

# The Potential for Global Sukuk Mandates — Demystification, Education and Familiarization

HSBC   
The world's local bank

# The Saudi Arabian Case

HSBC   
The world's local bank

The need to demystify, familiarise and educate

**SAUDI COMMITTEE  
SHARIAH APPROVAL**

Sukuk Al-Ijara not a panacea

**TRADING & SETTLEMENT  
PROCEDURE**

No fixed income platform

**COMPANIES LAW**

Restricts type and size of  
issuance

**FAMILIARISE PEERS**

Unfamiliarity with bookbuilding  
& capital market U/W

**CAPITAL MARKET LAW/  
REGULATIONS**

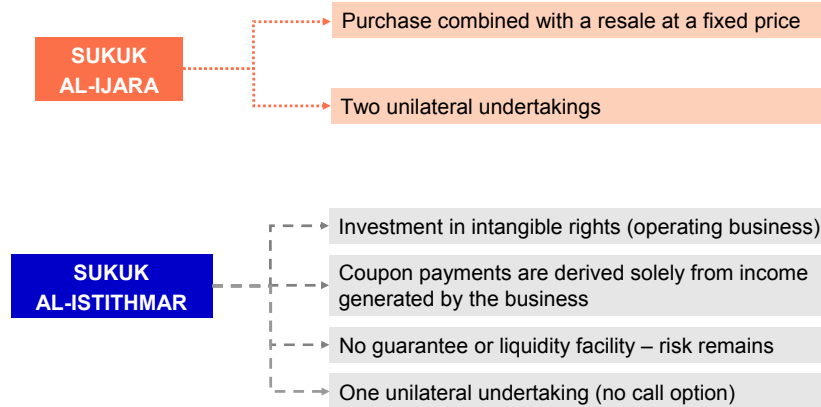
Evolving regulatory regime

**EDUCATE THE MARKET**

Market only familiar with equity  
instruments

Sukuk Assets Innovation

## What about Sukuk Al-Ijara?



## Saudi Electricity Company (SEC) Sukuk: Overview of Sukuk Assets

Extract from 2005 Income Statement

Notes	For the Years Ended December 31,	
	2005	2004
	SR '000	SR '000
<b>Operating Revenue</b>		
Electricity sales	17,479,591	16,370,574
Meter, reading and maintenance and bill preparation tariff	660,372	637,219
Electrical service connection tariff	671,326	618,042
<b>Total operating revenue</b>	<b>18,761,289</b>	<b>17,625,792</b>

