

Media Release

Sharia debt gains rapid momentum among Asian businesses - World 1st Research

(5 November 2014 – Malaysia) Institutional sized businesses in Malaysia plan to replace 28.8 percent of their conventional bank debt with Sharia compliant alternatives in the next 12 months, according to inaugural research from East & Partners Asia (East) and REDmoney.

Over the same period, Malaysian institutions plan to replace 22.1 percent of their bond offerings with Sharia compliant Sukuk products.

The first round of East's bi-annual research program interviewed over 700 corporate borrowers and issuers in Malaysia and Singapore in October, with chief financial officers and corporate treasurers detailing the current penetration of Sharia compliant products today, with forecasts for the next 12 months.

The program looks at product engagement by the private sector, market share and wallet share among providers and also at customer satisfaction levels, competitor by competitor for the delivery of Sharia compliant products. It also details drivers for engagement, and barriers.

The research found that, due to the support of Bank Negara Malaysia, Sharia banking penetration among private sector companies in Malaysia was significantly higher – as a percentage of assets and debt – than Indonesia.

Institutional sized businesses in Malaysia, for example, report that Sharia compliant loans comprise 18.8 percent of their total loans, equivalent to an average balance of US\$1.33 billion.

In Indonesia, in comparison, the percentage is 7.8 percent, although the market average total loan balance is US\$1.89 billion.

As a percentage of outstanding bonds, Sukuk bonds comprise 26.6 percent of outstanding bonds issued by Malaysian corporates.

In Indonesia Sukuk bonds represent 7.2 percent of outstanding bonds.

The research shows that institutional sized businesses are much more engaged with Sharia compliant products than smaller corporate businesses and small and medium sized enterprises (SMEs), but these two segments also plan to significantly increase with engagement in the next 12 months, particularly with debt products.

Darryl Ye, East's Senior Analyst in Singapore, said major banks were "racing to keep up" with the uptake of Sharia compliant products by private sector businesses.

“Even the Japanese and other non-regional international banks are responding to what is now a major component of the region’s banking landscape,” said Ye.

“Along with sovereign Sukuk issuance, which drove over US\$7 billion issued in September alone, Sharia compliant finance has significant momentum in key Asian markets and is here to stay.”

Lachlan Colquhoun, Chief Executive of East & Partners Asia, welcomed the inaugural research as a significant contribution to coverage of the growing Sharia markets.

“This is world first research, and is the first time that the demand side private sector in Malaysia and Indonesia has been interviewed with such rigour and detail,” said Colquhoun.

“It also shows that while Institutional sized businesses are leading the way, the Corporate and SME segments are also deepening their engagement with Sharia compliant products as education around these offerings starts to reduce engagement barriers. Much work still needs to be done, however, in mid-corporate and SME understanding of Islamic Finance solutions and just how they add to the enterprise’s overall debt funding.”

About the Asia Corporate Islamic Finance Markets Program

East & Partners Asia’s Asia Corporate Islamic Finance Markets Program is the first ever demand-side research program regularly monitoring and forecasting the Sharia compliant business banking markets of Malaysia and Indonesia. Based on direct interviews with over 700 corporate borrowers and issuers, key outputs from the research include: Sharia compliant product penetration, competitive customer satisfaction and advocacy metrics, drivers of engagement with Islamic finance solutions, customer views of Sharia compliant financing solutions across their mix of capital management strategies, as well as market share, wallet share and cross sell analytics.

About East & Partners Asia

East & Partners Asia is a leading specialist market research firm in the business, corporate and investment banking markets of the Asia Pacific working across 11 countries in the region delivering both multi-client and proprietary market analysis services to financial services providers.

About REDmoney Group

REDmoney is a publishing and events company focusing purely on the global Islamic finance market. Since its inception in 2004, REDmoney has been the world’s leading specialised Islamic finance publishing, information and event company. The company aims to growth with this exciting industry and provide the products the industry requires to evolve and become the mainstream financing alternative it deserves to be recognised as.

For further interview based insights, or more information on the full report program please contact:

In Kai Khor
East & Partners Asia
t: +65 6224 6101
e: Inkai.khor@east.com.au

Andrew Morgan
REDmoney Group
T: +603 2162 7801
E: andrew.morgan@redmoneygroup.com