

9th Annual

Islamic Finance Summit

**EUROMONEY
SEMINARS**



Shamsun Anwar Hussain

Director/ Head of Product Management, CIMB Islamic

Petronas – A Back to Basics Approach on Sukuk Ijarah



9th Annual

Islamic Finance Summit

**EUROMONEY
SEMINARS**

Contents

- Section 1** **A gold standard in Sukuk issuance:
What does the deal say about the future of foreign currency issuance
in Malaysia?**
- Section 2** **Improving transparency in the market**
- Section 3** **‘Branding’ Sukuk issuance in the global capital markets**
- Section 4** **What was the investor profile? Tapping investors in Asia, the Middle
East and Europe**
- Section 5** **How did the market conditions dictate pricing and yield?**

Contact Details

Important Notice

Appendix I Overview of Transaction and Accolades



9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS

Section 1

FUTURE OF FOREIGN CURRENCY ISSUANCE IN MALAYSIA

 **CIMB ISLAMIC**

February 2010

9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS

Future of Foreign Currency Issuance in Malaysia

- ❑ Petronas Global Sukuk Ltd. Issuance, in August 2009, evidenced the first USD-denominated Sukuk under the Malaysia International Islamic Financial Centre (MIFC) regime.
- ❑ MIFC was launched to maintain Malaysia's edge in the Islamic finance sector, in particular Sukuk market.



Future of Foreign Currency Issuance in Malaysia (Cont'd)

- Malaysia is birthplace of the modern Sukuk and Malaysia has the potential to become the leader in foreign currency issuance propelled by the following factors:

**Triple Play of Comprehensive
Regulatory Framework ,
Robust Legislative & Effective
Shariah Governance**

**High Quality Market
Infrastructure**

Wider Investor Base

MIFC Incentives

**Liberalisation of Foreign
Exchange Administration**

9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS

Why Malaysia Can Lead Foreign Currency Sukuk Issuance?

✓ *Triple play of strong regulatory framework, robust legislative system and effective Shariah governance management framework*

- ❑ Guidelines on the Offering of Islamic Securities 2004 and dedicated Islamic Capital Market team at regulatory level, Securities Commission.
- ❑ Strict rule for Islamic institutions not to invest into riba instruments i.e. plugging the leakage of Islamic fund into conventional riba based activities. As such, Islamic funds will chase after sukuk investment providing a very competitive pricing. Commodity Murabaha contract have been used by Islamic banks in other parts of the world to place Islamic deposit funds into conventional riba operations. Such restriction has contributed to the flourished Sukuk market in Malaysia, which has overcome the conventional bond market.



9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS

Why Malaysia Can Lead Foreign Currency Sukuk Issuance?

✓ *Triple play of strong regulatory framework, robust legislative system and effective Shariah governance management framework (Cont'd)*

- The Shariah Advisory Council (SAC) was established in May 1996 to advise the Commission on Shariah matters pertaining to the Islamic Capital Market. The progressive approach of the SAC has allowed the Islamic Capital Market, especially the Sukuk market, to thrive by cultivating an environment for innovation and flexibility while ensuring compliance with Shariah principles.



9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS

Why Malaysia Can Lead Foreign Currency Sukuk Issuance?

✓ ***High quality market infrastructure facilitating deep and liquid debt capital markets***

- ❑ Bursa Malaysia (Bursa) offers a platform for the listing of Sukuk under an Exempt Regime for both listed or non-listed issuers. At the end of Dec 2009, the value of Sukuk programme listings totaled \$17.6 billion, comprising a total 12 sukuk issuances, emerging as the top listings exchange in the world for Sukuk in a space of a mere five months since its inaugural listing in August 2009.
- ❑ In addition, Bursa has announced their plan to launch a secondary trading platform for bonds, including Sukuk, to spur retail interest in Malaysian debt market which is currently under detailed review.
- ❑ Facilitative environment that encompasses a sound infrastructure platform which also caters for global investments whereby flexibility is also accorded for foreign investors to leverage on international clearing and settlement systems.

 **CIMB ISLAMIC**

9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS

Why Malaysia Can Lead Foreign Currency Sukuk Issuance?

✓ *Wider Investor Base*

- ❑ Includes both conventional and fair share of Islamic investors' presence in the Malaysian market and regional (i.e. Singapore, Hong Kong).
- ❑ There are over 100 local Malaysia investors which frequently invest in Sukuk, ranging from Asset Management, Insurance companies, Mutual Funds, Financial Institutions, Corporates, and GLCs.
- ❑ Also, the Islamic investors are expected to grow both in value and in number, considering the Malaysian central bank, Bank Negara Malaysia (BNM) opens up the market to more foreign Islamic financial institutions and also Shariah compliant funds and Takaful companies, which bodes well for future foreign Sukuk issuance in Malaysia.



9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS

Why Malaysia Can Lead Foreign Currency Sukuk Issuance?

✓ *Wider Investor Base (Cont'd)*

- ❑ Petronas USD Sukuk shown 60 percent subscription from Asia investors predicts well for top-rated sukuk issuances originating out of the Asia region i.e. Malaysia. There is a critical mass of investors with the potential of further widening the investor base in the region.

