Cagamas powers ahead

Enhancing Malaysia's capital market by deepening the scope of mortgage-based securitisation

Cagamas has further diversified its sources of funding with its first Australian dollar offering. What are the factors Cagamas considers when accessing new funding avenues?

As a frequent issuer, Cagamas continues to monitor the comparative funding cost and distribution advantage in the international market against our domestic bond issues. Additional factors to consider could be any favourable price movement in Cross Currency Swap (CCS) of a particular currency or simply our inherent funding needs for a specific currency. More importantly we feel that the dynamics of our funding strategy still hinges on market liquidity and volatility.

Other considerations include reducing the overcrowding effect in the local market and the reliance on a single benchmark.

To date, Cagamas has issued an aggregate of RM8.9 billion equivalent worth of bonds and sukuk in Renminbi, USD, HKD, SGD and AUD.

Datuk Chung Chee Leong
CEO, Cagamas

What are the strategic initiatives being undertaken by Cagamas to promote secondary market liquidity, both in conventional bonds and sukuk?

The Company has engaged proactively with local and international investors to understand the factors that influence their decision and pricing of new issuance in the primary market. Based on feedback received, apart from issuer's credit strength, rating and yield pickup against sovereign issues; secondary market liquidity is the other main factor that influenced investors' decision.

To this end, we have pursued several initiatives to encourage secondary market activity for our debt securities which include the inclusion of our debt securities in global indices and the reopening of existing tranches. Since 2015, Cagamas has successfully concluded a number of reopenings worth about RM4 billion inclusive of a RM2 billion dual tranche reopening in sukuk and conventional bonds in 2017 - the first ever undertaken in the Malaysian market, and this resulted in the tranches being eligible for inclusion in global indices.

In line with Cagamas' initiative to disseminate its secondary market prices to investors, the Company also established its own pricing page on Bloomberg and Reuters platforms. This has further elevated the profiling of Cagamas' credit and enhanced the price discovery process of its papers in the market.

Apart from being a regular issuer, how is Cagamas contributing to the further development of the sukuk market?

Cagamas is actively exploring and developing new Islamic capital market solutions not limited to sukuk. As for our contributions in the development of the sukuk market, Cagamas has been working on new sukuk structures and programmes to meet the demand of most discerning investors especially in the Gulf Cooperation Council (GCC) countries. Cagamas is also looking at introducing Green sukuk solutions in the near future.

Apart from being a regular issuer of sukuk, Cagamas has also contributed to the Islamic derivative market via its involvement in Islamic CCS and Islamic Profit Rate Swap.

What are the challenges faced by Cagamas when accessing both the local and offshore debt markets?

On the offshore debt markets, the difference in the regulatory framework abroad could potentially make it costly for us to issue in another currency. The size and tenure of an issuance is also a consideration in view of the legal fees, taxation and international rating fees to be borne. The need to set up a new programme for issuance in certain currency is also a concern.

Differences in market preference across markets may also affect the choice of currency for an issuance. The absent of a sovereign benchmark yield curve and lack of competitive CCS for varying tenures may also affect pricing of a foreign bond issuance.

Legal and regulatory constraints towards cross border ownership of property also make it challenging for Cagamas to purchase mortgage loans on a recourse or non-recourse basis in certain jurisdictions.

On the local debt markets, Cagamas remains the largest issuer of corporate bonds and sukuk in Malaysia, having issued over RM9 billion in 2017 as compared to RM6 billion in 2016. This could lead to a potential overcrowding effect as local investors may have certain limits for investment in Cagamas bonds and sukuk.

As an issuer, what are your concerns about the conventional bond and sukuk markets going forward?

As a frequent issuer of corporate bonds and sukuk, the Company's main concern is the funding cost achievable in the foreseeable future. Cagamas however has been nimble enough to diversify its funding avenues via tapping of the foreign debt markets. With the current instability in geopolitical environment as well as heightened uncertainty, we saw a spike in yields globally as a result of the rise in US Treasuries and this has impacted markets across regions. As Cagamas is fully match funded, we rely on continued demand for our bonds and sukuk that are issued at competitive spreads against respective benchmark curves in order to continuously provide competitive cost of funding to our selling institutions.

Malaysia is a leader in the global sukuk market. As such, there are more players within the local currency market that are able to invest in sukuk due to the ecosystem established within the Malaysian Islamic financial system. This may pose slight concerns to us if our issuances continue to be concentrated in conventional bonds. However the positive side of this is the lack of high grade conventional corporate bonds available for investment. This has led to the sturdy demand for Cagamas' conventional bonds issued as investors remain confident with the Company's credit strength and business model. ■

For more information, please contact:

Cagamas
National Mortgage Corporation of Malaysia

Cagamas Berhad
Level 32, The Gardens North Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur, Malaysia
Tel: +603-2262 1800 / Fax: +603-2282 9125
E-mail: info@cagamas.com.my
www.cagamas.com.my