

# Malaysia's first profit-based ICP

Cagamas, Malaysia's national mortgage corporation, has once again tapped into the Malaysian Islamic debt capital market with three-month Islamic commercial papers (ICP) worth RM500 million (US\$152.46 million). The short-term debentures were issued on the 25<sup>th</sup> March 2014 and carry a return of 3.31%, due to mature on the 24<sup>th</sup> June 2014. The issuance is part of the company's existing RM60 billion (US\$18.33 billion) Islamic commercial papers and medium-term notes program. Proceeds from the issuance will be used to fund the purchase of Islamic financing from the financial system.

Speaking to Islamic Finance *news*, Chung Chee Leong, the president and CEO of Cagamas, highlighted the unique features of the ICP. "Cagamas is the first issuer that issues profit-based ICP, meaning investors pay the issuer at par on issuance date and receive face value plus profit on maturity. In Malaysia, ICPs are normally issued at a discount. The issuance received strong demand from both domestic and foreign-owned financial institutions," said Chung.

To capture a broader range of investors, the structure used for the short-term ICP is commodity Murabahah. According to Chung, this particular structure was selected as it is a widely accepted Islamic concept in the GCC and is one of the most popularly used principles for various Islamic financial instruments. Commodity Murabahah has proven its ability to meet the requirements of a larger range of investors. "Further, Malaysia's sizeable inventory of the edible oil, namely crude palm oil resources, in addition to contracts based on London Metal Exchange commodities, has further accommodated the use of this structure," he explained.

One of the challenges encountered in the course of its issuance was obtaining adequate interest from investors. "The

main challenge faced in this issuance was getting sufficient interest from the investors at the intended cost of funds, noting that other investment instruments and banking products offered higher returns for the equivalent tenure," expounded Chung. According to him the company conducted proactive engagements with end investors and finally managed to close the deal at a competitive cost of funds and at a commendable bid-to-cover ratio.

**“ Cagamas is the first issuer that issues profit-based ICP, meaning investors pay the issuer at par on issuance date and receive face value plus profit on maturity ”**

This is Cagamas' first issuance in 2014. The company is also involved in the issuance of predominantly medium and long-term fixed rate Sukuk under various Islamic structures available through its RM60 billion (US\$18.33 billion) Islamic commercial papers and medium-term notes program, and its RM5 billion (US\$1.52 billion) ICP/IMTN Sukuk al-Amanah Li al-Istithmar. Chung believes that these issuances provide investors with the opportunity to invest in high grade papers of various tenures which are often used as the guiding benchmark for other debt securities issues. <sup>(2)</sup>

## Cagamas Three-Month Islamic commercial papers

RM500 million (US\$152.77 million)



25<sup>th</sup> March 2014

Issuer	Cagamas
Obligor	Cagamas
Issuance price	Par
Purpose of issuance	Purchase of Islamic financing
Trustee	PB Trustee Services
Tenor	Three months
Coupon rate/return	3.31%
Payment	At settlement date
Currency	Malaysian ringgit
Maturity date	25 <sup>th</sup> June 2014
Lead manager(s)	RHB Investment Bank
Principal advisor(s)	CIMB Investment Bank, Maybank Investment and HSBC Bank Malaysia
Governing law	Law of Malaysia
Legal advisor(s) / Counsel	Zaid Ibrahim & Co as legal counsel for the issuer. Christopher Lee & Co as legal counsel for joint principal advisers and joint lead arrangers
Listing	Not listed on Bursa Malaysia Securities or any other stock exchanges
Underlying assets	Shariah compliant commodity
Rating	'MARC-IID' by MARC and 'P1' by RAM
Shariah advisor(s)	CIMB Islamic Shariah Committee, Maybank Shariah Committee, HSBC Bank Malaysia Shariah Committee and Amanie Advisors
Structure	Commodity Murabahah
Tradability	Yes
Investor breakdown	Financial institutions
Face value/ minimum investment	RM500 million (US\$152.46 million)

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