Sukuk markets and the way forward for the MENA region

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Views expressed are personal and do not necessarily reflect those of the organizations with which the speaker is associated.

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Questions that come to mind!

1. What are Sukuk?
2. What are the Sukuk demand drivers?
3. What are the size & trends of global Sukuk markets?
4. What are the trends of Sukuk in the MENA region?
5. Historically, what are the popular structures & who are lead issuers?
6. What are most popular Sukuk structures?
7. Who are the most important Sukuk issuers?
8. What is the trend of Sukuk issues by countries?
9. What is the concentration of Sukuk issues by Sectors?
10. Who are the top 5 Sukuk lead managers?
11. What are the future preferences about structures?
12. What are the future preferences about maturities?
13. What are the future preferences about trading platforms?
14. Looking forward what challenges need to be addressed in the MENA region?
What are Sukuk?

- Special types of bonds
  - Credit risk of issuer
  - Ownership share of underlying assets
  - Exposure to market risk based on underlying contracts
  - Simultaneous compliance with Islamic and prevailing laws
What are the Sukuk demand drivers?

- Simultaneous conformity with the Islamic and prevailing legal regimes
- Financial inclusion, deepening of financial markets
- Risk and return and unique asset class
- Infrastructure project finance
- Synergy with other segments of Islamic financial services
- Progress in relevant financial infrastructures
What are the size & trends of global Sukuk markets?

Source: Zawya Sukuk Reports
What are the trends of Sukuk in the MENA region?

Source: Zawya Sukuk Reports
Historically, what are the popular structures & who are lead issuers?

**Popular Structures**
- **Prior to 2002** – Murabahah with Sale of debts (?)
- **2002-2005** Ijarah-lease back with promise to buy at initial price
- **2005-2007** Musharakah with guarantee of principal and profit (?)
- **2007-2012** Ijarah lease-back, Wakalah

**Lead issuers**
- **Prior to 2002** Private sector as issuers
- **2002-2005** Governments as issuers
- **2005-2007** Private sector as issuers
- **2007-2012** Governments as issuers
What are most popular Sukuk structures?

Q2 2012 Actual

Source: Zawya Sukuk Reports
Who are the most important Sukuk issuers?

Q1 2011

- Sovereign: 24,435 (90%)
- Corporate: 1,485 (5%)

Q2 2012

- Sovereign: 18,652 (75%)
- Corporate: 3,139 (13%)
- Quasi Sovereign: 3,094 (12%)
- Quasi Sovereign: 1,449 (5%)

Source: Zawya Sukuk Reports
What is the trend of Sukuk issues by countries?

Source: Zawya Sukuk Reports
What is the concentration of Sukuk issues by Sectors?

Global Sukuk Issues by Sector (\$m) - 2Q12

Source: Zawya Sukuk Reports
What is the most popular current Sukuk structure?

**Q2 2012**
**Top 10 Issues***

<table>
<thead>
<tr>
<th>Sukuk Name</th>
<th>Structure</th>
<th>Country</th>
<th>Currency</th>
<th>Subsc. Date</th>
<th>Mn$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Investment Issue GII 2012 (4)</td>
<td>BBA</td>
<td>Malaysia</td>
<td>MYR</td>
<td>May-12</td>
<td>1,472</td>
</tr>
<tr>
<td>IDB Global Sukuk</td>
<td>Al-Wakala Bel-Istithmar</td>
<td>Saudi Arabia</td>
<td>USD</td>
<td>Jun-12</td>
<td>800</td>
</tr>
<tr>
<td>PTPTN Guaranteed Sukuk (IMTN 1)</td>
<td>Murabaha</td>
<td>Malaysia</td>
<td>MYR</td>
<td>Jun-12</td>
<td>787</td>
</tr>
<tr>
<td>Saudi Fransi Sukuk</td>
<td>Wakala</td>
<td>Saudi Arabia</td>
<td>USD</td>
<td>May-12</td>
<td>750</td>
</tr>
<tr>
<td>Dubai DOF Sukuk (2022)</td>
<td>Ijarah</td>
<td>UAE</td>
<td>USD</td>
<td>Apr-12</td>
<td>650</td>
</tr>
<tr>
<td>JAFZ Sukuk (2019)</td>
<td>Wakala</td>
<td>UAE</td>
<td>USD</td>
<td>Jun-12</td>
<td>650</td>
</tr>
<tr>
<td>JCorp Sukuk (IMTN 3)</td>
<td>Wakala</td>
<td>Malaysia</td>
<td>MYR</td>
<td>Jun-12</td>
<td>567</td>
</tr>
<tr>
<td>Tasnee Sukuk</td>
<td>Modarabah-Murabaha</td>
<td>Saudi Arabia</td>
<td>SAR</td>
<td>May-12</td>
<td>533</td>
</tr>
<tr>
<td>DIB Sukuk 2017</td>
<td>Ijarah</td>
<td>UAE</td>
<td>USD</td>
<td>May-12</td>
<td>500</td>
</tr>
<tr>
<td>GIS Sukuk (23-04-2012)</td>
<td>Ijarah</td>
<td>Pakistan</td>
<td>PKR</td>
<td>Apr-12</td>
<td>315</td>
</tr>
</tbody>
</table>

