



**DETERMINANTS OF SUKUK ISSUER PERFORMANCES:
EVIDENCES
FROM MALAYSIA**

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"In the name of Allah, the Merciful, the Beneficent"

Glory to Allah S.W.T., the most gracious, the most merciful and peace to upon his messenger Holy Prophet Muhammad S.A.W. the worship belongs to only Allah S.W.T

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TABLES OF CONTENTS	PAGE
ACKNOWLEDGE	ii
LIST OF TABLES	iii
ABSTRACT	iv
CHAPTERS	
1. INTRODUCTION	
1.1 Background	2
1.2 Problem Statement	4
1.3 Research Objectives	5
1.4 Research Questions	5
1.5 Scope of study	6
1.6 Significance Of Study	6
1.7 Limitations Of Study	7
2. LITERATURE REVIEW	
2.0 Sukuk performance in Malaysia	9
2.1 Sukuk around the globe	10
2.2 Value of Sukuk Issuance	11
2.3 Sukuk Pricing	12
2.4 Firm Performance	13
2.5 Tenure	14
2.6 Industry or Sector	15

ABSTRACT

Sukuk have become increasingly popular as a feasible and viable Shariah-compliant long-term financing instrument. It plays the role as the source of the financing fund and capital liquidity for the purpose of economic growth. The purpose of this paper is to investigate the factors that influence *Sukuk* issuer performance. This study examines whether *Sukuk* value, *Sukuk* tenure, *Sukuk* profit margin and sector types (as independent variables) will affect the *Sukuk* issuer Performance (proxy by operating profit margin (OPM) and Return on Equity (ROE) - dependent variable). Data will be collected from Rating Agency of Malaysia (RAM), Datastream database, Bursa Malaysia, Securities Commission and Bank Negara Malaysia. The expectations findings of this study could provide factors that influence most in *Sukuk* issuer Performance and this study could also contribute to the body of knowledge in *Sukuk* market.

Keywords: *Sukuk, performance, tenure, industry and pricing*

CHAPTER 1

INTRODUCTION

1.0 INTRODUCTION

Debt markets are an integral part of the financial sector and regarded as effectively supplement fund mainly provided by banking and financial institution. Bonds are one of the instruments that can provide capital to firm. It certifies a contract between the issuer and lender whereas the lender will provide some fund to the issuer and borrower or bond issuer will pay profit rate by yearly basis until the maturity period as return to the lender.

Sukuk are well-established in Malaysia's Islamic capital market. Based on the report by Zawya (2009), Malaysia Khazanah Exchangeable *Sukuk* created a milestone as the first Islamic exchangeable *Sukuk* in the world at 2006. This promotes Malaysia to issue more globally accepted *Sukuk* by using various contracts and structures like Mudharabah, Musharakah, Ijarah and others. According to Aziz (2007), *Sukuk* market is important source of financing especially for large scale investment projects, that able to facilitate the economic development process. Saad, Mazlan and Mohamad (2009) posit that *Sukuk* provide greater potential for diversification in to new asset classes for investors. Christophe, Godlewski, Rima and Laurent (2010) stressed that *Sukuk* serves as a vital instrument for resource mobilization and a main vehicle for the development of Islamic capital markets. Thus, *Sukuk* play an important role in the development of Islamic Inter-Bank. Jobst, Kunzel, and Mills (2008), find that, *Sukuk* have strong demand from both Muslim countries and conventional global institutions. The demand seems to be rising because of investor's preference towards Islamic Capital market. Investors expect 50 percent of