

Islamic Finance *news* Awards

Deals of the Year 2007

With over 212 unique submissions, the 2007 Deals of the Year awards were one of our greatest challenges ever to review and arrive at our final selections. The fourfold growth in submissions reflected the dramatic increase in the volume of new deals.

Many of these transactions reflect the depth of the players from the regional institutions in Malaysia and the GCC, as well as the importance of the global banks. Innovation was a hallmark of the transactions, with many bankers and their clients testing new frontiers.

Deal of the Year: DIFC Investments LLC US\$1.25 billion

These Sukuk al Mudarabah issued by the Dubai International Financial Center (DIFC) through a DIFC-registered special purpose vehicle represent both the capability of the DIFC to serve the market, as well as funding the DIFC in its investment strategy. It is a case of proof of concept in that the DIFC is able to demonstrate how its law and vehicles are able to serve a global market. The DIFC's general funding needs include expanding infrastructure

for the DIFC in hard and soft assets, acquisitions and all other activities that support the growth and success of the DIFC as a whole. This in itself bodes well for the growth of the global Sukuk market. Indeed, the world bought into the story with 47% of the investors coming from Europe and 20% from Asia; 7% of the investors were themselves governments and central banks.

Most Innovative: Mobily US\$2.85 billion project financing

In a year of significant innovation, we saw new structures from Malaysia; Red Sea Gateway, Egyptian Fertilizer Company acquisition and Tamweel, among others, all gave close competition to Mobily. In the end, it was the demonstration of the fungibility of air time, an intangible asset, and its use as the underlying asset for a proper Islamic

sales transaction applying the Islamic rules of agency that won in this category. This transaction demonstrates that innovation does not require complication and paves the way for funding other high-technology and communications deals in the future.

Best Equity: Cherating Capital (Khazanah Nasional) US\$850 million

This transaction replicates the exchangeable structure first pioneered by Khazanah in 2006. In this case, the Sukuk holders will have the option to exchange their units for shares of PLUS Expressways at the maturity of the

Sukuk. In addition to being the largest Malaysian equity-linked deal, this Dubai International Financial Exchange (DIFX)-listed transaction is the third-largest Asia-Pacific deal outside of Australia and Japan.

Best IPO: DP World US\$5 billion

This transaction opened on the 4th November 2007 and closed on the 15th (institutional closings the 20th), with an over-allotment option of US\$700 million. The transaction fulfills the IPO promise to holders of the US\$3.5 billion

PCFC Development Sukuk Al Musharakah of 2006. The transaction is the largest ever and first retail offering on the DIFX.

Best Cross-Border: Cherating Capital (Khazanah Nasional) US\$850 million

Perhaps no sponsor has been as successful in attracting capital on a global basis as Khazanah. With the Cherating exchangeable deal, Khazanah continues this trend and draws capital from Japan to North America, and critically

strengthens bonds with the GCC. The transaction is listed on the Hong Kong Stock Exchange, the Dubai International Financial Exchange and Malaysia's Labuan International Financial Exchange.

Best Structured Finance: Tamweel Residential ABS CI (1) Limited US\$210 million issuance

At last, this deal represents the first true securitization of Islamic mortgage alternatives without excessive cash collateralization or recourse to the originator. The

transaction creates a clever tiering of the Sukuk into unique classes in a Shariah compliant manner, and is the first UAE-rated Islamic mortgage alternative instrument.

Best Ijarah: Red Sea Gateway Terminal Limited US\$453.93 million

Al Rajhi Bank underwrote SAR1.7 billion (US\$507.35 million) of the SAR1.9 billion (US\$453.93 million) required to execute this major project financing. This project applied the unique structure developed as Al Rajhi's approach to forward leasing, using Wakalah with the forward lease. In the deal, the lease has a 16-year tenor, and the client is the agent of the banks during the construction phase

to build the asset. The transaction provides a new look at how to execute forward leases for construction, and provides a viable alternative to Istisnah in structuring long-term project financings. Competition was strong in this segment with innovative presentations from Qatar, the UAE, Malaysia, the US and Europe.

Best Mudarabah: Aldar US\$2.53 billion exchangeable Sukuk

The Mudarabah space was very active last year and Aldar won in a tough competition that included DP World, Cornerside Investment (KFH Malaysia), Jebel Ali Free Zone and Gulf General Investment. This proved to be the largest exchangeable deal raising capital for the lesser known Aldar

Properties. The deal entrusts Aldar, Abu Dhabi's largest property developer, to act as mudarib for investors in the Abu Dhabi property sector. The transaction proved popular in the international markets, with 80% sold in the international markets and penetration into the US institutional market.

