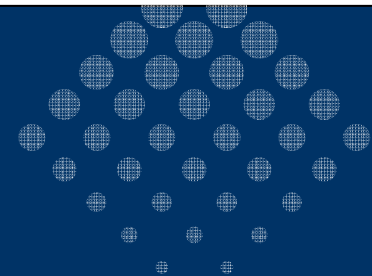


# Analysis of the Sukuk Market

Dubai, April 25, 2007



# Overview

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- Introduction
- What is a Sukuk?
  - Types of Sukuk
- Composition of the Sukuk Market
- Breakdown of the Sukuk Market
- Expected Growth of the Sukuk Market



# Introduction

- 1974 beginning of the first Islamic Financial Institution by the creation of the inter-governmental Islamic Development Bank (IDB)
  
- 2001 first GCC Sukuk issuance
  - Bahrain Monetary Agency USD100 Million
  
- 2002 World's first Islamic global bond issue
  - Federation of Malaysia USD600 Million



# What is a Sukuk?

*A Sukuk is an Islamic Bond compliant with Shariah law, which pays a return based on tangible assets in lieu of an interest rate.*

- **Similarity with Conventional Bonds :**

Bonds contractually obligate the issuer to pay specific interest and principal to the bondholders meanwhile Sukuk holders are entitled to share in the proceeds of the realization of the Sukuk assets.



# Types of Sukuk

- **14 Eligible Asset Classes according to AAOIFI are:**
  - **SUKUK AL-IJARAH**
  - SUKUK IJARAH MOWSUFA BITHIMA
  - SUKUK MANFAA IJARAH
  - SUKUK MANFAA IJARAH MOWSUFA BITHIMA
  - SUKUK MILKIYAT AL-KHADAMAT
  - SUKUK AL-SALAM
  - **SUKUK AL-ISTISNA'A**
  - **SUKUK AL-MURABAHA**
  - **SUKUK AL-MUSHARAKA**
  - **SUKUK AL-MUDARABA**
  - SUKUK AL-WAKALA
  - SUKUK AL-MUZRA'A
  - SUKUK AL-MUSAQA
  - SUKUK AL-MUQARASA



# Composition of the Sukuk Market

- Actual Size of the Market ~ USD 53 Billion
  
- **Syndicated loans vs Conventional Sukuk:**
  - Banks vs Capital Markets
  - Different client base
  - Cheaper for issuer but not for investor
  
- **Malaysia vs GCC Sukuk:**
  - Bay' Al Dayn
  - Underlying assets
  
- **Convertible vs Plain Vanilla:**
  - USD 2 Billion+ and USD 50-500 Million



# Composition of the Sukuk Market

- **Most popular types of Sukuk are:**
  - **Ijarah:** Sukuk that represent ownership of equal shares in a rented real estate or the usufruct of the real estate giving owners the right to own the real estate and receive the rent.

*79 issues since 2001 / USD16.22 Billion*

- **Musharaka:** Investment Sukuk that represent ownership of Musharaka equity and are used for mobilizing the fund for establishing a new project or developing an existing one or financing a business activity on the basis of partnership contracts.

*24 issues since 2005 / USD 9.54 Billion*



# Composition of the Sukuk Market

- **Mudaraba:** Investment Sukuk that represent ownership of units of equal value in the Mudaraba equity and are registered in the names of holders on the basis of undivided ownership of shares in the Mudaraba equity and its returns according to the percentage of ownership share.

*5 issues since 2003 / USD 3.41 Billion*

- **Murabaha:** The issuer of the certificate is the seller of the Murabaha commodity while the subscribers are the buyers of that commodity, and the realized funds are the purchasing cost of the commodity. The negotiability of these Sukuk at the secondary market is not allowed by Shariah.

