

## Gulf mega-Sukuk issues a 'rich man's club'

BY A STAFF REPORTER

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DUBAI— The mega-Sukuk issues of the Gulf Co-operation Council (GCC) are a 'rich man's club' for institutional and increasingly conventional investors, with Malaysia providing a friendlier environment, for small and medium sized issues, say industry watchers.

In addition, Sukuk, or Islamic bonds, may have grown to a total value of around \$100 billion in under ten years but they still have a long way to go to meet potential demand in both the Muslim and non-Muslim markets.

“The GCC’s rapidly growing Sukuk market in particular is luring global investors less concerned about religious strictures and keener on less risky investment as well as exposure to the region’s currencies and equities,” said Swati Taneja conference manager for the International Islamic Finance Forum which takes place at the Jumeirah Beach Hotel, Dubai, from 13-17 April 2008. Worldwide, Sukuk issued in 2007 added up to over \$47 billion, up 73 per cent, compared with about \$25 billion in 2006 and \$10 billion in 2005. The volume issued in the Middle East, particularly the GCC countries, rose to 53 from 38. Worldwide, the total number of Sukuk issued was 207, compared with 199 in 2006 and 89 in 2005, according to the Islamic Finance Information Service (IFIS).

Returns on Sukuk have been good and for international institutions seeking less risky investment vehicles, they offer a key advantage over conventional bonds because of the Islamic condition that all issues must have underlying physical collateral — a true asset-backed security. By comparison, conventional bonds may have little or no assets underneath. In addition, there has not been a single Sukuk default so far.

Hedge funds and fixed income funds have become significant global buyers of Sukuk and investors from outside the Gulf now take up the majority of some issues. In 2006, they took 20 per cent of a \$3.5 billion Sukuk for the Ports, Customs and Free Zone of Dubai. Last year, they took 80 per cent of a \$2.53 billion issue by Abu Dhabi’s Aldar Properties.

Conventional and non-Muslim institutions are also turning to Sukuk not just as investors but as issuers, says **John Sandwick**, Managing Director of Geneva-based independent asset management company **Encore Management**. The City of London, the government of Japan and even GE Capital have all announced future Sukuk issues.

“As more and more issuers test the waters, as more institutional and ultimately retail buyers place them in their savings portfolios, we’re going to see a massive increase in the total volume of Sukuk,” Sandwick said in an interview for bfinance, an international financial consultancy service.