

Indonesia's corporate Sukuk struggle: Bank Syariah Mandiri to the rescue?

Sukuk issuance in Indonesia's corporate sector remains a relatively quiet space, compared with the bustling government's sovereign issuance, which is often under the spotlight. The Republic's marketplace, however, was given a slight jolt last month when Bank Syariah Mandiri announced plans to issue Sukuk worth IDR1 trillion (US\$74.4 million) later in the fourth quarter of this year, with a minimum coupon rate of 9.5%. DANIAL IDRABI writes.

The bank's director of wholesale banking, Kusman Yandi, told the local press that the planned subordinated Sukuk will have a 10-year tenor and a five-year call option, which will depend on regulatory approval. The proceeds will be used to refinance a separate Sukuk facility that expires some time in December, and is targeting the likes of pension funds and insurance companies for the take-up.



lower taxes compared to companies issuing conventional bonds, in order to prop up the Islamic papers.

Syariah Mandiri's targeted minimum coupon rate of 9.5% might appear to be a relatively high rate in the eyes of foreign investors, but Farouk Abdullah Alwyni, CEO of Alwyni International Capital, said that the rates in Indonesia need to be benchmarked against the government's issuance. "The last retail Sukuk issued by the government offered a return of 8.3% for a three-year tenor, so Syariah Mandiri's Sukuk need to offer returns higher than the government's, in order to be attractive. Although this might be considered high internationally, it is not the case for the current Indonesian context, especially if we take into consideration the steady depreciation of the Indonesian rupiah over the last one year," Farouk told IFN recently.

Farouk further gave the example of Bank Muamalat Indonesia, which issued Sukuk Mudarabah worth IDR500 billion (US\$37.2 million) some four years ago — under its IDR1.5 trillion (US\$111.6 million) Sukuk program — with a profit above 10% (reaching around a 12% equivalent rate). "What Syariah Mandiri offers is quite an average profit rate for corporates in Indonesia. Unlike in Malaysia, there is no special government incentive for corporates to issue Sukuk. Corporates view Sukuk issuance as being more complicated than issuing conventional bonds in terms of paperwork. Without incentives, it is more costly to issue Sukuk," Farouk explained.

Abas Jalil, CEO of Kuala Lumpur-based Amanah Capital Group, takes

a slightly different approach toward the reason behind Syariah Mandiri's high coupon rate. "The issuance is by an independent private sector, and one must also look at its underlying assets. There might be high-risk infrastructure projects involved," Abas explained to IFN. Syariah Mandiri's rate is a stark contrast to the US\$500 million Sukuk facility issued by Garuda Indonesia last year with a coupon rate of 5.95%. "With Garuda, it is very much different from Syariah Mandiri, as the airline is considered a strategic asset by the government, who will step in should anything happen," Abas added.

Compared with the corporate counterparts with similar Sukuk tenors in neighboring Malaysia, for example, rates typically hover around 4-6%. Sime Darby's RM2.2 billion (US\$538.03 million) perpetual non-call 10-year Sukuk facility has a coupon rate of 5.65%, while Axiata's 10-year US\$500 million Sukuk Wakalah facility has a profit rate of 4.36%.

Whether Syariah Mandiri's planned Sukuk issuance will be priced at a premium or not, what is clear is that Indonesia is in dire need of more corporate issuance. This is exemplified by the Indonesian Financial Services Authority or OJK last month calling for 53 out of 119 state-owned firms operating in the infrastructure sector to issue more Sukuk. While Indonesia may be one of the leading sovereign issuers in the world, its corporate sector has much catching up to do, and providing an incentive to do so as well as harmonizing its regulatory framework will give it a much-needed boost.☺

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Corporates in the Republic face a number of regulatory and tax issues when it comes to the issuance of Sukuk, thus hindering its growth. The government is studying the possibility of removing the income tax on sovereign bonds, which is currently set at 15% for Indonesia-based investors and 20% for non-resident investors. There have also been calls by market observers for corporates issuing Sukuk to be given a tax incentive through