9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS

Why Malaysia Can Lead Foreign Currency Sukuk Issuance?

✓ *MIFC Incentives*

<u>Incentives for Issuer</u>	<u>Incentives for Investors</u>
<ul style="list-style-type: none">• Stamp duty exemption on Sukuk approved by the Securities Commission;• As the special purpose vehicle (SPV) is established solely to channel funds, the SPV issuing the sukuk is exempted from income tax;• Deduction on the cost of issuance of the sukuk incurred by the SPV; and• Tax deductibility of expenses incurred in raising the Sukuk adopting Ijarah, Istisna', Mudharabah and Musyarakah principles until YA 2015	<ul style="list-style-type: none">• Profit paid or credited to any person in respect of non Ringgit sukuk originating in Malaysia (exclude exchangeable loan stock) and approved by the SC is exemption from tax and withholding tax;

Why Malaysia Can Lead Foreign Currency Sukuk Issuance?

✓ *Liberalisation of Malaysian Foreign Exchange Administration (FEA)*

- ❑ Liberalisation enables resident and non-resident issuers to raise foreign currency-denominated funds from Malaysia, facilitating issuance of multi-currency Sukuk in addition to having the flexibility of utilising the Sukuk proceeds onshore or offshore and to swap domestic currency funding into other currencies. Also, no restrictions on the repatriation of profits earned from Malaysia.
- ❑ With the liberalisation of the FEA, Malaysia provides a conducive business environment for foreign corporations, with the perks of amongst others, reducing the cost of tapping the Malaysian market and also an efficient regulatory delivery system.

9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS

Section 2

IMPROVING TRANSPARENCY IN THE MARKET

 **CIMB ISLAMIC**

February 2010

9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS

Improving Transparency in The Market

- Petronas was the first issuer to list its Sukuk on Bursa Malaysia under the exempt regime which allows shelf listing without active trading.
- With its listing on Bursa, it offers institutions or high net worth investors an alternative investment product with adherence to best practices and enhanced governance and transparency.
- A listing of Sukuk on Bursa commands Issuers to adhere to post listing obligations, amongst others submissions of financial statements and dissemination of material information.



Improving Transparency in The Market (Cont'd)

- ❑ Apart from Bursa, Petronas Sukuk is also listed on Labuan International Financial Exchange (LFX) and Luxembourg Stock Exchange (Euro MTF).
- ❑ Listing of Sukuk ensures certain minimum conditions with respect to disclosure standards are met in order for the Sukuk to be eligible for listing. For instance, LFX' qualitative criteria includes disclosure of "all material business and financial risks and measures taken to mitigate/minimise such risks".
- ❑ Listing provides for transparency and also better profiling for the issuer.

9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS

Section 3

‘BRANDING’ SUKUK ISSUANCE IN THE GLOBAL CAPITAL MARKETS

 **CIMB ISLAMIC**

February 2010

Petronas Sukuk : The “EMAS” Sukuk

- ❑ Petronas Sukuk was the first foreign currency denominated Sukuk in Malaysia issued under the Malaysian International Islamic Financial Centre (MIFC) initiatives, hence accorded by Bank Negara Malaysia as the **first Emas dollar Sukuk** .
- ❑ The "**Emas**" designation will be given to foreign-currency denominated issuances, both conventional and Sukuk, issued in Malaysia. The terminology "**Emas**" symbolizes “universal value and security”.
- ❑ With a matured and vibrant debt markets in Malaysia, the designation provides greater visibility on the issuance of securities in Malaysian market for the raising of foreign funds by local and foreign corporations. It distinguishes foreign issuances originating from Malaysia in the global capital markets.



9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS

“Branding” of Sukuk Issuances in the Global Capital Markets

- Similar approach has been practised in the global capital markets for conventional issuances, such as:
 - Yankee Bond : A bond denominated in U.S. dollars that is publicly issued in the U.S. by foreign banks and corporations.
 - Maple Bond in Canada : A bond denominated in Canadian dollars that is sold in Canada by foreign financial institutions and companies.
 - Kangaroo in Australia : A foreign bond that is issued in the Australian market by non-Australian firms and is denominated in Australian currency.
 - Samurai in Japan : A yen-denominated bond issued in Tokyo by a non-Japanese company and subject to Japanese regulations.
- With the global Sukuk market growing significantly over the years, Issuers are diversifying their investors profile by tapping the various Sukuk market outside their home country. Such issuances may also be accorded a “brand” to provide clarity amongst the other international issuances.



