

# FPP BizNewz

December 2020 – May 2021

MANAGEMENT • INVESTMENT • ECONOMICS • ENTREPRENEURSHIP • TECHNOLOGY

**TRIBUNAL TUNTUTAN  
PEMBELI RUMAH:**  
Pembeli vs Pemaju  
Perumahan

Is Working from Home  
**a Dream-Come-True**  
for Introverts or  
Vice Versa?

Market Reaction to  
**PRIVATE PLACEMENT**

BELAJAR DENGAN  
**TikTok**

**HIBAH:**  
Alternatif kepada  
Pengurusan Aset  
Islam di Malaysia

BENGKEL PEMANTAPAN  
**PENULISAN ARTIKEL  
UNTUK PENERBITAN**

**BERSELAWATLAH,  
TANDA KASIH KEPADA  
RASULULLAH S.A.W.**

**E-DOMPET**  
DI MALAYSIA:  
SATU TINJAUAN

ONE JOURNEY  
**COMES TO AN END**  
AND ANOTHER **BEGINS**



Photo by:  
M Rishal  
on Unsplash

e-Bulletin of the Faculty of Business and Management, UiTM Cawangan Terengganu  
eISSN 2600-9811



# THE REASONS BEHI

**<sup>1</sup>Che Wan Khalidawaty Khalid**

**<sup>2</sup>Juliana Mohd Nor**

Faculty of Business and Management, UiTM Cawangan Terengganu<sup>1</sup>

Academy of Language Studies, UiTM Cawangan Terengganu<sup>2</sup>



# ND BOND ISSUANCE





Many times we heard of this word 'bond' when reading on financial corners, or hearing it in business news, or has it already been included as one of your financial assets in the investment portfolio? Many different types of securities can be used by individuals to build up a diversified investment portfolio, and bond is one of them.

It is a long-term promissory note that contains a written promise by one party (an issuer or a borrower) to pay another party (a bondholder or a lender) a definite sum of money, either on demand or at a specified future date. The note contains indebtedness terms, such as the principal amount, interest rate, maturity date, date and place of issuance, and an issuer's signature. It entitles for those who have bought it to receive interest payments at fixed intervals for a specific time frame, and at the end of its maturity date, they will receive the initial invested amount back. Bonds are a form of debt or loan. Put differently, bonds are IOUs.

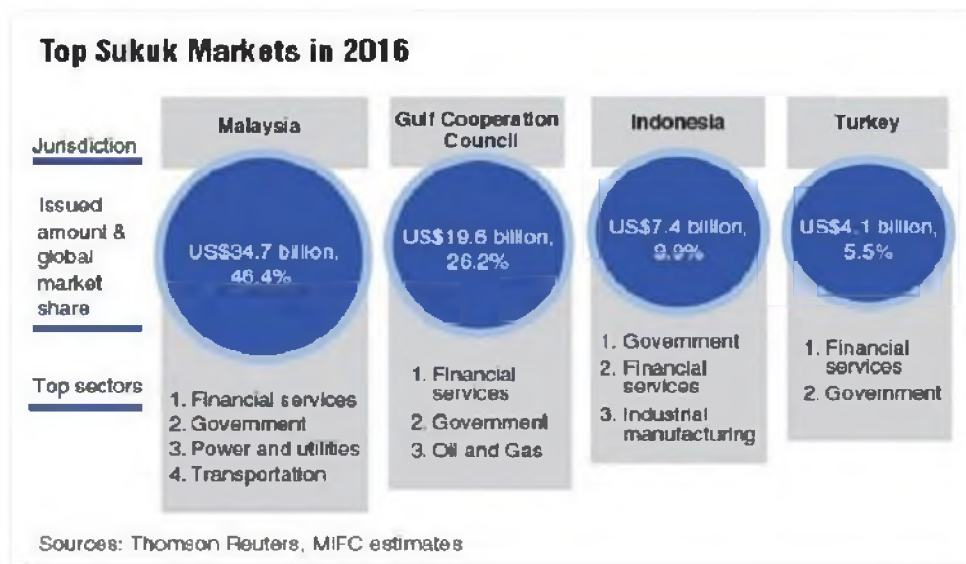
Bond is one of the financial instruments used by many market participants (governments at all levels and local or foreign corporations) in order to borrow money at a low cost. A bond that is issued in compliance with Syari'ah principles is known as Sukuk. In Malaysia, the issuers of the government bond are the Malaysian Government, Bank Negara Malaysia (BNM), and government-linked companies (GLCs). Whereas, corporate bond issuers are Syarikat Cagaran Malaysia (Cagamas Berhad), financial institutions, non-financial institutions, and private limited companies (PLCs). Cagamas is among the biggest issuers in Malaysia's debt market with RM339.5 billion of bonds and sukuk cumulatively issued as of December 2020. Malaysia is the world's largest Sukuk issuer owing more than half of the bond market shares. The

