Revival in the sales of sukuk seen for 2016

CIMB Investment Bank says they will rise to RM75bil

KUALA LUMPUR: Next year is forecast to be the second best on record for company sukuk sales in Malaysia as the rollout of subway and road projects revives issuance after a lacklustre 2015.

Sales will rise to as much as RM75bil, according to CIMB Investment Bank Bhd, the world’s top arranger of Islamic debt.

That compares with RM49.3bil so far in 2015 and would be the most since 2012, when Malaysian companies sold RM106.9bil of shariah-compliant notes.

AmInvestment Bank Bhd, the third-biggest sukuk arranger in the country, predicts as much as RM70bil of issuance.

Prime Minister Datuk Seri Najib Tun Razak announced in his Budget 2016 speech plans to start the second phase of a subway here next year as well as a highway in Sarawak, projects worth a combined RM55bil.

Some RM34bil of company sukuk will mature in 2016 and the market has mostly priced in a likely Federal Reserve rate increase in December, said Nor Masliza Sulaiman, the head of capital markets at CIMB Investment Bank.

“For 2016, the general tone of rates should be relatively accommodative for longer-term financing to cater for upcoming maturities and the requisite infrastructure financing,” she said.

“We expect stability in the markets for issuers to move their fundraising plans and investors to continue their investment activities.”

Najib isfarming out big-ticket projects to the private sector and government-linked companies as part of efforts to transform Malaysia into a developed economy by 2020. Some RM260bil has been allocated for development expenditure under the country’s 11th Malaysia Plan covering 2016 to 2020, 13% more than from 2010 to 2015.

Ringgit company sukuk sales had been heading for the slowest year since 2010 before Tenaga Nasional Bhd sold RM8.96bil of the debt last month via its Junah Power East unit, according to people familiar with the matter.

Even so, issuance looks set to be less than RM65.1bil last year and RM64.5bil in 2013. Worldwide sales of debt that complies with Islam’s ban on interest are down 39% in 2015 to US$31.2bil.

RHB Investment Bank Bhd, Malaysia’s top sukuk arranger, sees 2016 sales ending up similar to this year.

While infrastructure spending will drive issuance, low oil prices would also boost sovereign supply from Malaysia and the Middle East, said Angus Salim Amran, the Kuala Lumpur-based head of financial markets at the lender. That could push up borrowing costs for corporate issuers, he said.

The average yield on Malaysia’s AAA-rated corporate bonds due 2025 has climbed two basis points this year to 4.80% according to a central bank index. That compares with an average yield of 4.73% in 2014, but is lower than 4.89% in 2011.

CIMB’s Nor Masliza and Mohd. Effendi Abdullah, the Kuala Lumpur-based head of Islamic markets at AmInvestment Bank, said that around half of the estimated RM75bil to RM80bil of infrastructure spending next year will be funded from the debt market.

“We are already getting a fair amount of interest from companies looking to finance their infrastructure projects and refinance their debt via sukuk,” said Mohd Effendi.

“Borrowing costs are still not high and demand for sukuk will also be there as a lot of investors are still cash-rich.” – Bloomberg