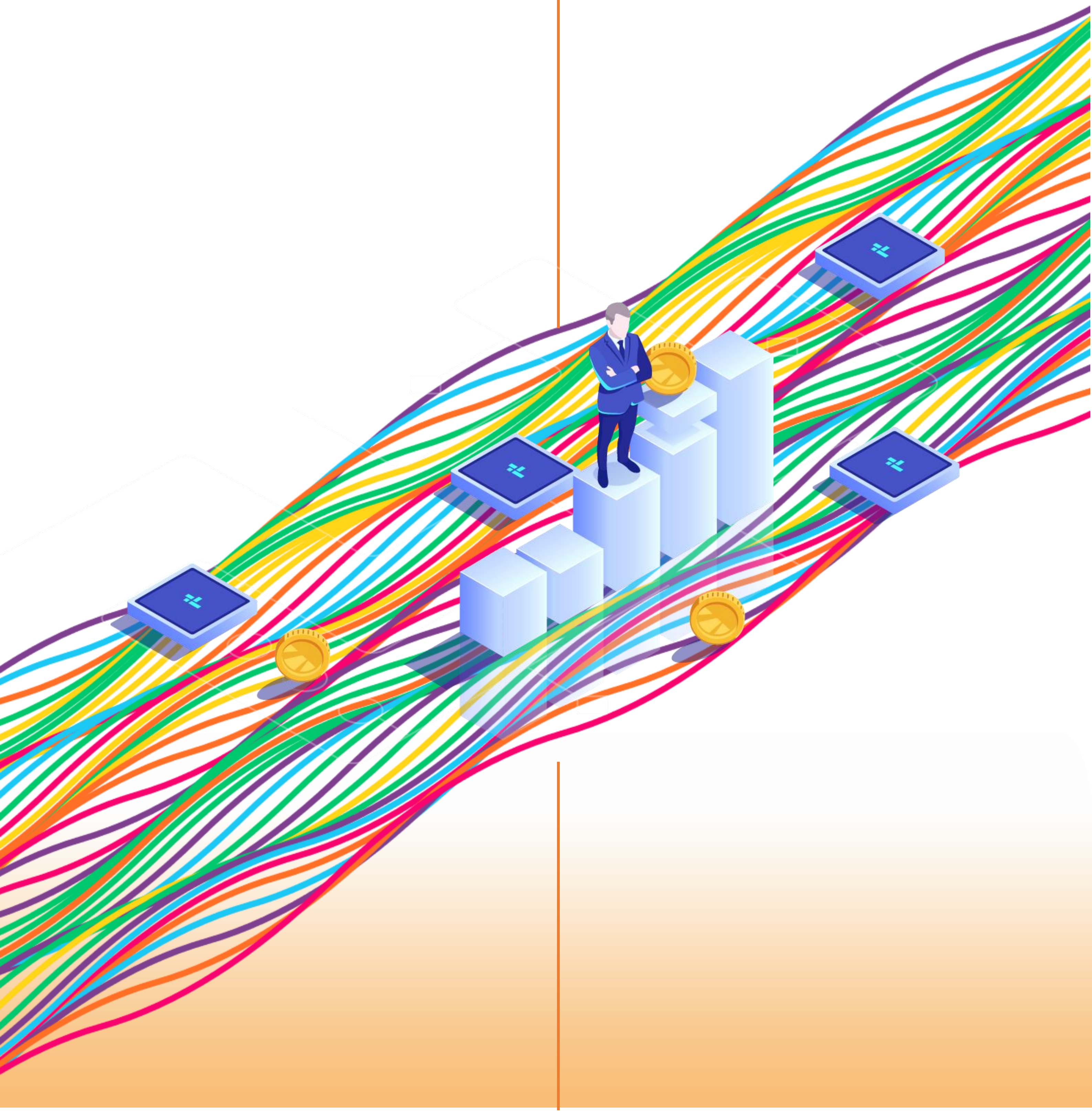
BEGINNER'S GUIDE TO BOND+SUKUK MALAYSIA

Bond+Sukuk Information Exchange



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PART 1 BASIC OF INVESTING AND MARKET

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Risk-Reward Appetite

The level of risks investors are willing to take in order to reap rewards from investment. The higher the risk, the higher the reward, and vice-versa.

1.1 Why you need to invest?

Many of us know the importance of investing. We have heard of it before, that investment can grow our money and increase our wealth. Even so, not many of us start to take action to invest because we are also aware of the risks accompanied in investment; hence, we rather not investing at all to avoid risks. This perception is where we have been wrong.

More often than not, the returns that we earn from investment outweigh the risks associated with it. Although risks are inevitable, we can manage it if we know what our risk-reward appetite is, and of course, with some fundamental knowledge on investing.

If you are still not convinced to start investing now, here are some other reasons on why you need to invest:

1. Time Value of Money

Time value of money is a concept where the value of money today is more valuable than the value of the same amount of money in the future. The money received today is more valuable because of its capacity to grow over time. In other words, if you receive money today, you can start investing with the money and earn more money over time.

This is why people should invest, as monetary values are exposed to a lot of risks making the value to degrade over time. Imagine we have the option to receive RM10,000 now or to receive it in the next five years, it is safe to say that most people would choose the first option as uncertainty and risks might happen within the next five years.

2. Retirement

Retirement is a stress-free holiday, zero commitment, lower expenses, and EPF is retirement's safety net are some of the myths that stuck in people's minds when it comes to retirement. In an ideal world, it could be sufficient, were it not for inflation.

Living paycheck to paycheck won't allow you to retire comfortably if you do not make plans for retirement. As you are working, you should be saving money for retirement. It is recommended that you save 1/3 of your monthly salary now to have 2/3 replacement income when you retire. You can invest the money from your paycheck at a young age, then, as you retired, you can enjoy the return from investment and not worrying about not having enough money to support your living expenses.

3. Wealth Creation

Investing can create more wealth, and this has proven by many prominent figures in the investment world such as Warren Buffet. Warren Buffet started investing in stocks at the age of 11, and then finally reached USD 1 million for his investment at the age of 37.

There are plenty of investment vehicles you can start with such as bonds and certificate of deposits that can give you a decent return over time. The important thing is you start investing as early as you can so that the return will be compounded and creating wealth over time.

4. Achieve Financial Goals

Investing can help you reach financial goals faster than just saving money to achieve the same goal. You need to do both saving and investing.

If you save and invest at the same time, your rate of return is higher than just saving your money in a regular account. You will get two sources of income, hence speeding up the process to increase your saving and finally achieve your financial goals.

5. Be a business owner

Some people have a dream to become a business owner. Yet, starting one own business is sometimes unattainable as it requires a high cost of capital to pay for buildings, hiring, and others. In some cases, not everyone has the courage to take the risks of building a business on their own.

However, having shares investment would likely make the investors become one of the shareholders and have partial ownership of the business. As a shareholder, you will have the opportunity to participate in the annual general meeting of the company as well as be enlightened to the operations of the company and everything that a shareholder should know. You also may get to vote on certain resolutions of the company at the annual general meeting.

Therefore, if you would like to have partial ownership of a business that is already established, and be a shareholder, you should start investing by buying shares of preferred companies.

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Did you know?

There are about 10 general types of investments available in Malaysia. These are the investments that most Malaysians do:

1. Property
2. Unit Trust/Mutual Fund
3. Stocks
4. Equity Crowdfunding
5. Fixed Deposit
6. Gold/Silver
7. Jewellery/Antique/Arts
8. Fiat Currencies
9. Hedge Fund
10. Cryptocurrencies

1.2 Why invest in bond and sukuk?

One of the most secured ways to make an investment is by buying bond and sukuk. Sukuk is an Islamic bond that complies with Shariah compliance regulations. Out of many ways of investing, investing in bond and sukuk is more encouraged than the others.

1 Fixed income

Bonds will give a consistent income stream according to the payment schedule. Some companies will pay quarterly, semi-annually, annually, and more terms as promised in the certificate. Bonds are typically considered safe "fixed income" investments compared to stocks, especially since bond returns are not tied to profitability. As a bond investor, you receive the same returns regardless of whether a company makes record profits or losses. But they do come with certain risks as well. Though risks associated with bond investment are generally low, they are not completely absent.

For example, bond investors are subjected to credit risk (if the issuer defaults on its debt obligations), liquidity risk (if the bondholder is unable to sell the bond as there are no interested buyers) or interest-rate risk (which could either reduce or increase the market value of a bond) – given you hold the bond until maturity, interest rate risk is not a factor.

2 Capital loss

If an investor buys a bond and holds the bond until it matures, the face value of the bond is returned. Because of this, bonds do not experience capital loss. Unlike a dividend-paying stock held for a similar time period. If the stock price were higher, there would be a profit. If the stock price were lower, there would be a loss or loss of capital.

Even though it is said that inflation causes a capital loss in bond investing, it should be taken into account that inflation does that to all other investments too, unless the investments increase in value because of inflation — for example, real estate and commodities.

3 Credible credit ratings agencies

Bonds in Malaysia are rated by the Malaysian Rating Corporation Bhd (MARC) and RAM Holdings. These companies are the ones that hold important credit opinions that are needed by investors to make investment decisions.

Each agency uses unique letter-based scores to indicate if a debt has a low or high default risk and the financial stability of its issuer. RAM and MARC use 'AAA' as their score to a prime grade investment.

The development of Malaysia's bond market requires credible credit rating agencies to provide investors with an objective and impartial opinion on the quality of debt issues. Furthermore, it is crucial that domestic credit rating agencies maintain their credibility and reliability in the eyes of investors and other market participants.

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Types of credit ratings

In Malaysia, rating agencies use AAA for the highest credit quality, AA for the next best, followed by A, then BBB for good credit. Everything below BBB is considered speculative or worse, down to a D rating, which indicates default. Here is the list of credit ratings.

1. AAA
2. AA
3. AA-
4. A+
5. A
6. A-
7. BBB
8. BB
9. BB and below

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4. Diversify portfolio

Most people presume that bonds are only for the very old, very rich, or very conservative investor.

However, the truth is, bonds are an important component of a strategically-diversified portfolio at any stage of an investor's life. Having a diversified portfolio, which includes bonds over the long-term can often provide comparable returns with less risk than a portfolio devoted to only one type of investment over a longer period of time.

It is recommended for any investor to balance their portfolios with high, medium and low-risk investment products, and bonds can provide investment stability to help buffer against the volatility of the stock market, and offer tax-free income, which can help with your living expenses, and ultimately help you achieve your financial goals.