main bond investors in Malaysia are Employment Providence Fund (EPF), Pension Funds, Insurance companies, and Financial Institutions. Retail bonds and sukuk may be issued and traded either on the exchange (Bursa Malaysia) or over-the-counter (OTC) via appointed banks. Bursa Malaysia is a capital market where long-term financial instruments are traded and a place where savings and investments are done between capital suppliers and capital demanders.

Why does the government or corporations need to issue bonds? Issuing bonds as a mean of getting additional fund is cheaper than making loans from banks with less rules to be abided by. Bond is a financial instrument which provides liquidity to issuers. *Disney Co.*, the entertainment giant, sold \$300 million of 100-year bonds in 1993 that pays 7.55% in annual interest with the principal to be repaid in the year 2093. The money will be used for general corporate purposes, and for the expansion plans of doubling the size of the company's *Disneyland* theme park in Anaheim. *Ford Motor Co.*, *Boeing Co.*, *Texaco Inc.*, *IBM Corp.*, and *Conrail Inc.* all have sold the so-called century bonds. *The Tennessee Valley Authority (TVA)*, the US government-owned electric power company based in Knoxville, Tennessee, was the first company in decades to try 50-year bonds when it went to market with a half-century issue in April, 1992. Proceeds from the sale will be used by the TVA to refinance existing debts and for other power-system purposes. In Malaysia, the power-and-utilities sector is one of the top sectors that has utilised sukuk. In 2013, *Telekom Malaysia* issued RM3billion sukuk to utilise broadband units as an underlying asset. Under the financial services sector, *Export Import Bank of Malaysia Berhad* is the first export-import bank in the world to issue USD300 sukuk in 2014. However,

Photo by:  
Marc Schorr  
on Unsplash





Source: Malaysian Capital Markets

*Petronas Dagangan Berhad* was the World's first rated sukuk issued in 1990. Proceeds from the Sukuk will be used for MEXIM's Shari'ah-compliant working capital, general banking-and-financing activities as well as for other Shari'ah-compliant corporate purposes. Cagamas issues corporate bonds and sukuk to finance the purchase of housing loans and receivables from financial institutions, selected corporations, and the public sector. This is to overcome the liquidity issue faced by those entities in providing housing loans to their customers. The proceeds from the sales have allowed financial institutions to provide more housing loans to borrowers. In addition to the above two sectors, the transportation sector has also had a slice of the bond pie. *Norfolk Southern Corp.*, the fourth-largest U.S. railroad, sold \$250 million in 100-year bonds in 2010. The bonds yield the 5.95-percent coupon rate. The century bonds are considered relatively rare issues. Typically, the longest-term bonds issued by companies and governments are 30-year issues.

Besides corporate bonds, the government-sector bond also has its reasons for issuance. On 1<sup>st</sup> February, 2015, the U.K. Government fully

redeemed the first-world-war 100-year debt since the start of the war. The '4% consols' (government-debt issues or perpetual bonds) were issued in 1927 by Winston Churchill, the then chancellor, to refinance national-war bonds. The Mexican Government sold its 100-Year Bond in Euros in order to lock in lower borrowing costs amid the European Central Bank's unprecedented stimulus. The same goes with the Trump administration as a way to help the government to lock in current low rates over a longer period when his administration was looking at 50- and 100-year bonds, but ended up with a new 20-year bonds. In the meantime, the Austrian Government tested new waters by also marketing its 100-year bonds. As for the Malaysian Government, it issued the Malaysia Government Securities (MGS), and Government Islamic Investment (GII) to finance the nation's economic development. Initially, MGS issuance was to meet the investment needs of the Employees Provident Fund (EPF), local banks, and insurance companies. Then, in late 1970s and early 1980s, MGS were issued to finance the public sector's development expenditures. Later, in 1990s, it was extended to funding part of the Government's budget deficit and prepayment of some

of the Government's external loans. On the other hand, the GII was issued to allow Islamic banks to hold liquid papers that met their statutory liquidity requirements to enable them to invest their liquid funds in instruments that were issued, which adhere to Shari'ah principles. The government bond is the safest of the safe. It is the most trusted and having less risks since the government will redeem the bond as promised.

