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Talam, Europlus successfully implement BAIDS

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TALAM Corporation Bhd and Europlus Bhd have successfully implemented Islamic bonds following their move to tap the bond market to match their long-term property development projects with long-term financing instruments.

That makes them among the first few property developer clients of Abrar Discounts Bhd to implement the Islamic debt facility, an innovative financial instrument for property developers.

In the Islamic capital market, the Bithaman Ajil Islamic Development Securities (BAIDS) or Islamic bonds are fast catching up as an innovative financial instrument for funding property development in Malaysia.

This type of financing is in line with Prime Minister Datuk Seri Dr Mahathir Mohamad's call to introduce innovative banking and high-end products.

According to Abrar Discounts Bhd managing director Wan Abdul Rahim Kamil, the emphasis of Islamic bond funding structure is to ensure all risks are minimised and interests of financiers safeguarded while at the same time offering flexibility to the property developer.

Essentially, the risks involved in property development comprise sales risks, construction risks and completion risks.

On sales risks, Wan Abdul Rahim Kamil explained that the bonds are drawn down based on the locked-in sales of the developer which are assigned to the financiers. That means no locked-in sales, no draw down on the bond proceeds. As such, financiers are not exposed to future sales risks.

In raising their bonds, Talam and Europlus have RM1.8 billion locked-in sales. In line with the Securities Commission (SC)'s guidelines, the bond proceeds are used to finance the construction cost of residential units costing less than RM250,000 each.

In addition, at least 90 per cent of the locked-in sales have end-financing by banks in place which mitigates the risks of collection. With these criteria, the locked-in sales of Talam and Europlus therefore serve as collateral.

On construction risks, the Abrar Discounts MD said construction funding risks for the development are minimised by the additional monitoring and control function of a security agent, which is Abrar Discounts itself.

The security agent, which is joint signatory to all the operating accounts, serves to ensure that funds are disbursed only for the intended purposes of the construction and bond repayment via the creation of a sinking fund managed by an approved trustee, thus ensuring that the bonds will have a self-liquidating feature.

On completion risks, the developers' capabilities, including financial strength or whether they have strong financial partners as well as a sound track record, are crucial in determining their ability to complete projects.

Talam and Europlus, in this instance, have a group of reliable contractors which they have been associated with for 10 to 15 years. These contractors include some public listed companies.

The combined Talam and Europlus group has completed some 68,000 units with a sales value of RM7 billion in its numerous townships. The most well-known is the 1,000-acre Bandar Pandan Triangle comprising Pandan Indah, Pandan Perdana and Pandan Jaya.

On the statutory requirements, Wan Abdul Rahim Kamil said the SC's

approval is required and that includes a minimum rating by a recognized rating agency. To make bonds saleable on the secondary bond market, investors of bonds will look at the bonds' rating which indicates the quality and security of repayment of the company.

Malaysia Rating Corporation Bhd (MARC), including other procedures, would determine the strength of the issue structure and the locked-in sales from specific property development projects which have been earmarked for the bond repayment. The risks inherent in the issue structure and measures adopted to mitigate such risks are also examined by MARC.

However, MARC's role does not stop there and its continued involvement includes conducting periodic verifications and reviews of the performance of the bond issue and to make sure that the terms of the bond structure between Abrar Discounts as well as Talam and Europlus is well maintained and conducted.

With all this, you not only have Abrar Discounts but also MARC, as the third party, to monitor the entire process. At the end of the day, that makes bonds in general a very safe mode of financing property developers on the part of financial institutions as well as bond investors, particularly those bonds issued by developers who are able to sell, construct and complete.

Table A and Table B summarise the ability and capability to sell, construct and complete based on the track record of the combined Talam and Europlus group, thus making the proposed merger of their property business one of the largest property players in the country.

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