



# Cagamas Berhad

National Mortgage Corporation of Malaysia

**ASEAN Roundtable Series “Broadening Investor Base in ASEAN bond markets”**

## **Diversifying Funding Avenues and Investor Base – An Issuer’s Perspective**

Datuk Chung Chee Leong  
President/Chief Executive Officer



- Overview
- Cagamas' Initiatives to Diversify Investors Base and Funding Avenues



# Overview



# Cagamas at a Glance

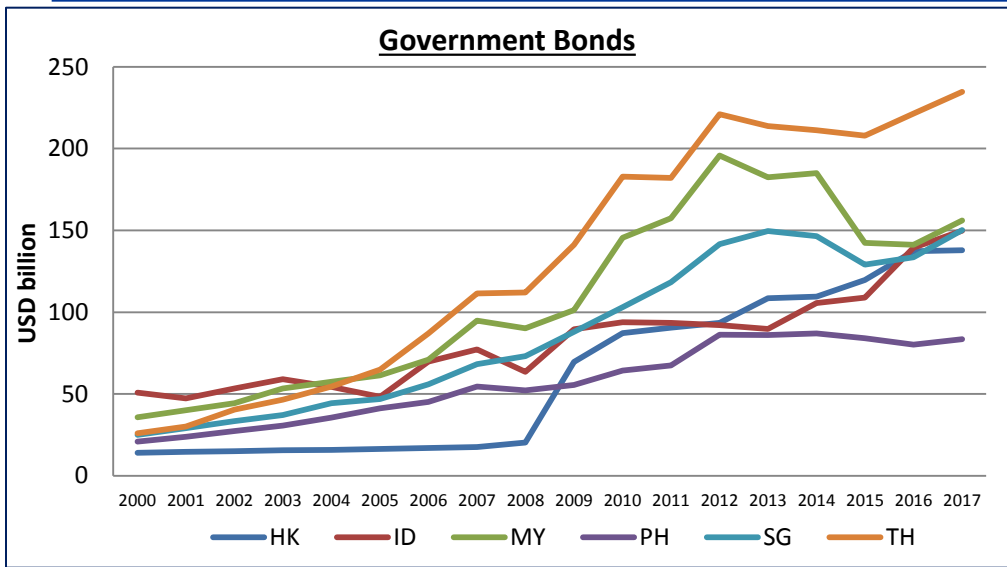
## Background



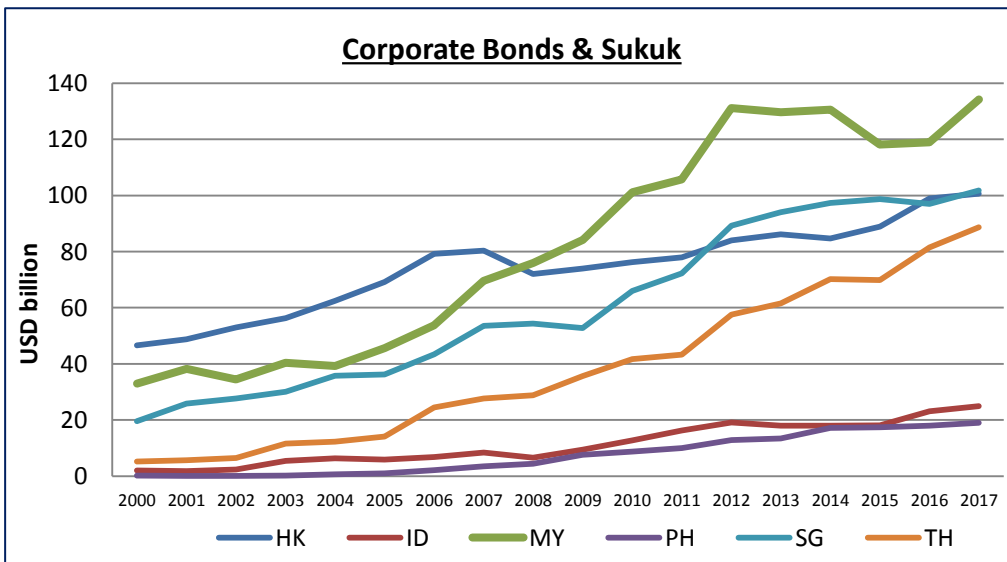
<b>Entity Name</b>	Cagamas
<b>Shareholders</b>	Cagamas Holdings Berhad (100%), which is 20% owned by Bank Negara Malaysia (BNM), and 80% by commercial and investment banks
<b>Credit Rating</b>	A3 Stable (Moody's), AAA (RAM and MARC)
<b>Date of Incorporation</b>	2 December 1986
<b>Objectives</b>	<ul style="list-style-type: none"><li>▪ Established by Bank Negara Malaysia to support the national agenda of increasing home ownership and promoting the development of Malaysia's capital markets</li><li>▪ Development and promotion of Islamic finance within Malaysia</li></ul>
<b>Business Model</b>	<ul style="list-style-type: none"><li>▪ Through the issuance of conventional and Islamic securities, Cagamas funds the purchase of housing loans and house financings through its Purchase With Recourse (PWR) and Purchase Without Recourse (PWOR) schemes</li><li>▪ Based on this business model, Cagamas is able to provide liquidity to financial institutions at a competitive cost, encouraging them to provide additional housing loans and house financings to new applicants at an affordable price</li><li>▪ The World Bank has regarded Cagamas Berhad as the largest and most successful liquidity facility in its publication entitled "Housing Finance Policy in Emerging Markets" in 2009</li></ul>



