



by Prathab V

**DANAINFRA** retail sukuk on Bursa Malaysia has been experiencing increased interest from investors lately. The retail sukuk charted high trading volumes recently,

with prices rising above its face value of RM100.

According to market observers, DanaInfra retail sukuk has been trading at a discount for quite some time, hence its upward movement is to be expected.

DanaInfra has launched three retail sukuk under Bursa's Exchange Traded Bond/Sukuk (ETBS), the first of its kind on the local exchange. The three retail sukuk stock code (0400GA, 0400GB and 0400GC) have a coupon rate between 4% to 4.58% (see table). All three DanaInfra sukuk are fully guaranteed by the government, hence the downside risks are very low.

"DanaInfra is a very high quality sukuk issue since its sukuk obligation is government-guaranteed," says Hanifah Hashim, executive director/head of Malaysia Fixed Income & Sukuk, Franklin Templeton Investments to FocusM.

With the exception of 0400GC, the other retail sukuk had been trading largely below RM100 per unit. On Feb 26, DanaInfra's retail sukuk (0400GB) rose to be the highest gainer. It rose 50 sen to stay at RM100.

Despite the gains, Bond Pricing Agency Malaysia Sdn Bhd (BPAM) says that DanaInfra retail sukuk are still trading at a discount. "As of Feb 2, 2015, the three DanaInfra retail sukuk are still trading at around 10bps to 19bps discount to the over the counter (OTC) market albeit the gains seen in the past



The Cochrane MRT underground station under construction

## Retail sukuk gaining traction

Long trading at a discount, reinforced commitment from the government to continue MRT is giving a shot in the arm for DanaInfra sukuk

beverages category (2.7%; Q3 2014: 3.2%), reflecting the decline in the prices of fresh meat and fresh seafood during the quarter.

Economists note that the decline in oil prices had also contributed to the drop in oil prices. The market also remained weak, due to the outflow of foreign funds from the local market. At the end of December, foreign debt holdings in the Malaysian market hit a new low of RM225.9 bil, down 4.5% month-on-month (mom). This is mostly the result of BNM securities, says RAM.

"Foreign-held securities as a percentage of the total outstanding also

### CEO of BPAM to FocusM.

According to Meor, the retail market normally lags comparatively to the OTC market. However, it has started gaining some ground recently with renewed optimism and support from the government on the MRT project.

"The OTC DanaInfra sukuk have started to recover some of the losses suffered in December 2014 since the middle of January this year. As the retail market normally lags in the movement as compared to the OTC market, it was actually quite normal for the retail market to follow suit," explains Meor.

DanaInfra Nasional Bhd is a wholly-owned subsidiary of the Ministry of Finance, Inc, set up in 2010 to raise the funds for the country's Mass Rapid Transit (MRT) rail project in the Klang Valley. The entire MRT Line 1 project is estimated at least RM50 bil. With the inclusion of Line 2, connecting Sungai Buloh and Putrajaya via Serdang, the entire MRT project could balloon to more than RM50 bil.

The MRT project is part of the Economic Transformation Programme (ETP) under the Greater Kuala Lumpur plans. According to Performance Management Delivery Unit (Pemandu) under the Prime Minister's office, the MRT is the "largest-ever infrastructure project; during its peak, it will employ about 130,000 people with a significant multiplier impact on associated industries." The second-largest infrastructure initiative, after the MRT, is the RM60 bil Refinery and Petrochemicals Integrated Development (Rapid) oil and gas hub project in Pengerang, Johor.

In January, when Prime

Minister Datuk Seri Najib Razak announced revisions to Budget 2015, he also mentioned that the multi-billion ringgit MRT Line 1 and Line 2 will be continued. This, says Meor, has further created optimism for the sukuk.

"As DanaInfra sukuk are the funding conduit for the MRT project, which is the flagship project under the ETP. Hence, the importance of it [the MRT] is unquestionable. Even with the recent revision in the Budget 2015, there were no changes to the MRT project. As such, despite the recent cautiousness in the construction and oil & gas sector, the DanaInfra sukuk were not affected," Meor says.

### Bond market suffered due to outflow of funds, but not as severe as expected

While the MRT project will be continuing as planned, the economy is treading cautiously under a challenging climate. Cautiousness is the buzzword on the market currently. Consumers are moved to taking more austerity measures.

The ringgit recovered some ground recently against the greenback, just after the Chinese Lunar New Year. Between Feb 20 and Feb 26, the ringgit bounced back 1.3%. At press time, it was at 3.59 to the US dollar. At its weakest, the ringgit was 3.65 to the greenback on Feb 20.

Brent crude oil is also bouncing back slowly. At its lowest, oil prices hit

US\$46.59 (RM167.26) per barrel on Jan 13. Since then, it has gained 32.4% to reach US\$61.67 per barrel as at Feb 26. Under the revised Budget 2015, the government used a baseline oil price of US\$55 per barrel.

In times of economic uncertainty, governments normally tend to balance pessimism with some form of expansionary fiscal policy. Although the MRT construction project was maintained, the government reduced retail oil prices and also suspended the National Service programme for this year. Bank Negara Malaysia (BNM), on Feb 12, stated that inflation rate also slipped to 2.8% in fourth quarter (Q4) last year. In Q4 2013, the inflation rate was at 3%. According to the central bank, the main reason for the decline in inflation rate was the "lower inflation in the food and non-alcoholic

able to a selloff of BNM securities. This brought the ratio down to 20.4% – a new low since February 2013. That said, foreign holdings of government securities appeared resilient in December, with a slightly higher value for Government Investment Issues (GII)," RAM points out.

The situation, however, was not as bad as expected.

"Despite the slump in oil prices, the severity of the foreign outflows in the MGS segment was not as bad as was initially expected. Coupled with strong economic growth potential compared to other countries, the MGS market rebounded back to the levels seen in November and December 2014," says Meor.

Hanifah agrees. "Year to date, the bond market has been performing positively as global rates remain low and the fear of capital outflow from Malaysia Government Securities remained manageable. This is further added by local institutional investors who have been instructed to put on hold offshore global asset purchases in order not to weaken the ringgit further," she says.

At the end of January, the local bond market yield to maturity (YTM) curves was noticeably flatter. RAM Holdings Bhd, a local bond ratings agency, says that this further signals lower inflationary expectations. Further tightening of monetary policy will be necessary, says RAM in its February 2014 report.

While the construction sector faces some headwinds, MRT construction players continue to benefit. With DanaInfra sukuk gaining traction on Bursa, it will likely usher in some optimism to a volatile market condition. **FocusM**



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### DanaInfra retail sukuk

Stock code	Issue size	Maturity	Profit rate	Issue date	Maturity date	Closing price (Feb 26)
0400-GA	RM 300 mil	10-year exchange traded	4.00%	Feb 8, 2013	Feb 8, 2023	RM97.70
0400-GB	RM 100 mil	15-year exchange traded	4.58%	Oct 31, 2013	Oct 31, 2028	RM100.30
0400-GC	RM 100 mil	7-year exchange traded	4.23%	July 24, 2014	July 23, 2021	RM100.20