.

Why is this important for corporates? First, it shows the banks are hitting the market early – suggesting uncertainty about US Federal Reserve movements, with consistent interest rate hikes expected over the course of 2018 following the appointment of hawkish new Fed chief Jerome Powell. First movers have the first advantage, and tapping the market early can result in better pricing – worth considering for corporates with funding needs for 2018.

Second, however, financial institution issuance is understood to smooth the path for corporate transactions. It familiarizes investors with the asset class, provides highly rated instruments in which to invest, and opens up the yield curve for private sector players to follow suit. Financial institutions are often the first movers to issue in a new market after sovereigns and government-related entities, and they can provide confidence and consistency to new entrants.

The REIT stuff

So what else is new? Another top trend in the Sukuk market is the surge of real estate investment trusts (REITs) tapping the market for new funding. At the end of 2017 the world's largest listed Shariah compliant REIT, the UAE's Emirates REIT, issued a debut US$400 million five-year Sukuk listed on the Irish Stock Exchange and oversubscribed by 2.5 times with demands from 90 accounts across a wide geographic area. The first Islamic REIT ever to tap the international capital markets, the funds were used to prepay existing secured and unsecured indebtedness – essentially allowing the fund further room for expansion and providing a buffer during any downturn. An 'asset-light' structure also enabled the REIT to preserve its ability to utilize a substantial part of its real estate asset base – something that corporates in other verticals with secured assets could also consider in order to efficiently raise capital.

The deal has certainly sparked a trend in the REIT space, with Turkey's Halk REIT also tapping the Islamic capital market in January; and Malaysia's Axis REIT and Saudi Arabia's Riyad REIT both in the process of setting up a Sukuk program.

Going green

And finally, green Sukuk are gearing up in 2018 and it is an area that corporates could benefit from exploring, as demand outstrips supply and investors clamor to get involved. With Malaysia actively supporting socially responsible securities through its SRI Sukuk, Indonesia considering a green tranche in its upcoming US dollar sovereign Sukuk issuance and several green corporate deals already launched last year, the sector looks set to surge – and corporates could be the beneficiaries of this increase in interest.

In February Malaysian retirement fund Kumpulan Wang Persaraan (Diperbadankan) (KWAP) became the first pension fund in Malaysia to sign the UN Principles for Responsible Investment at the 2018 World Capital Markets Symposium, and has called for more green Sukuk as demand is growing faster than supply. "In the past, we have bid for our part of the green Sukuk but we did not get the full allocation as the issuance size is small and it could not accommodate all the interested parties," said CEO Wan Kamaruzaman. Around 60% of KWAP's RM125 billion (US$31.7 billion) assets under management are already ESG-compatible, adding to the deep pool of investor funds seeking green assets.

Malaysian corporate Sinar Kamiri, a subsidiary of Mudajaya Group, has already tapped the market this year with a RM245 million (US$62.2 million) deal to raise funds for a new solar plant, and more look set to follow.

Giant syndications demonstrate liquidity of Shariah compliant corporate market

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At the very end of 2017 newly-founded UAE property developer Arada secured a AED1 billion (US$272.2 million) Islamic syndicated loan from a consortium of UAE banks, to fund its AED24 billion (USD6.5 billion) mixed-use leisure megaproject Aljada in Sharjah, arranged by two of the biggest Islamic banks in the UAE.

"We are pleased to have secured this funding facility, which is a critical milestone on our journey to deliver this fantastic project. I would like to thank our banking partners and we look forward to working with them as we move forward with the development of Aljada," said Sultan bin Ahmed Al Qasimi, the chairman of ARADA, on the 28th December.

> "And the bank lending market continues to remain buoyant with a series of substantial syndicated deals that suggest its continued strength despite fears of declining liquidity"

This was followed up by a US$332 million dual currency two-year syndication in January 2018 from the Eastern and Southern African Trade and Development Bank (TDB), one of the fastest growing investment grade rated multilateral development financial institutions in Africa, in its first foray into Islamic debt borrowing. The deal was upsized from US$200 million due to strong demand.

"We are really delighted by the outcome of this debut financing in the Middle East region," said Admassu Tadesse, TDB President & CEO.

Also in Dubai, Ilyas & Mustafa Galadari Group (IMG), the Dubai-based operator of the world's largest indoor theme park, is reportedly in talks with banks to restructure its AED1.2 billion (US$326.7 million) syndicated Islamic loan and upsize its existing loan facility. The loan, taken in 2014, was used to build the Worlds of Adventure theme park.

Over in Malaysia, Japanese lender Bank of Tokyo-Mitsubishi UFJ provided a RM1.5 billion (US$380.9 million) Islamic syndicated loan to Saudi Telecom's Malaysian subsidiary, which will use the loan to refinance existing debt originally used to acquire a stake in Malaysian telecoms firm Maxis.

Sovereigns too are tapping the bank lending market for their funding needs, demonstrating the continued liquidity of the Islamic sector. In Saudi Arabia, the government is in talks with banks to restructure its US$10 billion international conventional syndicated loan, first raised in 2016 - including the addition of a Shariah compliant tranche. The refinancing of the loan will include a repricing of the facility and an extension of its maturity to 2023 from 2021.

Islamic auto finance: Picking up speed

Major car manufacturers are recognizing the global power of the Muslim dollar, and jockeying to sign up with financing firms to provide exclusively Shariah compliant solutions to their clients in Islamic markets. This trend could benefit corporates, providing competitive deals and flexible solutions for their fleet financing requirements.