# Regional Local Currency (LC) Bond Market Overview



- All government bond issuance in the region have experienced exceptional growth since 2008 crisis. However, growth in several countries, including Malaysia have slowed in recent years.
- Issuance growth in Malaysia in particular has slowed as the Government has embarked on fiscal consolidation exercise since 2015 with the aim of reducing budget deficits.



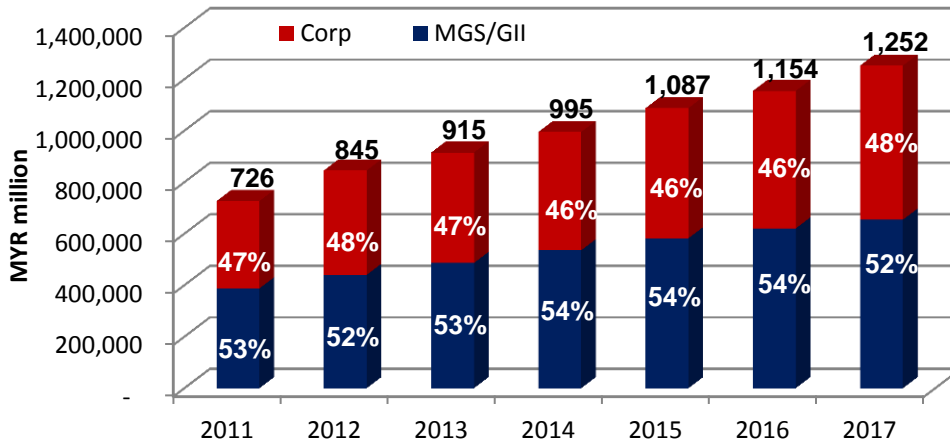
- Corporate bond and sukuk issuers in the region have seen strong growth due to the strong funding requirements by corporates for infrastructure projects, except for Indonesia and Philippines which have seen only modest growth.
- Malaysia corporate issuances in particular have seen significant growth, driven by the needs to fund various infrastructure projects in the country.

