

# Structuring A Deal

# The Malaysian Experience

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**K u m p u l a n**



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# DISCUSSION TOPICS

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## Section

❖ Overview of Bond Market

I

❖ Background on Malaysian ABS

II

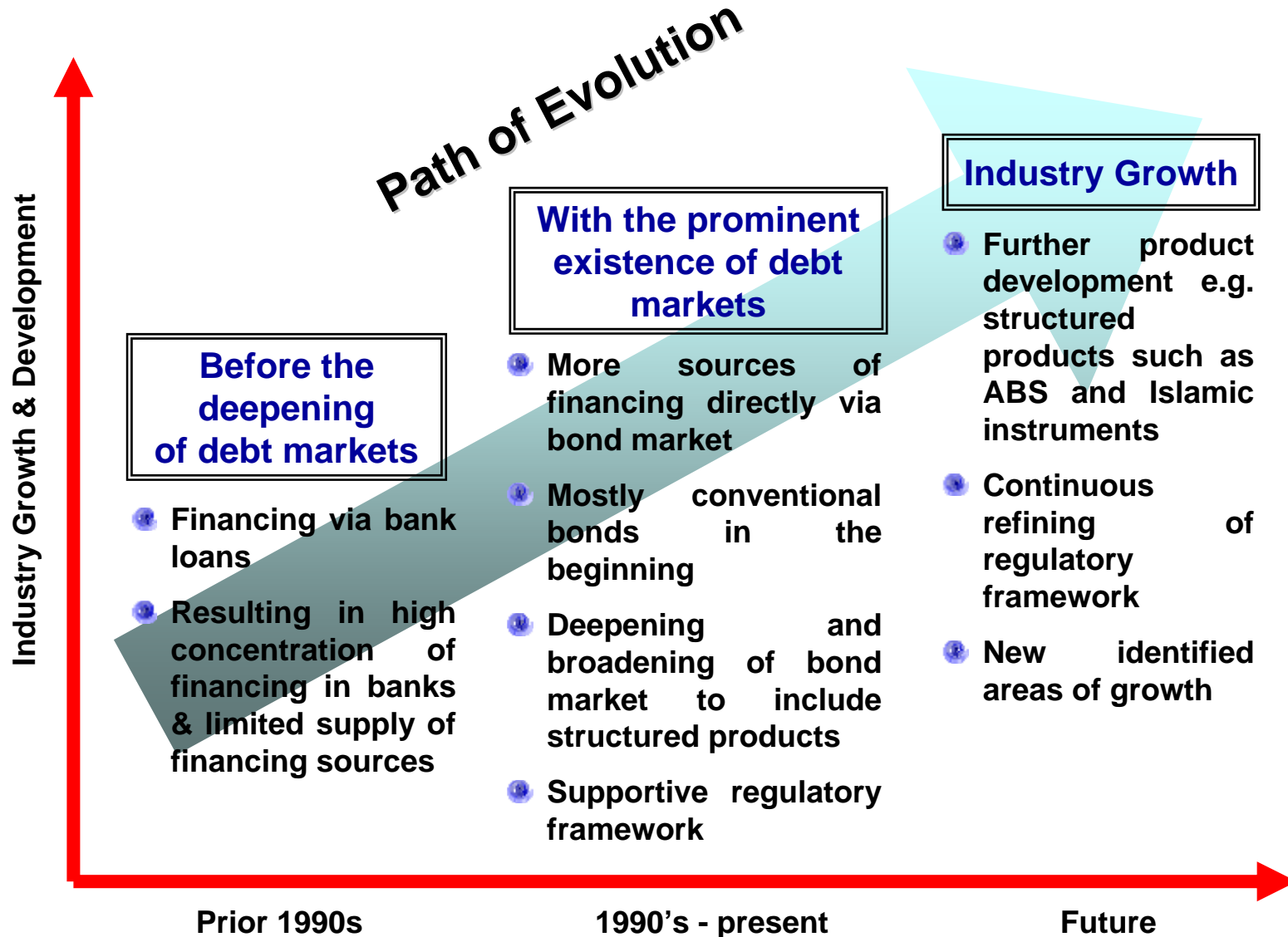
❖ The Malaysian Experience – A Case Study Approach

