Islamic Finance *news* Awards

Deals of the Year 2010

Just as the year before, 2010 started slowly. The Islamic capital markets were relatively dull up until the summer heat. Suddenly, the market was awash in a flurry of important Saudi Arabian, Emirati and Malaysian deals. In the second half of the year syndications and Sukuk issuances shot up in the volume of transactions and in value. But, 2010 was also the year of IPO's; among them real estate linked IPOs including one in the UAE.

Of the important trends of the past decade, the Sukuk market showed solid organic growth. This reflects the demand for project financing as well as corporate strategic thinking. Where Sukuk investors were still cautious about securities, syndications filled the gap.

New ideas were present throughout the markets as were new issuers. The tried and true came back as well with the Republic of Indonesia, the Islamic Development Bank, Abu Dhabi Islamic Bank and Khazanah all returning with new issuances under their previously successful formats.

Trade finance nominations increased and expanded beyond the established sources in the MENA and ASEAN regions to include newcomers in Africa. For the first time, trade finance nominations included comprehensive supply chain solutions for mega clients as well as mid-sized corporates.

Our Deal of the Year selection had to balance size in deals like Celcom, Cagamas, Petronas Chemicals, or Jubail Refinery; innovation like the Government of Ras Al Khaimah, Cagamas Sukuk ALim, and Khazanah; and pioneering new markets and solving complex problems in doing so.

It was the latter that motivated our 2010 selection for Deal of the Year from a universe of highly deserving submissions. As a sign of recovery, the 2010 universe of deals was the largest and best yet in IFN Deals of the Year history.

Methodology: *The IFN Deals of the Year was established in 2006 and recognizes those who have participated in the industry's most groundbreaking transactions each year. Financial institutions and intermediaries are invited to submit their chosen transactions from the previous 12 months, which fall under one of the carefully selected sectors. A panel of experts from non-competing organizations then sieve through all submissions during the elimination process until just one transaction in each category remains and is thus awarded the winner of that category.*

Submissions are accepted during the entire month of December ensuring these awards recognize the full calendar year.

Deal of the Year: Kuveyt Turk Katilim Benkasi US$100 million International Sukuk

Issued on the 19th August, this London Stock Exchange listed Sukuk was foremost among the many deals executed by Turkish participation banks. The transaction enjoyed a successful and wide distribution among Islamic and conventional investors in Europe and the GCC. In order to issue successfully, the lead underwriter had to manage complex issues relating to the legal systems applied: Turkish civil code for the issuer and English law for the instruments.

The core solution was to issue a form of Ijarah or Sukuk al-Manfa'a. This structure overcame problems with the Turkish law and matched up with English law. The BBB rated transaction is the first Sukuk issuance by a Turkish participation bank. The transaction opens up hopes that the Republic of Turkey will follow with a domestic or international Sukuk offering.

Honorable mentions for Deal of the Year include Celcom, Government of Ras Al Khaimah, Danga Capital (Khazanah), Sabana REIT, and Petronas Chemicals Group. These were among many of the important contributors to the development of the global Islamic market. In another year, they would have stood alone at the top, or jostled together for the lead. As much as each transaction was important, none blazed a critical trail and opened a new set of markets as did the Kuveyt Turk Katilim Benkasi International Sukuk.

Sovereign: 1Malaysia Sukuk Global Berhad US$1.25 billion trust certificate issuance

With the issuance by the government of Ras Al Khaimah and the return of the Republic of Indonesia to the Sukuk markets, direct sovereign issuances were significant in 2010. Sovereign or government linked issuances were even more voluminous. Yet, 1Malaysia helped to mark the change of global attitudes to the Sukuk markets. The Ijarah based transaction drew an order book of almost US$6 billion, with final allocation of the deal across global markets: Middle East (26%); Asia (ex-onshore) (21%); Europe (20%); Malaysia (18%); US (15%). Reaffirming the government of Malaysia's commitment to the Islamic capital markets and signaling a commitment to diversity and universal appeal by carrying the 1Malaysia name, this deal is the top sovereign deal of 2010.