So how does Islamic auto finance work, and why should you consider it for your company?

The primary feature, as with all Islamic products, is the absence of interest on payments. Shariah compliant auto financing allows borrowers access to a wide range of flexible finance solutions, spreading the cost of the purchase across multiple payments without being charged unacceptable interest.

There are multiple options, just as with conventional car financing. Contract purchase allows buyers to make low monthly payments and either return, buy or trade the vehicle at the end of the term; while hire purchase spreads the full cost of the vehicle into regular payments with ownership transferred at the end of the term; and leasing allows low payments to purchase the right to use the vehicle, which is then returned at the end of the contract.

> **Now the big car manufacturers are starting to recognize the value and importance of the Muslim market, with a number of deals signed in the first few months of 2018 that reflect the strong growth potential of the leasing sector**

There are typically two major types of auto financing solutions offered by Islamic banks. The first is a profit margin (cost plus) structure known as Murabahah, the most prevalent and simple Islamic finance instrument. The transaction typically requires a down payment, usually of around 20%. The lender and the borrower agree on a price, and the borrower pays in a series of instalments equaling the cost of the vehicle plus an agreed mark-up. This way the transaction does not involve interest, which is forbidden in Islam, as the mark-up instead represents a profit on the sale of goods. The transaction is similar to a 'rent-to-own' agreement, with the lender retaining ownership of the vehicle until the loan is paid in full.

Another option is a leasing arrangement, known as Ijarah. This involves zero down payment, with the lender purchasing the car outright and leasing it to the customer for a fixed period of time. When the lease is over, the customer can purchase the car for a nominal amount. Balloon payment options, with lower monthly rates and a higher final bullet payment, are also possible.

Due to the flexibility of the product structures, Islamic banks are able to offer highly competitive rates that should appeal to the corporate wallet. For example, UAE-based Emirates Islamic offer auto financing of up to AED1 million (US$272,303) per car, with profit rates starting as low as 2.25% for both expatriate and UAE customers, and flexible repayment up to 60 months. The product comes with financing for comprehensive Islamic vehicle insurance, as well as a free current account, making it a one-stop-shop solution.

In Oman, Al Yusr, the Islamic Banking Window of Oman Arab Bank (OAB), in January launched a special auto financing offer with rates starting from just 5% on reducing bases (equivalent to 2.8% flat rate) and with a maximum repayment period of up to 10 years. Government employees are eligible for rates of between 5-5.5% while employees of approved companies can obtain rates from 5.25-5.5%.

"At Al Yusr, we are always looking to deliver the very best products and services available in the Islamic Banking sector. Special offers such as these are part of that goal, giving our Al Yusr customers an opportunity to obtain Shariah compliant vehicle finance at very competitive rates," said Dr Khalifah bin Ahmed al Ghammari, the general manager of the Al Yusr Islamic Banking Window of Oman Arab Bank.

And now the big car manufacturers are starting to recognize the value and importance of the Muslim market, with a number of deals signed in the first few months of 2018 that reflect the strong growth potential of the leasing sector.

In January, for example, Gulf Advantage Automobiles signed an agreement with Saudi-based Shariah compliant leasing company Taajeer Group to provide Taajeer leasing and auto finance to all Renault customers in order to boost Renault's presence in Saudi Arabia. Over in Pakistan, and two leading Islamic banks in January entered into an alliance with Shahnawaz, the authorized distributor of Mercedes-Benz in Pakistan, in order to provide exclusive auto financing for Mercedes

Saudi Companies Law update: New ground for corporate Sukuk?

In 2017 the Saudi Arabia Monetary Authority (SAMA) updated the Companies Law to include new wording that seemed to suggest that going forward all private companies raising capital would be required to do so on a Shariah compliant basis. Could this be a game-changer for the Saudi corporate debt capital market? ROBERT VYDRA of White & Case provides his interpretation.

Article 121 of the recently implemented Companies Law (2016) states: "The company shall observe the legal (Shariah) provisions for debts on issuing/negotiating debt instruments."

Interpretation of this article remains ambiguous, however.

"Some legal practitioners in Saudi Arabia seem to liberally interpret it to mean that this is an aspirational requirement to take into consideration the precepts of Shariah when issuing any debt securities or trading them," said Vydra. "Other practitioners take a narrower view that this Article restricts the issuance of conventional bonds, requiring any Saudi joint stock company to structure debt instruments as Shariah compliant debt instrument (i.e., Sukuk)."

So what does this mean for corporates, and how should they proceed going forward?

"Until further clarity from the relevant regulators (in particular, the Saudi Ministry of Commerce and Investment is in the process of issuing further implementing regulations for the Companies Law), the narrower interpretation that Article 121 requires Saudi joint stock companies to structure debt instruments as Shariah compliant debt instrument is a prudent position to take," opined Vydra.

> **Could this be a game-changer for the Saudi corporate debt capital market**

It should be noted that the term 'debt instruments' is not explicitly defined in the Companies Law. For listed joint stock companies, the Capital Market Authority defines these instruments as tradable debt securities (bonds or Sukuk) and does not explicitly mention whether or not they need to be Shariah compliant. It is also worth noting that the Committee for the Resolution of Securities Disputes has not historically applied Shariah principles in as strict a fashion as other courts and judicial committees in Saudi Arabia. The Committee tends to uphold arrangements in accordance with the terms agreed between the contractual counterparties, as long as they are in compliance with the enacted legislation, rather than in accordance with a strict interpretation of Shariah precepts.