9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS

Section 4

PETRONAS SUKUK: INVESTORS' PROFILE



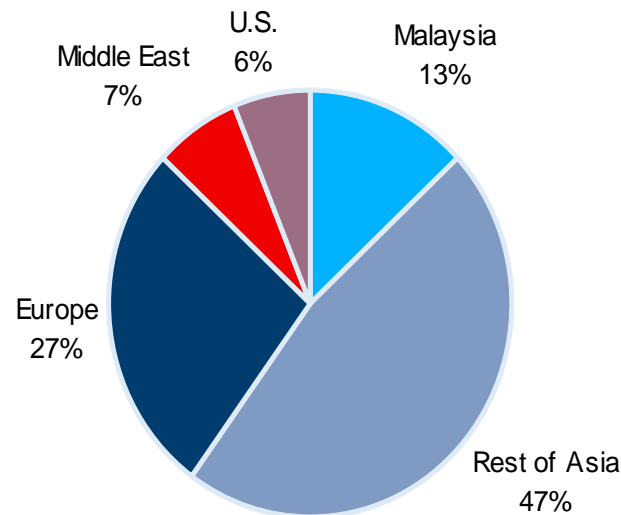
9th Annual Islamic Finance Summit

EUROMONEY
SEMINARS

Investors' Profile

The Petronas issuance was successfully distributed to an excellent mix of quality global investors, with strong demand from Asia.

Allocation by Geography



- 60% of the orderbook was highly Asia-driven in response to the lack of supply out of Asia and lack of diversity as most of the recent Asian bond issuers at the time had been Korean names.
- Europe serves the 2nd highest contributors, followed by Middle East and United States.
- Evidence of less dependency from Middle East (ME), especially the GCC Countries as compared to precedent issuances by Malaysian issuers, such as Khazanah Nasional Berhad, whereby 50% subscription from ME.

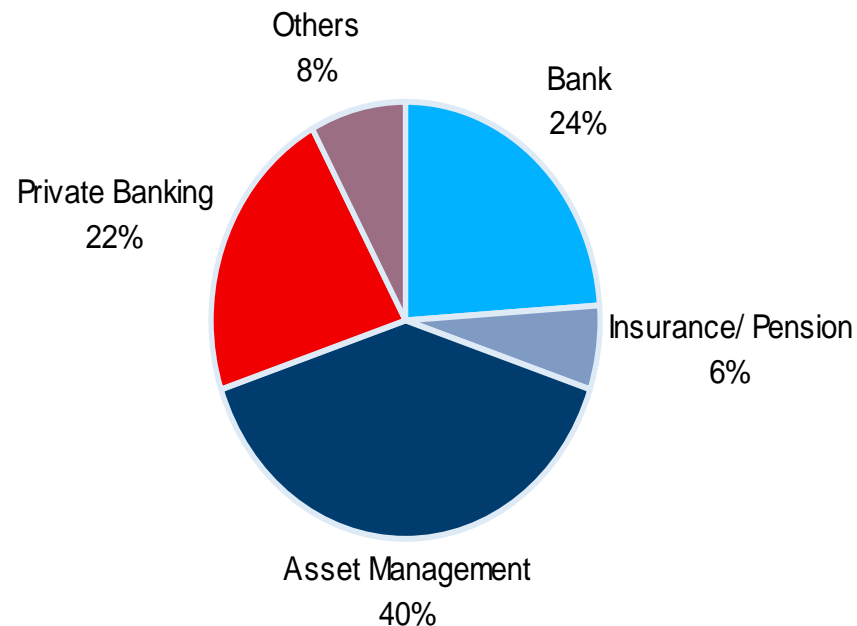
 CIMB ISLAMIC

9th Annual Islamic Finance Summit

EUROMONEY
SEMINARS

Investors' Profile (Cont'd)

Allocation by Type of Investors



- Asset Management & Banks accounts as the highest subscribers of the Petronas Sukuk, stood at 40% and 24%, respectively.

 CIMB ISLAMIC

9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS

Section 5

HOW DID THE MARKET CONDITIONS DICTATE PRICING & YIELD?

 **CIMB ISLAMIC**

February 2010

Market Condition at Time of Launch

- ❑ In late July, U.S stock indices rallied amidst strong 2Q earning results and positive economic data. Secondary Asian credit flows were upbeat with credit spreads tightening aligned with the equity rally.
- ❑ Treasury yields had elevated on the back of improved risk appetite and macro economic data pointing to a potential bottoming of the current recession. Increased supply concerns of an auctioning of \$115billion into the coming weeks of early August also drove yields higher.
- ❑ Despite summer holiday season approaching, G3 primary markets were extremely robust with high optimism that regional economies will post improvements later in the year.



9th Annual Islamic Finance Summit



Market Condition at Time of Launch (Cont'd)

Issuer	Ratings	Priced	Size (\$ M)	Tenor (Y)	Yield	Transaction Highlights
Korea Electric Power Corp	A2/A	Jul 13	500	5	5.764	<ul style="list-style-type: none"> •USD3bn orderbook •Lowest YTM and tightest pricing vs US T achieved by Korean issuer.
Korea Gas	A2/A	Jul 9	500	5	6.197	<ul style="list-style-type: none"> •USD6bn orderbook • ~5-10bps concession
Export-Import Bank of Korea	A2/A	Jul 7	1,500	5.5	5.999	<ul style="list-style-type: none"> •USD7bn orderbook • ~15bps concession •Traded 5bps better on the break
Republic of Philippines	B1/BB-	Jul 13	750	11	6.625	<ul style="list-style-type: none"> •Priced at the tight end of the price guidance •5.9x oversubscribed

9th Annual Islamic Finance Summit



Market Condition at Time of Launch (Cont'd)