5. Bonds lower portfolio risk

Bonds can be a wonderful addition to an investment portfolio, the kind of addition that allows one to sleep better at night. The bonds provide a steady income to be invested into other, possibly more speculative securities. Of course, this assumes the income is not needed for current living expenses.

An old investment strategy is for an investor to place all the investment money in coupon government bonds and reinvest the interest payments into common stock. The principal is never at risk, assuming the bonds are held to maturity. Only the coupon payments become at risk when invested in the common stock.

If the common stock is carefully selected, the investor gets the best mix of growth and no risk to principal.

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PART 2 BOND AND SUKUK BASIC

2.1 What is bond and sukuk?

In the world of investing, a bond is a loan to a company, government or any organization. From the amount that is lent, interest is paid. The proof of the loan and its amount is the investment instrument that is called bond.

The Malaysian bond market is one of the most attractive among the emerging economies, driven by robust fundamentals, current account surplus and rising commodity prices. Malaysia being an Islamic country, leads to the development of the Islamic bond market, which is sukuk. In 1990, the world's first sukuk was issued in Malaysia, when Shell Sdn Bhd launched RM 525 million sukuk. Since then, the popularity of sukuk has gone from strength to strength.

Sukuk are certificates of equal value that represent undivided ownership of underlying assets, usufruct, services or investments in particular projects or special investment activities. They thus form a financial claim that is manifested in the form of securities, whose essential feature is marketability.

Surprisingly, the surge in demand for Sukuk does not just come from Islamic investors, but also from conventional investors too. Sukuk allows Islamic investors to invest in a fixed income in a way that aligns with their belief, which is shariah-compliant. On the other side, conventional investors attracted to Sukuk for its steady good returns, low volatility, and high yield. Furthermore, in Malaysia, Sukuk investors receive a tax treatment that is conducive for both the issuers and the investors.

Malaysia's comprehensive capital market regulations, policies and best-practice guidelines with regard to sukuk have safeguarded investors' interest and instilled market confidence in these securities. That's why Malaysian investors, regardless of their faith, have continued to embrace sukuk, owing to all the advantages they offer.

Malaysia is at the forefront in the development of Islamic banking, an Islamic capital market, and takaful insurance. It has a strong and comprehensive Islamic financial system with a robust business-driven regulatory regime and legal framework. Malaysia has emerged as the largest sukuk market in the world. The sukuk market has become an integral part of the Malaysian capital market.

This, however, does not eliminate the part of the bond in the Malaysian security market. Bond is still widely used, but sukuk is a major part of the Malaysian security market as Malaysia became the world's biggest sukuk issuer up until now, and the number is still growing.

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WHAT IS BOND?

Bond is a fixed income instrument that is based from a lending transaction from the investor to the issuer. It will be paid as according to the agreed payment basis.

WHAT IS SUKUK?

Sukuk is Islamic bond that has to follow Shariah regulations. It does not use interest rate and any other prohibited elements in Islam.

Read more about sukuk on our article "What is Sukuk?" by clicking **here**.

FIRST SUKUK IN MALAYSIA

The first sukuk in Malaysia is also the first sukuk in the whole wide world, issued by Shell Sdn Bhd for RM525 million in 1990.

2.2 Why companies issue bond and sukuk?

When companies need to raise capital, issuing bonds is one of the ways to do it. Most corporations will need to raise financing for a variety of reasons such as operation, merger & acquisition or business expansion. Prior to the 1997 Asian financial crisis, a lack of a well-balanced capital market in Malaysia has allowed a heavy reliance on the financing from banks, which resulted in excessive losses by corporations during the crisis.

Thus, issuing bond and sukuk can mitigate the risk of such event from happening again. Bond and sukuk have become an alternative for corporations to source money for their operations. Investors lend money to corporations (issuers), and as the return, corporations pay interest throughout the bond's tenure, and then the principal at maturity.

Corporations issue bonds for several reasons. Some of them are:

- **Easier to deal than banks**
  Loan from banks would most probably be the first thing that most people would do if they need financing. Even though companies can borrow from banks, but issuing bonds is way more attractive than signing paperwork with banks. The interest rates that companies need to pay to bondholders would be less than the interest rate required to pay to the bank if they were to make a loan. Money paid out in interest detracts from corporate profits. Companies are in business to generate profits, hence, minimizing the interest amount that must be paid to borrow money is an important consideration.

  Other than interest rate reason, it is also easier for them to obey their own rules instead of obeying bank's rule. Issuing bonds will give the company freedom on how to operate as they are not restricted to the bank's agreement. It is also selected because companies do not need to do many documents in order to get loans with the bank.

- **Better than stock**
  The main thing that distinguishes stock and bond is the fact that issuing stock will dilute the company's equity. Selling stocks brings the same meaning as selling some parts of your company to the shareholders. Some companies do not want this to happen.

  The issuance of new bonds does not affect the percentage of ownership of the company, like the issuance of stock does. As there are more shares from the new stock issuance, future earning will be divided into a larger number of shares, hence decrease the earning received by each shareholder.

  To illustrate this, let say a company which has 2 million outstanding shares announces a RM 0.5 million dividend to be distributed to shareholders. Each share will receive RM 0.25. If a shareholder holds 10,000 shares in the company, he will receive RM 2,500 from the dividend. However, if the company issue another 1 million new stock, which makes up to 3 million outstanding shares in total, each share will receive RM 0.17.

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Why do companies issue bond?

1. Easier to deal than banks
2. Better than stock
3. Fixed rate loan
4. Record keeping
5. Functions of bond

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The same shareholder who holds 10,000 shares in the company would not be happy with the new stock issuance as he will receive less than RM 2,500 of dividend. New stock issuance cause dilution that decrease the value of stocks. Hence, the issuance of bonds is preferred by companies for financing rather than the issuance of stock.

- **Fixed rate loan**
  Compared to borrowing from banks, the cost of borrowing is lower with bonds even with the longer tenure. This allows the company to borrow money for a long term from investors. Sometimes, the interest charged by banks is not fixed, especially if the loan is more than five years. The interest charged by banks can also increase in the future when their cost of doing business has risen, such as when the Overnight Policy Rate (OPR) increase.

  Moreover, the fixed-rate also make it easy for the company to project its cash flow as they know how much they will pay to bondholders in the future years.

- **Record keeping**
  Corporations issuing bonds are able to keep the records in a more efficient manner. As they are the ones who are dealing with the process, record keeping is easier. All bondholders will get the same deal with the same interest rate and same maturity date. They also are able to be flexible in how they want to manage the bond. Corporations are not tied to other outside regulations.

  A company can decide whether it needs a short-term bond or a long-term bond depending on how much financing does the company need. Sometimes, companies issue bonds that do not expire, and this is called a perpetual bond. It pays interest forever, and this can only be done by the company and no other outside parties like banks.

  Credit quality stems from a combination of the issuing company's fiscal health and the length of the loan. Better health and short duration generally enable companies to pay less in interest. The reverse is also true, with less fiscally healthy companies and those issuing longer-term debt generally being forced to pay higher interest rates to entice investors into lending money.

- **Functions of bond**
  A bond can be beneficial in certain circumstances. Certain times, the bond can be a backed-up asset. The bond that uses the underlying assets can make the item to be as a collateral item, where it can save the company if they are unable to pay the loan.

  Convertible bonds are also another function that makes bonds attractive. It is a type of bonds when the bondholders can convert it to a pre-determined number of stock or shares of the company. The bondholders of convertible bonds can benefit from rising stock shares, and if the bondholders choose to convert their bonds, the issuers no longer have to pay the interest and the principal at maturity.

2.3 Types of bond and sukuk in Malaysia

In general, bonds can be separated into government bond and corporate bond. Government bonds are bonds that are issued by the government to fund for economic development. In Malaysia, the two main types of government bonds are Malaysian Government Securities (MGS) and Government Investment Issues (GII).

Corporate bonds are bonds that are issued by private companies to the capital market. The examples of these companies are Genting Capital Berhad, Malayan Banking Berhad and many more that can be searched on the BIX website.

2.3.1 Government bonds

A government bond or sovereign bond is a debt security issued by a national government, generally with a promise to pay periodic interest payments and to repay the face value on the maturity date. Government bonds are usually denominated in the country's own currency, in which case the government cannot be forced to default, although it may choose to do so.

Malaysian Government securities are risk-free marketable debt instruments issued by the Government of Malaysia, sold by competitive auction and facilitated by Bank Negara Malaysia. The main purpose of government securities is to raise funds from the domestic capital market to finance the Government's development expenditure and working capital. There are two types of government debt securities in Malaysia, which are conventional called Malaysian Government Securities (MGS) and Government Investment Issues (GII) which is a type of Islamic securities.

- **Malaysian Government Securities (MGS)**

  MGS is coupon-bearing, long-term bonds issued by the Government to raise funds for development expenditures. They are the most actively traded bonds. The BNM regularly issues 3-year, 5-year, 7-year, and 10-year MGS as benchmark securities for the development of a benchmark yield curve. In addition, 15-year and 20-year have also been issued to lengthen the yield curve.

  The central bank, Bank Negara Malaysia (BNM) in its role as banker and adviser to the Government, advises on the details of Government securities issuance and facilitates such issuance through various market infrastructures that it owns and operates. MGS is issued by tender via appointed principal dealers. Tendering is done through the Fully Automated System for Tendering, whereby the coupon rate is determined by the weighted average of the successful bids.

  The tenure of MGS is normally medium to long term up to 30 years. MGS are fixed-rate, coupon-bearing bonds with a bullet repayment of principal upon maturity. Coupon payments are made semi-annually. MGS is issued via competitive auction by Bank Negara Malaysia on behalf of the Government. Successful bidders are determined according to the lowest yields offered, and the coupon rate is fixed at the weighted average yield of successful bids.

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Read more about Malaysian Government bond at **BIX Malaysia article.**

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- **Malaysian Treasury Bills (MTB)**

  Short-term securities issued by Bank Negara Malaysia (BNM) for the government's working capital requirements. MTB are issued with original maturities of 3-month and 6-month, and 1-year.

- **Government Investment Issues (GII)**

  GII is long-term non-interest-bearing Government securities based on Islamic principles issued by the Government of Malaysia for funding developmental expenditure. GII is issued through competitive auction by Bank Negara Malaysia on behalf of the Government. Funds are used for development expenditures. GIIs are issued with original maturities of 3-year, 5-year, 7-year, and 10-year.

- **Malaysian Islamic Treasury Bills (MITB)**

  Short-term securities, based on Islamic principles, issued by BNM. MITBs are usually issued on a weekly basis with original maturities of 10year.