The updated regulation is only likely to apply to joint stock companies, however, as under the Saudi Companies Law a limited liability company is explicitly prohibited from issuing bonds or tradable debt instruments.

REGULATORY ROUND-UP

Japan Sukuk framework set to lapse

In 2013, Japan issued its J-Sukuk Framework to accommodate Islamic papers by the local Shariah finance and banking industry. However, the regulation contained a sunset clause dictating the terms of tax neutrality, which expires in March 2019. The lapse of the clause could cause the framework to cease to exist as well. Japan has issued no Sukuk under the framework to date.

Africa advances regulation

The Central Bank of West African States is currently working on the introduction of a regulatory framework dedicated to Islamic finance. The bill accommodating fully-fledged Islamic microfinance companies that was adopted in September 2017 is the first in a long list of new regulations tackling a wide range of issues including Sukuk, Shariah compliance, governance of Islamic banks, refinancing operations, tax treatment and accounting.

VAT and Islamic finance

The UAE and Saudi Arabia recently introduced a value-added tax (VAT) regime for the first time, in a move that has raised concerns over the tax parity treatment of Islamic finance products including Sukuk, Takaful (Islamic insurance), Islamic banking instruments and Islamic funds. Fitch Ratings has warned that due to the relative complexity of Islamic finance products, the planned tax treatment must be made clear in the underlying regulatory framework of each country to ensure that the costs of Islamic transactions are not raised in disproportion to conventional instruments.

However, the situation currently looks promising. The UAE VAT framework exempts financial services from VAT obligations and specifically exempts Islamic finance facilities with profit rates from paying the tax. The Saudi Arabia regime exempts margin-based services and applies VAT only to fee-based services. Other countries with thriving Islamic finance markets have successfully implemented tax neutrality for Islamic finance transactions under VAT regulations. For example Malaysia, which introduced a Goods and Services Tax (GST) in 2015, specifically and successfully exempts Islamic financial arrangements from the tax.

Infrastructure and project finance: How to enhance Sukuk structures to appeal to your investors

In the years following the global financial crisis, investors have remained shy of the credit risk of large-scale projects and banks in particular have been wary of over-exposure. Bank lending for 10+year tenors remains expensive and tenors beyond 15 years can be a real challenge. Large-scale project finance at the level needed by countries in the Middle East and Asia must now look to alternative sources such as Islamic lending, multilateral involvement and support from external credit agencies.

"Considerable guarantees and contractual commitments are required before such financing can be secured, and these factors are increasing the attractiveness of project bonds," explained Richard Abadie, global capital projects and infrastructure leader at PwC. "In August 2013, Shuweihat 2 IWPP19 in Abu Dhabi became the first project to be refinanced in the bond market with a US$825 million 'A' rated 6% 2036 144a/ Reg S issue."

But when it comes to Shariah compliant structures, which are still unfamiliar to many investors, corporates have been slow to get on board – and to date, only a handful of project Sukuk have been issued.

So what is holding the market back – and are these fears justified?

"Investors are often reluctant to take construction risk and institutional investors focus principally on project bonds with 'A' credit rating, which have the right combination of yield and risk for them," explained Mark Brighouse, a senior associate at Norton Rose Fulbright. "Without credit enhancement, this focus on 'A' credit rated bonds and Sukuk does not fit with investments into greenfield projects with the risks of construction delays and cost overruns, since such projects are unlikely to receive such a rating for their bonds/Sukuk."

But do not despair. There are a number of ways in which the credit quality of Sukuk structures can be enhanced.

For example, a sovereign can make a contribution to the project by way of either equity, or through a fully subordinated facility or a limited recourse guarantee, so that it bears the first loss, thus encouraging private investors to follow suit into the project.

Alternatively, a financial institution could provide its own credit enhancement for the project by extending a subordinated facility directly to the project company.

"Depending on the rating agency's views on the overall risk of the project, any such subordinated 'cushion' might be limited to the construction and ramp up phase of the project, where the risk to investors is generally considered greatest," commented Brighouse.

This method was successfully used with the world's first project Sukuk issue, a US$1 billion (equivalent) issuance launched in 2011, to finance a joint venture between Saudi Aramco and Total for a refinery in Saudi Arabia. Both Saudi Aramco and Total provided a construction guarantee, with Saudi Aramco separately guaranteeing the Sukuk during the refinery's construction phase.

Saudi Aramco similarly supported the Sadara chemicals complex US$2 billion (equivalent) project Sukuk in 2013. The Sukuk was part of a financing package to develop a US$20 billion integrated chemicals complex in Jubail Industrial City, Saudi Arabia. The multi-sourced transaction was the largest-ever project financing in the chemicals sector, with loans provided by a combination of the Public Investment Fund of the Kingdom of Saudi Arabia, seven export credit agencies COFACE (of France), Euler Hermes (of Germany), FIEM (of Spain), K-Exim and K-sure (both of Korea), UK Export Finance and US Ex-Im Bank - and a diverse range of both commercial banks and Islamic financial institutions.

Saudi Aramco provided the project with construction guarantees from both itself and its co-sponsor, Dow Chemicals, in order to provide reassurance and certainty for Sukuk investors. "The Sukuk was also granted pari passu status with other senior debt and shared in the project financing security on a pari passu basis with the other secured creditors," explained Brighouse.