Source: Asian Bonds Online

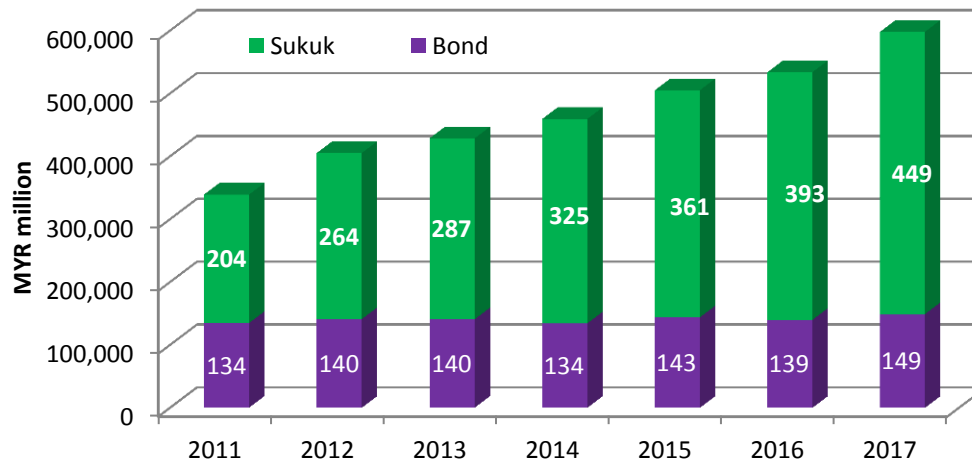


# Malaysia Bond Market Overview

**Malaysia's Government vs Corporate Bonds and Sukuk**



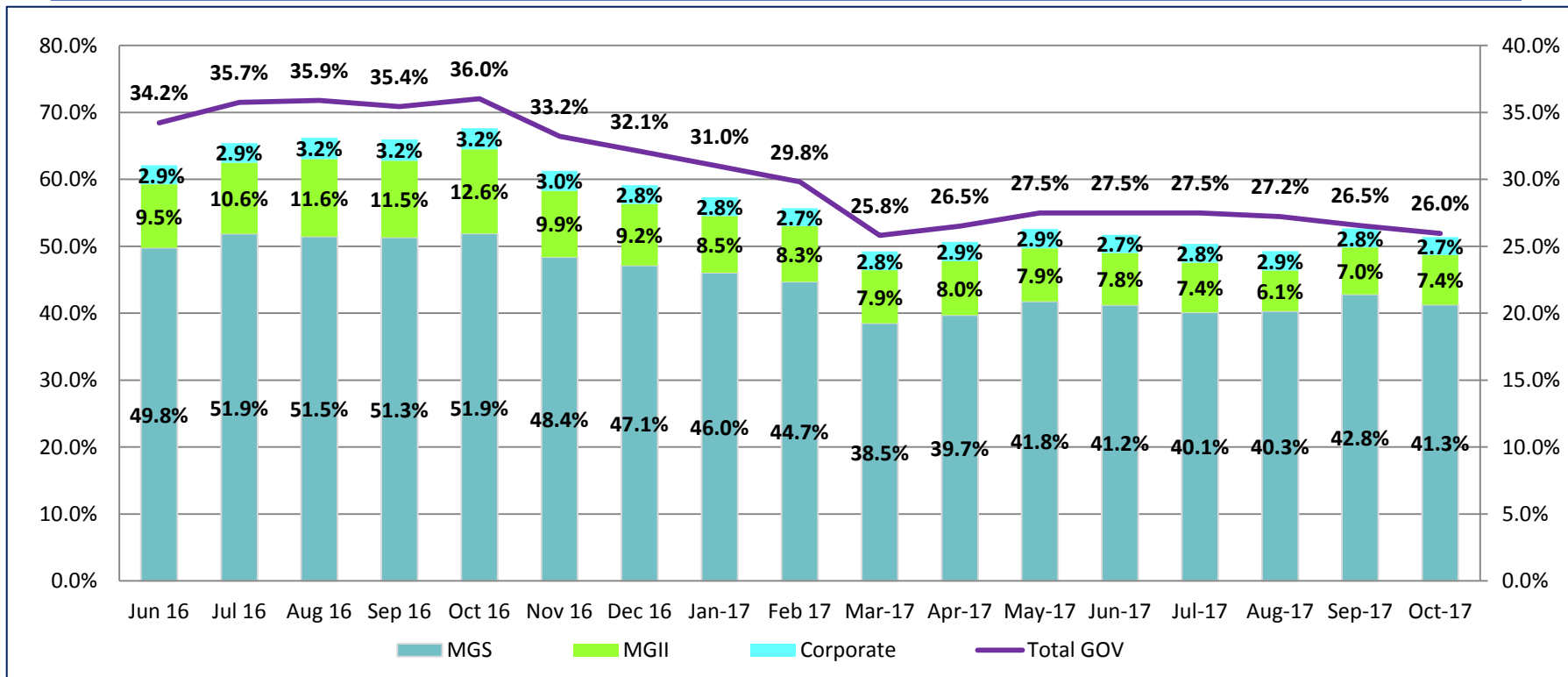
**Malaysia Corporate Bonds and Sukuk Market**



- LC bond market has grown by an average of 12.1% per annum led by corporate bond issuance that are closely following government bond issuances.
- Public-private initiatives introduced by the Government for various infrastructures projects have resulted government related corporates to tap the bond market for funding.
- Market share of corporate bonds may increase further due to fiscal consolidation by the government, coupled with stronger economic growth that encourages more corporates to tap the bond market.
- Malaysian bond market has developed into a deep and liquid market over the years.
- The local currency corporate bonds and sukuk outstanding has almost doubled in the past 6 years.
- While the outstanding amount of conventional bonds remained consistent, the growth of sukuk has almost doubled within the same period indicating significant increase in acceptance and demand for local currency sukuk.
- This trend has been helping Malaysia to remain as the world's largest sukuk market.



# Non-Resident (NR) holding in Malaysian Bonds



- NR holdings in Government debt securities declined from a high of 36% in October 2016 to 26% in October 2017.
- The decline is triggered by the risk of market sentiments towards Emerging Market (EM) due to uncertainty in resulting from the US policies proposed by the new administration.
- Although there was a rebound in NR holdings since March 2017 as global macro risks have subsided, the trend has moderated since May 2017 as prospects of more aggressive rate hike by the Fed dampened investors risk appetite on EM debts.
- Despite the significant decline of NR holdings in government debt securities, NR holdings in corporate bond has only declined slightly as investments are mainly on long term view basis.