*34 issues since 2001 / USD 2.60 Billion*



# Composition of the Sukuk Market

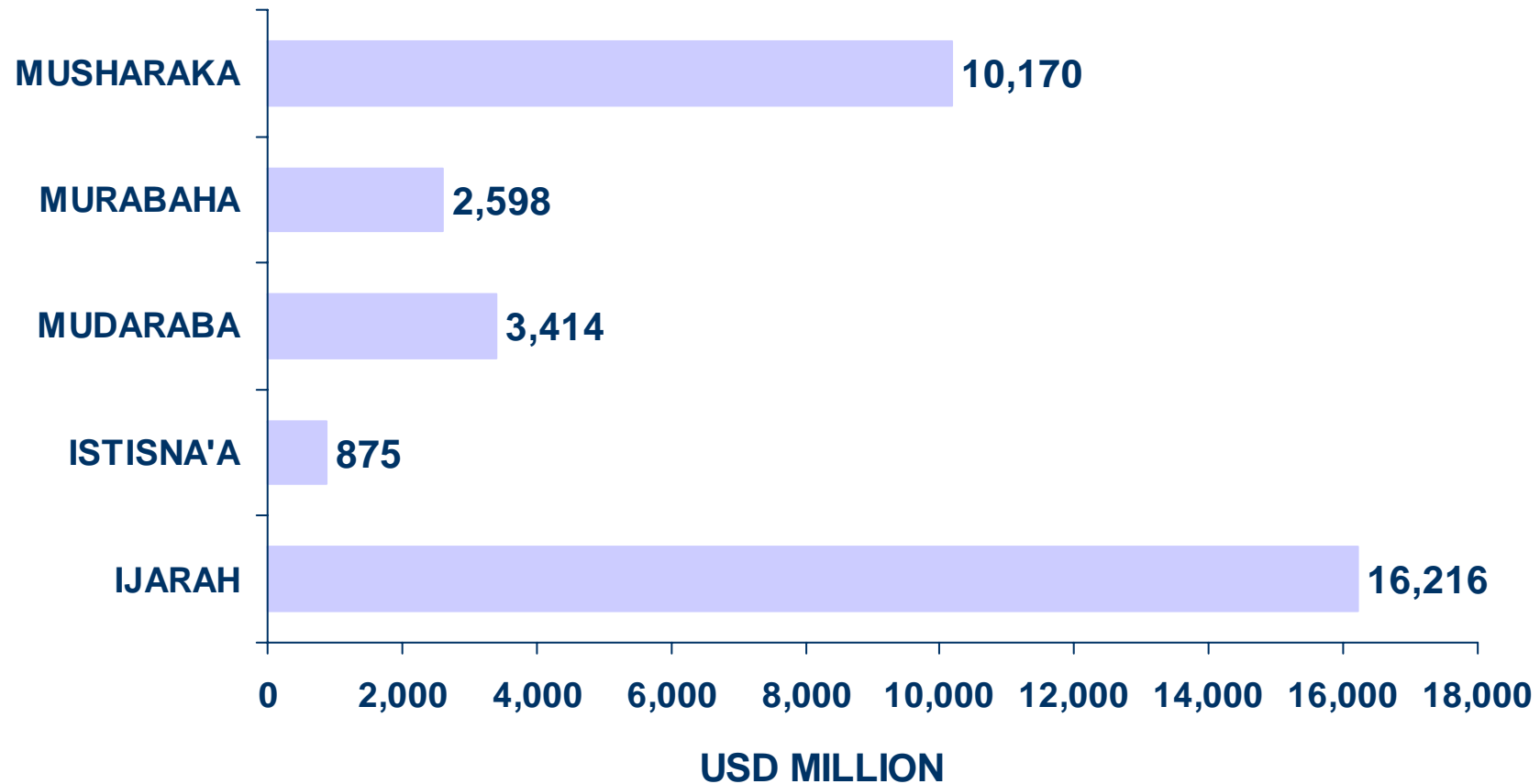
- **Istisna'a:** Certificates that carry equal value and are issued with the aim of mobilizing the funds required for producing products that are owned by the certificate holders.