Priced on a floating rate basis, the Sukuk have a tenor of approximately 16 years, with investors receiving a semi-annual return of SAIBOR plus 95bps per annum. The Sukuk received strong investor demand as a result, resulting in 2.6 times ovesrsubscription based on the initial offering size of SAR5.25 billion (US$1.4 billion). In keeping with this demand, Sadara up-sized the issuance to SAR7.5 billion (US$2 billion) – demonstrating that with the right support, there is no obstacle to successful long-term Islamic issuance in the infrastructure space.

Pakistani oil giant issues short-term Islamic paper

In January 2018 oil marketing firm Hascol Petroleum became the first corporate in Pakistan to issue Islamic commercial paper (ICP), with a PKR1.5 billion (US$13.5 million) short-term facility that blazed a new trail for private sector capital raising in the country.

ICPs are Islamic short-term financing paper issued by corporate bodies, usually with a tenor of between one month and one year, issued on a tender basis and traded in the interbank market with a rating dependent on the credit profile of the issuer.

In the case of Hascol, the PKR1.5 billion program was split into two tranches of six months each to make a total tenor of one year, each with a short-term rating of 'A-1' based on Hascol's entity rating of 'AA-' by JCR-VIS. It was arranged and advised exclusively by BankIslami Pakistan, with legal advisors Mohsin Tayebaly & Co.

The paper was structured on the principles of agency (Wakalah) advance payment (Bai Salam). The advance payment option is of particular value to corporate capital raisers due to its versatility and convenience. For corporates whose business is based on physical transactions, such as Hascol, the Bai Salam contract is highly effective as it allows full payment to be made in advance for specific goods to be delivered at a future date. The contract is rarely used for longer-tenor Sukuk due to the requirement that the originator must be able to deliver specified assets at future dates. However, for short-term liquidity purposes the structure is ideal, with the paper sold upfront and the assets (in this case, high-speed diesel inventory) delivered on a deferred basis.

> **"The transaction could open the floodgate for ICPs in Pakistan, and indeed globally, as more companies realize the attractive benefits of short-term capital raising in the Islamic market"**

The issuance also included a greenshoe, or over-allotment, option of PKR500 million (US$4.51 million) – giving the arranging bank the right to sell the issuer shares at a later date in order to support the price after issuance without putting its own capital at risk.

The ICP received an overwhelming response from investors comprising mainly the country's leading asset management companies and mutual funds. An oversubscription exceeding 80% of the issue size was received for the paper, excluding the greenshoe option.

The transaction could open the floodgates for ICPs in Pakistan, and indeed globally, as more companies realize the attractive benefits of short-term capital raising in the Islamic market. BankIslami, the arranger for the Hascol deal, certainly believes that there is a healthy demand from the corporate sector with ICPs a trend just waiting to take off.

"The introduction of the ICP… is aimed to broaden avenues for mutual funds and other institutional investors to invest in short-term/fixed income instruments in a Shariah compliant manner," said the bank.

All that glitters: Malabar secures inaugural Islamic bullion financing

In December 2016 the World Gold Council and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) launched a new Shariah standard on gold trading which over the past year has unleashed a flood of new products onto the market. Most recently, at the end of 2017, Indian jewellery group Malabar Gold & Diamonds completed the first-ever transaction in the precious metals market under the new standard.

The gold standard sets out the Shariah rules for trading and transacting in the metal whereby the latter joins equities, real estate, Islamic bonds (Sukuk) and Islamic insurance as vehicles approved for Islamic finance. The standard lays out a clear guidance on the permissibility to trade in gold and makes it possible for Islamic investors to deploy to grow their wealth, diversify their portfolios, and protect them against market risks in a Shariah compliant manner. It also enables Islamic finance institutions to develop new gold-based products and transactions.

"Since the standard's launch, gold has shown a great potential to outperform other major Islamic asset classes in the long-run," said arranger National Bank of Fujairah (NBF). "Working closely with Amanie Advisors and our Shariah Board, NBF has developed a unique Shariah compliant bullion financing solution to cater to the complex needs of its customers."

Initially, the bank considered a gold-leasing structure for the AED100 million (US$27.22 million) transaction, but decided that it would not fulfil the client's jewelry-making requirements under AAOIFI standards. Instead, the bank adopted the bullion-financing structure. "The unique demands of bullion financing under a Shariah compliant structure, while remaining cognizant of both the customer and the bank's requirement to minimize exposure to gold price risk, mandated the need for a solution that satisfies all parties," said NBF.

The AED100 million financing, structured under UAE law using a cost-plus-profit (Murabahah) contract, has a 12-month tenor with a bullet profit payment at the end of the term.

The key structure of the financing for Malabar Gold, which has a global presence including in the UAE, India and Malaysia, and is one of the world's 'Big Five' jewelers, was the ability to provide Islamic bullion financing for the company's inventory financing needs while minimizing exposure to gold price fluctuation risk. The bank credits this to the AAOIFI Shariah gold standard. "The standard provides clarity to Islamic financiers in an area that had previously lacked a coherent set of guidelines," said the bank.

Now that clarity has been provided by the standard, a surge of new gold financings is expected in the market as corporates recognize the value of the commodity as an asset.

"This transaction has generated interest in Shariah compliant financing options from our existing clients, in addition to enquiries from new customers that have been waiting for Islamic financing solutions in the gold industry," said NBF.

Romy Buchari, Head of Syndication & Capital Markets, Emirates Islamic

This month IFN Corporate speaks to ROMY BUCHARI, the head of syndication and capital markets at Emirates Islamic Bank, who dispenses shrewd advice for corporates looking to raise capital in the current environment.

