

Sustainable bond investment gains traction

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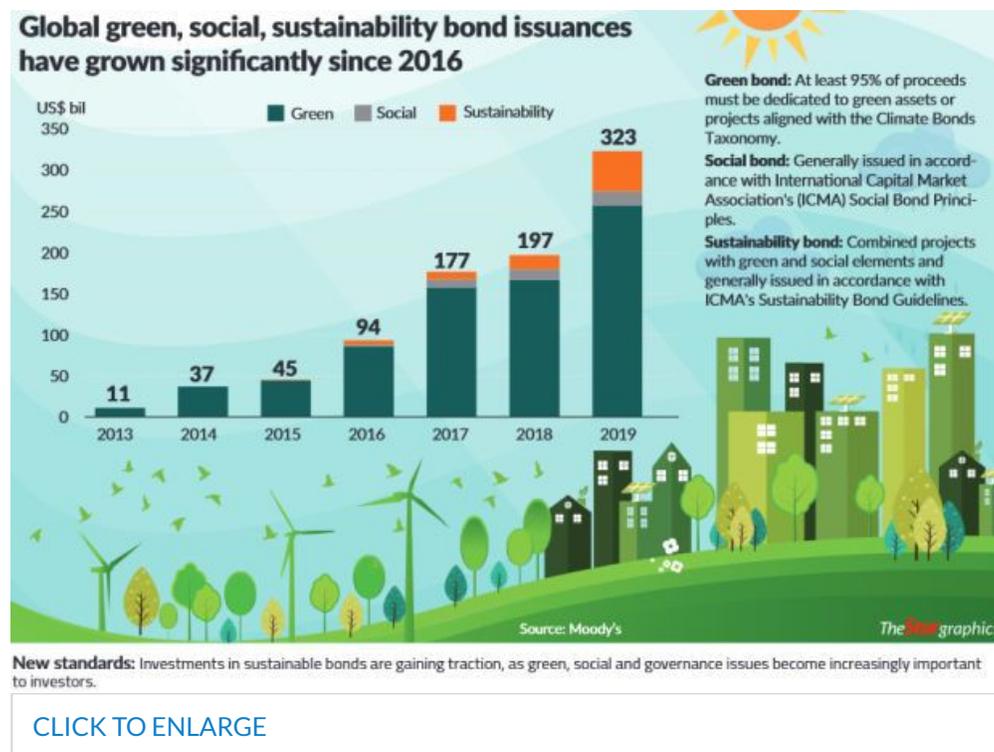
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By DALJIT DHESI

PETALING JAYA: Unlike most other investments which have been impacted by the tough economic conditions, sustainable bond investment seems to be going against the tide.

Global issuance of green, social and sustainability bonds (collectively sustainable bonds) have grown significantly over the last five years from US\$50bil in 2015 to US\$323bil in 2019.

A report from Maybank Kim Eng said a key catalyst for this growth was the Paris Agreement on Climate Change in 2016. Global sustainable bond volume doubled that same year, mainly driven by China issuers.



Asean green bond and loan issuance doubled in 2019 to US\$8.1bil from US\$3.9bil in 2018. The growth was mainly driven by Singapore issuers, followed by Indonesia, Philippines, Malaysia and Thailand.



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The performance of the sustainable bonds in Malaysia is best observed via the BPAM Environmental, Social and Governance (ESG) All Bond Index, which represents the performance of the sustainable bonds classified as ESG by Bond Pricing Agency Malaysia (BPAM).

The year-to-date returns (as at end-September 2020) for the BPAM ESG All Bond Index was 8.21%, while the returns of the RF BPAM CORPS All Bond Index, which represents the performance of all corporate bonds and the sukuk universe, was lower at 6.49% for the same period.

For the year 2019, the BPAM ESG All Bond Index delivered an annual return of 9.88%, which is higher than the 8.59% annual return provided by the RF BPAM CORPS All Bond Index.

BPAM CEO Meor Amri Meor Ayob (pic below) told StarBiz that he attributed the demand for such bonds to Malaysian investors placing more emphasis on such investments in recent years. With the increasing demand, the supply of sustainable bonds would continue to be on the rise, he said.



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“Investors’ interest could have been piqued by the potential higher returns provided by these sustainable bonds versus the corporate bond universe as a whole,” he added.

As of to-date, he said about RM6.18bil worth of sustainable bonds have been issued in the country, comprising issuers involved in solar power plant projects, hydropower plant projects and the development and construction of green buildings, amongst others.

Out of the total sustainable bonds issued so far, Meor Amri said about RM2.89bil (or 47%) relates to solar power plant projects.

“A wider variety of sustainable bonds might be more attractive for investors looking to invest in the sustainable bond market in Malaysia,” he noted.

OCBC was the first mover to lead-arrange Malaysia’s first Asean Sustainability SRI in 2019 for Edra Solar Sdn Bhd where it combines both the green and social elements to ensure a truly holistic sustainable financing arrangement.

As at September 2020, the total volume of sustainable bonds issued and outstanding in Malaysia stood at over RM5bil, the majority of which are green-labelled bonds.

OCBC Bank (M) Bhd managing director and senior banker, client coverage and head of investment banking, Tan Ai Chin told StarBiz that “while we note that sustainable bonds issuance in Malaysia is still very much driven by green bonds for large-scale solar power plant projects, we anticipate that there will



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Among others, she said the issuance of Sukuk Prihatin, the latest social impact sukuk issued by the government of Malaysia, which was oversubscribed by 1.33 times, is yet another strong indication of where the sustainable bonds market in the country is heading.

Maybank Kim Eng head of fixed income research Winson Phoon (pic below) is bullish about sustainable bonds. He said Malaysia's sustainable bonds were still at a nascent stage and had room to grow moving forward.



He said the ringgit sustainable bond issuance would continue to grow driven by a few factors.

These include increasing awareness among investors the EPF, KWAP and Khazanah, which together have more than RM1 trillion in asset under management (AUM), such bonds being UN Principles for Responsible Investment (PRI) signatories, regulatory push from Bank Negara, the Securities Commission (SC) and Bursa Malaysia, the broadening of beyond the renewable energy projects, and BPAM ESG Bond Index a point of reference for sustainable bond performance.

On ratings, he said the three major international agencies – Fitch, Moody's and S&P – have started to incorporate ESG, directly or indirectly, into their credit rating decisions, but an ESG issue may not necessarily result in rating action.



Among the challenges, Tan said when considering the issuance of sustainable bonds, the number one question posed by eligible issuers would be the commercial benefits of sustainable bonds from a funding cost perspective.

While we have seen numerous incentives from market regulators and government agencies in the forms of grants and tax breaks, she said there was an absence of conclusive evidence on whether sustainable bonds offer any pricing advantage over conventional bonds, as secondary spreads between the two have shown relatively marginal difference as of now.

Tan said: “From what we can observe, this situation is not unique to the Malaysian capital markets as it is a systemic phenomenon across all markets where sustainable bonds have gained traction.

“That said, we foresee the trend of socially responsible investing to be a key demand-side driver and will not rule out the possibility of an increasing yield divergence in favour of sustainable bonds in the near future as critical mass is achieved on both the demand and supply side.”

Phoon noted that a key challenge for issuers is the additional disclosures of sustainable bonds compared with conventional bonds to demonstrate ESG credentials, lack of knowledge and liquidity.



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He has also called for the need to have a standardisation of ESG taxonomy. “Differences in global standards of definitions, measurement and evaluation could lead to difficulties in interpreting ESG risks and impact. A more unified global standard will ensure broader acceptance by Investors,” Phoon said.

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