*6 issues since 2005 / USD 875 Million*



# Composition of the Sukuk Market

## Size of Issues Since 2000

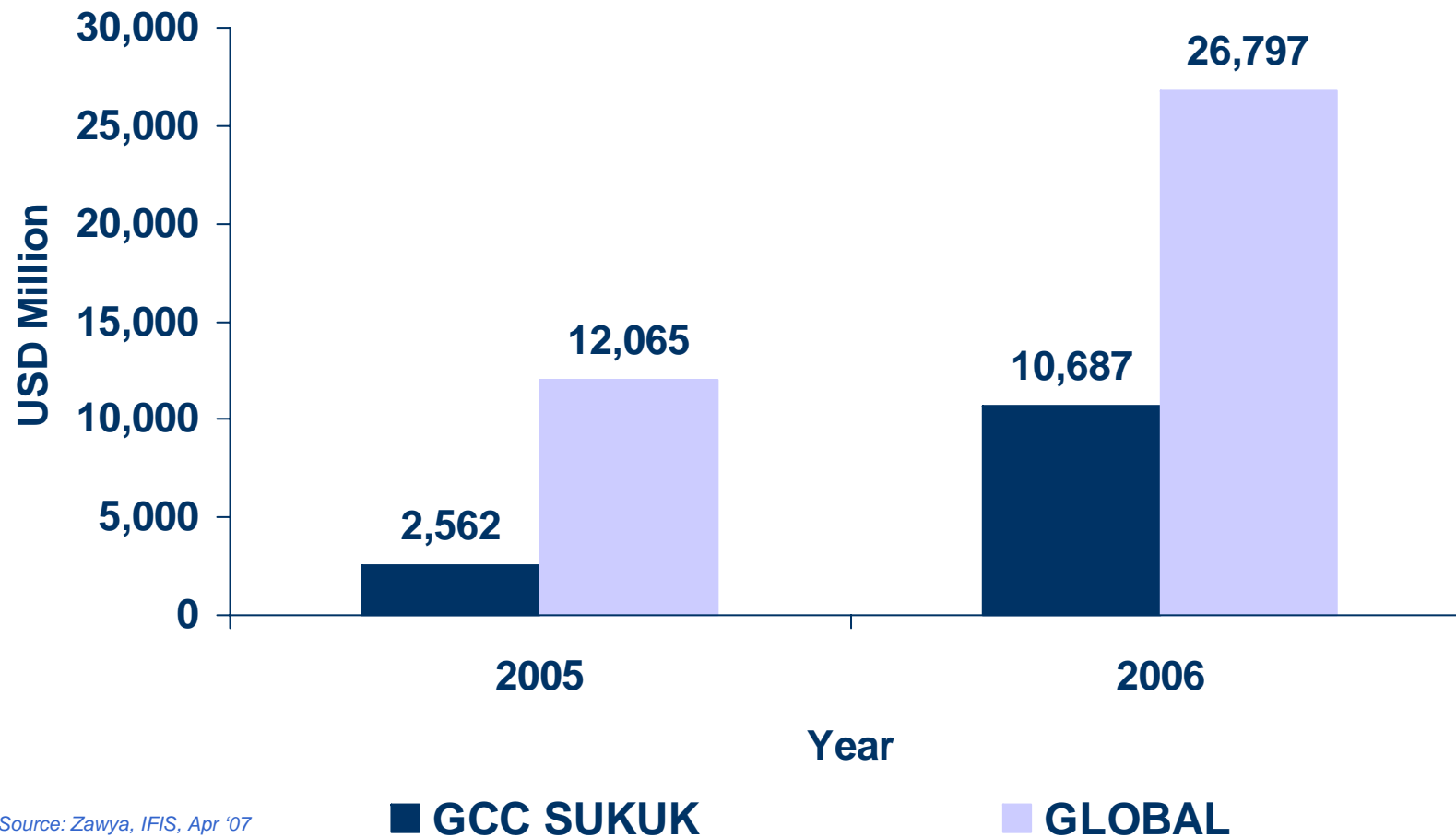


Source: Zawya, Sukuk monitor, Apr '07



# Composition of the Sukuk Market

## Sukuk Issues: Global Vs GCC



Source: Zawya, IFIS, Apr '07



# Breakdown of the Sukuk Market

- **Sovereign Sukuk:**
  - Qatar 10 – USD 700 Million
  - Pakistan 10 – USD 600 Million
  - Malaysia 07 – USD 600 Million
  
- **Next Sovereign Sukuk:**
  - Japan: “The Japan Bank of International Cooperation”  
Ijarah Sukuk, 2007: USD 200-300 Million
  - Indonesia: USD 500 Million
  - Germany
  - Pakistan
  - Saudi Arabian Monetary Agency
  - U.K