What technical issues do corporates face when switching from bank lending to capital markets issuance?

Generally tapping the debt capital markets (Sukuk/bonds) requires would-be issuers to provide more exhaustive information disclosure (publicly) as well as comprehensive legal documentation as compared to bank financing. Furthermore, the papers would have to be rated by an external rating agency in order to reach a sufficiently wide-ranging investor base.

These are the major requirements in issuing Sukuk papers, with consequences of longer lead-time and higher initial cost-outlay as compared to the more simple bank financing route.

Would-be issuers also need to be mindful about actual Sukuk launch timing & pricing, vis-a-vis matters such as benchmark rate movements/trends, economic outlook, general markets sentiment, comparison of existing papers with similar credit profile, timing of potential launch of competing Sukuk that may cannibalize interests of targeted investors, etc.

However, the benefit is typically larger transaction size with longer tenor availability. Furthermore, should the issuer need to do a follow-on financing in the future, Sukuk programs can be structured with multiple tranches, where the second and subsequent tranches can be done relatively quickly (and consequently with lower costs).

How can corporates identify assets to use for a Sukuk?

Some might think Sukuk can only be done by using specific fixed assets. Although a majority of the cases use the Ijarah (sale and leaseback) structure, which requires specific assets, there are other Sukuk structures (e.g. Wakalah/agency, Murabahah/cost-plus-profit) that do not require fixed assets. These structures instead use existing cash flows and/or commodity-based Murabahah as the underlying assets.

Corporates will typically appoint bank/s to advise and guide them in identifying underlying assets, preparing, launching and distribution of the Sukuk papers. The bank/s will act as the coordinating point in managing various work streams for a successful Sukuk launch (e.g. info-memo/prospectus preparation, legal documentation & registrations, rating agencies, interaction with investors, pricing, launch timing, etc).

How are these assets then treated in their balance sheet?

The underlying assets used in a Sukuk issuance would actually be transferred to a special purpose vehicle (SPV).

There are Sukuk structured with security/collateral of specific assets, with investors having special rights/recourse in the case of default. However, most Sukuk are done under a 'clean-basis', as in the case for most conventional bonds. On a clean-base Sukuk, the asset is used as the underlying-platform to facilitate issuance, not to serve as security. Which means for this kind of Sukuk, investors will not have any preferential rights to the asset in the event of default.

Is putting together a pool of assets for Sukuk use hard work or relatively simple? What is the basic process and is it cost effective for smaller companies?

Gathering assets to be used to facilitate Sukuk issuance is quite straightforward, be it property/plant/cashflows/etc. In general, as long as the asset is of a Shariah compliant nature and with consolidated value sufficient to back the issuance size, then it can be used as an underlying asset.

Sukuk can basically be issued in any size, however, the high upfront outlay/costs nature of Sukuk, will make it more economical for larger size issuance (i.e. larger corporates). One way to alleviate this and make Sukuk more accessible to smaller companies, is to instead issue a 'private-placement' Sukuk, where limited/narrow range of investors are targeted. Hence, less of disclosure & legal requirements, with typically no rating exercise to be done, reducing overall issuance costs.

What other challenges do you face when helping a corporate prepare to issue Sukuk for the first time?

Usually, first-time issuers will find the information disclosure requirement to be more exhaustive than what they normally face (e.g. in bank financing). Furthermore, the interaction with rating agency/s and potential investors may present a new learning experience.

CORPORATE

IRAN BUDGET BODY AUTHORIZE SUKUK

Iran's Majlis Joint Commission, a parliamentary body responsible for reviewing the budget bill, has allowed state-owned companies, ministries, universities, higher education organizations and science and technology parks to issue up to IRR70 trillion (US$1.89 billion) worth of Sukuk during the next fiscal year starting on the 21st March. The funds raised are to be used in "economically and technically feasible" development projects designated by the government's Economic Council.

DANA GAS CREDITORS REJECT RESTRUCTURING

Sukukholders of Dana Gas's U$700 million facility have rejected a proposal to redeem 10% of the facility in cash and to roll over the remaining 90% over four years at a 4% annual profit rate and buy back up to half the bonds at a 15% discount. The creditors have asked Houlihan Lokey who to come up with a new proposal, and are believed to be open to an exchange on more reasonable terms. In February the London High Court rejected Dana Gas's appeal and upheld its November ruling that the purchase undertaking behind the Sukuk was valid and enforceable.

AL DZAHAB PLANS ISSUANCE

Malaysia's Al Dzahab Assets is planning to issue RM135 million (US$34.67 million) Class A Sukuk and RM45 million (US$11.56 million) Class B Sukuk and has secured preliminary ratings of 'AAA/Stable' and 'AA3/Stable' from RAM Ratings for the respective offerings. The offerings represent the fifth issuance under Al Dzahab's RM900 million (US$231.12 million) Sukuk Murabahah asset-backed securitization program.

GAS MALAYSIA PRINTS ICP

Gas Malaysia in February issued its Islamic commercial paper (ICP) for the amount of RM250 million (US$63.21 million). The paper, maturing on the 9th March 2018, was arranged by RHB Investment Bank and is rated 'MARC-1IS' by Malaysian Rating Corporation.

PSL SELLS PRIVATE PLACEMENT

Pakistani hotel chain Pakistan Services (PSL) has floated a rated and secured Sukuk facility for the amount of PKR7 billion (US$63.09 million). The issuance was arranged by Elixir Securities Pakistan and Faysal Bank as the mandated lead advisors and arrangers. JS Bank was the lead arranger.