III

❖ Outlook

IV

# An Overview – Bond Market Development

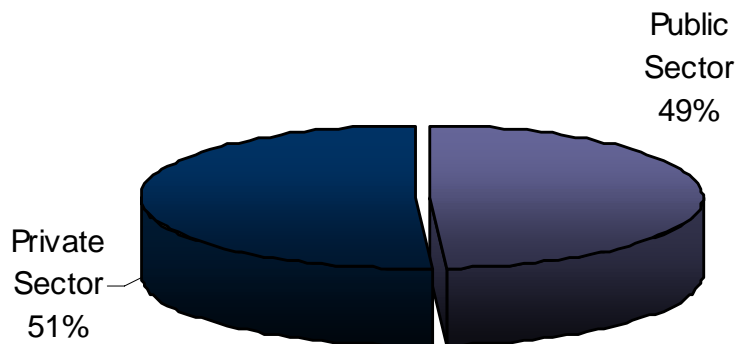


# An Overview of Bond Market

## Outstanding Public vs. Private Sector Bonds (1996 – 2006 YTD)

|                                    | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 YTD |
|------------------------------------|------|------|------|------|------|------|------|------|------|------|----------|
| Outstanding amount (RM bln)        | 119  | 134  | 157  | 203  | 245  | 278  | 278  | 328  | 363  | 379  | 332      |
| Public bonds (RM bln)              | 72   | 71   | 82   | 90   | 103  | 117  | 125  | 149  | 175  | 185  | 162      |
| Private bonds (RM bln)             | 47   | 63   | 75   | 113  | 142  | 161  | 153  | 179  | 188  | 194  | 170      |
| Total bonds outstanding (% of GDP) | 46   | 47   | 56   | 67   | 71   | 83   | 77   | 83   | 81   | 82   | 82       |

### Share of Public & Private Sector Bonds (as of 2006 YTD)

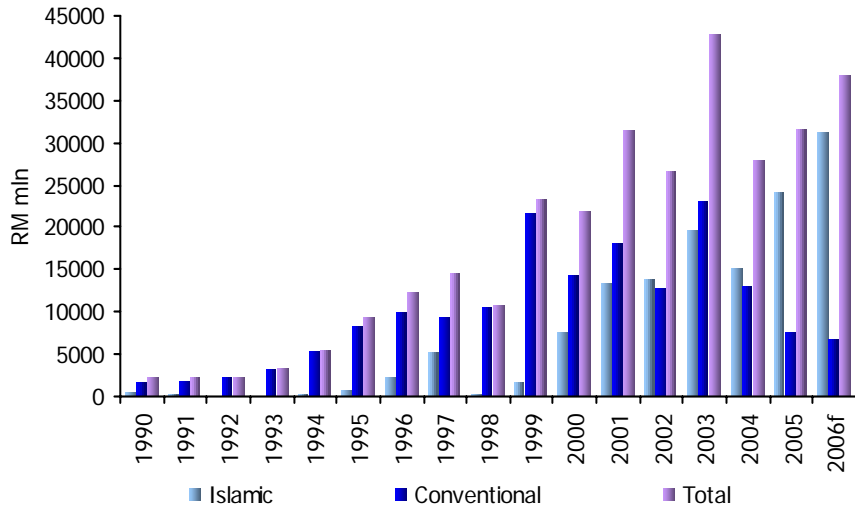


Source: BNM

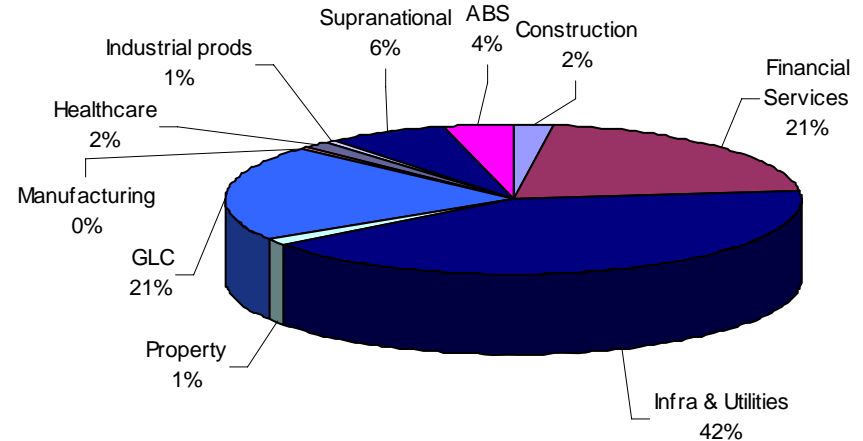
- Rapid growth since the financial crisis given the recognition that bonds account for a more stable source of long-term financing
- Private sector bonds exceeds the public sector since 1999
- Share of outstanding private sector bonds increased from 39.5% in 1996 to 51.2% as of 2006 YTD
- High savings rate: Gross National Saving at 37.1% as of 2005