Best Musharakah: KL Sentral Sukuk Musharakah US\$218.9 million

This structure refinances KL Sentral's prior Bai Bithaman Ajil debt. The proceeds are meant to transform 72 acres of prime land in Kuala Lumpur. The RM720 million (US\$218.9 million) transaction includes a put option to the sponsor

in order to enhance the credit of and thereby improve the pricing compared to the prior debt structure. The transaction leads the growing trend that expects Malaysian issues to seek globally acceptable Sukuk structures.

Best Sovereign: Ras Al Khaimah Investment Authority US\$325 million

This is the initial benchmark issue for the UAE constituent emirate of Ras Al Khaimah. The transaction reflects the full faith and credit of the emirate's investment authority

and enjoys an irrevocable and unconditional guarantee from the government. The proceeds will be applied to the development of real estate assets.

Best Sukuk: Jebel Ali Free Zone Sukuk US\$2.04 billion

With so many excellent new issues, deciding on the best Sukuk for 2007 was incredibly difficult. In the end, Jebel Ali is AED7.5 billion (US\$2.04 billion) was chosen for achieving the largest UAE domestic issuance, yet it was also well

accepted by international investors. The A1 (Moody's)/A+ (S&P) deal was launched and closed in the midst of the current global credit crunch with attractive distribution in the UK, Europe and the US.

Best Real Estate: Aldar US\$2.53 billion exchangeable Sukuk

With the proven success of Dubai, and great strides being made in Malaysian, Qatari, Saudi Arabian, Bahraini and Kuwaiti real estate, this deal puts Abu Dhabi on the map

and highlights the opportunities in this strong market. This transaction was the largest exchangeable Sukuk, and it represents the first Sukuk to be listed in London.

Best Islamic REIT: Al-Hadharah Boustead REIT US\$138 million

As is thematic for 2007, this sector is heating up and we enjoyed REIT entries for the first time from outside of Malaysia. While the others were real estate investment funds or funds investing in REITs, the only true and new

Islamic REIT was Al-Hadharah Boustead REIT. This was an IPO for legacy plantation group and generates a predictable income for REIT investors by leasing the REIT assets to various users in the palm oil sector.

Best Murabahah/Trade Finance: PT Krakatau Steel (Persero) US\$50 million

The first transaction to follow HSBC's landmark Pertamina trade syndications in 2004 and 2006. HSBC Amanah and its counselors, Denton Wilde Sapte and Hanafiah

Ponggawa & Partners, had to manage complex trade cycle issues and tax issues, while introducing Indonesia's largest steel manufacturer to syndicated Islamic trade finance.

Best Tawarruq: Mada Leletisalat LLC US\$2.5 billion

This important Saudi Arabian transaction represents the acquisition of the third mobile operator's license by Kuwait's Zain (MTC Telecommunications). The massive US\$6.11 billion transaction is indicative of the importance of the

telecommunications sector in the GCC and emerging markets as a whole. We have set aside Tawarruq from Murabahah to reflect the distinction of these processes in the view of Shariah scholars and to avoid confusion in the awards.

Best Project Finance: Red Sea Gateway Terminal Limited US\$453.93 million

The demand for new project finance transactions is tremendous and this year's competition including a rich group of submissions, all of which made the selection more challenging. Nonetheless, we found the novel Wakalah

with the Forward Lease approach applied by Al Rajhi and its syndicate in the Red Sea Gateway project to represent the best of breed in a very strong field.

Best Corporate Finance: Egyptian Fertilizers Company S.A.E. US\$1.41 billion acquisition

The EFC leveraged acquisition is the largest MENA Islamic leveraged acquisition. Utilizing the concept of *bai al salam* for a commodities based company, the transaction breaks new

ground and sets an example in a market rich with primary commodity producers of significant scale.

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BEST COUNTRY DEALS

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BAHRAIN: Gulf Finance House US\$200 million (first tranche of US\$1 billion program)

As a leading Bahrain-based Islamic investment bank, Gulf Finance House is the first issuer under a trust certificate program. The transaction attracted a diverse investor universe, attracting 45% of the funds from outside of the

Middle East with its London Stock Exchange listing. The deal structure is extremely flexible as to both the volume of Sukuk that may be issued, but also the diversity of the underliers.

DJIBOUTI: Doraleh Containers Terminal SARL US\$263 million

This syndication was the first major Islamic financing in this country and represents the first ever World Bank Group political risk cover for a Shariah compliant deal. This port

project finance is meant to help Djibouti improve its role as a gateway port in East Africa.