2.3.2 Corporate bonds

Corporate bonds are bonds issued by corporations or companies to fund for their operations or special projects. Typically, corporate bonds will be rated by credit agencies to determine capability to repay the loan to investors. However, they can also choose not to be rated, but they have to pay higher interest to investors. Here are some types of corporate bonds that are used in Malaysia:

- **Long-term bond**

  Long term bond has the maturity duration for more than a year. In Malaysia, for long term bond, we use Medium-term notes (MTN). It has medium-term of more than 1 year and may be issued both on conventional or Islamic principles and by direct placement or tender.

  Other than MTN, sukuk is also a long-term bond. Islamic bonds or sukuk, are structured in a way that they can yield returns just like the conventional bonds however in a way that is allowed in Islam, without any prohibited elements such as riba or interest. Sukuk investors are entitled to the ownership of the underlying assets of the investment. Hence, the issuers of Sukuk have obligations to distribute the profits from the underlying assets to sukuk investors. The sale of sukuk relates to the sale of a proportionate share in the assets. More about sukuk can be read here on our BIX website.

- **Zero coupon rate**

  A regular bond usually will make interest payments on every interval payment, while a zero-coupon rate bond will pay the payment in lump-sum by the end of the maturity period. An example of a zero-coupon rate bond in Malaysia is Khazanah Nasional Berhad.

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- **Corporate Guarantee bond**

  A corporate government-guaranteed bond is a bond which the payment of interest and principal are guaranteed by the government. The payment will be made by the government as the final option in the worst-case scenario, such as bankruptcy or insolvency. Besides government, other third parties such as bond insurance companies, fund entities, or parents companies of subsidiaries can also be a guarantor for the bonds issued by corporations. In Malaysia, an example of corporate guarantee bonds is Musteq Hydro.

- **Perpetual bond**

  Perpetual bond is a bond with no maturity date. Therefore, issuers have to pay the interest forever, and the principal will never be redeemed. Due to this structure of a perpetual bond, it is more treated as equity rather than as a debt. Perpetual bonds may not have a fixed maturity date, but that does not mean that a perpetual will never mature. Investors should be aware of call dates which can be exercised at the option of the issuer.

Apart from government, corporates are the largest bond issuer in the Malaysia's security market. Having the different types of bond structures and features will enable the investors to diversify their portfolio.

2.3.3 Types of sukuk

A sukuk is an Islamic bond or a financial certificate that comply with Shariah law. There are different types of Sukuk which each type is for different purpose and function. Here are some types of sukuk:

- **Sukuk Mudharabah (profit-sharing)**
  It is a certificate that represents projects or activities that are managed on the basis of a mudharabah (partnership based on trust) contract. There will be one party/partner called the mudarib who will manage the project. Besides the mudarib, there is another partner called robbul-mal (owner of capital) who is the capital provider of the project and own shares in the mudarabah equity where his/her returns will follow the percentage of ownership share. The mobilised funds are the mudharabah capital. In this transaction, the investors are the robbul-mar (capital owners) and the certificate holders of the assets of mudharabah.

  The profit from the investment activity is shared between both parties based on a pre-agreed ratio depending on how well the asset or project performs. They are also the capital providers and bear the losses if any, except if it was due to negligence or mismanagement of the venture.

  In a mudharabah sukuk, the sukuk holders are the silent partners, who don't participate in the management of the underlying asset, business, or project. The working partner is the sukuk obligator or issuer. The sukuk obligator/issuer, as the working partner, is generally entitled to a fee and/or share of the profit, which is spelled out in the initial contract with investors.

- **<u>Sukuk Musyarakah (profit and loss sharing)</u>**
  In its simplest form, a musyarakah arrangement is a partnership arrangement between two (or more) parties, where each partner makes a capital contribution to the partnership, in the form of either cash contributions or contributions in kind. The musyarakah partners share the profits of the musyarakah in pre-agreed proportions and share the losses of the musyarakah in proportion to their initial capital investment.

  Upon default or maturity, the issuing entity issues a promise to musyarakah units from the SPV at an agreed price. Musyarakah sukuk can be treated as negotiable instruments and can be bought and sold in the secondary market.

  Losses of the musyarakah must be shared by the partners in proportion to their capital contributions to the musyarakah. The ratio of profit sharing must be agreed at the outset and, unlike losses, does not have to be in proportion to each partner's capital contribution.

- **<u>Sukuk Murabahah (cost-plus sale/deferred payment)</u>**
  In the Islamic finance industry, the term murabahah is broadly understood to refer to a contractual arrangement between an investor (the seller) and an originator (the purchaser) whereby the investor would sell specified assets or commodities to the originator for spot delivery in the expectation that the customer would be able to meet its deferred payment obligations under the murabahah agreement.

  The deferred price would typically include the cost-plus-profit-margin basis at which the investor had purchased the assets or commodities, plus a pre-agreed mark-up representing the profit generated from its involvement in the transaction.

  The payments of the deferred price from the originator may be structured as periodical payments on dates specified at the outset. This setup is a fixed-income type of sukuk, and the SPV facilitates the transaction between the sukuk holders and the obligator.
  Murabahah sukuk cannot be legally traded at the secondary market, as the certificates represent a debt owing from the subsequent buyer of the commodity to the Sukuk holders and such trading in debt on a deferred basis is not permitted by Shariah.

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Read more about different types of sukuk contracts in Malaysia

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- **<u>Sukuk Al-Wakalah (Agent)</u>**
  An investor appoints an agent (wakeel) through SPV to invest funds provided by the investor into a pool of investments or assets, and the wakeel lends his/her expertise and manages those investments on behalf of the principal for a particular duration to generate an agreed-upon profit return. The SPV and wakeel enter into a wakalah agreement, which will govern the appointment, scope of services and fees payable to the wakeel, if any.

  The wakalah structure comprises a pool or portfolio of assets or investments as opposed to a particular tangible asset or assets. This will leave the investors with choices of investment portfolios. The wakeel thereby uses its expertise to select and manage investments on behalf of the investor to ensure that the portfolio will generate the expected profit rate agreed by the principal.

  The profit is divided between the parties according to certain ratios, an investor via a wakalah structure will only receive the profit return agreed between the parties at the outset. Any profit in excess of the agreed-upon profit return will be kept by the wakeel as a performance or an incentive fee. The wakeel is not held to be a partner in the arrangement and therefore, does not need to share the risk of loss in the agreement.

- **<u>Sukuk Ijarah (leasing)</u>**
  In the Islamic finance industry, the term ijarah is broadly understood to mean the 'transfer of the *usufruct of an asset to another person in exchange for a rent claimed from him' or, more literally, a "lease".
  *(the legal right to use someone else's property temporarily and to keep any profit made from it)

  The basic idea of ijarah is that the investors (sukuk holders) are the capital providers of the asset and are entitled to receive a return when that asset is leased. In this scenario, the SPV (lessor) receives the sukuk proceeds from the investors; in return, each investor gets a portion of ownership in the asset to be leased. The SPV buys the asset from a seller. SPV then lease it back under an ijarah contract. The company that uses the asset and pays a rental fee to the SPV is called the lessee.

  However, the ownership of the asset itself is not transferred and will always remain with the SPV (lessor).

  Generally, in order for sale to be valid under Shari'a, the object forming the subject matter of the sale must be in existence and in the physical or constructive possession of the seller.

- **<u>Sukuk Salam (deferred delivery purchase)</u>**
  A salam contract may be construed as being synonymous with the objective of a forward sale contract. Forward sale contracts are generally forbidden under Shari'a unless the element of uncertainty (gharar) inherent in such contracts is effectively eradicated. For this reason, certain criteria must be met in order for a salam contract to be Shari'a compliant.

  In salam sukuk, the sukuk holders' (investors') funds are used to purchase assets from an obligator (seller) in the future. Investors pay in advance funds to the SPV in return for a promise to deliver a return at a future date. The SPV provides the money to the obligator (seller). This contract requires an agent (which may be a separate underwriter) who will sell the future assets because the investors want money in return for their investment — not the assets themselves. The proceeds from the sale (typically the cost of the assets plus a profit) are returned to the sukuk holders. Salam sukuk are used to support a company's short-term liquidity requirements.

- **<u>Sukuk Istisna' (Islamic project bond)</u>**
  Istisna' is a contractual agreement for manufacturing goods and commodities, allowing cash payment in advance and future delivery or a future payment and future delivery. A manufacturer or builder agrees to produce or build a well-described good or building at a given price on a given date in the future. Price can be paid in instalments, step by step as agreed between the parties. Istisna' can be used for providing the facility of financing the manufacture or construction of houses, plants, projects, and building of bridges, roads and highways.

  Istisna' sukuk are based on this type of contract. The investors (sukuk holders) are the buyers of the project, and the obligator is the manufacturer. The obligator (manufacturer) agrees to manufacture the project in the future and deliver it to the buyer through SPV, who (based on a separate ijarah contract) will lease the asset to another party (lessee) for regular payments or sell the asset to another buyer. The process of issuing istisna' sukuk begins when the obligator (manufacturer or contractor) and the SPV sign an istisna' contract.

  Sukuk istisna' are certificates that carry equal value and are issued with the aim of mobilising the funds required for producing products that are owned by the certificate holders and are quite useful for financing large infrastructure projects. Shari'a prohibition of riba precludes the sale of these debt certificates to a third party at any price other than their face value. Clearly, such certificates, which may be cashed only on maturity, cannot have a secondary market.

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Read more about different types of sukuk contracts in Malaysia

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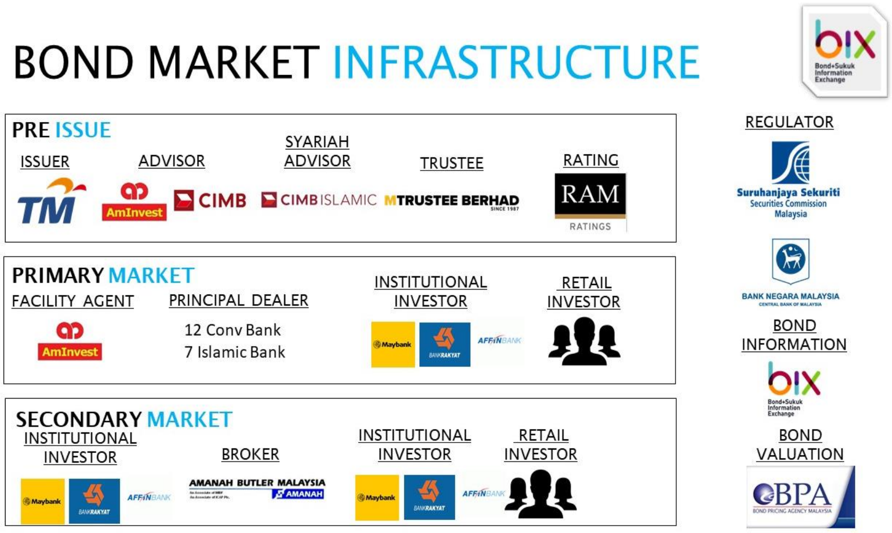
2.4 Bond and sukuk market infrastructure in Malaysia

Malaysian bond market infrastructure has indirectly pushed sukuk to be actively involved and continue to grow bigger. Malaysian sukuk market is the biggest in the world, and it has been steady and glued in the South East Asian's list position of leading global players of Islamic finance.



