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First Islamic, unit plan global fund (HL)

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MALAYSIAN and other Association of South-East Asian Nations (Asean) investors are set to take up a stake in Kuwait's First Islamic Investment Bank, a move which will further spur two-way investments between the two regions, particularly in Islamic banking.

Once its shareholding structure is finalised, First Islamic and its Malaysian 39 per cent-owned affiliate company, Commerce MGI Sdn Bhd, are also planning to embark on an ambitious project of launching a global Islamic equity fund.

Chief executive officer of Commerce MGI, Dr Hasnita Datuk Hashim, said First Islamic, which was set up in Bahrain in November last year, will have prominent shareholders from West Asia and the Asean countries.

Declining to name the Malaysian investors, Hasnita said the shareholding structure will be completed by the end of this month.

According to Hasnita, the major shareholder of the bank, Saudi Arabia's Al-Jomaih Group family, who is planning to increase the bank's capital to about US\$75 million (US\$1 = RM2.50) from the initial US\$15 million, can easily recruit their fellow countrymen as the new shareholders, but chose otherwise.

A geographical diversity among its shareholders is what the bank is aiming for, said Hasnita in an interview with Business Times.

"They could have easily gone to Saudi Arabia, but they do not want to as it will not give additional value to the bank. What they want is to get shareholders who will be active in the promotion of business between West Asia and Malaysia, particularly and Asean countries in general," said Hasnita.

First Islamic, said Hasnita, will be the bridge to bring West Asia into Asia and vice-versa. She added: "This is very much in line with what the Prime Minister Datuk Seri Dr Mahathir Mohamad said in Bahrain recently, which is to have more cooperation between the two regions."

Meanwhile, Hasnita also said its link with First Islamic has assisted Commerce MGI in capturing the market there.

"We are using the syariah board of First Islamic for all our products. The fact that First Islamic is based in West Asia with prominent shareholders will broaden our syndication capabilities.

The usage of the same syariah board is pertinent as it ensures the acceptance of the Islamic products introduced by Commerce MGI in West Asia. The issue of whether Malaysian-invented Islamic products is according to the strict interpretation of the Islamic law has always been an issue.

Malaysian institutions have been said to have adopt a more liberal interpretation of the syariah to develop a broader and more innovative range of Islamic financial products, contrary to the approach taken by the syariah council in West Asia.

Hasnita also said there is a growing awareness in West Asia that Islamic financing can be utilised for major projects, particularly in the Asean region.

She added that Malaysian investors should try to mobilise funds from West Asia, as they will be able to tap into deep markets and get the pricing advantage.

Baharin, said Hasnita, is more advanced in terms of usage of Islamic products compared to Malaysia, but is still lacking behind where volume is

concerned. Therefore, it offers plenty of opportunities to Malaysian investors.

It is estimated that there is an untapped potential of a growing US\$100 billion pool of Islamic funds worldwide, and there is also a global void in the Islamic merchant banking market. There are now 186 Islamic financial institutions worldwide with funds reaching US\$77 billion.

Meanwhile, First Islamic, once it finalises its shareholding structure, plans to launch a global Islamic equity fund.

The fund should be worth about US\$350 million, said Hasnita, and investment will be on a global basis.

"On the syariah side of it, everything has been finalised. We have been working on syariah opinions and mechanism as well three years for now," said Hasnita.

"We are getting the State Street Bank in America to be the custodian of the fund. The fund manager will be a New York-based firm, Sanford Bernstein, which is huge in terms of research capability."

"When you do Islamic fund management, you need to spent time on research and they are among the top three in terms of research and performance, so that is why we have engaged them to be our fund manager," Hasnita added.

First Islamic was established to provide investors with investment banking services and profitable new products through combining conventional investment banking expertise and a fundamental understanding of syariah law.

Among the projects that have been undertaken by First Islamic via Commerce MGI in Malaysia is Projek Usahasama Transit Ringan Automatik Sdn Bhd's light railway transit system Phase II, where Commerce MGI acted as the Islamic financial adviser and joint arranger for the financing of up to a RM1 billion Islamic tranche.

Commerce MGI is a joint venture between Majestic Global and Commerce Assets Holding Bhd, Renong Bhd and Dallah Albaraka (M) Holdings Sdn Bhd, with equity holdings of 39:51:5:5 respectively.

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