

Allalah Consulting

Your Global Islamic Finance Advisor
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Global Sukuk Listing Services



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What is Sukuk? Why issue Sukuk?

Sukuk are notes that are structured to comply with Shari'ah principles. In this manner Sukuk are prohibited in charging interest.

Sukuk, as an investment vehicle, appeal to investors whom base their investment philosophy on religious beliefs as well as those who are seeking liquid, diversified and attractively priced instruments.

In some of the popular Sukuk jurisdictions, the appetite for Shari'ah compliant instruments has grown exponentially. In Malaysia for example, Sukuk issuance has grown at a rate of 21% between 2001 and 2008. Currently, just over 55% of outstanding corporate debt securities in Malaysia are Sukuk issuances. This provides a vast pool of liquidity for such instruments and the appetite is expected to grow.

The issuance of Sukuk is not limited to local participants alone. In fact some of the largest issuances have been by foreign corporates, such as Shell, Toyota and AEON.

The issuances have varied from USD10m to one of the largest being around USD9.8b. In a tightening market with conventional funding becoming harder to access the attractiveness and liquidity of the Sukuk offering is starting to gather momentum.



Various Sukuk types

Ijarah Sukuk (Leasing)

A Sukuk al Ijarah may be issued for the following purposes:

- To securitise ownership of a leased asset.
- To securitise ownership of the usufruct of an asset.
- To securitise ownership of the right to receive benefits from services.

It is important to note that an Ijarah Sukuk must represent the Sukuk holder's proportionate ownership of the leased asset. The Sukuk holder must assume the rights and obligations proper to a lessor to the extent of his or her ownership. As the owner, the Sukuk holder has the right to receive rent proportionate to their ownership in the asset. Generally, the Ijarah Sukuk is designed to represent real ownership of leased assets.

Musharakah Sukuk (Profit and loss sharing)

Used to create new projects, develop existing projects and finance business activity on the basis of a partnership.

Murabaha Sukuk (Cost-plus sales)

Murabaha Sukuk are sales based whereby Sukuk investors provide issuer with funding to purchase assets. Once the asset is purchased from the supplier it is sold to the issuer for a deferred price. Profit earned is distributed proportionately among the investors.

Istisna Sukuk (Purchase order)

Istisna Sukuk are a useful investment tool for a variety of short, medium and long-term financings. For the issuance of an Istisna Sukuk an SPV is created which constructs the infrastructure.

The SPV then pays the cost of construction with the income generated from the sale of certificates to investors. After executing the Istisna a promise is obtained from the ultimate beneficiary of the deliverable to buy it from the SPV on the date that it is due.

Istisna Sukuk gradually transform from a pure debt to a manufactured item, so once the item is substantially created, where the timing depends on the asset and the opinion of the Shariah board, the certificates are tradable.

Typical Sukuk structures

1. Ijarah Sukuk structure

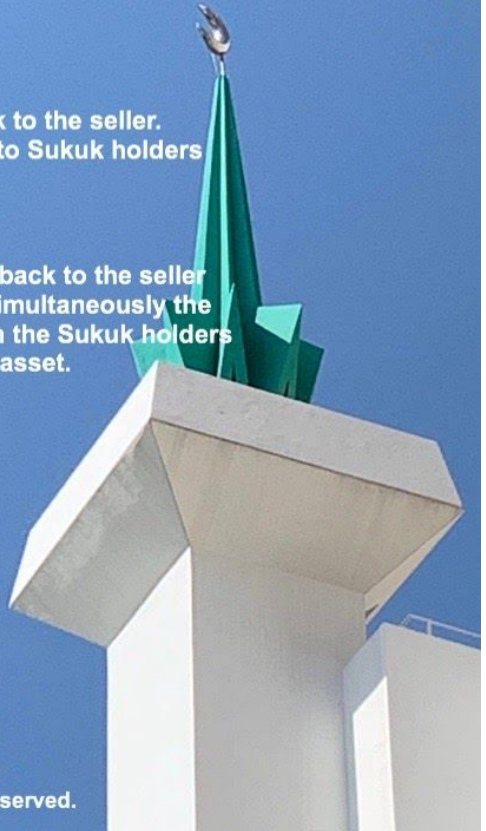
SPV acquires the asset from the seller. Acquisition using the capital provided to the SPV via the issuance of Sukuk to the Sukuk holders. The Sukuk represents the beneficial ownership in the asset and the future lease payments.