Like any other sectors, the financial sector is also hit hard by COVID-19. In the United States, the Fed has found a creative way to continue the lifeline of the distressed company like *Ford*, which is important in many ways to the health of the U.S. economy. It did so by injecting the Federal Reserve into the economy in a new role. It will now buy not just government bonds and 'high quality' corporate bonds but will also buy corporate 'junk' bonds like *Ford's*. A week after the Fed's effort, *Ford* announced an offering of \$8 Billion of new bonds, some of which would likely be purchased directly by the Fed. This is one of the ways, where a nation government intervenes in the economy with the pandemic crisis. As for the Malaysian Government, it also injected funds to the economy, but unlike the U.S. Government that has helped the giant companies, the Malaysian Government has issued the first ever digital sukuk in Malaysia, that is *Sukuk Perihatin*, which is under the government's National Economic Recovery Plan (*Penjana*) amounted RM305 billion to support the affected economies due to the COVID-19 pandemic. Proceeds from the *Sukuk Prihatin* was channeled to the *Kumpulan Wang COVID-19* for the implementation of economic-recovery measures that included, among others, enhancing connectivity to rural schools, supporting research grants for infectious diseases, and financing micro SMEs, particularly women entrepreneurs. Finance Minister Tengku Datuk Seri

Zafrul Tengku Abdul Aziz said earlier that the government would not issue foreign-currency-denominated bonds but instead choose to pool the fund through the debt market domestically. The sukuk was being over-subscribed of RM666 millions when it was closed on 17 September, 2020.

Thus, we can see that there are a lot of factors influencing the issuance of this financial instrument whether the issuance is by the government or corporations in order to stabilise the governing bodies or business entities, which in the end the objective is all coming to the nation's economic stability.

• • •

#### References:

1. RAM Ratings' Journey In The Rating Of Sukuk. <https://www.ram.com.my/islamic-finance>
2. Malaysia's Exim Bank's issuance marks the world's first Exim Bank to price a usd sukuk. <https://www.exim.com.my/index.php/en/media-centre/press-release/item/malaysia-s-exim-bank-s-issuance-marks-the-world-s-first-exim-bank-to-price-a-usd-sukuk>
3. Trump administration is looking at 50- and 100-year bonds, but may end up with a new 20-year (May 3 2017). <https://www.cnn.com/2017/05/03/trump-administration-is-looking-at-50-100-year-bonds-but-may-end-up-with-a-new-20-year.html>
4. Mexico Sells 100-Year Bond in Euros in First Offer by Government.
5. Isabella Cota and Lyubov Pronina April 8, 2015, 6:21 PM GMT+8 Updated on April 9, 2015, 3:46 AM GMT+8. <https://www.bloomberg.com/news/articles/2015-04-08/mexico-to-sell-longest-dated-euro-bond-with-100-year-offering>
6. Cagamas: A Financial Intermediary in Malaysia's Bond and Sukuk Market. <https://www.bixmalaysia.com/Learning-Center/Articles-Tutorials/Cagamas-A-Financial-Intermediary-in-Malaysia%E2%80%99s-Bond-and-Sukuk-Market>
7. 22 bab dua konsep asas bon islam dan struktur. Kertas kerja dalam Bengkel Islamic Bonds, Sukuk & Securitization 6-7 September 2005, di Suruhanjaya. Sekuriti, Kuala Lumpur), <http://studentsrepo.um.edu.my>
8. Two-year RM500m Prihatin sukuk launched with 2% annual profit rate. <https://www.theedgemarkets.com/article/twoyear-rm500m-prihatin-sukuk-launched-2-annual-profit-rate>
9. How COVID-19 Will Change Finance: Ford, The Fed, And The Bond Market. <https://www.forbes.com/sites/georgecalhoun/2020/04/21/how-covid-19-will-change-the-financial-world-ford-the-fed-and-the-bond-market/?sh=41318afb5e83>





# FPP BizNewz

December 2020-May 2021  
Faculty of Business and Management  
UiTM Cawangan Terengganu  
eISSN 2600-9811