The increasing usage of Islamic bond is caused by several factors. First, sukuk provide a way for Muslim investors who need to invest in Shariah-compliant bonds. Secondly, sukuk is also another alternative for investors who are seeking for liquid and attractively priced instruments to obtain income. The strong demand by investors provides the opportunity for issuers to raise sukuk at a lower cost. Not forgetting, the Malaysian government is very supportive and have been actively involved in creating an efficient pricing process for Islamic securities through its issuance of Malaysian Treasury Bills and Malaysian Gov Investment Issues, that lead to the official Malaysian Islamic sukuk benchmark yield curve.

To learn more, please head on to our website

BIX Malaysia

Read more about Malaysian sukuk market infrastructure on **BIX Malaysia.**

The increasing usage of Islamic bond is caused by several factors. First, sukuk provide a way for Muslim investors who need to invest in Shariah-compliant bonds. Secondly, sukuk is also another alternative for investors who are seeking for liquid and attractively priced instruments to obtain income. The strong demand by investors provides the opportunity for issuers to raise sukuk at a lower cost. Not forgetting, the Malaysian government is very supportive and have been actively involved in creating an efficient pricing process for Islamic securities through its issuance of Malaysian Treasury Bills and Malaysian Gov Investment Issues, that lead to the official Malaysian Islamic sukuk benchmark yield curve.

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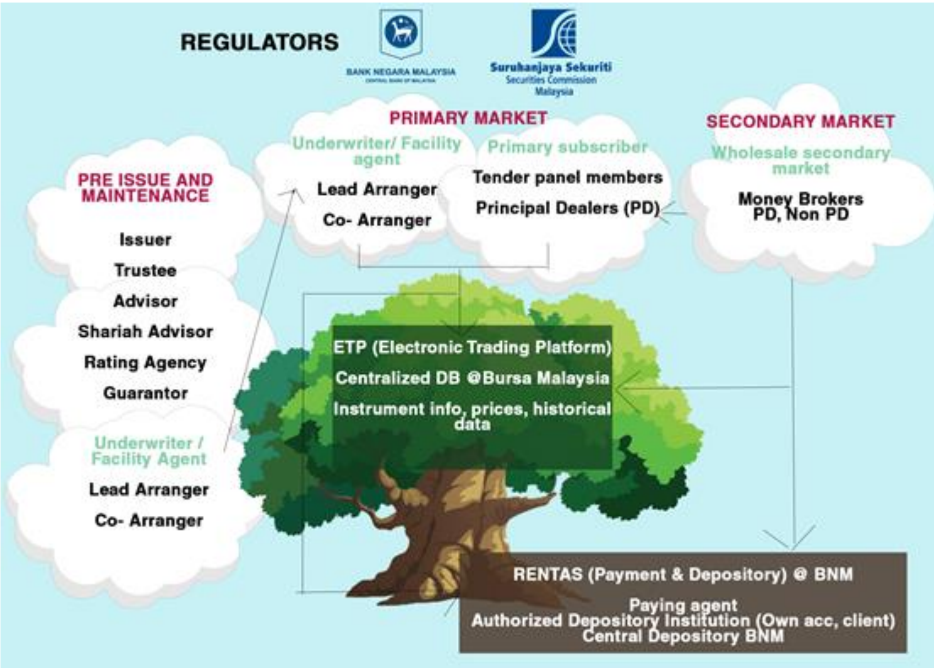


In Malaysia, the market infrastructure is the same for sukuk and conventional bonds and notes. Sukuk are traded over-the-counter (OTC) on the same registered electronic facilities as conventional debt securities, or as exchange-traded bonds and sukuk (ETBS) on Bursa Malaysia Securities (BMS). Trades are captured in the electronic trading platform (ETP) and cleared and settled via RENTAS.

Malaysia is also host to the Islamic Financial Services Board, an international standard-setting organization that promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, which is broadly defined to include banking and insurance sectors, and the capital market.

To learn more, please head on to our website

BIX Malaysia

The International Islamic Liquidity Management Corporation (the IILM) is an international institution established by central banks, monetary authorities, and multilateral organizations to create and issue short-term, Shariah-compliant financial instruments to facilitate effective cross-border Islamic liquidity management. The corporation is hosted by Malaysia and headquartered in Kuala Lumpur. As an international institution, it enjoys a range of privileges and immunities conferred by the International Islamic Liquidity Management Corporation Act, 2011.

In order to further spur the development of Islamic finance, in February 2016 Malaysia developed the marketplace IF, which provides access to the global community seeking financial solutions and services by linking them with Malaysia's Islamic financial institutions and professional ancillary services.

2.5 Key Features of Bond and Sukuk

2.5.1 Bond Issuer

Government entities or corporations that issue bonds are known as bond issuers. They issue bond to acquire financing for a specific need such as capital budget, working capital and a special project.

There are three types of bond issuers;

- **Government**
  Government issues bonds to fund for its administration and public projects and the government bonds are considered as the safest bond. Malaysian Government Securities (MGS) and Government Investment Issue (GII) are examples of Malaysian government bonds. The ratings of Government bonds are typically very high; however, it depends on the economic condition of the countries. Government's bond issued by developing countries is riskier than the one issued by developed countries.

- **Special Projects**
  Corporates or government may come up with a project that requires fund, and the bond will be matured once the project is completed. These bonds are tied up to a specific project, such as infrastructures, and some of these bonds are guaranteed by the government. A few examples of special projects in Malaysia funded by bonds are Kuala Lumpur International Airport 2 and My Rapid Transit (MRT) project, which were funded through sukuk and bond issued by Dana Infra Nasional Bhd respectively.

- **Corporates**
  The most common bonds are issued by corporates. Corporates issue bond when they need funds to finance a project or for working capital. Bonds issued by corporates will be rated by rating agencies, such as RAM and MARC in Malaysia.
  Even though corporates are rated by the rating agency, the bond that they issued could differ than the rating the corporate has. For instance, a company with a rating of AAA wholly may issue a bond of AA rating.

To learn more, please head on to our website

BIX Malaysia

2.5.2 Bond Maturity and Payment Schedules

Bond maturity is the remaining life of debt instrument. Bond maturity period begins from the day the bond was issued until the day the bond matures, or in certain cases when the project is completed. The maturity date can be determined by the issuer, and usually, it is as according to the completion of the task of the bond.

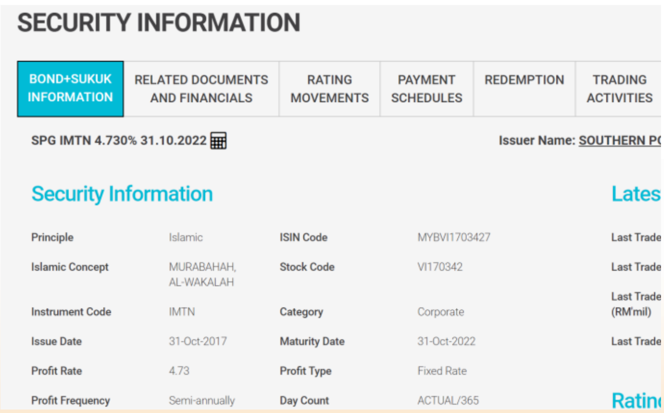
By the maturity date, issuers must redeem the bond by paying the principal. Before maturity date reaches, issuers pay coupons to bondholders. Bond maturity can be grouped into short term, intermediate term, long term and perpetual.

- Short term – 1 to 5 years
- Intermediate term - 5 to 12 years
- Long term - 12 to 30 years.
- Perpetual - Pay continuously without ending.

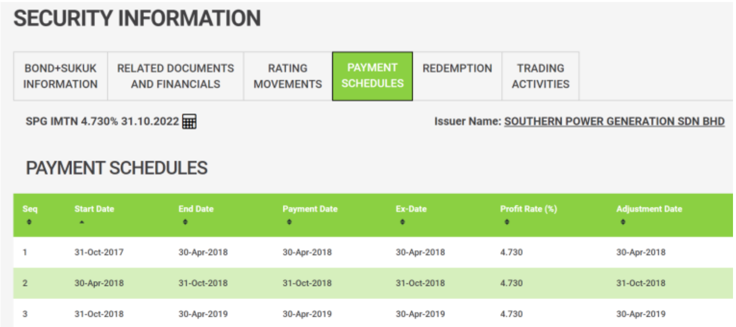
Bonds with longer maturity have a higher interest as to compensate for high risks of the long-term bond. A long-term bond is more volatile than the short-term one. As the tenure of the bond is longer, there would be many economic events that will take place, which can affect the value of bonds.

Payment schedule tells investors the historical date and the future date of the coupon payment throughout the bond's life.

You can find the information on maturity and payment schedule of the bond at BIX Malaysia by typing in the stock code of the bond in the comprehensive search function on BIX Malaysia homepage. Alternatively, you can also type in the issuer's name of the bond into BIX Issuer Search. The maturity information will be on the security information page , and the payment schedule information will be on the payment schedules tab.