EGYPT: Egyptian Fertilizers Company SAE US\$1.41 billion

The Egyptian Fertilizers Company-leveraged acquisition is an exciting deal in that it is the first major deal to apply the concept of Bai al Salam for a commodities-based company. In lieu of lending, the Deutsche Bank structured

transaction uses a series of forward, or Salam, sales of the plant's product to fund the acquisition. It is the largest ever Islamic deal in Egypt.

INDIA: SREI Infrastructure Finance Ltd US\$50 million

Although not a large transaction, this equipment leasing deal was arranged by HSBC Amanah with Kuwait Finance House (Malaysia) and represents one of the first major

syndicated Islamic transactions serving the Indian market.

INDONESIA: PT Adhi Karya (Persero) Tbk IDR125 billion (US\$13.3 million)

This transaction represented another success for Mandiri Sekuritas, which underwrote this deal. The proceeds of this Mudarabah Sukuk were used to repay traditional

bonds outstanding by the sponsor, shifting them onto an Islamic basis.

JORDAN: Airport International Group US\$100 million Istisna'a and Forward Lease

This is a significant deal in every way, including its application to the redevelopment of Jordan's Queen Alia International Airport. Arranged by the Islamic Development

Bank, the deal blends Islamic and conventional facilities including those offered by the International Finance Corporation (a member of World Bank Group).

KAZAKHSTAN: Bank TuranAlem US\$250 million syndicated Wakalah

This is the first major transaction executed for a Kazakh bank and the proceeds are to be applied in Islamic trade finance transactions. The syndicate brought together three of the leading players in the field: Malaysia's CIMB, the

GCC's Abu Dhabi Islamic Bank and global leader Barclays Capital. This was also the largest syndicated deal in the Kazakh market.

KUWAIT: NIG Sukuk Ltd US\$1.5 billion

This is the largest program from Kuwait with an initial issuance of US\$475 million for a leading Kuwait-based investment group. This transaction introduced NIG Holding,

Kuwait's largest listed holding company, to a new universe of investors.

MALAYSIA: Malayan Banking US\$300 million subordinated capital Sukuk

In a market rich with new and attractive issuances, this stands out as one of the first Sukuk supporting the issuances of new bank capital. The deal represents a

benchmark for capital Sukuk deals, and achieved important diversification in the Maybank investor base, capturing the attention of Middle Eastern and Saudi Arabian investors.

PAKISTAN : Engro Chemical Pakistan Ltd US\$200 million in two tranches

This project finance facility (US\$200 million) and Sukuk al Musharakah (US\$50 million) supports the largest project finance and corporate finance transaction in the last decade in Pakistan. This complicated transaction

includes a number of cooperative arrangements between conventional and Islamic financiers to deliver this scale of project in the domestic Pakistan market.

QATAR: Qatar Real Estate Investment Company (Alaqaria) US\$300 million

This is the first rated Sukuk (A2 [Moody's]/BBB+ [Fitch]) for a Qatari corporate. This marked Alaqaria's continuous use of the Sukuk markets to fund its development business.

The deal enjoyed strong distribution in Europe and among bank investors.

SAUDI ARABIA: Mobily US\$2.85 billion project financing

In the Saudi Arabian market, 2007 was the breakout year for both Sukuk and big-ticket Islamic finance transactions. Saudi Consolidated Electricity, Red Sea Gateway, Jubail Water & Power, Dar Al Arkan and Mada Letetisalat

were all important and landmark transactions. Mobily squeaked past the competition because of its innovative structure and the model that it offers other projects in the communications sector as well as the M&A sector.

TURKEY: Derindere Turizm Otomotive San Tic AS US\$60 million

Last year saw an important increase in the number of Turkish submissions. Although none was a mega deal, the acquisition of vehicles by Derindere for subsequent leasing

marked the first five-year syndication in the Turkish market and was 75% oversubscribed.

UAE: Jebel Ali Free Zone Sukuk US\$2.04 billion

As the largest AED issuance ever, do we need to write more about this AED7.5 billion (US\$2.04 billion) Dubai

International Financial Exchange-listed transaction?

UK: Aston Martin US\$925 million acquisition

Kuwait leader Investment Dar successfully led the acquisition on a Shariah compliant basis of Aston Martin using Islamic financial tools including the issuance of

Musharakah Sukuk. This pure private equity investment is a groundbreaking entry into the automotive sector for Islamic investors.

US: Rahmat-e-Alam Foundation US\$2 million

The US market has many large-scale fund and private transactions, but only a fledgling domestic Islamic finance industry. One of the pioneers in this is Chicago-based Devon Bank, which teamed up with Light of Christ Lutheran Church to finance the acquisition of church properties and

subsequent lease under Ijarah Muntahia Bittamleek rules. The transaction reflects positive inter-faith cooperation on a commercial transaction for the benefit of the growing Muslim community in Chicago.