Malaysian sukuk to remain resilient

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The attractive low yields will incentivise rms to bring forward their funding plans

by LYDIA NATHAN / Pic by MUHD AMIN NAHARUL

THE local currency sukuk market is expected to remain strong for the second half of 2021 (2H21) despite a challenging rst quarter and downside risk.

RAM Rating Services Bhd chief rating officer Siew Suet Ming said the attractive low yields will incentivise firms to bring forward their funding plans before interest rates start to normalise along with policy rates in 2022.

"This should also help sustain the issuance momentum through 2H21. As expected, the coronavirus impact from last year and more recent lockdowns have added further strain to the finances of these issuers. That said, the broad sukuk credit market outlook should remain healthy," she told *The Malaysian Reserve (TMR)*.

According to Siew, based on RAM Rating's portfolio, it anticipates the overall rated credits to withstand near-term pressures as over 80% of its portfolio is anchored by financial institutions.

Bond Pricing Agency Malaysia CEO and ED Meor Amri Meor Ayob said the Malaysian sukuk market remains strong and continues to be the primary capital-raising channel for major projects in the country.

"Despite the current pandemic restrictions imposed on some economic activities, the market continues to show steady growth reaching an amount outstanding of RM1.07 trillion as at end June 2021.

"Credit quality is a reflection of market conditions. Despite the current situation, the credit quality reflected by the Malaysian sukuk market is very resilient and should be able to weather this period comfortably," Meor Amri told *TMR*.

Fitch Ratings noted the global sukuk market, in the second quarter of this year (2Q21), recorded strong growth and is expected to continue rising for 2H21, supported by strong investor appetite and issuers' refinancing and funding diversification needs.

The credit rating agency stated the strong activity in 2Q21 came on the back of big-ticket issuance from the Saudi Arabian Oil company and Indonesian, Turkish and Omani sovereigns.

"The growth was driven by issuers aiming to diversify funding and taking advantage of the low interest-rate environment amid continued fiscal deficits and still challenging economic

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conditions. Investor demand remains intact due to new sukuk supply scarcity and the global hunt for yield," it said in a commentary recently.

Fitch added sukuk issuance with maturities of more than 18 months from the Gulf Cooperation Council region, Malaysia, Indonesia, Turkey and Pakistan rose by 136% quarter-on-quarter to reach RM98.8 billion in 2Q21, with sukuk share in the total funding mix jumping to 36%.

It added defaulted sukuk volumes remain small at 0.27% of gross sukuk issued to date, and include the 2021 Sukuk default by PT Garuda Indonesia but more sukuk defaults could emerge due to the economic volatility caused by the coronavirus pandemic and once governments withdraw their financial support.

"A number of recent international sukuk issuances contained new clauses and revised terms in the documents to comply with the Shariah standards of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). The changes aim to address the globally sizable UAE-based sukuk investors, issuers and arrangers that are subject to AAOIFI compliance rules. These changes have credit implications that could affect issuers' liquidity, credit profile and ratings," it said.

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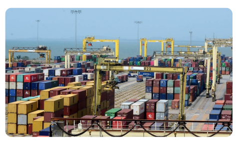

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