Cross Border: TTM Sukuk Berhad (wholly-owned subsidiary of Trans Thai-Malaysia (Thailand) RM600 million

Danga Capital (Khazanah) and Nomura both made notable cross border Sukuk issuances in 2010. The TTM transaction, however, reflects a number of important contributions. Firstly, this was the first Kingdom of Thailand government linked company issuance. This raises hopes that the Kingdom will look to issue directly in 2011, or that we will see the launch of domestic Sukuk transactions, if not both. The second is the demonstration of a commitment to regional peace and economic development as the issuance is made via Malaysia for a joint gas project serving southern Thailand. The Kingdom of Thailand has already dialogued extensively with Malaysia in the development of the domestic Thai Islamic finance market, and in this transaction, the relationship is expanded, and a new tool is added to the Thai repertory. Instead of Bai al Inah, the transaction follows the Tawarruq method and utilizes Ableace Raakin's to secure the needed funds in an Islamic sales transaction.

Most Innovative: Government of Ras Al Khaimah US$400 million issuance

In 2009 and 2010, the vast majority of syndicated and Sukuk transactions relied on the tried and true – either Ijarah, Bai al Inah, or Tawarruq. In 2010, important deals like the Proton Perodua supply chain transaction, the Cagamas Sukuk ALim, IIT Sukuk Company, and Khazanah all had an important factor of innovation. In the case of the government of Ras Al Khaimah, the issue had to refinance the RAKIA Sukuk and raise additional cash. The ultimate structure is based on a purchase of assets from the government of Ras Al Khaimah and their lease back. But, the innovation is how the transaction is executed to provide early redemption of the RAKIA Sukuk due to mature in 2012 and 2013. The 'A' rated Sukuk were well received and widely distributed in Asia, Europe and the Middle East.

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CORPORATE FINANCE RELATED

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Project & Infrastructure Finance: Ma'aden Aluminium US$1.38 billion syndication

The Saudi Arabian, Malaysian and UAE markets were ripe with excellent project and infrastructure finance transactions in 2010. Indeed, the Trans Thai Sukuk joined Jubail Refinery, Malaysia Airports and the Riyadh PP1 deals as all important. Ma'aden represents a co-financing involving conventional and Islamic structures side by side. The structure allowed the project sponsors to fund the operating expenses whilst the financial investors and lenders focused on the asset elements. The deal involves forward lease, supplier finance, and coordination with both conventional lenders, and the two interest-free state sponsored lenders in the Kingdom of Saudi Arabia.

Corporate Finance: Danga Capital (Khazanah) SGD1.5 billion first drawing of a RM10 billion multi currency Program

In their competitive bid to finance the acquisition of Parkway Health, Khazanah issued the first Singapore dollar Sukuk by a government linked company which may cause further use of the Singapore capital market in similar cross border transactions. Applied to an acquisition for Singapore dollar assets with earnings in Singapore dollars, the transaction also provided a natural currency hedge to Khazanah. Investment bankers point out that the deal was executed "seamlessly" as bankers in Kuala Lumpur and Singapore coordinated. This demonstrates the capacity of the two key ASEAN capital market centers to work together and shows promise for future international corporate finance deals. Although well received in Singapore whose investors took up 60% of the paper, the deal enjoyed a diverse distribution by investor type, and geographically.

Sukuk: Kuveyt Turk Katilim Benkasi winner

There is no denial that the Government of Ras Al Khaimah, 1Malaysia, the two Qatar Islamic Bank linked deals, the Cagamas deals, Islamic Development Bank, and Danga Capital (Khazanah) were among the best Sukuk deals in a good year. But, the Kuveyt Turk Katilim Benkasi deal (See Deal of the Year) stands out clearly as it opens a new market for the global investor, and creates a model for future issuances from Turkey.