DANAINFRA ISSUES SECOND ICP TRANCHE

Malaysia's DanaInfra issued RM1 billion (US$257.57 million) in Islamic commercial papers (ICP) on the 30th January. The six-month offering received RM4.4 billion (US$1.13 billion)-worth of bids.

RANHILL PRINTS SUKUK

Malaysian conglomerate Ranhill Holdings has issued Sukuk Murabahah of up to RM650 million (US$167.65 million). The paper, which is guaranteed by Ranhill, was assigned a rating of 'AA-IS' with a stable outlook by Malaysian Rating Corporation.

MA'ADEN TO ISSUE SUKUK

Saudi's Ma'aden Phosphate Company has hired banks to arrange a seven-year riyal-denominated Sukuk facility with a hybrid Mudarabah and Murabahah structure. The issuance will be in the region of SAR4 billion (US$1.07 billion).

MALAYSIAN SOVEREIGN WEALTH FUND ISSUES SUKUK

Khazanah Nasional has issued a US$320.8 million exchangeable Sukuk facility. The five-year zero coupon paper is exchangeable into CITIC Securities Co's Hong Kong-listed H-shares. It has a three-year investor put option, with a 40% exchange premium. The paper was oversubscribed by 5.5 times.

HALK REIT ISSUES ISLAMIC PAPER

Turkey's Halk REIT has issued an 87-day lease certificate with a nominal value of TRY100 million (US$26.12 million) through Halkinvest. This is the first Sukuk issuance in Turkey's real estate investment sector.

EMIRATES PLANS SUKUK

Emirates, the Dubai government-owned airline, has announced plans to issue Sukuk for the amount of up to US$1 billion by the first half of this year to diversify funding.

DRAKE & SCULL PLANS RESTRUCTURING

Drake & Scull International, a UAE-based company specializing in engineering and construction services, will initiate talks with its Sukukholders in the second half of the 2018 fiscal year to refinance a tranche of its corporate general debt comprising a Sukuk facility worth AED440 million (US$119.78 million) which is expected to mature in November 2019.

GULF NAVIGATION TO TAP ISLAMIC DCM

Saudi's Gulf Navigation has received board approval for the issuance of a US$250 million Sukuk facility in phases, under a schedule based on the company's strategic expansion.

BANKING

FAB SET TO ISSUE

The UAE's First Abu Dhabi Bank (FAB) is in the process of marketing a US dollar Sukuk of up to US$2.5 billion, to be listed

DIB SUKUK OVERBOOKED

Dubai Islamic Bank (DIB) has printed its five-year US$1 billion senior unsecured Reg S Sukuk with a profit rate of 3.63%

and final price guidance of MS+115bps. The issuance received 120 orders globally, including from the Middle East, Europe, Asia and North America, and was subscribed by investors from banks, sovereign wealth funds and asset managers, among others. The transaction was almost twice oversubscribed with an orderbook of US$1.83 billion, and was listed on NASDAQ Dubai and the Dubai Financial Market (DFM).

NOOR TO ISSUE SUKUK

Following Noor Financial Investment's ordinary general meeting, the Kuwaiti company has been authorized to issue conventional bonds and/or Sukuk in Kuwait or abroad within the limit set by the Kuwaiti law.

BANK PEMBANGUNAN ISSUES ISLAMIC COMMERCIAL PAPER

Bank Pembangunan Malaysia has issued a RM250 million (US$63.14 million) zero coupon Islamic commercial paper (ICP). According to the tender results, 19 bids amounting to RM660 million (US$166.69 million) were received for the two-month facility, which will mature on the 26th March 2018 and is rated 'MARC-1IS'. The ICP is in accordance with the Tawarruq structure and falls under the bank's RM2 billion (US$508.86 million) commercial paper program that includes a Shariah compliant part of RM1 billion (US$254.43 million).

SIB PRINTS CONVERTIBLE SUKUK

Sharjah Islamic Bank (SIB) has issued AED266.8 million (US$72.41 million)-worth of Sukuk convertible into equity of the bank to the Sharjah Social Security Fund (SSSF). The Islamic paper is convertible into 10% of the ordinary share capital by the bank.

CIMB ISLAMIC SUKUK RATED 'AAA/STABLE'

Malaysia's CIMB Islamic has proposed a Sukuk Wakalah program for the amount of RM10 billion (US$2.46 billion). The paper has been rated 'AAA/Stable' by RAM Ratings. The rating agency also reaffirmed the 'AAA/Stable/P1' financial institution ratings of CIMB Islamic, reflecting the support it receives from the parent company, CIMB Group.

SOVEREIGN

TURKEY ISSUES LEASE CERTIFICATE

The Turkish Treasury has issued a TRY1.88 billion (US$494.23 million) lease certificate to mature on the 12th February 2020

MALDIVES ISSUES ISLAMIC PRIVATE PLACEMENT

The Maldives Monetary Authority has privately placed a 91-day Mudarabah certificate worth MVR120 million (US$7.65 million) which will be maturing on the 14th May 2018. The total value of outstanding Mudarabah certificates as at the 12th February 2018 was MVR540 million (US$34.44 million).

OMAN CONSIDERS SECOND SUKUK

Oman could issue its second dollar sovereign Sukuk in March. The Sultanate is reported to be in talks with banks on a possible Islamic offering.

