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TODAY’S FUNDING AND CAPITAL-RAISING OPTIONS FOR ISSUERS

What represents an effective capital-raising strategy for local issuers today, across all available product areas and markets? What more needs to be done to bring issuers to market, particularly for corporate issuance?

Companies have many possibilities and opportunities to raise funds in a Shariah compliant manner, such as issuing Sukuk and obtaining Islamic financing. Several factors including pricing, timing, structure and currency have to be taken into consideration when elaborating an effective capital-raising strategy.

Cagamas, which buys housing loans and Islamic home financing from banks and financial institutions, is Malaysia’s largest issuer of corporate debt. Its process is simple: issuing Sukuk upon buying Islamic home financing, otherwise issuing bonds.

Following the introduction of a euro medium-term note program in 2014, Cagamas has issued in many currencies including the US dollar, Chinese renminbi, Hong Kong dollar, Australian dollar and Singapore dollar. Prior to that, Cagamas was very dependent on the volatility of the Malaysian government securities’ benchmark terms.

“The decision to issue in a particular currency depends on the economic benefit that the currency offers. Cagamas compares which currency is the cheapest, which is dependent on the depth and breadth of the market. It will also consider the robustness of the derivative market in terms of cross-currency swaps and interest swaps,” explains Chung Chee Leong, CEO of Cagamas. Malaysia sovereign wealth fund Khazanah Nasional’s strategy is more complex. When

it seeks flexibility in terms of repayment, it raises funds through bank financing. Otherwise, it issues Sukuk taking into consideration a few factors, namely, optimizing the asset liability, reducing interest rate and reducing currency risk. Timing is also very important to Khazanah Nasional as it does not want to issue when there are many competing deals.

Equally, timing and flexibility are also very important to CMC Engineering, a non-listed construction company developing public infrastructure. As a result, it utilized the Investment Account Platform owned by a consortium of Islamic banks in Malaysia to raise RM12 million (US\$3.03 million) to part-finance the telecommunication integration project for the Ho Chi Minh City Urban Railway System in Vietnam.

Quantum Solar Park Malaysia opted for Sukuk to fund a solar plant as Malaysia has more than three decades of experience in Islamic finance. However, the RM1 billion (US\$252.52 million) SRI Sukuk facility was issued at the project level instead of the corporate level, as Quantum Solar Park Malaysia wanted to ring-fence the solar project.

“Instruments like Sukuk are very well established. Regulators and stakeholders are all very familiar with Sukuk. The rates are also very attractive,” explains Lee Choo Boo, the executive director of Quantum Solar Park Malaysia.

Alpha REIT, which invests in education-related assets, prefers to tap banks and therefore had not encountered any issues in raising funds, even though banks are taking a more cautious approach toward real estate. “Our focus is more on the structure of the financing as well as the cost associated with it,” says Yap Tse-Juie, the head of finance at Alpha REIT Managers. “We are regulated by the SC [Securities Commission Malaysia] in terms of the cap on the borrowing that we are allowed to. At the moment, it is capped at 50% of our total assets under management. So, we really have to put in place effective capital management structures in order to boost our yields,” he says.

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