

# **SUKUK: THE POST-ISSUANCE EFFECT ON FIRM'S VALUE**



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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

*“ In the name of Allah, the Beneficent, the Merciful “*

Glory to Allah S.W.T, the most Gracious, the most Merciful and peace is upon his messenger Holy Prophet Muhammad S.A.W. All the worship belongs only to Allah and we seek refuge with Allah from the wickedness within and from the evil deeds. Praise be to Allah S.W.T for giving us the courage, opportunity and knowledge in completing this project paper.

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## 5.1 Proposed Executive Summary

The offerings of sukuk as an alternative mode of funding business operations and projects have become popular and well accepted in Malaysia. As reported by the Securities Commission Malaysia, since 2001 there were more than 300 companies involved in issuing sukuk worth over RM300 billion. The figures indicate favourable response by issuers and growing support by investors on Islamic financial instruments.

In view of an encouraging interest on sukuk, we have focused our research to investigate certain attributes of companies involved in offering the so called Islamic investment certificates. A group of companies was selected from a list of issuers during the period from January 2001 to December 2006. Two main focus areas were studied, companies' capital structures and performance. In addition to firm's liquidity and leverage positions, the proportion of newly issued sukuk against company's total debt (i-Factor) was also defined as the independent variables. A profile of companies' capital structure prior to the issues were established followed by post-issuance performance analysis. Further analysis were performed using STATA software to examine the influence and relationship of variables and establish a set of profile.

The encouraging economic growth of 7.2% in 2010 as announced by Bank Negara Malaysia, coupled with various initiatives introduced by the government indicates a promising future for sukuk. As Islamic banking and finance industry grows and strengthens its presence in the financial system, extended investigations on the instruments such as sukuk is necessary to feed the needs of the participants. In addition to supplying valuable information to the industry, the findings of our study would particularly benefit companies interested in issuing sukuk.

## 5.2 Enhanced Executive Summary

This study examines the financial performance of firms subsequent to the introduction of sukuk in their capital mix. A group of sukuk offerings by Malaysian companies was identified primarily from the Securities Commission, while financial information was obtained directly from companies financial reports. In addition to the liquidity and leverage ratios, the presence of the new source of funds in the company's capital structure was defined as i-ratio. Another variable known as i-factor was also introduced to represent the intensity of newly issued sukuk as a percentage of company's total debt prior to the offerings.

Based on the data for the period from January 2001 to December 2006, the results show that firm's liquidity and leverage position do influence company's financial performance subsequent to the issuance. In addition, the newly introduced variables, the i-ratio and i-factor, also indicate their relationships towards firm's value. It seems that Malaysian companies are showing continuous support in sukuk as a medium to purify their source of funds. Continuous investigations on this type of instrument will further strengthen the presence of Islamic finance and banking industry in the country while providing valuable information to potential market players.

**Keywords:** Sukuk, Post-Issuance, Capital Mix, Source of Funds, Firm's Value

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