INDONESIA'S SUKUK OVERSUBSCRIBED

Indonesia has floated a Sukuk facility for the amount of IDR10.08 trillion (US$742.86 million). The issuance was twice oversubscribed with total bids amounting to IDR20.15 trillion (US$1.48 billion).

GAMBIA SELLS SUKUK SALAM

The Central Bank of Gambia (CBG) has floated Sukuk Salam consisting of a three-month paper worth GMD11.44 million (US$235,014), a six-month facility worth GMD11.77 million (US$241,794) and a one-year instrument worth GMD6.79 million (US$139,488). Both the three-month and six-month papers were fully subscribed, whereas the one-year paper was undersubscribed by GMD790,000 (US$16,229.1).

IRAN SELLS SUKUK ON BOURSE

The Iranian government has sold a batch of four-year Islamic papers carrying a 17% yield and worth a combined IRR10 trillion (US$271.93 million). The Shariah securities were sold in an open auction at the over-the-counter exchange Iran Fara Bourse on the 16th, 17th and 20th January. The proceeds will be utilized for development projects.

SAUDI ARABIA RETURNS TO MARKET

The Ministry of Finance in January closed its fifth domestic Sukuk issuance under the Saudi Arabian Government SAR-denominated Sukuk program. The issuance size was set at SAR5.85 billion (US$1.56 billion). The paper was printed in three tranches, with the first tranche at SAR4.13 billion (US$1.1 billion) maturing in 2023, the second tranche at SAR225 million (US$59.96 million) maturing in 2025 and the third tranche at SAR1.5 billion (US$399.72 million) maturing in 2028.

IILM PRINTS SHORT-TERM SUKUK

The International Islamic Liquidity Management Corporation (IILM) has floated a short-term Sukuk for US$1 billion. The three-month issuance has a profit rate of 2.04% and received a total orderbook of US$1.36 billion.

IFN CORPORATE

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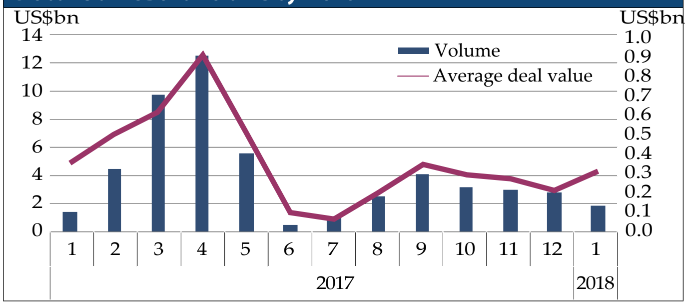
Top Issuers of Global Sukuk

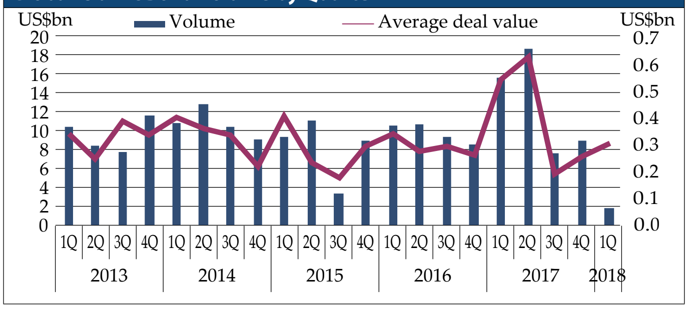
12 Months

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
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
China General Nuclear Power	Malaysia	Domestic market public issue	1,246	33	CIMB Group, Maybank, RHB Capital
DanaInfra Nasional	Malaysia	Domestic market public issue	1,042	7	Affin Hwang Capital, AmInvestment Bank, CIMB Group, Maybank, RHB Capital
Hong Kong	Hong Kong	Euro market public issue	1,000	1	CIMB Group, First Abu Dhabi Bank, HSBC, Standard Chartered Bank

Global Islamic Bond Volume by Month

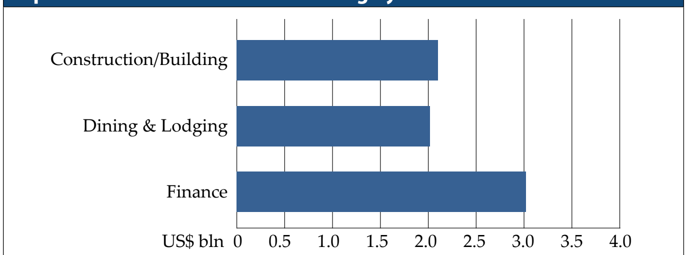


Global Islamic Bond Volume by Quarter



Top Islamic Finance Related Financing by Sector

12 Months



Top Islamic Finance Related Financing by Country

12 Months

	Nationality	US$ (mln)	No	%
1	**UAE**	6,663.35	14	46.23
2	**Saudi Arabia**	2,638.32	3	18.30
3	**Malaysia**	2,568.37	5	17.82
4	**Turkey**	897.97	6	6.23
5	**Kuwait**	592.00	1	4.11
6	**Qatar**	508.84	2	3.53
7	**Pakistan**	245.00	1	1.70
8	**Oman**	150.00	1	1.04
9	**Bahrain**	101.00	1	0.70
10	**Bangladesh**	50.00	1	0.35

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
15th Mar 2017	**SapuraKencana TMC**	Malaysia	1,467
11th May 2017	**Jumeirah Group**	UAE	1,450
3rd Dec 2017	**GEMS MENASA (Cayman)**	UAE	1,250
26th Feb 2017	**Majid Al Futtaim Holding**	UAE	1,030
13th Oct 2017	**DanaInfra Nasional**	Malaysia	948
3rd Jul 2017	**ME Investments**	UAE	681

Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
30-Jan-18	**Dubai Islamic Bank**	UAE	Sukuk	Euro market public issue	1,000	Arab Banking, Dubai Islamic Bank, First Abu Dhabi Bank, HSBC, JPMorgan, Kuwait Finance House, Sharjah Islamic Bank, Standard Chartered Bank
19-Jan-18	**Ranhill Holdings**	Malaysia	Sukuk	Domestic market private placement	164	CIMB Group
17-Jan-18	**Perbadanan Tabung Pendidikan Tinggi Nasional**	Malaysia	Sukuk	Domestic market public issue	126	CIMB Group, Maybank
16-Jan-18	**Khazanah Nasional**	Malaysia	Sukuk	Domestic market public issue	379	CIMB Group, RHB Capital
28-Dec-17	**China General Nuclear Power**	Malaysia	Sukuk	Domestic market public issue	1,246	CIMB Group, Maybank, RHB Capital
21-Dec-17	**Permodalan Nasional**	Malaysia	Sukuk	Domestic market public issue	169	Malaysian Industrial Development Finance, RHB Capital
20-Dec-17	**Prasarana Malaysia**	Malaysia	Sukuk	Domestic market public issue	490	Affin Hwang Capital, AmInvestment Bank, CIMB Group, Kenanga Investment Bank, Maybank
07-Dec-17	**Maybank**	Malaysia	Sukuk	Domestic market public issue	246	Maybank
05-Dec-17	**Emirates REIT (CEIC)**	UAE	Sukuk	Euro market public issue	400	Dubai Islamic Bank, Emirates NBD, Standard Chartered Bank, Warba Bank
29-Nov-17	**Pakistan**	Pakistan	Sukuk	Euro market public issue	1,000	Citigroup, Deutsche Bank, Dubai Islamic Bank, Industrial & Commercial Bank of China, Noor Bank, Standard Chartered Bank

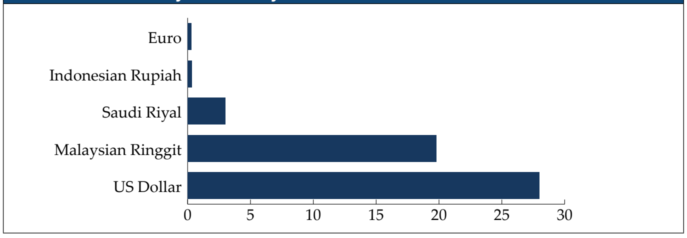
Top Islamic Finance Related Financing Bookrunners

12 Months

	Bookrunner	US$ (mln)	No	%
1	**CIMB Group**	6,135	49	12.11
2	**Maybank**	6,127	48	12.09
3	**HSBC**	4,551	18	8.98
4	**AmInvestment Bank**	2,764	27	5.45
5	**Standard Chartered Bank**	2,714	16	5.36
6	**RHB Capital**	2,642	29	5.21
7	**JPMorgan**	2,636	6	5.20
8	**Deutsche Bank**	2,337	4	4.61
9	**Citigroup**	2,303	6	4.54
10	**Saudi National Commercial Bank**	1,929	2	3.81

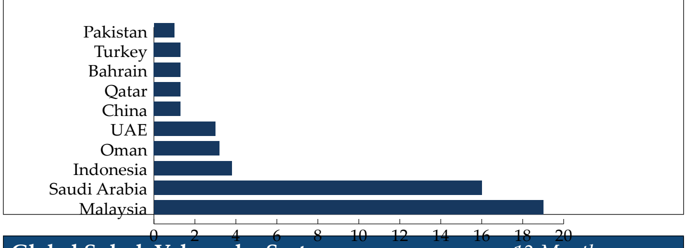
Sukuk Volume by Currency US$ (billion)

12 Months

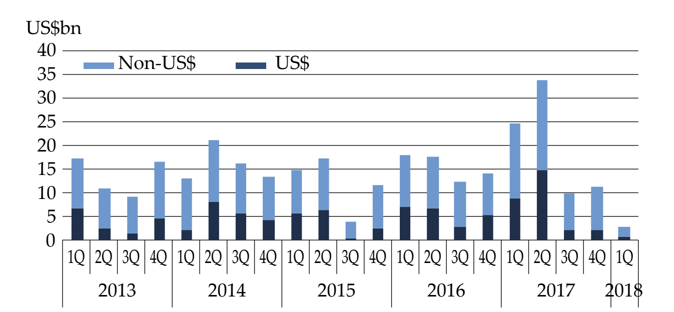


Sukuk Volume by Issuer Nation US$ (billion)

12 Months

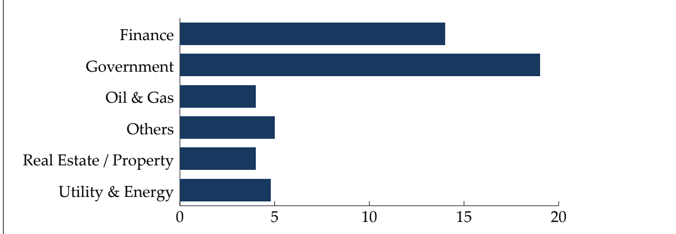


Global Islamic Bond Volume - US$ Analysis



Global Sukuk Volume by Sector

12 Months



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