

CAGAMAS BERHAD

ISMMA MEETING 2020

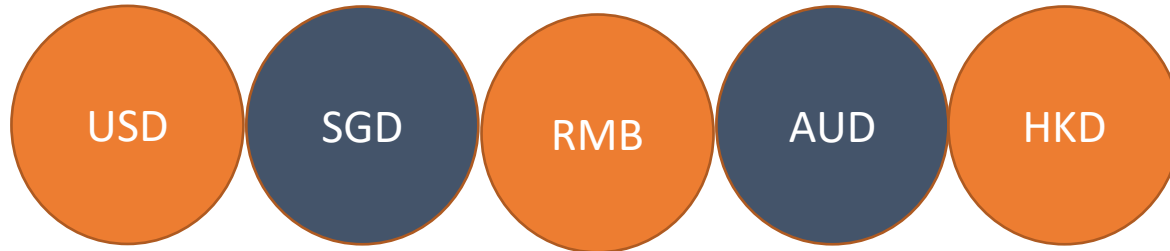
ISSUANCE OF FOREIGN CURRENCY BONDS/SUKUK
THURSDAY, 10 DECEMBER 2020

MR DELVIN CHONG
SENIOR VICE PRESIDENT, TREASURY AND MARKETS



CAGAMAS' MULTICURRENCY MEDIUM TERM NOTE PROGRAMME

Type	Conventional	Islamic
Programme Size	USD2.5 billion	USD2.5 billion
Tenor	Perpetual	
Rating	A3 by Moody's Investors Service, Inc.	
Issue format	Regulation S only	
Governing laws	English Law	
Listings	LFX and SGX-ST	



**~MYR 10 BILLION EQUIVALENT ISSUANCE OF
FOREIGN CURRENCY BONDS & SUKUK SINCE
2014**



OBJECTIVES OF MULTICURRENCY MEDIUM TERM NOTE PROGRAMME ESTABLISHMENT

OBJECTIVES

Widening the Company's investors' base and network

Reduce over reliance on funding from domestic investors

Increase the number of domestic issuers tapping funding from the international markets

Achieve competitively priced funding from international liquidity pool

Funding for potential purchase of non-MYR assets

Reduce over reliance on single benchmark for pricing

Reduce overcrowding effect in domestic market



FACTORS FOR CAGAMAS TO ISSUE FOREIGN CURRENCY BONDS/SUKUK

The overall cost of issuance in offshore market must be less or at least equal to the cost of issuance in onshore market

Competitive and liquid cross currency swaps (CCS) market for varying tenors for a particular currency