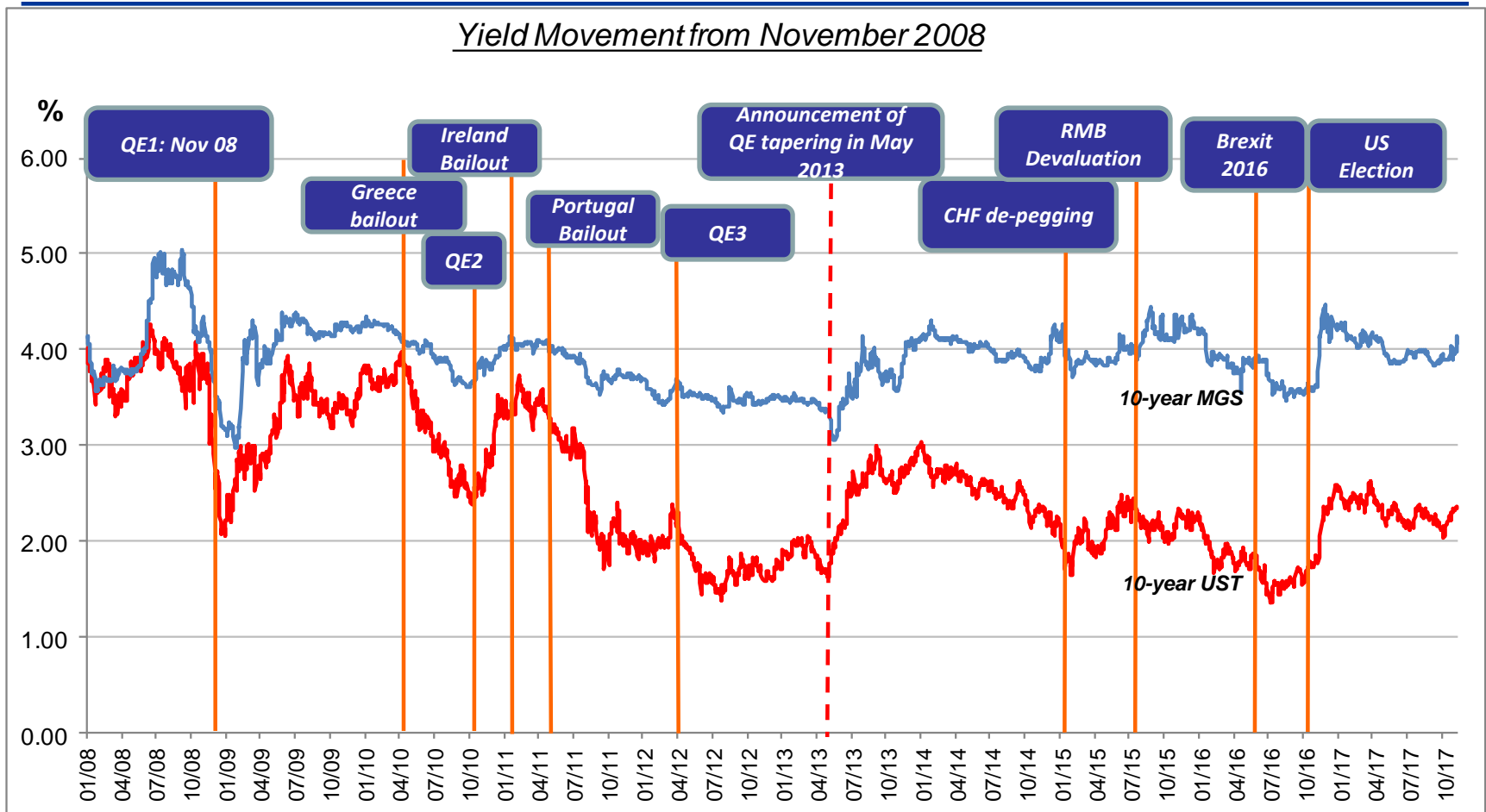


# Cagamas' Initiatives to Diversify Investors Base and Funding Avenues





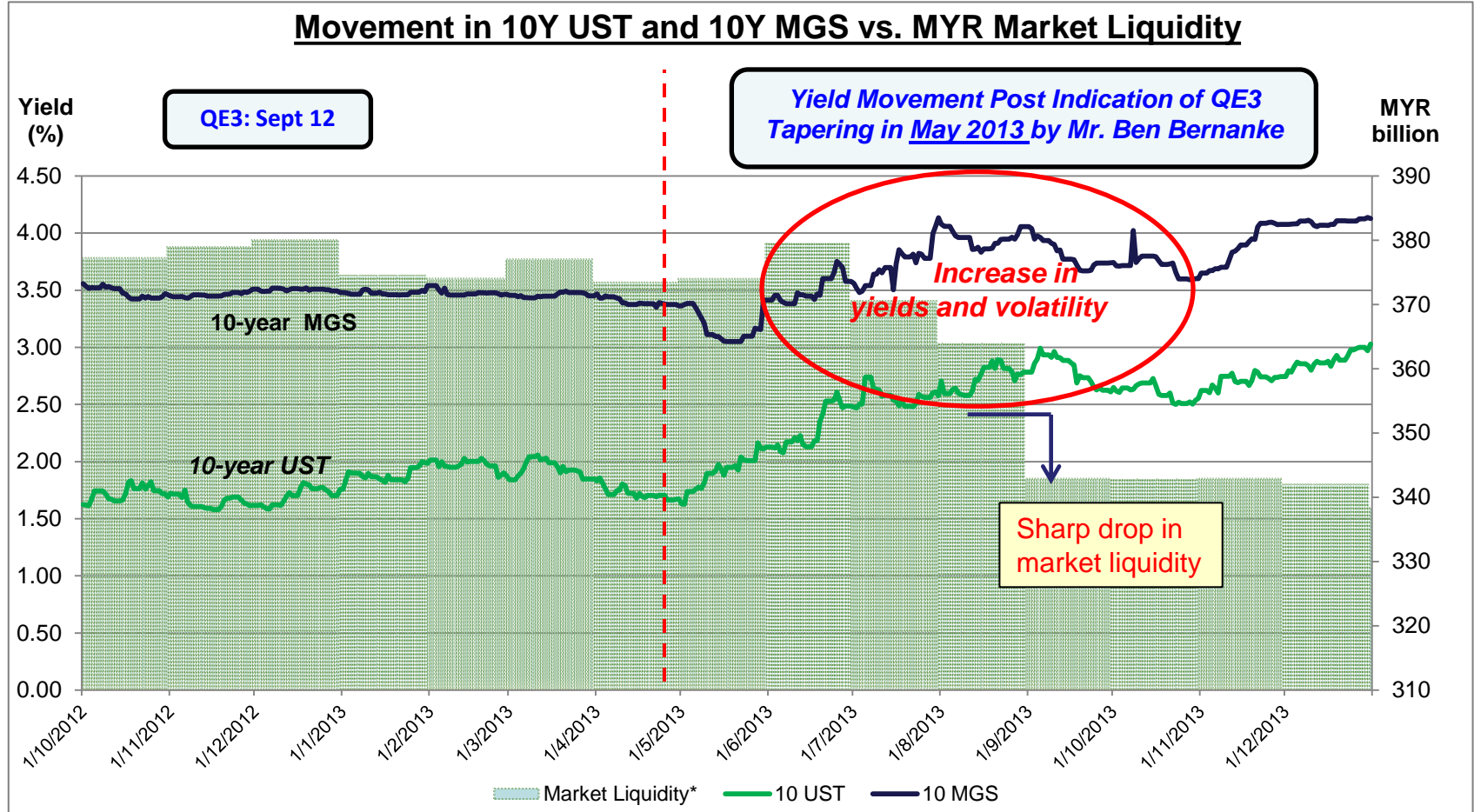
# Effects of Significant Market Events



- Generally yields on MGS and US Treasury move in tandem in response to events since 2008.
- Given the much deeper US government bond market, US Treasury yields movement have been more volatile than MGS.
- Given the close correlation in the yield movements, any future events will have similar impact on MGS and UST in the similar direction, differing only in the magnitude of the movements.



# Distressed Market Condition in 2013 - Impact of QE3 Tapering



- **Increased volatilities** across financial markets caused by concerns over reversal fund flows and possible end to low interest rate environment
- **Higher liquidity premium** demand from investors to buffer for volatility