# Rapid Growth of Private Sector Bonds

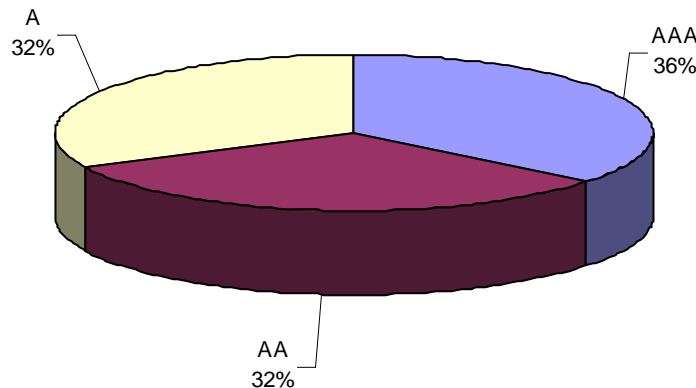
**Corporate Bonds Issuance Trend (1990-2006F)**



**Corporate Bonds Issued by Sector, as at 30<sup>th</sup> May 06**

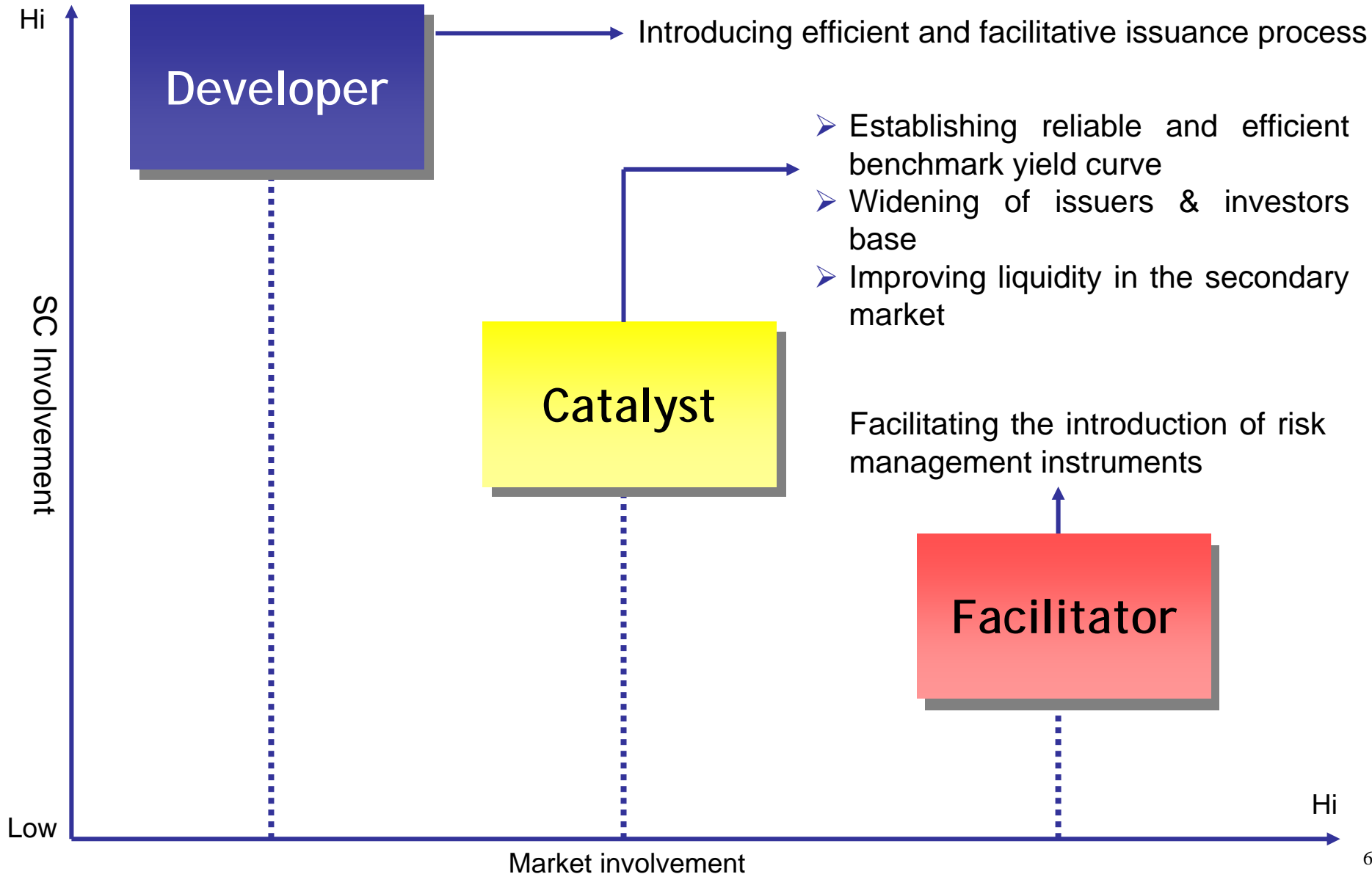


**Corporate Bonds Issued by Rating Distribution, as at 30<sup>th</sup> May 06**



- Key source of long term funds post-crisis
- Fund long gestation infrastructure projects – water, toll roads, power etc
- Straight bonds, Islamic bonds, ABS
- Issuers favourite Islamic bonds, IPDS at 66% of total bonds issued in 2006 YTD
- Bulk with maturity below 15 years

# Regulators Role in Developing Bond Market



# Regulatory Efforts to Develop the Bond Market

**Introducing efficient & facilitative issuance process**

**Establishing reliable & efficient benchmark yield curve**

**Widening issuers & investors base**

**Improving liquidity in the secondary market**

**Introducing efficient & facilitative issuance process**

**Release of PDS & ABS Guidelines (revised in March 2003)**

**Release of Asset Securitisation Report**

**Introduction of shelf regulation scheme**

**Introduction of auction calendar for MGS**

**Review of principal dealers system**

**Broadening of investors base under the Schedule 2 & 3 of SCA for OTC