Ijarah: Celcom Transmission (M) US$1.3 billion Sukuk Ijarah

Once again, the market was filled with first class, high quality Ijarah transactions including; 1Malaysia, Majid Al Futtaim, Republic of Indonesia and Emirates Steel. In a deal led by CIMB Investment Bank and Maybank Investment Bank, Celcom's massive Sukuk al Ijarah allowed for corporate consolidation and funding of capital expenditures for the expansion of the issuer's core telecommunications business. Unique for a Malaysian transaction, this deal is unrated and is based on a sale lease back structure.

Restructuring: Aref Investment Group KWD280 million Murabahah

Although the markets were quiet, like many regional markets, Kuwait was suffering through restructuring processes. Not surprisingly then, the largest volume of successful restructuring deals came from the Kingdom of Kuwait. Liquidity Management House was able to assist a leading Kuwaiti investment company to restructure and consolidate their financial obligations applying a Tawarruq structure. This deal was executed in a difficult domestic environment and assisted the obligor to avoid dealing with multiple creditors in a negative environment. Financiers included Kuwait Finance House, Al Ahli Bank of Kuwait, Burgan Bank, Public Institution for Social Security and K P Fund International. The funding sources were a blend of conventional, Islamic and institutional investors.

Structured Finance: AIC Investment US$ 40 million warehouse financing of the locally produced wheat

Once again, there is no shortage of remarkable structured deals including the Jubail Refinery, the hedging for the Sabana REIT, and Armada Marine. But, the Islamic Development Bank's International Islamic Trade Finance Corporation is able to snag the honors with a deal that can serve as a model for future agricultural and supply chain transactions, especially in key emerging Islamic markets like Kazakhstan. In this case, the financier buys directly from the source, Kazakh wheat producers and sells on to end users of the wheat on a Murabahah basis. In the structure applied, the financier is able to participate in the domestic warehouse program allowing for an enforceable security instrument and protection of the underlying collateral.

Syndicated: Jubail Refinery US$8.5 billion

Credit Agricole, Barclays and Saudi Arabian banks joined forces to bring the first major Aramco Islamic financing to the market. The size and obligor of the transaction put it above a field with a slew of deserving deals like Emirates Steel, Kenana Sugar, Majid Al Futtaim and Bahrain Financial Harbor. This transaction has multiple tranches including an Al Rajhi Bank led Wakalah Istisna and a Credit Agricole led Istisna Ijarah. Given the size and complexity of the transaction, it is a true landmark in the Islamic syndicated deal space.

Murabahah: Kenana Sugar Company Ltd. US$50 million Syndicated Financing

In a market with major Murabahah forms and deals, we have easily filled up the Tawarruq and trade finance categories. Nonetheless, Kenana Sugar presents an excellent example of multilateral support for the supply of raw materials on a deferred payment Murabahah basis to a Sudanese firm for conversion into ethanol and export onwards to Europe. The transaction shows the growing role of the Islamic Development Bank and its affiliates like the International Islamic Trade Finance Corporation is stimulating and supporting economic development and growth. Key among these activities is the fact that transactions like Kenana Sugar are replicable in multiple jurisdictions for different business models.

Tawarruq: Cagamas MYR230 million Variable Rate

In the crisis, two important developments emerged involving Tawarruq. First, Tawarruq, often euphemized as Commodity Murabahah became a preferred credit focused financing tool. Second, Bursa Malaysia's Suq al Sila' became more firmly established as a market for Tawarruq and commodity trading. This allowed Cagamas to return to the market again and utilize Tawarruq to construct a variable rate note program, the winner in this category, and to issue an asset backed product linked with a Tawarruq program. Although Trans Thailand, Qatari Diar, and Malaysia Airport Capital were important and deserving competitors, Cagamas leapt ahead with a clear delineation of how a variable rate note may be issued applying Tawarruq.

Trade Finance: Proton Perodua US$98 million trade program

The International Islamic Trade Finance Corporation provided three strong trade finance deals: Kenana Sugar Corporation, AIC Investment and Egyptian General Petroleum Corporation. Likewise a number of deals were nominated from Turkey. But, CIMB's Proton Perodua program stands out due to its volume, and matching the supply chain life cycle, providing Murabahah acquisition financing, and Bai al Dayan post sale financing (factoring). The approach is fully compliant with Bank Negara Malaysia's Shariah Advisory Board's resolutions, and could be structured in a different manner for GCC financiers.