The SPV then leases the asset back to the seller. The lease proceeds are passed on to Sukuk holders as regular distributions.



At maturity the SPV sells the asset back to the seller at a pre-agreed acquisition price. Simultaneously the SPV also buys back the Sukuk from the Sukuk holders using the cash from the sale of the asset.



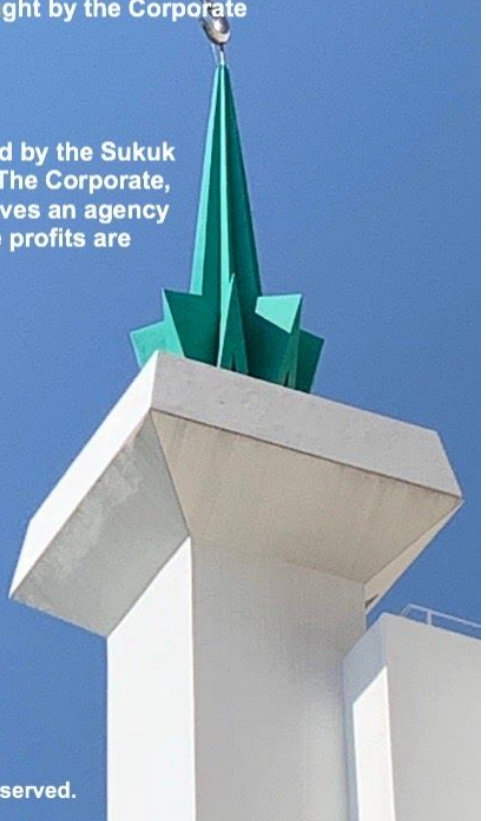
Typical Sukuk structures

2. Musharakah Sukuk structure

A Musharakah arrangement is established between the SPV and the Corporate where the term and profit sharing ratio are determined and fixed. The Corporate is appointed as the agent to manage / improve / build the asset that it has transferred to the SPV. The shares of the SPV can be progressively bought by the Corporate if it is a diminishing Musharakah.



The capital for the SPV is contributed by the Sukuk holders who buy the Sukuk issued. The Corporate, as an agent of the Musharakah receives an agency fee plus a variable incentive fee. The profits are distributed to the Sukuk holders.



Sukuk issuance process

1. Approval from the local prudential body.



2. Approval from the local financial services regulator.



3. Compliance and administration of issuance.
Processes to get the Sukuk issuance ready for market, including submissions, creation of unique stock codes and liaison with the Agent responsible for handling the money flow.



4. Issuance of Sukuk.



5. Subscribers remit monies to Agent's account. Agent manages the disbursement and application according to the Terms and Conditions of the issuance.



6. Monitoring of flow of funds in the designated accounts by the Trustee including remittance of coupon and principal payments.



7. Monitoring of covenants as per the Terms and Conditions of the issuance by the Trustee.



8. Appointed Agent to administer the remittance of payments (coupon and principal payments) to Sukuk holders.



Why engage Allalah?

1. No fees for preliminary assessment

We won't charge an upfront fee to assess the suitability of your offer for a Sukuk issuance.

2. No ongoing fees

We won't charge any ongoing fees once the Sukuk has been issued.

3. No additional fees

We won't charge any additional fees on top of the issuance cost. The issuance cost covers all required parties and is agreed upon.

4. One stop service

One stop relationship that takes care of all the processes to facilitate the corporate Sukuk issuance.

5. Comprehensive collaboration

We collaborate with all the stakeholders to make sure your issuance is successful.

6. Strong access

Access to strong investor base with increasing demand for compliant Sukuk instruments.

7. Practical solution

We have strong relationship with all the providers and have a turnkey solution that will guide you through the issuance process.

8. Seasoned practitioners

All our service providers are experienced in the Sukuk issuance and have completed mid to large cap deals.

9. Cost-effective tool

Potentially similar or cheaper than conventional funding mechanism.

10. Global Sukuk market expert

We are keen on assisting clients to list their Sukuk in Hong Kong, Dubai, Kuala Lumpur, London, Jakarta, Luxembourg and Dublin, etc.

