



**UNIVERSITI TEKNOLOGI MARA**

**THE FACTORS AFFECTING SUKUK  
ISSUANCE AMONG FIRMS IN MALAYSIA**

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## **ABSTRACT**

The Malaysian capital market is dominated by sukuk, which has significant backing from the government, mega corporations, and businesses. In terms of volume of transactions and number of sukuk issuances, sukuk is catching up to conventional bonds as a major form of business financing. The purpose of this study is to examine the factors that affecting sukuk issuance among firms in Malaysia. It is critical to determine the factors that influence organisations' decisions to issue sukuk, whether they are driven by internal efforts or external incentives. Sukuk issuance, asset tangibility, leverage, firm size, and profitability are the variables being studied. The methods that will be used in this study are descriptive analysis, correlation analysis and regression analysis. The sample consists of 10 firms in Malaysia that sukuk in 2011 to 2020. Asset tangibility, leverage, firm size and profitability all play a role in determining the factors that influence sukuk issuance in Malaysia. Based on the determinants identified, there should be an intensive and comprehensive plan to encourage businesses to issue sukuk. However, there is still potential for development in terms of regulatory framework and infrastructure to help Malaysia's sukuk market grow faster.

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## CHAPTER 1: INTRODUCTION

### 1.1 Introduction

Most companies require capital for a variety of reasons, including operations, mergers & acquisitions, and corporate expansion. Malaysia's absence of a well-balanced capital market permitted a huge reliance on bank funding prior to the Asian financial crisis of 1997, culminating in massive losses by firms during the crisis. Since then, the government has been aggressive in encouraging enterprises to adopt bonds as a cost-effective long-term financing alternative, boosting the Malaysian capital market. Companies issue bonds and sukuk for a variety of reasons.

Bonds and sukuk allow firms to raise money without decrease the equity of their current owners. The ownership or control of a corporation is unaffected by the issuance of a bond or a sukuk. Stock issuance, on the other hand, would diminish earnings per share, a crucial ratio for shareholders. Corporations may profit from the cost reductions of issuing bonds by eliminating the bank as a middleman and raising cash directly from investors. In many cases, the total effective interest paid to the bank is less than the interest given to the investor. To borrow money from a bank, you'll have to fulfil more tight conditions and put up more securities. Companies with less securities but significant future cash flow may be able to raise funds in the capital market by issuing bonds to interested investors with a suitable risk desire.

The bond capital market is a cost-effective means of borrowing money. The borrower does not have to go through many separate negotiations with banks to get the funds it requires, and corporations that need to raise funds on a regular basis can issue fresh bonds as long as they can find a lender in the capital market to function as a lender. The capital market also allows issuers to issue convertible bonds, which allow investors to convert their bonds into shares when the company's stock price rises, and the issuer is relieved of the obligation to repay the loan.

The purpose of this research is to investigate why corporate firms issue sukuk. An event is being used as a research tool to determine how investors perceive the issuance of sukuk in the Malaysian market. Malaysia was chosen since the country has issued the majority of sukuk thus far. The Malaysian market also boasts a well-functioning bond market.