Issuer	Ratings	Priced	Size (\$ M)	Tenor (Y)	Yield	Transaction Highlights
Gazprombank OJSC	Baa1/BBB	Jul 22	1,250	5	8.125	<ul style="list-style-type: none"> •2.5x oversubscribed •Strong response pricing well within the stipulated guidance of 8.25% area
KasMunaiGaz	Baa2/BB+	Jul 22	1,250	5.5	12.00	<ul style="list-style-type: none"> •2.5% oversubscription
Ecopetrol SA	Baa2/BB+	Jul 16	1,500	10	7.677	<ul style="list-style-type: none"> •USD9bn orderbook • ~15bps concession •Priced within the lower band of the price guidance
ST Engineering	Aaa/AAA	Jul 9	500	10	4.876	<ul style="list-style-type: none"> •\$2.5bn orderbook – priced one day ahead of schedule • ~ 10 – 20 bps tighter than guidance

9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS

Execution Highlights

- The Sukuk were completed within a compressed timeline.
- The deal was announced on the afternoon of 28 July 2009, with management roadshow destinations & timing provided to investors.
- On the 29th July post KL roadshow event, approximate indication of interest towards the 5yr Sukuk & 10yr Conventional stood at \$800 million and \$1,000 million respectively.
- By the 30th July soft order book grew to \$1.3 billion and \$1.4 billion for the 5yr and 10yr tenures and inflated to \$1.3 billion & \$3.1 billion by 3rd August.
- The books were officially open in Asia morning on 4th Aug 2009 and with guidance of US Treasuries + 175bps area for both tenures and combined size of USD 2.5 billion for the two tranches. By the close of business in U.S, order books across tenures showed a total of \$19 billion with over 500 accounts participating.

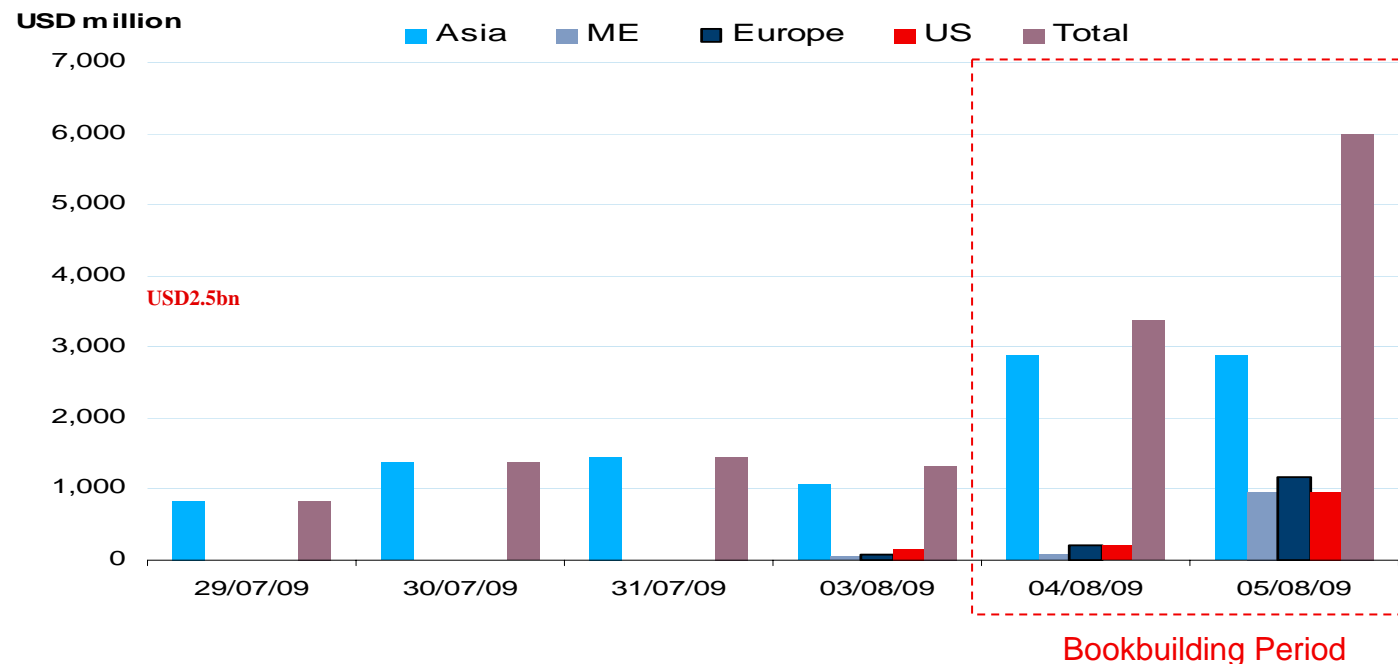


9th Annual Islamic Finance Summit



Execution Highlights (Cont'd)

Daily Book Order - Sukuk



9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS

Execution Highlights (Cont'd)

- The transaction was met with overwhelming reception in the global capital markets as investors were drawn to PETRONAS' name recognition, robust credit profile, premier industry position, and scarcity value given PETRONAS' absence from the primary markets since 2002. The deal was significantly oversubscribed from the original "benchmark" size guidance.
- Demand for Petronas Sukuk was also driven by the scarcity of top investment grade issuances in both the conventional bond and sukuk markets.
- A final Guidance of US Treasuries +162.5bps (+/-5bps) was released on 5 August 2009 with all order books across regions closed. The offering was successfully priced at US Treasuries +162.5bps for both tenures.