market**

**UBs are allowed to trade in OTC market**

**ABS is introduced together with tax neutral framework**

**Non-financial institutions are allowed to enter into repo transactions**

**Securities Borrowing and Lending Programme is the RENTAS system**

**Introduction of 5 years MGS Futures**

# Today – A Matured Bond Market

## BEFORE INTRODUCTION OF DEBT CAPITAL MARKET

### THE SCENE

Loans financing provided by banking sector



### THE RESULT

- ❖ Limited financing sources
- ❖ Concentration of financing in banks
- ❖ Large capital base
- ❖ SCL constraint
- ❖ Return of assets

## WITH THE EXISTENCE OF ACTIVE DEBT MARKET AND ABS

### THE SCENE

More sources of financing from a broader debt market



### THE RESULT

- ❖ Reduce dependence on banks for financing
- ❖ Funding from non banks
- ❖ Deepening and broadening of bond market
- ❖ Emergence of structured products such ABS to cater for sophisticated financing requirements

### WHAT'S ON OFFER?

- ❖ Increase in sophistication to deliver the financing needs for project financing
- ❖ Guarantee of access to larger investor base e.g. Islamic investors
- ❖ Potential lower pricing to infrastructure issuers via the wider investor base
- ❖ Provide an avenue to enhance value and maximise returns to investors