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EQUITY & RELATED TRANSACTIONS

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Equity: Petronas Chemicals US$4.2 billion Initial Public Offering

In the past, nominations for Islamic equity deal of the year were few and rarely was any deal substantial enough to stand should to shoulder with the 2010 nominations. But, 2010 enjoyed a large number of new deals which matched specific Shariah rules per the Securities Commission of Malaysia's Shariah Advisory Council, or were designed from the bottom to appeal to Islamic investors. In 2010, two REITs were established, one in the UAE and one in Singapore, generating the largest volume of REITs outside of Malaysia. But, for a pure equity deal with the most significant volume and listed means for Shariah compliant investors to participate in the Malaysian hydrocarbon sector is the Petronas Chemicals launch.

IPO: Sabana REIT US$510 million

Although Petronas Chemicals was the Equity Deal of the Year, like Malaysian Marine, it could not match the attributes of the Sabana REIT. Not only was Sabana a tremendously successful real estate offering in a year in which real estate was not the favored asset class, but Sabana was launched in Singapore, a market that is not yet fully established as a deep market for Islamic transactions. Nonetheless, domestic Singapore real estate, and domestic Singapore Shariah advisors were able to join HSBC in the successful launch of a marquee REIT. The industrial REIT was launched with an initial IPO valuation of SG$636 million (US$510 million) and a hedge in place for SG$221 million. The final offering price of SG$1.05 per share offered a yield of 8.22%.

Mudarabah: ENOC US$300 million Mudarabah Financing Facility

ENOC's syndicated Mudarabah was perhaps the largest transaction of its kind during 2010 and represented the national oil company's confidence in the Islamic sector's capacity to serve its needs. Led by Dubai Islamic Bank and Emirates NBD, the structure co-mingles new Mudarabah assets with the existing asset pool of ENOC in an innovative structure.

Mergers & Acquisitions: Celcom US$1.3 billion

Once again, Maybank Investment Bank emerges as a leading M&A advisor for the Islamic sector. A significant number of the 2010 submissions come from Malaysia and all involve Maybank. Despite the significant number of quality deals, the standout in 2010 is Celcom. The proceeds allowed the issuer to acquire Celcom's existing business and to provide for operational and capital expenditures.

Musharakah: AmIslamic US$180 million Sukuk al Musharakah

CIMB's Konsortium Lebuhraya Utara-Timur (KL) and International Innovative Technologies were among the top Musharakah transactions for 2010. Yet, AmIslamic structured their Sukuk as a senior offering in order to expand their services and grow their business. The US$180 million program is rated AA3 and incorporates a profit reserve account in the trust assets as a tool to protect the investors.

Real Estate: Sabana REIT US$510 million

Whether the opportunistic stance taken by Gatehouse in the UK market or Dubai Islamic Bank's launch of a DIFC based REIT with Eiffel Management, or ADIB's real estate based syndicated Ijarah for Majid Al Futtaim, there is one standout deal: Sabana REIT. Sabana demonstrates the value added of Singapore as a real estate capital market center. Among the benefits is the encouragement to the domestic Islamic sector and the delivery of a high yielding, good quality real estate portfolio to the Islamic market.

COUNTRY DEALS

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Indonesia: Perusahaan Penerbit SBSN US$800 million Sovereign Sukuk

In a return to the market, having pulled one deal, the Government of Indonesia returned through an SPV called Perusahaan Penerbit SBSN and issued US$800 million of Sukuk al Ijarah to the domestic market. Due to market demand, the size of the deal was increased 200%.

Kuwait: Aref Investment Group's US$546 million Murabahah

Once again the Kuwait market was remarkably quiet. This calm is expected to change with new infrastructure and hydrocarbon projects in the pipeline. Nonetheless, the restructuring of the investment company sector has proven very difficult. Liquidity Management House pulled off a significant triumph with the successful restructuring of Aref Investment Group's debt of US$546 million.