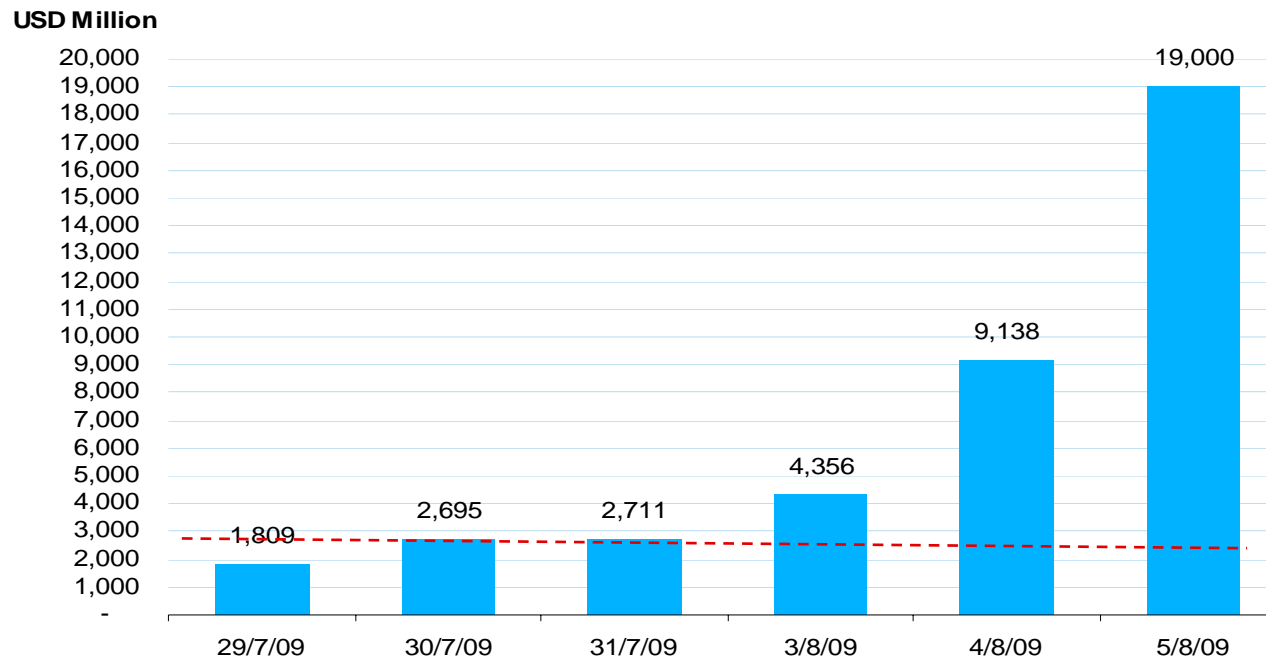
 CIMB ISLAMIC

9th Annual Islamic Finance Summit

EUROMONEY
SEMINARS

Execution Highlights (Cont'd)

Total Book Order



 CIMB ISLAMIC

9th Annual Islamic Finance Summit

EUROMONEY
SEMINARS

Pricing Analysis

- Bonds priced aggressively on LIBOR terms versus outstanding PETRONAS curve.
- Pricing comparables illustrated that the market players were comfortable to do away with a huge part of new issue premium with the 10yr bonds being priced inside of the longer dates PETRONAS bonds.

Issuer	Ratings	Coupon (%)	Size(\$ M)	Maturity (Yr)	Tsy Spd (bps)	Yield
Petronas (Sukuk)	A1/A-	4.25	1,500	'14	162.5	4.279
Petronas	A1/A-	5.25	3,000	'19	162.5	5.322
Petronas	A1/A-	7.00	2,000	'12	185	3.04
Petronas	A1/A-	7.75	625	'15	170	4.45
Petronas	A1/A-	7.785	1,000	'22	165	5.48
Petronas	A1/A-	7.625	500	'26	170	6.33

 **CIMB ISLAMIC**

9th Annual Islamic Finance Summit



Pricing Analysis (Cont'd)

- Bonds priced aggressively on LIBOR terms versus other Malaysia issuers.