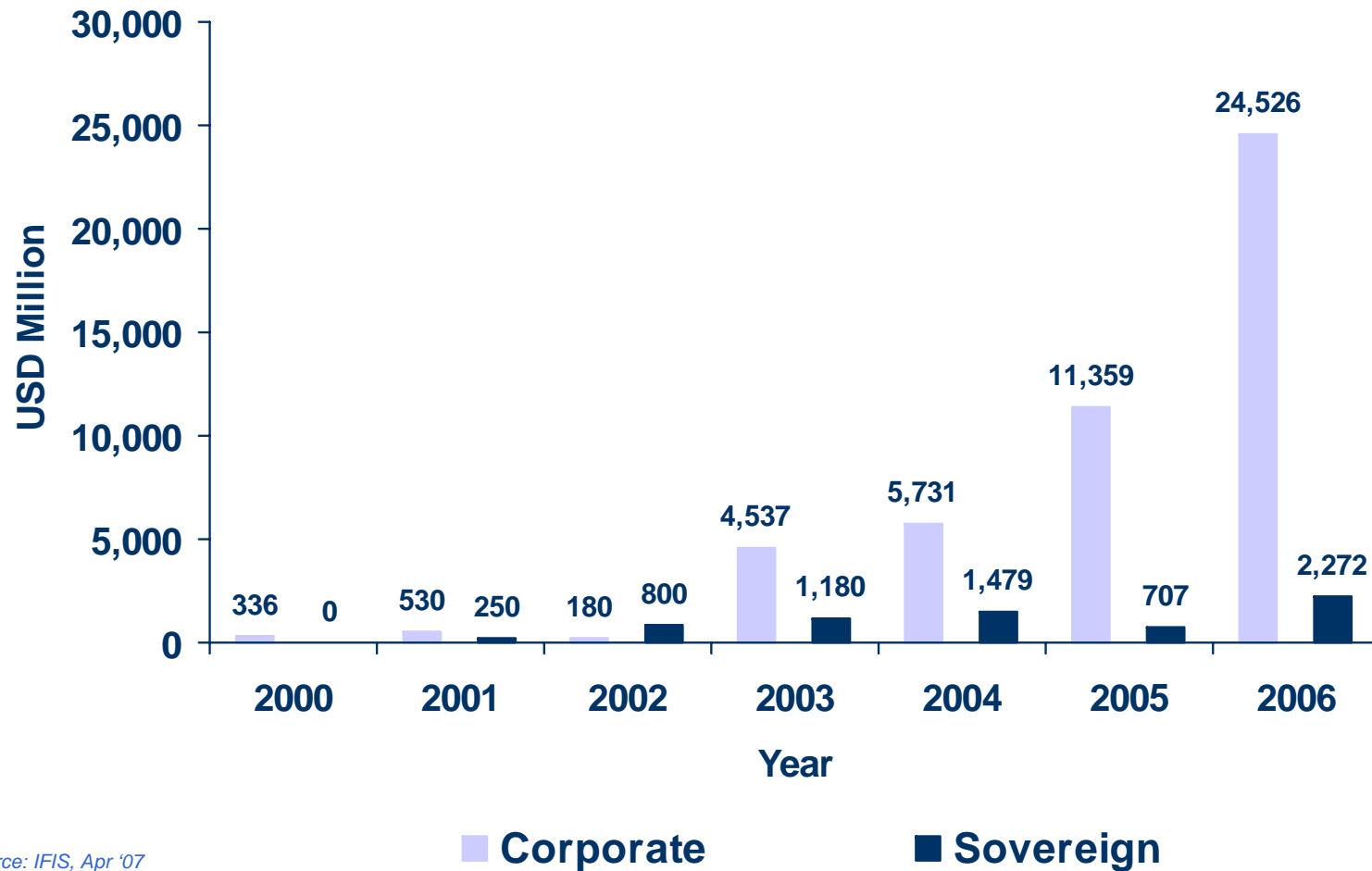
# Breakdown of the Sukuk Market

- **Largest Corporate Issues:**
  - PCFC: USD 3.5 Billion in 2006
  - Nakheel: USD 3.52 Billion in 2006
  - Al Dar: USD 2.53 Billion in 2007