\* Outstanding Liquidity placed with Central Bank



# 2014 - Establishment of Multicurrency Medium Term Note Programme

## Objectives:

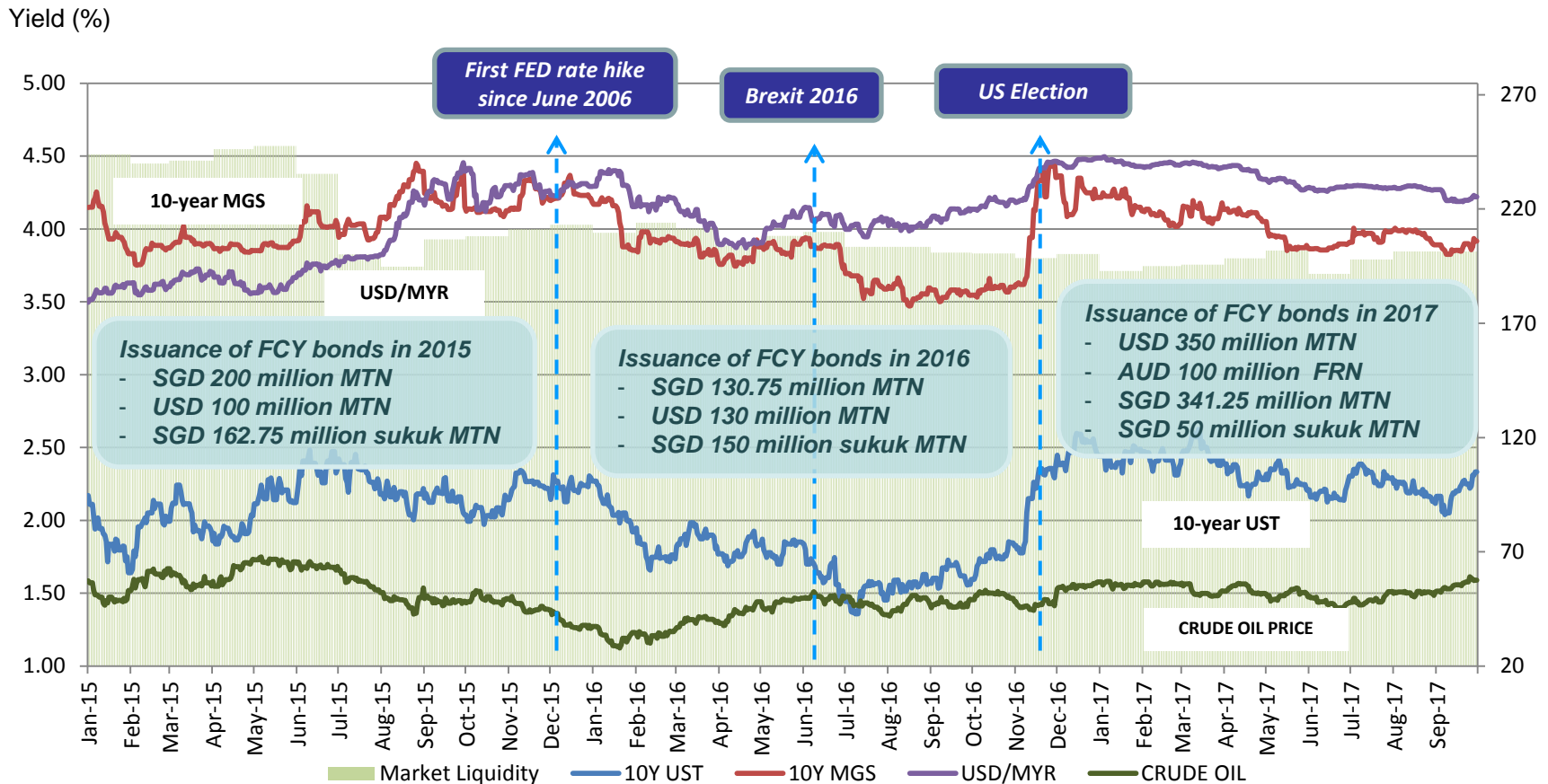
- Widening the Company's investors base to reduce over reliance on single benchmark for pricing
- Diversify funding sources
- Achieve competitively priced funding from international liquidity pool
- Funding of potential purchase of non MYR assets
- Developmental role in deepening and broadening the Malaysian and international debt capital market
- Reduce overcrowding effect in domestic market

## Programme Features:

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	



# 2015-2017–The STORM After Taper Tantrum, Less Impact



- Continued volatility in crude oil prices especially in the second half of 2015 has adversely impacted the local currency against the USD
- Weakening of MYR caused sell-off in Malaysian Government Securities– evidenced in the spike of the 10 year MGS yield
- Cagamas has successfully managed to continue securing affordable cost of funding through foreign currency (FCY) issuances especially through private placements that enable the Company to continue providing affordable cost of funding to the local financial market.