Issuer	Ratings	Coupon (%)	Size(\$ M)	Maturity (Yr)	Tsy Spd (bps)	Yield
Penerbangan Malaysia	A3/A-	5.625	1,000	'16	125	4.98
MISC	A3/A-	6.125	700	'14	200	4.48
Telekom	A3/A-	5.25	500	'14	200	4.48
Telekom	A3/A-	7.50	300	'25	200	6.26
Shell	Aa1/AA+	4.00	2,500	'14	54	3.14
Shell	Aa1/AA+	5.20	750	'17	65	3.96
Chevron	Aa1/AA	3.95	2,000	'14	57	3.17
Chevron	Aa1/AA	4.95	1,500	'19	80	4.53
BP	Aa1/AA	3.625	1,400	'14	60	3.20
BP	Aa1/AA	4.75	1,000	'19	87	4.60
ConocoPhillips	A1/A-	3.875	1,500	'15	95	3.55
ConocoPhillips	A1/A-	5.25	1,000	'20	115	4.88

Insights – Setting New Benchmark

- ❑ Petronas took an opportunistic approach. The result was tight pricing with an enlarged financing size.
- ❑ Simultaneous conventional and Sukuk tranches ensured proper benchmark for pricing.
- ❑ Different maturities to attract the widest investor base possible to optimise pricing and size for both the Sukuk and Conventional issues.
- ❑ First to leverage on the MIFC initiative by listing on Bursa Malaysia increased demand from Malaysian based investors.
- ❑ Only 9% of the Sukuk tranche was allocated to dedicated Islamic funds illustrating market's growing acceptance of Sukuk among conventional investors.
- ❑ The Sukuk tranche has become a liquid benchmark for investment grade Sukuk.

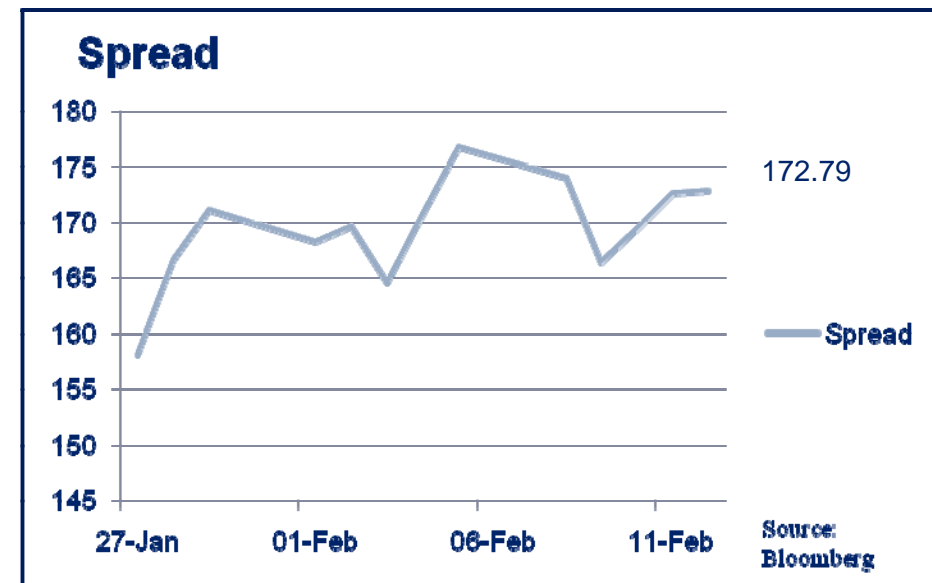
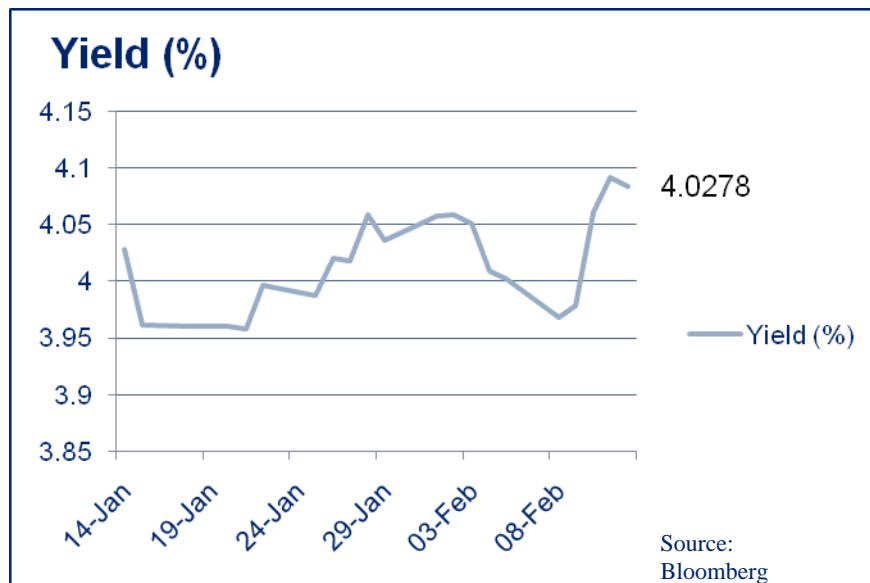


9th Annual Islamic Finance Summit



PETRONAS Secondary Trading Performance

- Priced aggressively at the lower end of the guidance upon issuance. The Petronas Sukuk widened in secondary trading along with broader investment grade credit markets.