*by unique issuer

*Source: Zawya Sukuk Reports*
Who are the top 5 Sukuk lead managers?

Q2 2012
Top 5 Lead Managers (Excluding Central Banks)

<table>
<thead>
<tr>
<th>Lead Manager</th>
<th>Number of Issues</th>
<th>Size</th>
<th>Market Share %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maybank (Aseambankers)</td>
<td>25</td>
<td>1,525</td>
<td>29%</td>
</tr>
<tr>
<td>CIMB</td>
<td>44</td>
<td>1,303</td>
<td>25%</td>
</tr>
<tr>
<td>HSBC</td>
<td>6</td>
<td>1,192</td>
<td>23%</td>
</tr>
<tr>
<td>Citigroup Global Markets Limited</td>
<td>4</td>
<td>693</td>
<td>13%</td>
</tr>
<tr>
<td>Dubai Islamic Bank</td>
<td>4</td>
<td>543</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Zawya Sukuk Reports
What are the future preferences about structures?

**Lead Arrangers**
Over the next two years, where do you see the dominating supply in terms of structure?
26 Respondents | 40 Votes

**Investors**
What is your investment appetite in terms of structure?
27 Respondents | 43 Votes

**Treasurers**
What are your issuer preferences in terms of structure?
13 Respondents | 15 Votes

*Source: Zawya Collaborative Sukuk Report*

**Percentage of respondents that opted for:**

- **Ijara:** 96%
- **Musharaka:** 33% (38%), 27%
- **Mudaraba:** 19% (15%), 15% (22%)
- **Wakala:** 8%
- **Murabaha:** 4% (26%), 8%
- **Istithmar:** 4% (8%), 4%
- **Don’t Mind:** 38% (59%)

*Source: Zawya Collaborative Sukuk Report*
What are the future preferences about maturities?

**Lead Arrangers**
Over the next two years, where do you see the dominating supply in terms of tenor?
27 Respondents | 33 Votes

**Investors**
What is your investment appetite in terms of tenor?
27 Respondents | 39 Votes

**Treasurers**
What are your issuer preferences in terms of tenor?
13 Respondents | 15 Votes

**Percentage of respondents that opted for:**

- **1 to 5 years**
  - 81%
  - 78%
  - 62%

- **5 to 10 years**
  - 33%
  - 30%
  - 38%

- **Less than 1 year**
  - 4%
  - 0%
  - 22%

- **More than 10 years**
  - 4%
  - 0%
  - 15%

- **Don't Mind**
  - 15%

Source: Zawya Collaborative Sukuk Report
What are the future preferences about trading platforms?

**Lead Arrangers**

Over the next two years, do you see the dominating supply of Sukuk to be listed?

26 Respondents | 26 Votes

**Investors**

Do you have a preference towards listed Sukuk?

26 Respondents | 26 Votes

**Treasurers**

What are your issuer preferences in terms of getting your issue listed?

13 Respondents | 13 Votes

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**Percentage of respondents that opted for:**

- **Listed:**
  - Lead Arrangers: 81%
  - Investors: 58%
  - Treasurers: 26%

- **Unlisted:**
  - Lead Arrangers: 0%
  - Investors: 12%
  - Treasurers: 74%

- **Balanced:**
  - Lead Arrangers: 0%
  - Investors: 0%
  - Treasurers: 8%

- **Don’t Mind:**
  - Lead Arrangers: 0%
  - Investors: 0%
  - Treasurers: 0%

*Source: Zawya Collaborative Sukuk Report*
Looking forward what challenges need to be addressed in the MENA region?

- **Structure risk**
  - Which structure is more Shariah compliant and well understood by the stakeholders?

- **Infrastructure rigidities**
  - What are the rights of investors?
  - Are the seniority issues settled?
  - What is the appropriate tax treatment?
  - What is the best rating mechanism?
  - Is the legal and accounting treatment uniform?
  - Are Sukuk available to the private investors?

- **Risk in common with other fixed income securities and availability of Shariah compliant risk management tools and platforms**
Thank You!

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