Securities Information Page



SECURITY INFORMATION

BOND+SUKUK INFORMATION | RELATED DOCUMENTS AND FINANCIALS | RATING MOVEMENTS | PAYMENT SCHEDULES | REDEMPTION | TRADING ACTIVITIES

SPG IMTN 4.730% 31.10.2022

Issuer Name: SOUTHERN POWER GENERATION SDN BHD

PAYMENT SCHEDULES

Seq	Start Date	End Date	Payment Date	Ex-Date	Profit Rate (%)	Adjustment Date
1	31-Oct-2017	30-Apr-2018	30-Apr-2018	30-Apr-2018	4.730	30-Apr-2018
2	30-Apr-2018	31-Oct-2018	31-Oct-2018	31-Oct-2018	4.730	31-Oct-2018
3	31-Oct-2018	30-Apr-2019	30-Apr-2019	30-Apr-2019	4.730	30-Apr-2019

Payment Schedules Tab

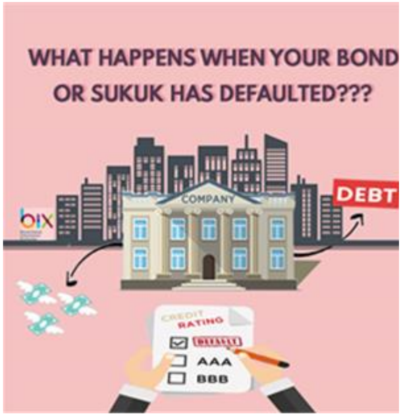
To learn more, please head on to our website

BIX Malaysia

2.5.3 Bond Covenant

A bond covenant is a legally binding term of agreement between the bond issuer and the bondholders or investors. The main function of the covenant is to protect the interest of both bondholders and the issuer. The bond or sukuk Principal Term & Condition ("PTC") document will have the details on the covenant that the issuer has to follow.

The PTC is a very important document that all investors need to read and go through as it summarizes the information on the sukuk and its issuer. Covenant is commonly divided into three types, which are positive covenants, negative covenants and financial covenant throughout the lifetime of bond or sukuk.



Find out what happens to the issuer and the bondholders when the bond or sukuk has defaulted

Article by BIX Read it here

2.5.4 Bond coupon and Yield

Bond coupon is the interest rate that the bond issuer pays every semi-annually or annually. A bond coupon rate is a percentage of its par value, which is the value of the bond at the time it was issued. For example, a RM1,000 bond that has a 4% coupon rate will pay RM40 of interest every year.

At first issuance, the yield of the bond will be equal to its coupon rate. However, once the bond is placed in the secondary market, the price will fluctuate, and so does the yield. Current yield is commonly used to measure the rate of return of bonds given its market price. For example, a RM 1,000 bond with a 6% coupon rate and a premium price of RM 1100 will have a 5.45% (RM 60/RM 1,100) current yield. On the other hand, the same bond sold at a discount price of RM 800 will have a 7.5% (RM 60/ RM 800) current yield. Thus, the lower the purchase price of bonds in the secondary market, the higher the current yield or return.

2.5.5 Ratings

Credit rating agencies like RAM and MARC rate the issuers' abilities to pay the coupon semi-annually and return the principal to investors at maturity. Corporate issuers can choose not to rate their bonds, but in this case, they need to pay a higher coupon payment to investors to compensate for the uncertainty of risks of the unrated bonds.

Government bonds such as MGS and GII are safer than corporate bonds, thus, they are not rated as the coupon payment and principal are guaranteed by the government.

Credit rating agencies will rate the bond based on issuers' probability of default and their capabilities to pay the expected payment to investors based on this rating tier;

AAA	Superior Capacity
AAA	Strong Capacity
A	Adequate Capacity
BBB	Moderate Capacity
BB	Weak Capacity
B	Very Weak Capacity
C	Likely to Default
D	Default

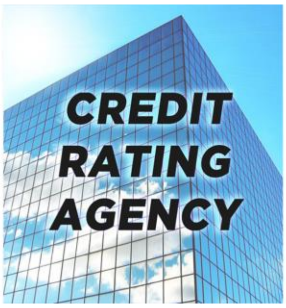
RAM Long Term Rating Tier

Bonds with a rating above A is considered safe investments with a low probability of default and the issuers have a strong financial capacity to return the principal at maturity.

To learn more, please head on to our website

BIX Malaysia

Read Article: Why is Credit Rating Important for Bond and Sukuk?



Read Article: Credit Rating Agency

2.5.6 Sukuk Contract

Bonds also have its Islamic counterpart, which is called sukuk. Sukuk has various types of contracts that vary from one transaction to another (Read different types of Sukuk contracts in Malaysia here). All sukuk contracts have a different structure that is approved by the Sharia body. Therefore, it is important for you to understand the risk associated with the said sukuk contract before investing.

When you search for a specific bond on BIX Malaysia, we provide the information on whether the bond is conventional or Islamic (sukuk) on the security information page. Alternatively, you can also read the PTC document of the bond. If the bond is Islamic, the type of contracts and how the transaction is conducted under the contract is explained in detail in the PTC document.

To learn more, please head on to our website

BIX Malaysia

PART 3 RISK OF INVESTING IN BOND AND SUKUK

Like any investment, bond & sukuk also offer a balance of risk and return. A bond is a loan that the bond purchaser, or bondholder, makes to the bond issuer. If an investor buys a corporate bond, the investor is lending money to the corporation. Like a loan, a bond pays interest periodically and repays the principal at the stated maturity date. Although bonds are perceived as among safer investments compared to other asset classes, there are still some risks a bondholder need to be aware of.

In bond and sukuk market, the definition of risk is the outcome of your investment goals would not be realized in the time period that you invested. The balance between risk and return varies by the type of investment, the entity that issues it, the state of the economy, and the cycle of the securities markets. As a general rule, to earn higher returns, you have to take a greater risk. Conversely, the least risky investments also have the lowest returns.

Here are some of the risks that are usually involved in the bond and sukuk investment.

3.1.1 Interest rate risk

Interest rate risk is the probability of a decline in the value of an asset resulting from unexpected fluctuations in interest rates. Changes in the interest rate can influence the bond prices movement. Bonds and interest rate have an inverse relationship; thus, when the interest rate rises, the price of the bond will move downtrend.

To illustrate the interest rate risk, let say if the interest rate rises, the value of bonds or its prices decline. Bondholder will suffer losses from declining prices, especially when they want to sell the bond in the secondary market. However, interest rate risk would not be a concern to bondholders who intend to keep the bonds until maturity, as they will receive their initial investment back.

3.1.2 Inflation risk

Inflation is an increase in the price of good and services in a country. As prices rise, a single unit of currency loses value as it buys fewer goods and services than it used to. The rising of prices, also known as inflation, will impact the cost of living in certain places. The cost of doing business, mortgages, and bond yield will be affected by this.

Inflation is one of the bond's worst enemy as it reduces the future value of the bond. What we invest now is not going to earn us the same value later. For example, if we buy a bond worth of RM1,000 with a maturity of 5 years. By the time the bond matures, RM1,000 in the next 5 years do not have the same value as RM1,000 now. This is due to inflation.

To overcome this, a country's central bank takes the necessary measures to keep inflation within permissible limits and keep the economy running smoothly. In Malaysia, BNM uses Overnight Policy Rate (OPR) to control the inflation rate.

To learn more, please head on to our website

BIX Malaysia

INFLATION INFO!

- Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling.
- Most commonly used inflation indexes are the Consumer Price Index (CPI) and the Wholesale Price Index (WPI).
- Inflation can be viewed positively or negatively. Individuals with tangible assets, like property or stocked commodities, may like to see some inflation as that raises the value of their assets. People holding cash may not like inflation, as it erodes the value of their cash holdings.
- Ideally, an optimum level of inflation is required to promote spending to a certain extent instead of saving, thereby nurturing economic growth.

To learn more, please head on to our website

BIX Malaysia

Read more on risk and return of investing in bond and sukuk

Article by BIX Read it here

3.3 Credit rating risk

Credit rating is a third-party assessment about the creditworthiness of an individual or entity – an individual, corporation, state or provincial authority, or sovereign government who is going to issue bonds. It sets a prediction on their ability to pay back the debt and calculate the probability of default by the issuers. In Malaysia, we have RAM and MARC, which are the rating agencies to rate bonds.

How can credit rating be a risk for investors? The key here is what investors decide. When the rating of a corporate bond is lowered, the price will reduce as well. The reality is, however, that it is not the credit rating going down that directly lowers the price. A lot of other factors can contribute to why credit rating is lowered, such as no management incentive. Most investors decide that when a firm has a lower bond rating than their previous screening, the bond price would be reduced.

3.4 Reinvestment risk

Reinvestment risk is a risk that investors will receive a lower return when they reinvest the money in new or other securities. For example, when a 2-year RM 1,000 bond with an interest rate of 4% has reached maturity, the prevailing interest rate goes down to 3%. Hence, when the investors want to reinvest their money in new bond after the previous one matured, they receive less rate of return. In a low interest rate environment, reinvestment risk is higher for callable bonds. The issuers can redeem the bond before maturity to take the opportunity to issue a bond with a lower interest rate. Investors will lose the expected future coupon payment, and they have to reinvest in a bond with a lower rate than the previous one.

PART 4 WHERE TO FIND INFORMATION ABOUT BONDS

Getting bond quotes and general information about a bond issue is considerably more difficult than researching a stock or shares. A major reason for this is that there is not a lot of individual investor demand for the information; most bond information is thus available only through higher-level tools that are not accessible to the average investor.

In most cases, if you have a brokerage account, you will have access to that firm's research tools, which may include bond quotes and other information. This is the first place that you should look when seeking bond information.

But what happens when you want a variety of information? As now bond has been more accessible to buy and invest since retail bonds are available, a platform to easily find the right bond should be provided. Seeking the information from one website to another is a hassle, especially when there are many bonds that you want to compare to.

That is when BIX Malaysia was introduced, in 2017 to help budding investors to gain as much information and knowledge available about bond in the Malaysian market.

To learn more, please head on to our website

BIX Malaysia

4.1 BIX Malaysia

The Bond and Sukuk Information Exchange or BIX is a non-profit information platform established to provide free public access to information on bonds and sukuk issued in Malaysia. BIX Malaysia provides a wealth of comprehensive and up-to-date information on the Malaysian bond and Sukuk market and is expected to increase transparency in both the primary and secondary markets and at the same time, facilitate increased awareness of investors, including retail investors in bonds and Sukuk. BIX was launched on 6 November 2017.

BIX Malaysia is a subsidiary of Securities Commission Malaysia, with the aim to help and educate the public about bonds. Information that is gathered on the website is taken from Bank Negara Malaysia, Securities Commission Malaysia, and Bursa Malaysia. The website will be updated daily, therefore users will be informed with the latest data and information.