9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS

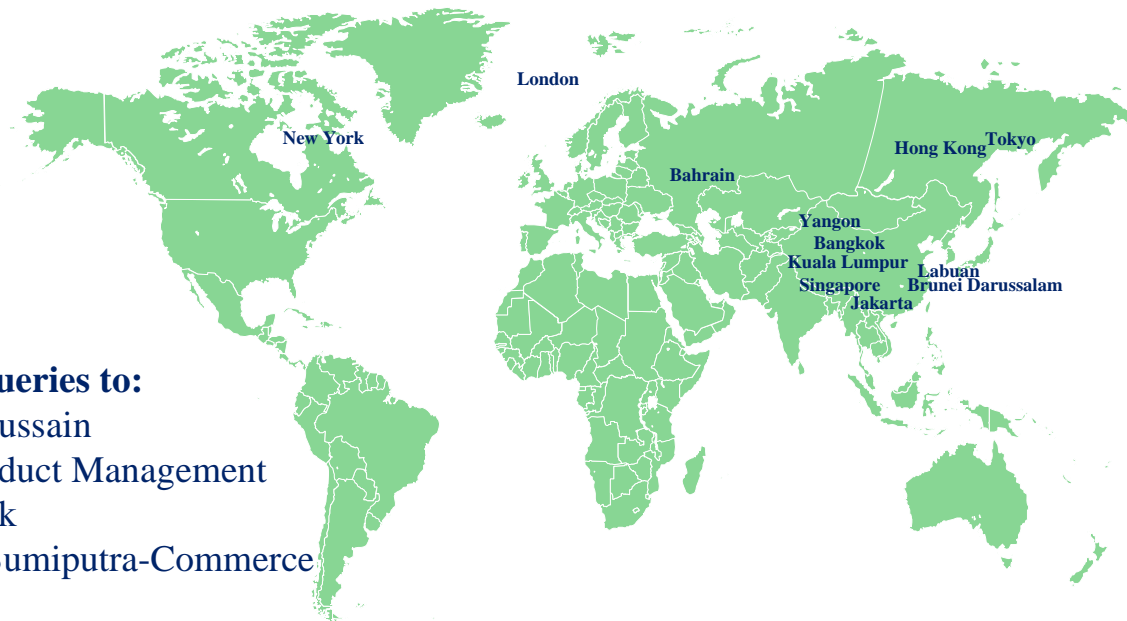
THANK YOU

 CIMB ISLAMIC

9th Annual Islamic Finance Summit

EUROMONEY
SEMINARS

Contact Details



Please direct all queries to:

Shamsun Anwar Hussain

Director/Head, Product Management

CIMB Islamic Bank

Level 34 Menara Bumiputra-Commerce

11 Jalan Raja Laut

50350 Kuala Lumpur

Tel: +603 2619 1665, Fax: +603 2691 3657

Email: shamsun.hussain@cimb.com



9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS

Important Notice

This document and its contents are proprietary information and products of CIMB and may not be reproduced or otherwise disseminated in whole or in part without its written consent.

The information in this presentation reflects prevailing conditions and our views as of this date. In preparing this presentation, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources or which was provided to us or which was otherwise reviewed by us. Although the information contained herein is believed to be reliable, CIMB makes no representation as to the accuracy or completeness of any information contained herein or otherwise provided. Nothing contained in this presentation is, or shall be, relied upon as a promise or representation as to the future.



9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS



Appendix 1

Overview of Transaction & Accolades

9th Annual Islamic Finance Summit

EUROMONEY
SEMINARS

Petronas Global Sukuk Ltd. : USD1.5 bil Trust Certificates

Offering Summary

Issuer	Petronas Global Sukuk Ltd.
Obligor	Petroleum Nasional Berhad ("Petronas")
Issuer Ratings	A- by S&P, A1 by Moody's
Issue Size	USD1,500.0 mil
Issue Date	12 August 2009
Maturity	5 years (12 August 2014)
Spread to Treasury	1.625%
US Treasury 5 year	2.654%
Yield	4.279%
Issue price	99.871%
Rental Rate	4.250% per annum
Day Count	
Convention	30 / 360
Periodic Distribution	
Dates	12th August and 12th February of each year commencing on and including 12th February, 2010 & ending and including maturity date
Clearing System	DTC / Euroclear / Clearstream
Listings	Bursa Malaysia Securities Berhad (Exempt Regime), Labuan International Financial Exchange, Luxembourg Stock Exchange (Euro MTF)
Distribution	Rule 144a / Reg S (including to Malaysian residents)
Governing Law	English Law

9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS

Execution Highlights

- ✓ **First global corporate Sukuk** and the **largest USD issue** by an Asian (ex-Japan) corporate in 2009.
- ✓ **First foreign currency denominated Sukuk** in Malaysia issued under the Malaysian International Islamic Financial Centre (MIFC) initiatives.
- ✓ **Second largest international issuance** from an Asian (ex-Japan) borrower since Hutchinson Whampoa's USD5 billion deal in 2003.
- ✓ Due to the overwhelming demand from investors, as evidenced by the **order book of USD19 billion for both Islamic and Conventional papers.**
- ✓ Investors' profile shown **Asia-denominated demand, 60%** of the total subscription.