# Cagamas' Foreign Currency Issuances

Year	Issue Date	Issuance	Tenure (year)
2014	22 Sep 2014	CNH 1.5 billion	3
	5 Nov 2014	HKD 1.0 billion	3.5
	10 Dec 2014	USD 500 million	5
2015	24 Jun 2015	USD 100 million	3
	30 Jul 2015	SGD 100 million	3
	25 Sept 2015	SGD 162.75 million	1
	27 Nov 2015	SGD 100 million	2
2016	3 Mar 2016	SGD 130.75 million	1
	10 Mar 2016	SGD 150 million	1
	13 Sept 2016	USD 130 million	1
2017	13 Mar 2017	SGD 50 million	1
	12 Apr 2017	SGD 100 million	1
	26 Apr 2017	USD 350 million	3
	24 Jul 2017	SGD41.5 million	1
	20 Sept 2017	SGD200 million	1
	19 Oct 2017	AUD100 million	1

## Investor's Profile based on Total Outstanding Bonds and Sukuk

	2013	2014	2015	2016
Banking Institutions	35%	33%	32%	34%
Provident/Pension Funds	32%	28%	27%	26%
Insurance Companies	18%	16%	16%	12%
Non-Resident	1%	10%	15%	20%
Others*	14%	13%	10%	8%

\* Others – Local Corporations, Government-Linked Companies and Trust Funds



## Broadening Investor Base – Why Should We Do It?

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- Broadening investor base will contribute to the development of long-term bond markets.
- A broad and diversified range of investor base will benefit the domestic markets and:-
  - provide an important source of stability and liquidity to financial markets,
  - promote the efficiency of price discovery,
  - play a key role in reducing volatility through capital flows to emerging markets
  - stimulate sustainable economic growth
  - less dependence on a dominant investor group whose investment decisions could destabilize markets



## Broadening Investor Base

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A two pronged approach is proposed in order to broaden investor base:

- Size of investor base
- Diversity of investor pool

The following is suggested to broaden investor base:

- Technological advancement to further promote dissemination of information
- Further development and education on hedging tools available within the existing derivatives market to entice participation of diverse range of investors
- Promote deeper regional market integration which will ensure efficient allocation of resources and facilitate access to price information regarding cross-border bonds



# Market Prerequisites for Cross Border Issuance

## Liquid capital market

- For effective and efficient price discovery

## Deep cross currency swap (CCS) market

- Liquid, competitive pricing and easily accessible

## Favourable interest rates environment

- Lower cost of fund

## Conducive macroeconomic fundamentals

- Inflation risk low enough to make longer-term borrowing feasible

## Favourable Rating

- Advantageous international rating
- Mutual recognition of rating – savings on rating expenses

## Diversified Investor Base

- Offer various risk appetite and tenure preferences
- Principally by FIs, domestic pension funds and insurance companies

## Short turnaround time to market

- Reduce risk of exposure to price volatility

## Transparent and facilitative governing framework

- Standardized legal framework
  - Minimal disclosure requirement
  - Concessionary fee structure e.g. for repeat issuers
  - Mutual recognition of Information Memorandum (IM)/Offering Circular (OC)
- } Low issuance cost

