

# Sukuk Snapshots

With USD488 million in assets under management<sup>1</sup>, CIMB-Principal Islamic Asset Management Sdn Bhd (CIMB Principal Islamic) offers Islamic investment solutions to global institutional investors and sub-advisory services to collective investment trust funds. A partnership between Principal Global Investors and CIMB Group, the firm is an offshoot of CIMB-Principal Asset Management Berhad (CIMB-Principal), which was founded in 1995 and has a reputable heritage of managing Islamic institutional mandates since 2000.

Headquartered in Kuala Lumpur, Malaysia, CIMB-Principal Islamic is strategically located in the world's first country with a complete Islamic financial system operating in parallel to the conventional banking system. This allows the firm to leverage on Malaysia's comprehensive Islamic financial infrastructure and its adopted global regulatory, legal and Shariah best practices.

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<sup>1</sup>As of 31 January 2011

## Industry News

Industry practitioners are positive that 2011 will favour the sukuk industry and various indicators show that a delayed resuscitation of the Islamic bond market is on track this year.

As economies recover and high crude oil prices help to revive the market, sales of international sukuk are forecasted to grow over USD22 billion this year, which represents a 29 per cent increase from the previous year. The upswing in corporate spending, an increase in issuers seeking funding diversification and improving investor sentiment in the Gulf are also expected to fuel the sukuk market globally.

According to the HSBC/NASDAQ Dubai US Dollar Sukuk Index, the difference between average yields for emerging-market sukuk and the London interbank offered rate narrowed to 282.7 basis points on 6 January 2011 - the least since August 2008. Industry practitioners agree that the low sukuk yield spreads should entice sukuk issuers to tap the market.

Saudi Arabia, Malaysia and Qatar have announced plans to spend USD1 trillion on development projects throughout the next decade and at least USD3.9 billion of sukuk sales announced this year will fund the construction of oil refineries, steel mills and petrochemical plants.

In addition, various Governments around the world have announced numerous measures this month to kick-start their respective sukuk markets fuelling optimism for this year's sukuk market.

The sukuk market in Indonesia has not taken off as much as it should have due to a restriction on the type of assets that can be used to facilitate sukuk transactions. Currently, the assets that can be used for a sovereign or quasi-sovereign sukuk for example are limited to state owned property and land. In other countries, like Malaysia, a vast number of infrastructure projects are financed via 'Istisna' whereby the project itself becomes the underlying asset. The Indonesian sukuk market should increase dramatically if the proposed legislative amendment is approved by the National Shariah Board.

This month in Kazakhstan, the Government announced that they expect to pass legislation within the next two months that would enable companies to issue sukuk.

In Central Europe, it has been reported that the first sukuk from France may be issued in early 2011 once the Government introduces guidelines for sukuk offerings. France may soon be the new 'Islamic Finance Hub of the West', as it emerged this month that HM Treasury in London have decided to postpone their over-hyped sovereign sterling sukuk offering once again.

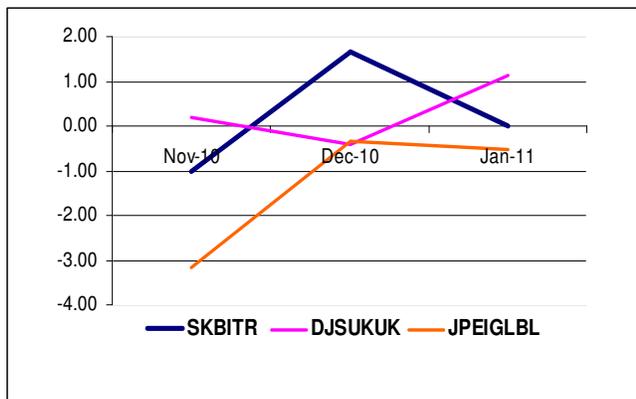
In summary, a sizable USD3 billion worth of sukuk was raised globally in January alone. The month has shown that there should be global potential growth for the sukuk market in the coming months. With newcomers issuing more sukuk, the market should be able to flourish and provide more opportunities for investors.

Sources: Bloomberg, Arabnews, Islamic Finance News and Zawya



## Industry News (cont)

### Total Comparative Returns of Global Sukuk Indices



“From a credit standpoint, the Dow Jones Citigroup Sukuk Index captures investment grade Sukuk only, whereas there are no rating restrictions for the HSBC/NASDAQ Dubai USD Sukuk Index.

As such, it is understandable for the total returns of the HSBC/NASDAQ Dubai USD Sukuk Index to be relatively more volatile.

Both Sukuk indices performed better than the JP Morgan EMBI Global Total Return Index over the past 3 months.”

SKBITR | HSBC Nasdaq Dubai USD Sukuk Index

DJSUKUK | Dow Jones Citigroup Sukuk Index

JPEIGLBL | JP Morgan EMBI Global Total Return Index

**Dr. Zeid Ayer**

Chief Investment Officer

CIMB-Principal Islamic Asset Management Sdn Bhd

### Announced Sukuk in January 2011

Name	Country	Date Announced	Amount	Details
Emaar Properties	UAE	27 January	USD2 bn	5-year , Rated B1 by Moodys, Expected yield of 8.5-8.6%
Water and Power Development Authority	Pakistan	26 January	USD235 mn	Will consist of Islamic and conventional debt
Antara Steel Mills	Malaysia	25 January	RM300 mn	7-year Sukuk to be used for refinancing
Sovereign	Jordan	16 January	USD500 mn <sup>1</sup>	To tap on excess liquidity of Jordan's Islamic banks
Pembinaan BLT	Malaysia	14 January	RM1 bn	AAA Sukuk to be issued in Q1
KPJ Healthcare	Malaysia	12 January	RM500 mn	Proceeds to be used for refinancing and CAPEX
Padiberas Nasional	Malaysia	14 January	RM350 mn	3-year Sukuk
Sovereign	Pakistan	10 January	RUP 100 bn	Expected in Q2 to finance budget deficit
Sovereign	Yemen	6 January	USD500 mn <sup>1</sup>	Expected in Q1 to finance budget deficit
Albarak Turk Katilim Bankasi	Turkey	6 January	USD100 mn	Second Turkish Sukuk to be issued by Q2

Notes:- 1 Local currency equivalent

Source: Bloomberg

Note that the abovementioned information is subject to change as all these Sukuks have yet to be issued

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