To learn more, please head on to our website

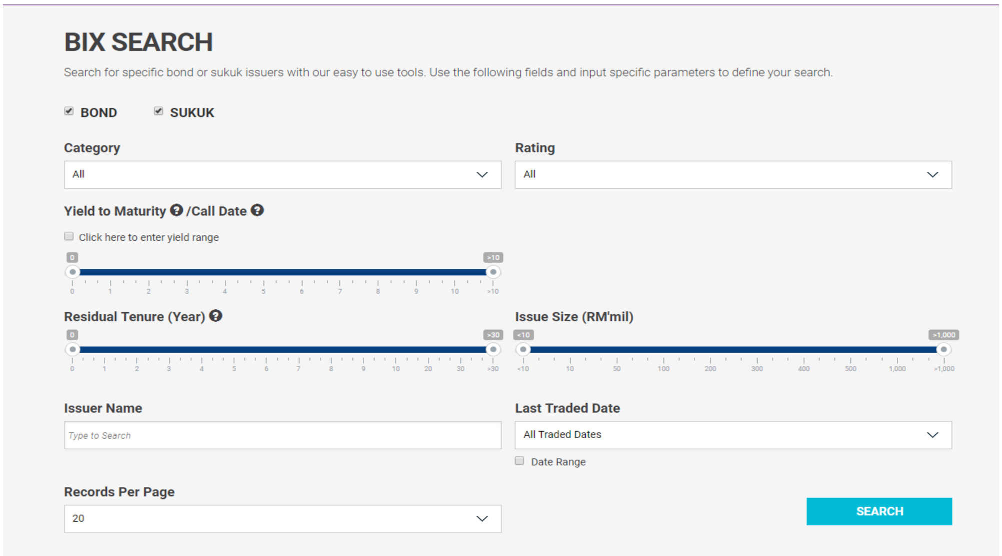
BIX Malaysia

Searching for bond and sukuk has never been easier before BIX Malaysia comes in the way. Navigate BIX Malaysia for Malaysia's bond and sukuk information.

WATCH TUTORIAL

4.1.1 BIX Search function

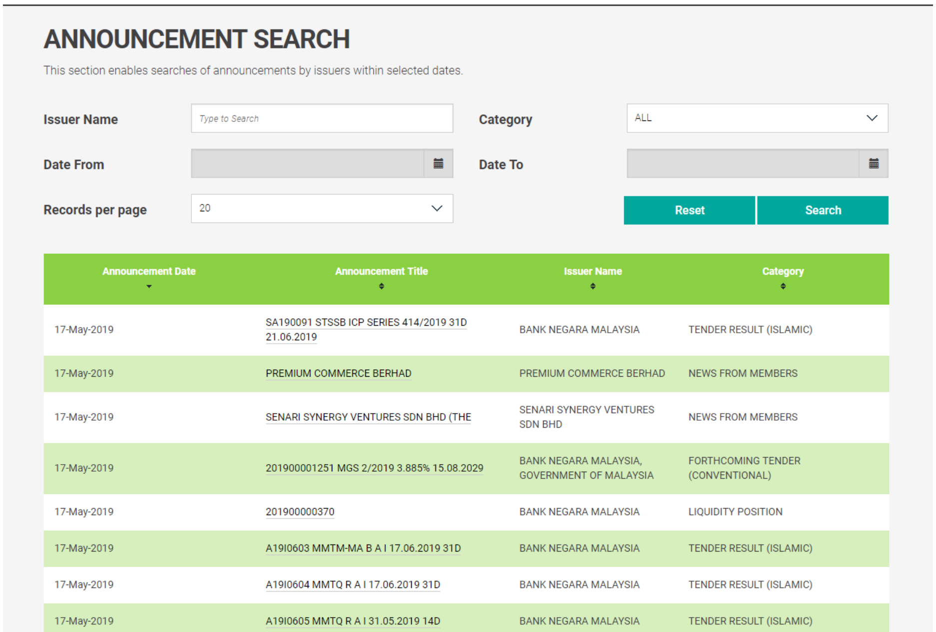
BIX search function has made bond and sukuk information to be only one click away. BIX search function gives the option for you to find the right bond or sukuk based on your preferences. You can select the category, rating, yield, residual tenure, issue size, or even search the name of the bond that you want to know.



After your search is completed and you select the bond you are interested in, you can get more information about the bond, from security information and ratings to trading activities. Issuance documents are also downloadable from here, such as Principal Terms and Conditions, Information Memorandum, Trust Deed and other documents that are allowed by the company to be published to the public.

4.1.2 BIX Announcement

BIX Announcement is the platform where investors can get news from firms. It has a lot of categories such as BNM Special Announcement, Expiry/Maturity of Securities, Forthcoming Tenders, General Announcement and more. However, what most investors would like to know would be Rating Announcement, whether the bond is upgraded or downgraded. And secondly News From Member, where investors can find information on new bond issuance, redemption or bondholder meeting.

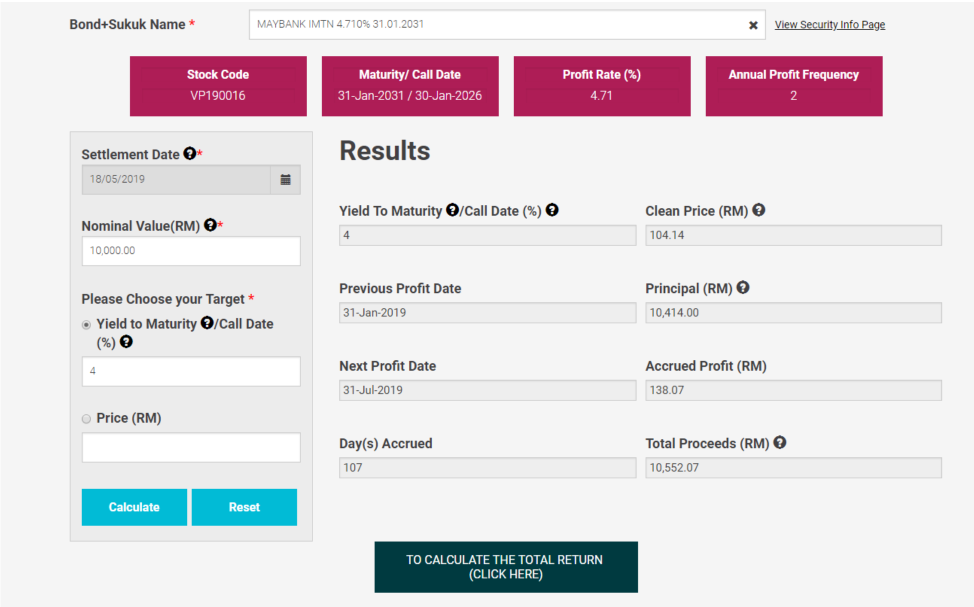


4.1.3 BIX Calculator

The BIX Calculator helps to calculate the price or yield of bond that you are interested in. All you need to do is to key in the information such as bond and sukuk name, settlement date, nominal value, and the yield to maturity or the price. The result will show the yield or the price based on what information you have keyed in.

To learn more, please head on to our website

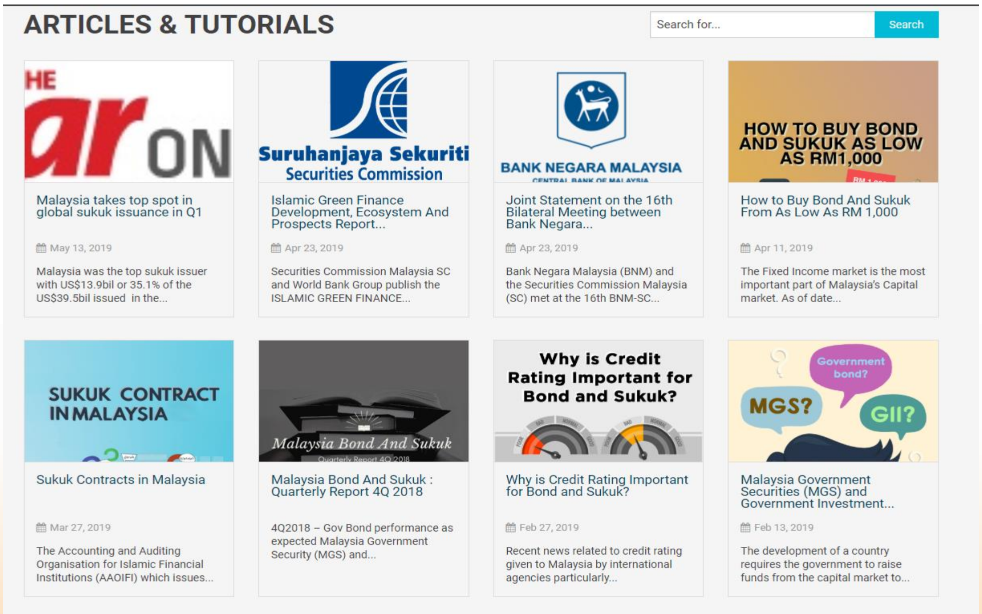
BIX Malaysia



Example of BIX Calculator with the filled in information.

4.1.2 BIX Learning Centre

New to the bond market? Want to learn more about bond and sukuk in Malaysia? Worry no more, that is where BIX Learning Centre comes in. Divided into three segments, Articles and Tutorials, Video and Audio Gallery, and Bond + Sukuk Glossary. Articles are updated every month. Information about the basic of sukuk, Malaysian bond market, and more can be found here. Video and Audio Gallery explains about BIX Malaysia and how the system works.



4.2 Other Related Partners

The establishment of BIX Malaysia is through the help of these following partners:

4.2.1 SC Website

The Securities Commission Malaysia is a statutory body entrusted with the responsibility of regulating and systematically developing the capital markets in Malaysia. It has the power to enforce the law that regulates the capital market and sue any entities who break the law. Any entities who want to issue bonds has to go through the Securities Commission first before they can legally issue the bond. The Securities Commission Malaysia is a self-funded statutory body established on 1 March 1993 under the Securities Commission Act 1993 (SCA).

Suruhanjaya Sekuriti
Securities Commission
Malaysia

In 2017, The Securities Commission Malaysia announced the liberalisation of its regulatory framework to facilitate greater retail access to the RM1.3 trillion Malaysian bond and sukuk market. The liberalisation forms part of the SC's continued efforts to further develop this market, currently the third largest in Asia (relative to GDP) and the world's largest sukuk market. The liberalised framework for retail investors is complemented by the centralised online information platform, Bond + Sukuk Information Exchange Malaysia (BIX Malaysia), established by the SC in November 2017. BIX Malaysia enables investors to obtain necessary information on ringgit bonds and sukuk to assist in their investment decisions.

4.2.2 BNM Fast & Bond Info Hub

Fully Automated System for Issuing/Tender (FAST) is a system to facilitate the primary bond issuance and other money market instruments approved by Bank Negara Malaysia. The securities are either issued via tender or through private placement.

