

16/07/2002

Stability gets top marks

MALAYSIA'S STABILITY, NOT JUST ON the economic but also the political front, is speaking for itself. While the June 22 surprise announcement by Prime Minister Datuk Seri Dr Mahathir Mohamad to step down next October surprised the nation and caused ripples beyond the country's borders, international rating agencies kept their cool. There were no panic downgrades of Malaysia's ratings - in fact, one actually did the opposite, potentially placing upcoming Malaysian bond issuance on a more competitive footing.

On the first Monday after Saturday's announcement by Mahathir, Moody's Investors Service came out with an interesting announcement. It had just placed Malaysia's foreign currency ratings for a review for possible upgrade. 'Are they serious?' was the comment among some circles. Two days after the Prime Minister made the surprised announcement at the UMNO general assembly, and one day before the party's supreme council announced a leadership transition, these circles were clearly caught up in the seeming political uncertainty.

But Moody's stood their ground. Two days later, the rating agency made it plain and clear. Moody's said the succession issue has been part of its analysis, and Mahathir's announcement of his intention to leave office next year 'is consistent with that analysis.' On top of that, Moody's also said it believes that Malaysia's institutional framework is stable and that the succession process is fairly clear. Viewed politically, that is a vote of confidence on the country's current, and continued, leadership. In weeks or months to come, the Baa2 foreign currency ceiling and Baa3 foreign currency deposit ceiling may be revised upwards.

Standard & Poor's (S&P) followed suit with its own reaffirmation of Malaysia's rating position two days after the Moody's reaffirmation.

Moody's and S&P surely could not have anticipated Mahathir's timing of the announcement. It must have been looking at the Malaysian financial landscape for some weeks before. Ratings upgrade is no spur of the moment thing, unless following a ground-shaking event. After the Prime Minister's announcement, Moody's could have chosen to delay its own announcement. It still went ahead, placing on review for possible upgrade Malaysia's Baa2 foreign currency ceiling for bonds, Baa3 for foreign currency bank deposits and Prime-3 for short-term foreign currency. It cited as among the reasons for the action the country's strong external indicators as well as good progress in bank and corporate reforms.

The rating agency also said it does not believe Malaysia's strong economic and financial indicators will be affected by a change in the prime ministership. It reiterated its review will focus on the current status and prospects for both direct and portfolio investment flows, the outlook for fiscal consolidation, progress in corporate sector restructuring, and the effects of the fixed exchange rate for the ringgit, the national currency.

S&P concurred. On June 28, the agency affirmed all its ratings on Malaysia, including the triple-'B'/'A-3' foreign currency and single-'A'/'A-1' local currency sovereign credit ratings. The outlook for the long-term ratings is positive. 'The affirmation reflects Standard & Poor's expectation that the Malaysian government's economic policies and its commitment to corporate restructuring will not falter as a result of the retirement of Prime Minister Mahathir and the transition to his

successor', says Chih Wai Liew, the agency's sovereign credit analyst.

Referring to Deputy Prime Minister Abdullah Ahmad Badawi taking over the premiership after October 2003, the agency acknowledges that the succession plan has effectively reduced the near-term uncertainty in Malaysia's policy environment and would ensure orderly transition. 'For the next 15 months until the official transfer of power, UMNO leaders are expected to present a cohesive front and avoid a major leadership tussle that could lead to policy drift,' says the Singapore-based credit analyst.

There had been positive pronouncements coming from international rating agencies for some time now. Take the March 4 action from S&P. It upgraded Malaysia's credit rating outlook from 'stable' to 'positive', an action that may be a prelude to the country jumping up one notch in the sovereign foreign and local credit ratings. Such moves would enable Malaysia to raise funds through debt markets at a cheaper rate and fare better in the eyes of international investors.

And demand for Malaysian debt papers seems to be going strong. Take, for example, the Malaysian floated first Islamic global bond, . The US\$600 million trust certificates due 2007, issued by state-owned special purpose vehicle Malaysia Global Sukuk Inc, went to town on June 25, the week after Dr Mahathir's announcement. The Islamic 144a bond issue attracted some US\$1.1 billion in orders. It was priced at 95 basis points over the six-month London Interbank Offered Rate (Libor) and was actually increased from US\$500 million. The issue was managed solely by HSBC.

The order book was split 50-50 between Islamic and conventional investors. Islamic bond investors aren't allowed to receive interest payments. They can invest in zero-coupon bonds or bonds that pay a profit rate. Around \$450 million of the demand came from Middle East investors, another \$450 million from Asia, \$150 million from Europe and \$50 million from the US.

Commenting on the issue, Bank Negara Malaysia (Central Bank) Governor Tan Sri Zeti Akhtar Aziz said the country looks set to issue more Islamic debt instruments to raise funds. 'It creates a benchmark for other issues and represents part of our efforts to develop Islamic finance on a global basis,' she told the local media.

On July 4, Moody's placed the Baa2 rating on review for possible upgrade, in line with the earlier upgrade announcement for Malaysia's foreign currency debt rating.

Locally, other corporations are lining up to hit the fixed income market to take advantage of the current low interest rate environment. On July 4, Sinmah Resources Bhd said it plans to issue RM37 million normal value redeemable guaranteed bonds to partly redeem an existing RM50 million bond maturing at end July.

On June 29, Sime Darby Bhd, the country's oldest diversified company, told the local stock exchange of its plan to sell up to RM1.5 billion of Islamic bonds to buy assets and refinance existing debt. Two days earlier, plantation and real estate group Kumpulan Guthrie Bhd said it plans to issue some RM150 million of Islamic bonds to pay for plantations in Indonesia.

On the rating and bonds front, Malaysia looks set to see some exciting times.