# Breakdown of the Sukuk Market

## Sukuk Issues: Corporate Vs. Sovereign



Source: IFIS, Apr '07



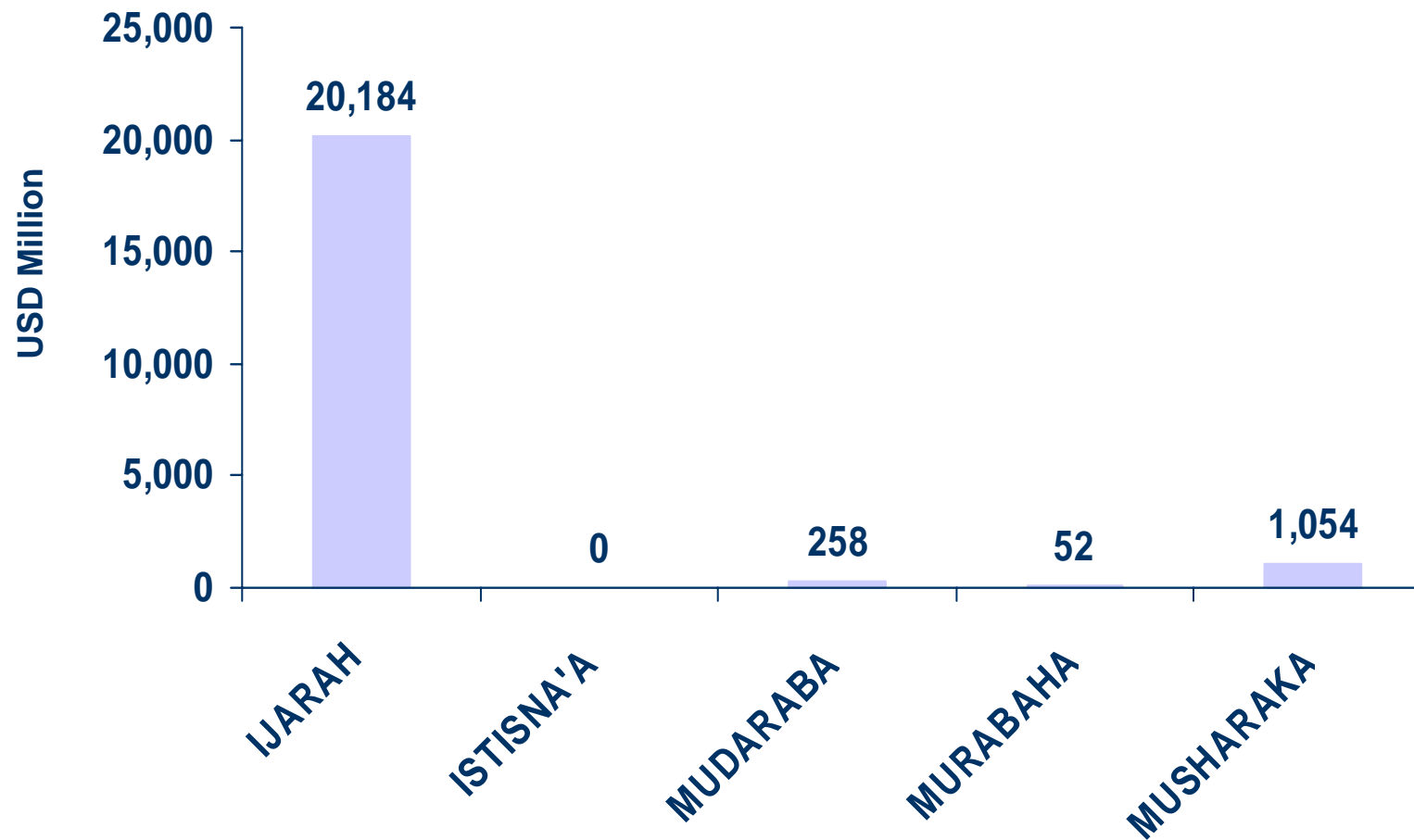
# Expected Growth of the Sukuk Market

- **Deals in the Pipeline:**
  - ADIB: USD 5 Billion, listed in London & UAE
  - TAQA: USD 1 to 3 Billion listed in UAE
  - Al-Baraka Banking Group USD 200 Million Rated BBB- by S&P
  - Saad Trading USD 5 Billion over 20 years
  - Diyaar Al Muharraq USD 200 Million
  - MTC: USD 1.2 Billion
  - Saudi Electricity Co. SAR 11 Billion by 2015



# Expected Growth of the Sukuk Market

## Sukuk: Announced and Rumored



Source: Zawya, Sukuk monitor, Apr' 07



***Thank You***

