



Cagamas targets RM11b bond issuance

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by NUR HANANI AZMAN

CAGAMAS Bhd plans to issue a total of RM11 billion worth of bonds and sukuk this year including RM1 billion equivalent in foreign currency, as the national mortgage corporation continues to explore new markets and currencies.

This will be a 7.4% increase from the RM10.24 billion worth of bonds and sukuk issued in 2019.

"The company has already conducted six issuance exercises so far this year, bringing our year-to-date (YTD) issuance total to RM3.31 billion comprising RM2.4 billion in bonds and RM91 million worth of sukuk," Cagamas president and CEO Datuk Chung Chee Leong told *The Malaysian Reserve*.

This year's issuance is estimated to comprise 70% conventional bonds and 30% sukuk, or Islamic bonds, depending on financial institutions' needs.

"We are on right track as bond and sukuk issuances usually pick up in the third and fourth quarters.

"Malaysia's bond market will remain resilient amid the economic fallout triggered by Covid-19, but



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mitigated by a slew of measures by Bank Negara Malaysia (BNM)," Chung added.

Established in 1986, Cagamas promotes the broader spread of homeownership and secondary mortgage market growth by issuing corporate bonds and sukuk to finance the purchase of housing loans and receivables from financial institutions, selected corporations and the public sector.

The provision of liquidity at a reasonable cost to the primary lenders of housing loans encourages further financing of houses at an affordable cost.

Lower supply is expected from corporate bonds and sukuk this

year, as corporates battle with challenging credit conditions.

"Corporate bond and sukuk supplies are expected to be in the RM90 billion range this year, a drop from the initial RM110 billion forecast by market players compared to RM132 billion in 2019," Chung said.

Economic growth, already slowing pre-Covid-19 and exacerbated by the US-China trade tensions, is expected to fall both domestically and globally in 2020 due to the devastating effects of the deadly coronavirus and pandemic containment measures that have largely grounded economies to a halt.

These conditions may impact fundraising activities for corpo-

rates amid softer investors' appetite for weaker credits.

Concerns over potential bond downgrades are increasing but defaults are generally not expected as the bond market and issuers remain healthy with ample liquidity.

Investors, however, remain selective on their investments with corporate bond and sukuk volumes skew towards quasi-government and AAA credits, Chung said.

"Yield pressures will potentially be mitigated by buying support from local investors with sufficient liquidity in the banking system and easing policies by BNM," he explained.

The central bank has cut the Overnight Policy Rate three times this year, bringing the benchmark lending rate to 2% — the lowest since the global financial crisis a decade ago.

It also cut the Statutory Reserve Requirement (SRR) ratio from 3% to 2% in March this year, and is allowing banks to use government debt securities to comply with SRR requirements.

Thus, Chung is confident the national mortgage firm will continue to enjoy strong demand, given its track record and business model, particularly as investors seek quality in volatile economic conditions.

In fact, Malaysia's Movement Control Order has provided the group with the opportunity to rethink its business model by being more competitive and efficient in

anticipation of a different operating environment.

Among its initiatives are looking into risk participation to help banks hive off risks through synthetic securitisation products and to integrate deeper into the Islamic banking system — Profit Sharing Investment Account to promote affordable housing.

"By reimagining home financing, we also look into developing a range of products and services such as public-private partnerships, home equity schemes, reverse mortgage for retirees and home loans/financing for gig economy workers to address the needs of Malaysians at various stages of their housing lifecycle.

"On the funding side, Cagamas intends to expand and diversify its investor profile by continuing to target cross-border investors to subscribe to our primary and Euro Medium-Term Notes public issuances, and focusing on providing liquidity for small and medium enterprises via capital market solutions," Chung said.

He also did not discount the possibility of exploring the feasibility of purchasing loans and financing related to environmental and social impact projects via the issuance of sustainability bonds and sukuk.

This comes as environmental, social and governance investing, also known as sustainable investing, is increasingly becoming a pivotal point for investors.

Cagamas ready to support housing loan market

CAGAMAS Bhd anticipates housing loan finance to increase albeit at a moderate pace as the relaunch of the Home Ownership Campaign helps boost the property market.

The national mortgage corporation's president and CEO Datuk Chung Chee Leong said some first-time homebuyers may adopt a wait-and-see approach amid job security concerns in the current uncertain economic conditions triggered by Covid-19.

"Nevertheless, we expect pent-up demand from those with secured jobs to continue as people may find some properties are being offered at attractive prices. Some developers recently revealed that they recorded a substantial amount of bookings for houses priced RM500,000 and below even during the Movement Control Order period, hence, we

believe innovative selling programmes and embracing digitalisation are key to boost demand," he told *The Malaysian Reserve*.

Cagamas plays a role by purchasing housing loans and home financing from banking institutions to support their generic liquidity requirements.

In 2019, Cagamas purchased loans worth RM5 billion with a number of approved loans/financing for My First Home Scheme (SRP) and Youth Housing Scheme (SPB) extended to 15,492 borrowers worth RM3.2 billion.

Cumulative guarantee exposure for mortgage guarantees to SRP/SPB schemes last year was RM706.5 million.

Chung said the group aims to purchase RM8 billion worth of loans with an increase of approved loans

/financing for SRP and SPB to 17,040 in 2020 from a base of 33,236 in 2019, with a value of RM4.4 billion.

"The target for cumulative guarantee exposure in 2020 is RM826.9 million," he said.

Currently, residential property overhang in the first quarter of 2020 (1Q20) is at 47,045 units (1Q19: 52,203 units), with higher demands for properties worth RM500,000 and below, which accounted for 75% of total transactions, according to the National Property Information Centre.

"Cagamas will continue to work closely with the government and their stakeholders to promote homeownership through various affordable housing schemes like SRP and SPB with Bank Simpanan Nasional.

"For Cagamas, this means leveraging a range of digital levers such

as the introduction of digital SRP by partnering selected property technology (proptech) firms," Chung added.

Digital SRP will make it easy for eligible first-time home buyers to apply for SRP online once they have selected their homes on the proptech's website or mobile application.

On another note, Chung stated the six-month loan moratorium may pose liquidity strain on the banking sector as funding commitments of lending institutions need to be met in the absence of loan repayments during that period.

Although banks have a healthy deposit base to weather through this period, in the absence of active economic activity, cashflow generation is also curtailed which could result in a diminishing bank deposit balance.

"The recent move by Bank Negara Malaysia to reduce Statutory Reserve Requirement (SRR) and easing of regulatory approach in complying with SRR and net stable funding ratio allows the banking institutions to access a longer liquidity buffer.

"Having said that, Cagamas is well placed as a source of funding for banks with different liquidity needs to meet their respective liquidity requirements," he said.

In addition, Cagamas has the capacity to support affordable housing liquidity of banks through its sustainability framework.

"The small and medium enterprises sector is not left out either as we are able to work with banks on their liquidity needs for this sector," he added. — by NUR HANANI AZMAN