FAST website is accessible to the public except for the primary market issuance functions, which is limited only to the members. Any financial institutions regulated by Bank Negara Malaysia and other domestic and international institutions can apply for FAST membership by following the procedures highlighted in the Operational Procedures for Securities Services.

As of today, the participated institutions in FAST include Malaysian banks, asset managers, multilateral financial institutions, sovereign wealth funds as well as sovereign banks. BIX Malaysia received daily updates from BNM Fast, and it is available for public on the BIX website.

To learn more, please head on to our website

BIX Malaysia

4.2.3 Bursa Malaysia

Bursa Malaysia is the stock exchange of Malaysia. Any share trading, listing, clearing, settlement, and depository services are available at Bursa Malaysia. In addition, the Exchange offers other investment choices which include collective investment schemes such as Exchange Traded Funds (ETFs), Real Estate Investment Trusts (REITs), Exchange Traded Bonds and Sukuk and Business Trust (ETBS). The Bursa Malaysia has listed over 900 companies with 60 economic activities making it one of the largest bourses in ASEAN. Bursa Malaysia lists large-cap established companies in its Main Market and lists emerging companies of all sizes in its ACE Market.

Bursa Malaysia helps alongside with BIX Malaysia by giving all information about bond and sukuk. BIX Malaysia website could not have operated smoothly without the help from Bursa Malaysia. At regular time intervals, new information on bond and sukuk will be updated on the website such as trading price, trading activities, and many more.

To learn more, please head on to our website

BIX Malaysia

4.2.4 BPAM Pricing Agency

BPAM started operating in 2004 under Securities Commission as a bond pricing agency (BPA). BPAM is one of the official sources to get prices on Malaysian Ringgit bonds. It is the global market standard for daily, end-of-day evaluated prices covering all Malaysian Ringgit bonds and sukuk.

BIX Malaysia refers to BPAM for Corporate AAA yield information, and we publish this information to our users on our daily news update.

4.2.5 Rating Agency

Rating agency is an independent company that assesses government or company's financial strength i.e. the ability to meet principal and interest payments on government or company's debts by giving unique letter-based scores. In Malaysia, there are only two Securities Commission approved rating agencies - RAM Ratings and Malaysian Rating Corporation Bhd. (MARC). There are also other international and big rating agencies such as Standard and Poor's (S&P), Moody's Investors Service (Moody's) and Fitch Ratings.

These rating agencies provide information on the potential default risk of the bond. The risk that issuers will not pay back the required payments to investors. Rating agencies will rate either AAA as being the highest credit quality or all the way down to D as being default. There are different tiers used in credit rating, which every tier indicates different meanings. You can learn more about credit ratings and its importance in this article "Why is Credit Rating Important for Bond and Sukuk?" On Bix Malaysia website under the Market Insights tab, we provide the latest report and announcement from both RAM ratings and Malaysian Rating Corporation Bhd (MARC). Bix Malaysia makes it easy for users to find credit rating information by consolidating all the information from both rating agencies under one website.

PART 5 BOND BUYING CHECKLIST

5.1 Checklist

Now that you have the fundamental knowledge about bond and sukuk, it is time to move on to the next step: buying bonds and sukuk.

Bonds can be bought via either over-the-counter market, exchange or bond fund. However, throughout this e-book, we are going to focus on buying bonds via over-the-counter market. There are hundreds of bonds and sukuk to choose from in the market, but it is always a good choice to invest in a bond with a good credit standing and a bond that meets with your risk-reward appetite. Therefore, to ensure that you choose the right bond for yourself, here is the information that you need to check and assess before deciding which bonds to buy.

Bond Buying Checklist

- [ ] Securities Information
- [ ] Related Document and Financials
- [ ] Rating Movement
- [ ] Payment Schedule
- [ ] Trading activities

Good news is you can assess all the items on the checklist by using **BIX Search** where we have consolidated all the bond's information for you. You just have to type in the issuer name or other details about the bond, and **BIX Search** will list the bond's information for you.

To learn more, please head on to our website

BIX Malaysia

Find out more information about your bond with BIX Search

Just type in the **ISSUER NAME** and click **SEARCH.**

BIX Malaysia - Searching For The Right Bond and Sukuk

WATCH TUTORIAL

Watch this tutorial on how to do bond buying checklist with BIX Search.

5.1.1 Securities Information

Security information tells you the basic but important features of the bond such as coupon rate, yield, maturity, the principle of the bond either it is conventional or Islamic. These are the first things that you need to know before buying a bond.

EDRA ENERGY IMTN 6.030% 05.01.2029 - Tranche No 15

Security Information

Principle	Islamic	ISIN Code	MYBVO1800163
Islamic Concept	MURABAHAH, AL-WAKALAH	Stock Code	VO180016
Instrument Code	IMTN	Category	Corporate
Issue Date	05-Jan-2018	Maturity Date	05-Jan-2029
Profit Rate	6.03	Profit Type	Fixed Rate
Profit Frequency	Semi-annually	Day Count	ACTUAL/365
Issue Tenure (Years)	11	Residual Tenure (Years)	9.48

For example, as shown above, the security information tells that EDRA ENERGY IMTN 6.030% 05.01.2029 - Tranche No 15 bond is an Islamic bond (Sukuk) that pays 6.03% of profit rate and the Sukuk matures in 9.48 years on 05 January 2029.

In other words, securities information gives you an idea of how much the bond is paying for coupon rate or profit rate for sukuk as well as how many years left until maturity and other relevant information

To learn more, please head on to our website

BIX Malaysia

Navigating BIX

WATCH TUTORIAL

Watch this tutorial to learn more about BIX Malaysia and how we can help you find information on Bond and Sukuk.

5.1.2 Related Document and Financial

When you made a purchase of a bond or sukuk, you have technically entered into an agreement with the issuer. Thus, it is important for you to know your rights as a bondholder and the issuers' obligations to you. These binding terms are known as bond covenants, which are commonly classified into three categories: positive covenants, negative covenants, and financial covenants.

Positive covenants highlight the terms that the issuers should do throughout the bond's life. Negative covenants highlight the issuers' promises not to do something throughout the bond's life. Financial covenants stated the financial ratio that the issuer have to maintain throughout the bond or sukuk lifetime.

On top of covenants, there are also provisions in the agreement which describe situations that might happen or the actions that will be taken under certain circumstances such as dissolution or bond buy-back.

All the terms of the agreement can be found under the Principal Terms and Conditions (PTC) document. You can follow the guidelines **here** to access this document through the Related and Financial Document tab on the BIX website. Other than PTC, there are some other important documents that you might want to read, such as Trust Deed and Information Memorandum.

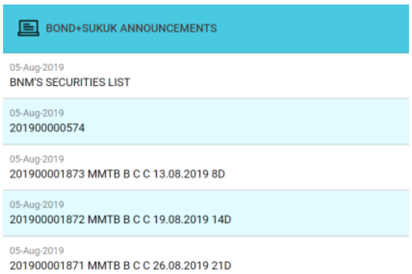
To learn more, please head on to our website

BIX Malaysia

Covenants topic are beyond its definition, so if you want to find out more, you can read our article **"What is bond and sukuk covenant and why is it important?"**

5.1.3 Rating Movement

Throughout the bond's tenure, it is possible for its rating to be either upgraded or downgraded by the credit rating agencies. Many factors contribute to this adjustment. At some point, the issuer might experience a difficult business situation that takes a toll on their cashflows. The credit agencies would see this as a risk that the issuer might default on the bond as they do not have sufficient cash flows to make the repayment, hence, downgrading the bond.



- **BIX Malaysia updates recent rating announcements from RAM and MARC daily so our website users won't miss out!**

Visit BIX Malaysia to follow up the rating movement of your bonds.

In an opposite situation, the bond that starts with only a medium credit quality at the first issuance could be upgraded to the next best tier such as from BBB to A. This upgrade reflects that the issuer's company has been improved with stronger cash flow; thus, the default risk is lowered.

By checking the rating movement of a bond, you will know how the credit standing of the issuer has changed over time, and it is not really a good sign if it goes down across the rating tier.

AAA	Superior Capacity
AAA	Strong Capacity
A	Adequate Capacity
BBB	Moderate Capacity
BB	Weak Capacity
B	Very Weak Capacity
C	Likely to Default
D	Default

RAM long term rating tier

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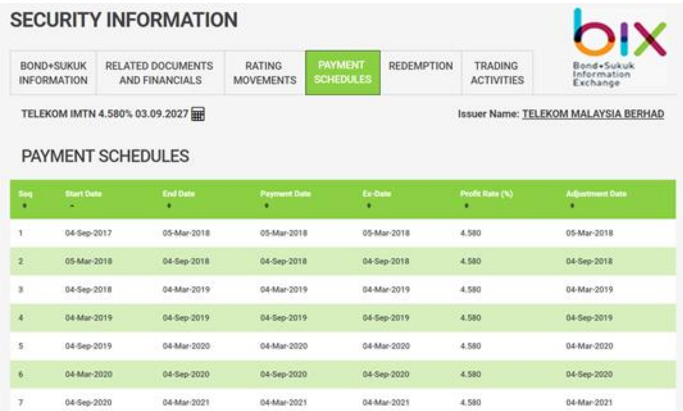
5.1.4 Payment Schedule

As you know, investing in bond entitle you to receive interest on a semi-annual or annual basis. The payment schedule is already pre-determined; therefore, you can find out the future payment date of your coupon under the payment schedule tab on the BIX website.


SECURITY INFORMATION

BOND+SUKUK INFORMATION | RELATED DOCUMENTS AND FINANCIALS | RATING MOVEMENTS | PAYMENT SCHEDULES | REDEMPTION | TRADING ACTIVITIES

TELEKOM IMTN 4.580% 03.09.2027

Issuer Name: TELEKOM MALAYSIA BERHAD

PAYMENT SCHEDULES

Seq	Start Date	End Date	Payment Date	Ex-Date	Profit Rate (%)	Adjustment Date
1	04-Sep-2017	05-Mar-2018	05-Mar-2018	05-Mar-2018	4.580	05-Mar-2018
2	05-Mar-2018	04-Sep-2018	04-Sep-2018	04-Sep-2018	4.580	04-Sep-2018
3	04-Sep-2018	04-Mar-2019	04-Mar-2019	04-Mar-2019	4.580	04-Mar-2019
4	04-Mar-2019	04-Sep-2019	04-Sep-2019	04-Sep-2019	4.580	04-Sep-2019
5	04-Sep-2019	04-Mar-2020	04-Mar-2020	04-Mar-2020	4.580	04-Mar-2020
6	04-Mar-2020	04-Sep-2020	04-Sep-2020	04-Sep-2020	4.580	04-Sep-2020
7	04-Sep-2020	04-Mar-2021	04-Mar-2021	04-Mar-2021	4.580	04-Mar-2021

The payment schedule lists the historical payment of the coupons. You can use this historical information to know whether the issuers delivered the coupon payment on time or not in the past. Some delays in the past might not be a big deal as long as investors got paid, but it is worth to know the pattern.