9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS

Issuer's Highlights

PETRONAS - A Leading Oil and Gas Multinational of Choice

1

Malaysia's Flagship Company

2

Full Integration and Operational Excellence

3

**Sustained Growth through Scale and
Diversification**

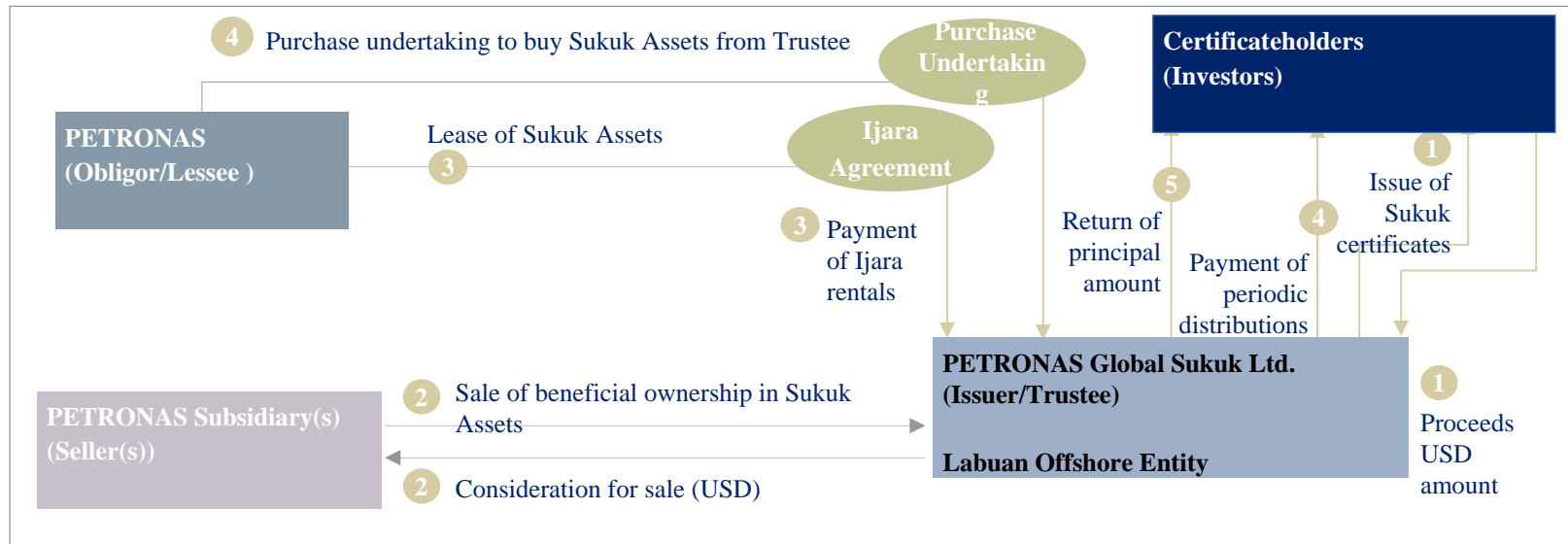
4

Sound Financial Position and Management

 **CIMB ISLAMIC**

9th Annual Islamic Finance Summit

Sukuk Ijarah Structure



9th Annual Islamic Finance Summit

EUROMONEY
SEMINARS

Sukuk Ijarah Structure

1. PETRONAS Global Sukuk Ltd. (the Issuer) has been established as an SPV, incorporated in Labuan, Malaysia for the sole purpose of issuing the Trust Certificates (Certificates). The issuer shall issue the Certificates to Investors in return for capital and each Certificate represents an undivided beneficial ownership interest in the Trust Assets, primarily consisting of the Sukuk Assets.
2. The Issuer will enter into a Declaration of Trust to act as Trustee on behalf of the Investors. The Trustee will then acquire the beneficial ownership in certain assets (Sukuk Assets) from the Seller(s). There will be no transfer of registered title.
3. On behalf of the Investors, the Trustee will then lease the Sukuk Assets, to PETRONAS (as Lessee) pursuant to the Lease Agreement. The Lessee will pay a semi-annual rental to the Trustee. The rentals received from the Lessee will be used to make the Periodic Distributions to Investors.
4. PETRONAS will also grant the Trustee a Purchase Undertaking whereby PETRONAS (as Obligor) will undertake irrevocably to purchase from the Issuer the Sukuk Assets at a specified price (Redemption Amount). Investors have no other recourse to the Sukuk Assets except to exercise the Purchase Undertaking and oblige PETRONAS to purchase the Sukuk Assets at a specified price, upon maturity / dissolution event. The Trustee will grant a Sale Undertaking to PETRONAS and certain other of its named subsidiaries which will allow for redemption of the Sukuk upon the occurrence of a Tax Event.
5. Upon maturity / dissolution event, the Trustee will exercise the Purchase Undertaking, pursuant to which PETRONAS purchases the Sukuk Assets from the Trustee, at the Redemption Amount and the Trustee will distribute the sale proceeds to the Investors.

Notes:

- 1) In order to manage and service the Sukuk Assets the Trustee will also enter a Service Agency Agreement with PETRONAS. PETRONAS, will then be responsible for performing maintenance and repair on the Sukuk Assets on behalf of the Trustee.



9th Annual

Islamic Finance Summit

EUROMONEY
SEMINARS

ACCOLADES



 **CIMB ISLAMIC**