Malaysia: Cagamas Sukuk ALim US$319 million

Cagamas is probably the most active issuer of Islamic securities. On the one hand, Cagamas 3 the variable rate transaction is this year's best Tawarruq deal. Cagamas' Sukuk al-Amanah Li al-Istithmar (Sukuk ALIm) provided another successful experiment. The US$319 million transaction combined investments in real property and applied some of the proceeds to engage in Tawarruq transactions in Bursa Malaysia's Suq Al Sila'. This was designed to avoid Bai al Dayn in the formatting of a tradable Sukuk which should appeal to GCC investors. To this end, the deal was successful, and secured 33% of its investors from the GCC in the Al Rajhi Bank deal. Other deserving deals included 1Malaysia, Celcom, Trans Thai, Petronas Chemical and Khazanah.

Pakistan: Karachi Electric Supply Company US$100 million

Standard Chartered Saadiq arranged the US$100 million import facility for the Karachi Electric Supply. Unusually, compared to recent years, the Pakistan market has been less active due to economic and political issues as well as the damage caused by the 2010 catastrophic flood.

Qatar: Qatar Islamic Bank US$750 million Sukuk

In 2010, Qatar began to revive, even before the FIFA World Cup was awarded. Among the important deals done in Qatar was the launch of US$750 million Sukuk for Qatar Islamic Bank. Arranged by Credit Suisse, HSBC and QInvest and launched in September, the bank's maiden Sukuk issuance enjoyed a wide reception with investors from the UK, Europe and Asia joining those from the GCC. The five year Wakalah Sukuk was the first for a Qatari bank and should open that market for new issuances in the Islamic banking sector. The transaction also provides a shadow benchmark for Qatari risk now that the Qatar Global Sukuk has been redeemed.

Saudi Arabia: Ma'aden Aluminum US$1.38 billion

With the Jubail Refinery, a new Saudi Electric Company deal and Riyadh PP1 among others, the Saudi Arabian market is hyper active, and has no shortage of large transactions. The Ma'aden transaction, however, required coordination across creditor types and Islamic structuring methods to achieve a successful closing.

Singapore: Danga Capital (Khazanah) SG$1.5 billion first drawing of a RM10 billion multi currency Sukuk

The Sabana REIT was certainly a top deal in every respect. But, Khazanah's first issuance in Singapore dollars was a classical structuring of a natural hedge to fund their acquisition of Parkway Health. The deal showed good links between the two neighbor capital markets, and demonstrated the depth of the Singapore market to support a major Sukuk transaction.

Turkey: Kuveyt Turk Participation Bank US$100 million

Albaraka Turk Katilim Bankasi came to the market with a syndicated facility drawn in US dollars and Euros and Asya Katilim Bankasi successfully syndicated US$225 million. Indeed, the Turkish participation banks were very active in 2010. Kuveyt Turk Participation Bank's Sukuk deal tops the two larger deals as it sets the framework for future issuances both from Turkey and the participation banking sector.

COUNTRY DEALS

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United Arab Emirates: Emirates Steel US$367 million syndication

In a year of landmarks including the Majid Al Futtaim, Government of Ras Al Khaimah and ENOC deals, the Emirates Steel syndication led by Abu Dhabi Islamic Bank and Al Hilal is our best deal for the UAE in 2010. The transaction required the use of a forward lease for US$367 million of the facilities and coordination with conventional lenders on the balance of the US$1.1 billion deal. This deal was completed under still uncertain circumstances in August 2010 and helped to restore confidence in the UAE financing markets.

European: International Innovative Technologies US$9.5million Sukuk Musharakah

The financial crises took its toll on European deals in 2010. A revived Gatehouse Bank engaged in several real estate acquisitions and The Bank of London and the Middle East showed strength. Curiously, the smallest deal is awarded the best deal. Millenium Private Equity structured a GBP6.1 million Sukuk on behalf of International Innovative Technologies. The Musharakah transaction is notable for creating a model that Millenium and other private equity firms may apply to UK and international acquisitions as they develop capital structures which allow efficiency and exits. Although the deal is small, the significance should be seen in its future application.