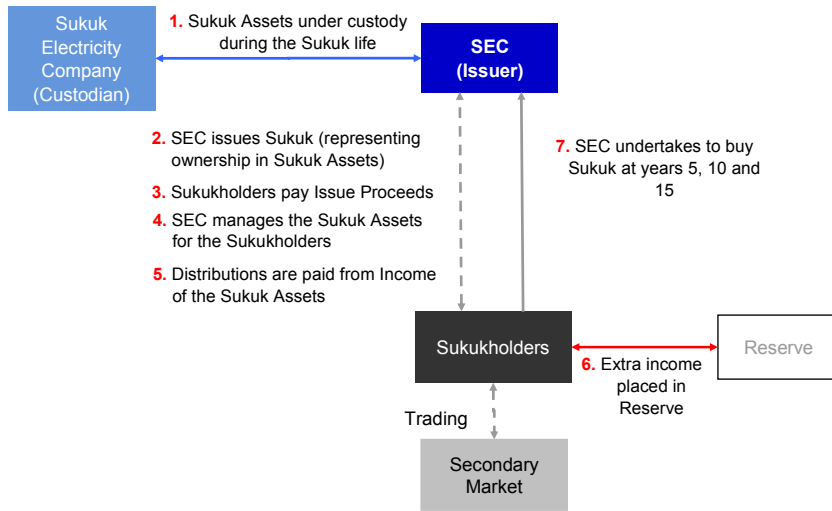
Extract from an electricity bill

Extract from CMR169

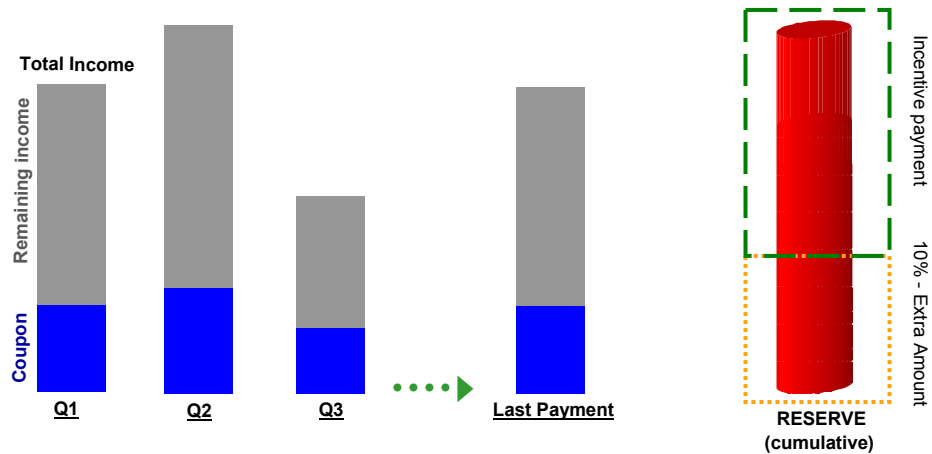
4.2 Meter Reading and Maintenance and Bill Preparation Tariff	
Indicator	Indicator Tariff (SR)
100 Average	SR 1,000
200 Average	SR 2,000
300 Average	SR 3,000
400 Average	SR 4,000
500 Average	SR 5,000
600 Average	SR 6,000
700 Average	SR 7,000
800 Average	SR 8,000
900 Average	SR 9,000
1000 Average	SR 10,000
Over 1000 Average	SR 11,000

- **Sukuk Assets** comprise the right to undertake the following services for 20 years:
  - Reading electricity consumption and maintaining meters
  - Preparing, issuing & distributing electricity bills and the corresponding entitlement to levy charges according to the CMR 169.
 And the right to levy and receive the charges relating to them
- The instrument is tradable during its life
- SEC appointed to continue to manage the services
- For certain Specified Customers only (exclude industrial, agricultural and governmental customers)

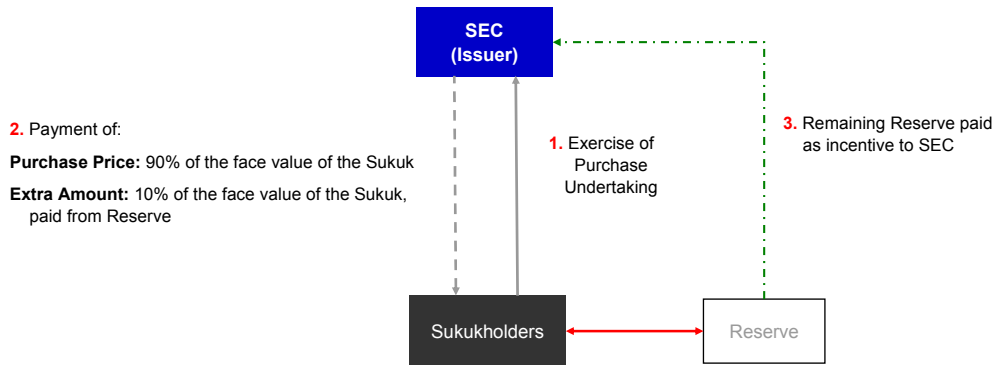
## SEC Sukuk: Illustration of Sukuk Al-Istithmar Structure



## Periodic payments



## SEC Sukuk: End of Sukuk – Exercise Event



## SEC Sukuk: Return to Sukukholders (Excluding Coupon)

End of year 5	July, 2012
Purchase Price (as a % of face value)	90%
Extra Amount (as a % of face value)	10%
<b>Face value received</b>	<b>100%</b>

End of year 10	July, 2017	End of year 15	July, 2022	End of year 20	July, 2027
Purchase Price	60%	Purchase Price	30%	Purchase Price	0%
Extra Amount	20%	Extra Amount	30%	Extra Amount	40%
<b>Face value received</b>	<b>80%</b>	<b>Face value received</b>	<b>60%</b>	<b>Face value received</b>	<b>40%</b>

## Features of the Structure

### 1. Sukuk Electricity Company – Custodian

- Achieves effective segregation of Sukuk Assets from SEC's own assets
- Contractually required to hold Sukuk Assets as Custodian for the benefit of the Investors
- Wholly-owned by SEC, but subject to annual statutory audit

### 2. Reserve

- Built-up in early years
- Distributed as follows:
  - Shortfalls
  - Extra Amount (10% face value) every 5 years
  - At the end of the Sukuk, as an incentive fee to SEC

### 3. SEC obliged to purchase Sukuk at investor option

Investors individually have an irrevocable right to "Put" at year 5. No Issuer "Call"

### 4. Over-collateralised Reserve provides sufficient coverage

- Expected to build up to more than required amount for 5th year payment in early years

### 5. Meter reading – extremely stable

- Default rates negligible: electricity is a fundamental need, low cost and no alternative supplier
- Investors protected in case of change to Tariff or change in regulatory framework
- Costs are clearly identified and subject to a cap
- Hence, Sukuk Assets comprise extremely stable income source

### 6. SEC Commitment

Incentivised to prevent shortfall in payments (disputes, board level support)

## What is next for Sukuk?

**Thank you**