Cagamas FX exposure to be fully hedged and qualifies for hedge accounting

Availability of sovereign benchmark of that particular currency



ILLUSTRATION OF FCY TRANSACTION STRUCTURE – CAGAMAS’ USD350 MILLION ISSUANCE

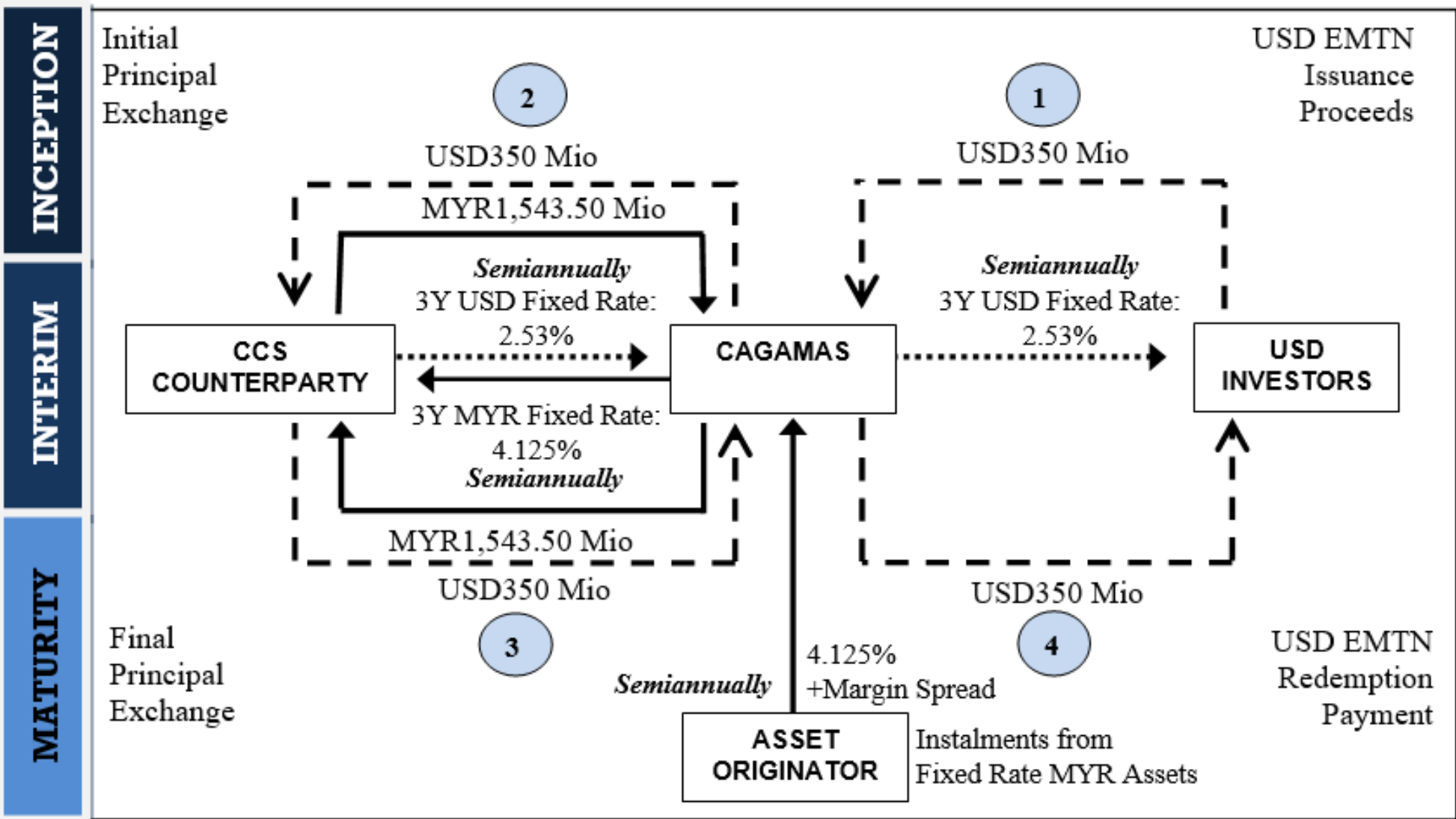


ILLUSTRATION OF FCY TRANSACTION STRUCTURE – CAGAMAS’ USD350 MILLION ISSUANCE (CONT’D)

- At inception, Cagamas received bond proceeds of USD350 million from USD investors and paid to the CCS counterparty in exchange of MYR1,543.50 million at a pre-agreed exchange rate.
- In the interim, Cagamas received fixed interest rate at 2.53% in USD from the CCS counterparty and remitted the same to the USD investors on semi-annual basis for 3 years. In return, Cagamas paid semi-annual fixed interest rate at 4.125% in MYR to the CCS counterparty using the Semi-annual fixed rate instalment Cagamas received from the Asset Originator.
- At maturity of the transaction, Cagamas returned MYR1,543.50 million of principal to and received USD350 million of principal from the CCS counterparty to redeem the USD EMTN issued.



HEDGE ACCOUNTING

Accounting Treatment

The mark-to-market value of the derivatives entered into for hedge purposes is reflected in the Fair Value Through Other Comprehensive Income (FVOCI) but not in Profit of Loss (P&L)

Benefits of hedge accounting

P&L volatility is minimized

Reducing P&L volatility is, by and large, one of the main benefits of hedge accounting. By addressing the timing mismatch associated with standard derivative accounting, hedge accounting removes temporary volatility from the P&L. As a result, the financial statements provide a better picture of the company's true economic performance. This is one of the effective risk management strategies to manage forex risk.

Improved creditworthiness

Banks and other lending institutions extend credit to companies based on their creditworthiness, which is determined by several factors. Predictability in future earnings is also a positive factor in creditworthiness. However, companies are also more likely to be eligible for credit if they meet certain banking covenants (which may include having a stable P&L).



CHALLENGES FOR CAGAMAS TO ISSUE FOREIGN CURRENCY BONDS/SUKUK

Absence of benchmark yield curve may affect pricing of a foreign bond issuance

Difference in the regulatory framework may result in the need to set up new programme for certain currencies

Lack of competitive cross currency swaps pricing

Costly fees – legal fees, taxation fees and international rating fees – have to be borne by the issuer

The need for a benchmark issue size for price optimisation

Uncertainty over the status of IBORs



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THANK YOU

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