

## **Malaysia taxes spur Indonesian oil-palm sukuk**

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Bumitama Agri Ltd is joining Indonesian oil-palm planters selling sukuk in Malaysia to take advantage of the nation's tax breaks and to tap its record Shariah-compliant banking assets.

The company set up a RM2 billion, 15-year Islamic bond program for investment and refinancing, according to a Jan 21, 2014 stock exchange filing. Singapore-listed Golden Agri-Resources Ltd, which has operations in Indonesia, was the last producer of the commodity to sell ringgit-denominated sukuk in July, paying a coupon rate of 4.75% for 2018%. They yielded 4.91% on Jan 24, 2014.

Malaysia, whose Shariah-compliant banking assets more than doubled in the past five years to RM543 billion, provides tax incentives for agricultural bonds as part of an effort to reinforce its position as a global Islamic hub. Corporate issuance of sukuk in Indonesia rose almost 18% in 2013 to 2.2 trillion rupiah (RM586 million), trailing the US\$14 billion (RM45 billion) in Malaysia, data compiled by Indonesia's Financial Services Authority and Bloomberg show.

"We're getting a fair bit of enquiries from Southeast Asian plantation firms," Mohd Effendi Abdullah, head of Islamic markets at Kuala Lumpur-based AmInvestment Bank Bhd, the nation's third-biggest Shariah-compliant debt arranger in 2013, said in a phone interview yesterday. "Islamic bonds are ideal for such companies because they can use the assets and the agricultural income to back the offering."

### **Tax Deduction**

To encourage the issuance of agricultural-based sukuk, prime minister Najib Razak said in his September budget speech that taxes on expenses and stamp duties on such debt would be waived for four years through 2015. The securities pay returns on assets to comply with the Koran's ban on interest.

Indonesia's First Resources Ltd has also tapped the nation's Islamic investors. The Singapore-based palm-oil firm sold RM600 million of five-year securities in July 2012 at a coupon rate of 4.45% and they were paying 4.39% yesterday, Bursa Malaysia data show.

Golden Agri, the world's second-biggest planter of the commodity after Malaysia's Sime Darby Bhd, issued its first sukuk in November 2012. The RM1.5 billion of five-year notes paid a coupon of 4.35% and were yielding 4.85% on Jan 24, 2014. Both securities are rated AA2 by RAM Rating Services Bhd, the third-highest investment grade.

Yields on AA-rated corporate debt sold in Malaysia climbed four basis points, or 0.04 percentage point, in 2014 to 4.45% as of Jan 21, 2014, the highest level since June 2012, according to a central bank index.

### **'Naturally Compatible'**

"Plantations and most other cash-crop commodities businesses are naturally compatible with Shariah-compliant financing structures," Alhami Mohd Abdan, Kuala Lumpur-based head of

international finance and capital markets at OCBC Al-Amin Bank Bhd., said in an e-mail interview yesterday. "The sukuk market, and particularly the investor base in Malaysia, is very familiar and comfortable with" such issuance, he said.

Bumitama is tapping the market just as global borrowing costs are climbing amid stimulus tapering by the Federal Reserve. Emerging-market sovereign bond yields advanced 15 basis points this year to 6.25%, the highest level since Sept 13, 2013 and above the 2013 average of 5.47%, according to JPMorgan Chase & Co's EMBI Global Index.

The Bloomberg-AIBIM Bursa Malaysia Corporate Sukuk Index, which tracks the most-traded local-currency notes issued in the world's biggest market for the debt, fell 1% this year to 104.120 after gaining 2.8% in 2013.

Bumitama's bonds are rated AA3 by RAM Ratings, one level lower than those of Golden Agri and First Resources. The issuance will be the company's first and adds to a 5.5 trillion rupiah outstanding loan that comes due in 2018, according to data compiled by Bloomberg.

### **Market Depth**

Offerings of ringgit-denominated Islamic debt total RM2.1 billion this year, compared with RM181 million in the year-earlier period, according to data compiled by Bloomberg.

Other Southeast Asian oil-palm growers have also turned to Malaysia for funding via the sukuk market. Noble Group Ltd, which is listed on Singapore's stock exchange, issued RM300 million at a coupon rate of 4.3% in January 2013. The three-year securities yielded 4.61% when last traded on Jan 22, 2014, Bursa Malaysia data shows.

Malaysia's Kuala Lumpur Kepong Bhd sold RM1 billion of 10-year notes in 2012 at 4% and they were paying 4.7% on Jan 27, 2014. Islamic bonds aren't actively traded because investors tend to hold them until maturity due to their relative scarcity compared with conventional bonds.

"For sukuk, Malaysia is one of the better places as we have the infrastructure in place, while market depth and liquidity aren't an issue," Lam Chee Mun, a Kuala Lumpur-based fund manager at TA Investment Management Bhd overseeing RM680 million, said in a telephone interview yesterday. "If you think you want international investor participation, especially Islamic funds, you'd have to think of Islamic rather than conventional financing."

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