## Centralized clearing and settlement system

- Reduces cost and promote efficient capital flow
- Increases liquidity

## Liberal foreign exchange administration rules

- For efficient and effective sourcing of foreign capital

## Application of Hedge Accounting

- To smoothen profit in the income statement





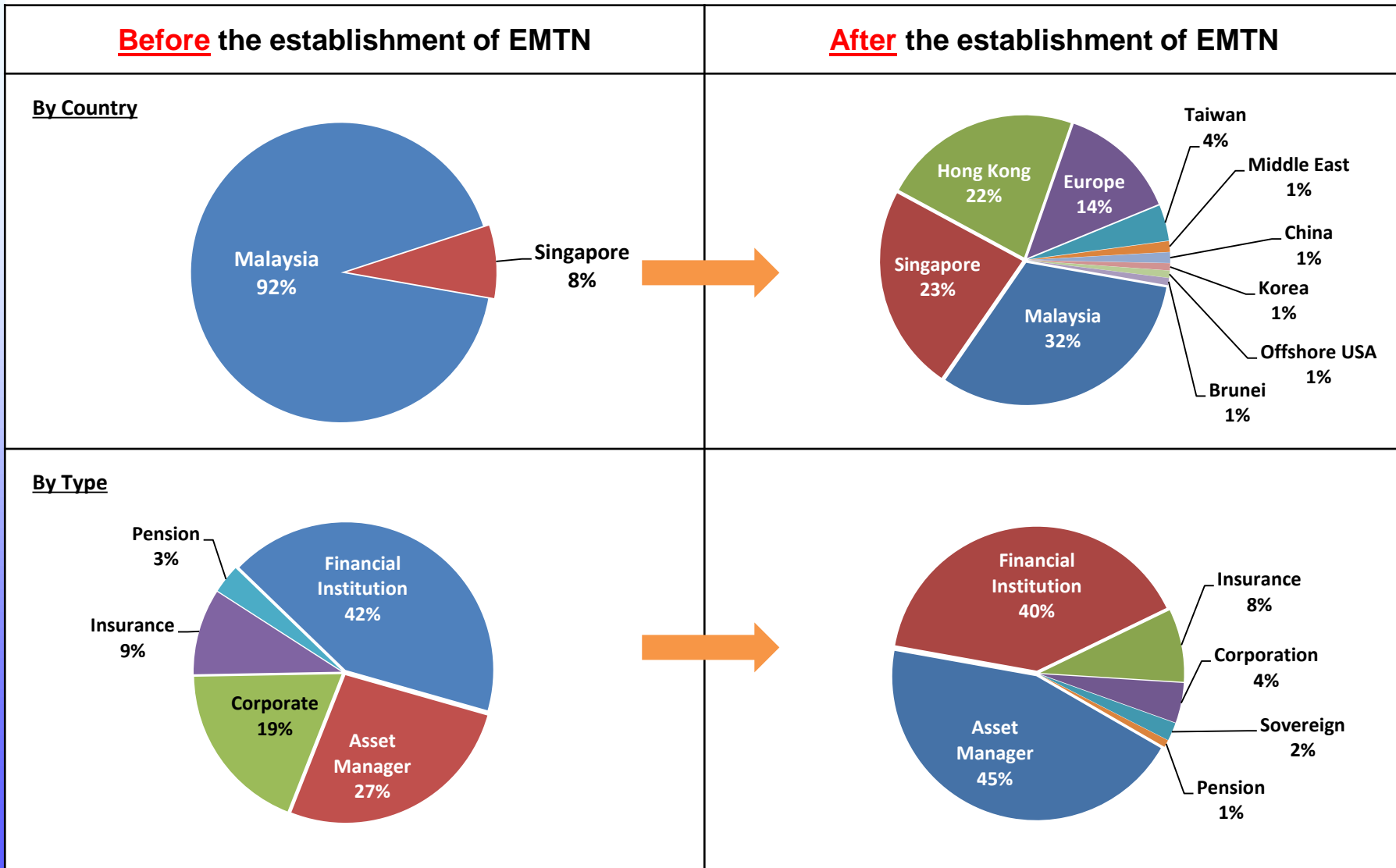
## Our Approach

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1. **Provision of competitively priced liquidity** vis a vis funding costs via successful issuance of investment grade bonds and sukuk
2. **Promote development of bond market** by increasing the depth and breadth of the market through:
  - Issuance of various type of conventional and Islamic debt instruments across tenures in multiple currencies
  - Promote efficient and robust price discovery for establishment of a reliable yield curve based on frequently traded bonds and sukuk in the secondary market
  - Promotion of secondary liquidity for outstanding bonds and sukuk via:
    - **Reopening of existing stock**  
Enlarged existing tranche size would encourage trading activity and meet the pre requisite minimum size for inclusion into widely followed local currency bond indices
    - **Inclusion of Cagamas bonds in widely followed indices**  
Promote greater visibility of the Company's debt securities particularly among international investors
    - **Establishment of Bloomberg and Reuters pricing platform initiative**  
Widen market reach and enhance price dissemination across the globe



# Investor's profile based on total investors





# Challenges for Cross Border Issuance

## Regulatory differences / Cost

- Differing regulatory framework abroad make it costly to issue in another currency.
- Involves substantial fixed transaction costs - legal fees, taxation.
- Only larger issues in foreign currency are economical.

## Differences in market features

- Differences across markets affect the choice of currency of corporate bond issuers.
- The length of sovereign benchmark yield curves differs widely across currency areas. (e.g. 30 years in Malaysia)
- Illiquidity in longer tenure for CCS pricing.

## Recognition of ratings and standardized pricing

- Attainment of more than one rating/program is costly.
- Standardization of bond pricing convention could contribute to a more accurate credit risk assessment.
  - E.g. Spread over corresponding Government Securities

## Challenges for ASEAN Market

- The financial linkages between ASEAN fixed income markets are still in its infancy stage. and intra-regional investments by ASEAN investors are still small, especially in the PDS space.
- The underdeveloped repo markets and hold-to-maturity behaviours of Asian investors reduce secondary liquidity in the market.

## Contact us

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### **Cagamas Berhad (157931-A)**

Level 32, The Gardens North Tower  
Mid Valley City, Lingkaran Syed Putra  
59200 Kuala Lumpur  
Malaysia

Tel: +603 - 2262 1800

Fax: +603 - 2282 9125

[www.cagamas.com.my](http://www.cagamas.com.my)

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**THANK YOU**