5.1.5 Trading Activities

Last but not least, you can check the trading activities of the bond to see its liquidity. Liquidity here means how easy you can buy or sell the bond in the secondary market. Frequent trading activities mean that the bond is always on demand, and there are always buyers or sellers of the bond in the market. Thus, a bond with frequent trading activities is perceived as more liquid compared to other bonds that traded less frequently. Liquidity of a bond is important to investors who do not intend to keep the bond until maturity; instead, they want to sell the bond in the secondary market once the market price surpasses the par value.

SECURITY INFORMATION

BOND+SUKUK INFORMATION | RELATED DOCUMENTS AND FINANCIALS | RATING MOVEMENTS | PAYMENT SCHEDULES | REDEMPTION | TRADING ACTIVITIES

Bond+Sukuk Information Exchange

TELEKOM IMTN 4.580% 03.09.2027

Issuer Name: TELEKOM MALAYSIA BERHAD

TRADING ACTIVITIES

Trade Date	Input Time	Amount (RM'mil)	Price	Yield (%)	Value Date
26-Jul-2019	04:43:05 PM	5	105.39	3.80	31-Jul-2019
26-Jul-2019	04:42:47 PM	5	105.35	3.81	31-Jul-2019
04-Jul-2019	05:22:23 PM	5	105.01	3.86	08-Jul-2019
04-Jul-2019	03:47:53 PM	5	104.94	3.87	08-Jul-2019
04-Jul-2019	03:27:50 PM	5	105.01	3.86	08-Jul-2019
04-Jul-2019	03:22:19 PM	5	104.98	3.86	08-Jul-2019

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PART 6 HOW TO GET STARTED

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Traditionally, bond and sukuk are costly to invest in. They are sold at a minimum price of RM 250,000 per odd lot, making these asset classes a privilege to institutional investors and high-net-worth individuals only. However, in 2018, the Securities Commission Malaysia came up with a mechanism to make bond and sukuk market more accessible and affordable to all investors, regardless of their income levels. The Securities Commission introduced the Seasoned Bond and Sukuk Framework to facilitate the distribution of bond and sukuk to retail investors. In addition, it also has liberalized the bond and sukuk issuance framework to retail investors.

6.1 Eligible Issuers

Only certain issuers are eligible to issue corporate bonds or sukuk as defined under the Guidelines on Issuance of Corporate Bond and Sukuk to Retail Investors by the Securities Commission. The eligible issuers include;

(a) A public company whose shares are listed and quoted on a stock exchange;
(b) A licensed bank, licensed investment bank or licensed Islamic bank;
(c) Cagamas Bhd;
(d) Danajamin Nasional Bhd;
(e) and others which you can read further here.

Under the Qualified Issuer Framework, these eligible issuers can apply to become a qualified issuer which they can issue bonds or sukuk to retail investors without a prospectus, but they are required to provide investors with a Product Highlight Sheet prepared in accordance with the Guidelines on Sales Practices of Unlisted Capital Market Products.

To become a qualified issuer, eligible issuers must have issued or guaranteed bonds with an aggregate amount of at least RM500 million in the past five years. The bonds to be issued also must have a minimum credit rating of AA- (or its equivalent).

6.2. Seasoned Bond for Retail Investors

The Securities Commission introduced the Seasoned Bond and Sukuk Framework to facilitate the distribution of bond and sukuk to retail investors. The bond or sukuk that is distributed under this framework is called seasoned bond/seasoned sukuk. Under this framework, sophisticated investors will purchase bonds in a large denomination via primary issuance first, and then this bond will be re-denominated into smaller lot sizes and sell it to retail investors in the secondary market. This bond with a smaller denomination is cheaper for retail investors to purchase compared to buying it in a large denomination at primary issuance.

However, only certain types of bonds are eligible to be distributed to retail investors in the secondary market as listed below;

i. Plain vanilla bonds issued by eligible issuers: and

ii. perpetual and subordinated bonds issued by:

   (a) licensed banks, licensed investment banks and licensed Islamic banks;
   (b) the holding company of any of the entities in (a); or
   (c) a special purpose vehicle that is a public company established by any of the entities in (a) or (b) for the purpose of issuing bonds to meet capital adequacy requirements.

In addition, only bonds that have been issued for a period of at least 12 months in the primary market can be distributed to retail investors.

6.3 Eligible Distributor

Retail investors can buy bond or sukuk from eligible distributors as defined by the Securities Commission under its Guidelines on Seasoned Bond and Sukuk. The eligible distributors are listed as followed:

(a) A licensed bank;
(b) A licensed investment bank;
(c) A licensed Islamic bank;
(d) A holder of a Capital Markets and Services Licence for dealing in securities; and
(e) A holder of a Capital Markets and Services Licence for dealing in securities restricted to over-the-counter bonds

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PRIMARY ISSUANCE

When bond was first issued and sell to investors via principal dealers.

SECONDARY MARKET

Market where investor buy and sell securities they already own. Example of secondary market is Bursa Saham Malaysia.

SOPHISTICATED INVESTOR

Investors typically organizations or businesses who have knowledge and expertise in investments.

RETAIL INVESTOR

Public people who make investment and not a large organization or a high-net-worth individual.

SEASONED BOND

A bond that has been re-denominated into smaller sizes and cheaper than a large-denominated bond.

To learn more, please head on to our website

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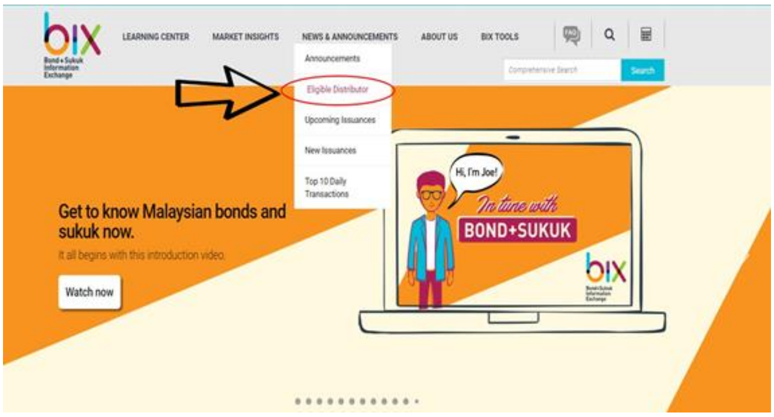
BIX Malaysia will update the list of eligible distributors on its website from time to time. You can get access to this list via "News and Announcement" tab and then click on the "eligible distributor" in the second row as shown below



However, as of this writing, there is only one eligible seasoned bond/Sukuk distributor known as iFast Capital Sdn Bhd. iFast Capital Sdn Bhd is the first eligible distributor in Malaysia which they provide an online platform for retail investors to transact seasoned bond and Sukuk. There are numbers of bond with competitive coupon rates listed on the online platform, but most importantly, you can start investing in these bonds from as low as RM 1,000.

PART 7 BASIC BOND INVESTING STRATEGY FOR RETAIL INVESTORS

To learn more, please head on to our website

BIX Malaysia

Did you know?

- Inflation Rate in Malaysia averaged 3.54 percent from 1973 until 2019, reaching an all-time high of 23.90 percent in March of 1974 and a record low of -2.40 percent in July of 2009.

Bonds can be a leverage for you to use in preserving and accumulating wealth as well as to achieve your financial goals, and here's how:

7.1 Fight against inflation

Inflation is a macroeconomic event where the general price of goods and services rises, thus decrease the value of your money and your purchasing power.

To illustrate how inflation reduces your purchasing power, let say 10 years ago you could buy two cans of Pepsi with RM 3. However, if the rate of inflation has increased sustainably over time, now you only can afford one can of Pepsi with RM 3. Inflation devalues your money by causing the same amount of money to afford fewer goods than it used to.

Inflation only poses a threat to economic when its rate increases faster than the economic growth rate. It impedes your effort in building wealth, but you can fight it by investing your money in assets that give you the rate of return that is higher than the rate of inflation, and bond and Sukuk are one of those assets.

7.2 Asset Diversification

If you already diversify your investment portfolio with stocks, ETF and real estate, you might want to consider adding bond too as it can balance out the risk of your investment.

Bond is considered as a safe-haven asset, and it inherits lower risks compared to other asset classes. Regardless of market condition, you are still entitled to receive the interest payment, and your principal will still be returned at maturity. Therefore, during the market downturn, even if other assets' value decrease, your investment portfolio can still make a profit from the bond.

7.3 Saving Mechanism

Conventionally, people save their money either in a saving account or in a fixed deposit with the expectation that the money will grow over time from the accumulated interest. Little did they know, bond too can act as a saving mechanism just like saving account and fixed deposit, except that bond offers a higher return. On average, the interest rate offered by saving account or fixed deposit is around 3%-4% annually. On the other hand, saving through bond is more flexible, which you can choose to buy a bond with interest rate or coupon rate higher than the prevailing interest rate.

There are many ways you can use bonds to save and grow your money. One of them is by purchasing a zero-coupon bond. Unlike other bonds which give you interest payment semi-annually, zero-coupon bond accumulates your interest payment throughout its tenure, and it will pay all the accumulated interests together with your principal at maturity. You can also buy a coupon-bond, keep it until maturity and receive the interest every six months. Even better if you reinvest all your coupon payments in other assets at an interest rate similar to your coupon rate or higher.

If in the future you need to use the money you have saved in the bond, you can cash it out by selling it in the secondary market.

7.4 Cash Flow Planning

You can also use bonds to help you pay your bills, especially the fixed expenses such as rental payment. Since bonds are a fixed income, you can plan and predict your cash flow while managing your expenses.

For example, if you have a business and you rent a shop for RM 500 per month, you can use coupon payments from the bond you invest to cover this expense. You can invest RM 120,000 in bonds that have at least 5% of coupon rate. Hence you will receive RM 6000 a year in coupon payment, which is enough to pay your rent for a year.

In this scenario, RM 120,000 might seem a huge amount to invest for some of you, but you have nothing to lose in this situation if you keep the bond until maturity as you will get your initial RM 120,000 back. Moreover, you get income from the coupon payment when you invest in the bond which you can use it to pay for your fixed expenses.

To learn more, please head on to our website

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