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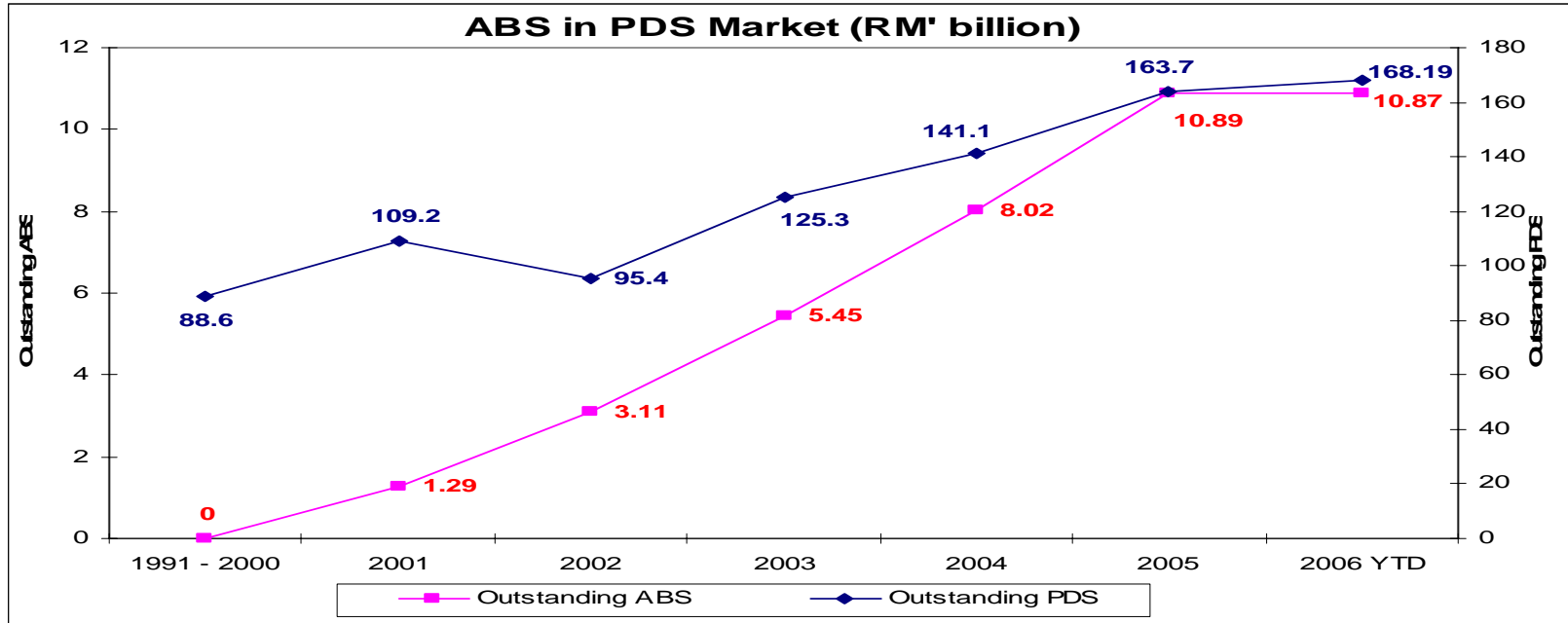
# **Background on Malaysian ABS**

# Background

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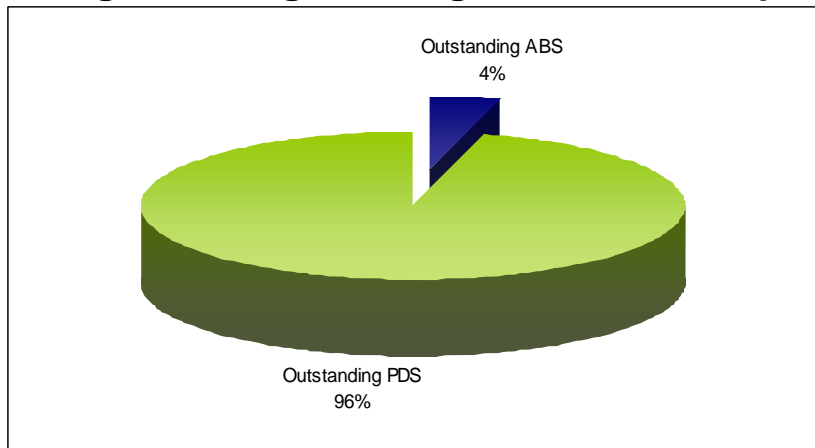
- The primary market for ABS is still developing when compared to PDS which has grown by leaps and bounds from the second half of the 1980s in Malaysia.
- However, in recent years, where clients are becoming sophisticated, PDS and bank loans alone do not meet the funding needs, ABS is often seen as a viable alternative.
- Thus far, a wide range of asset classes have been securitised ranging from mortgage receivables to charge card receivables, motivated by one or a combination of the following:
  - Regulatory Capital management;
  - Accounting and Tax Issues;
  - Credit Wrap (Rating transformation); and
  - Credit risk hedging.

# ABS within PDS Market



As of May 2006

**ABS registered significant growth in a short period of time**



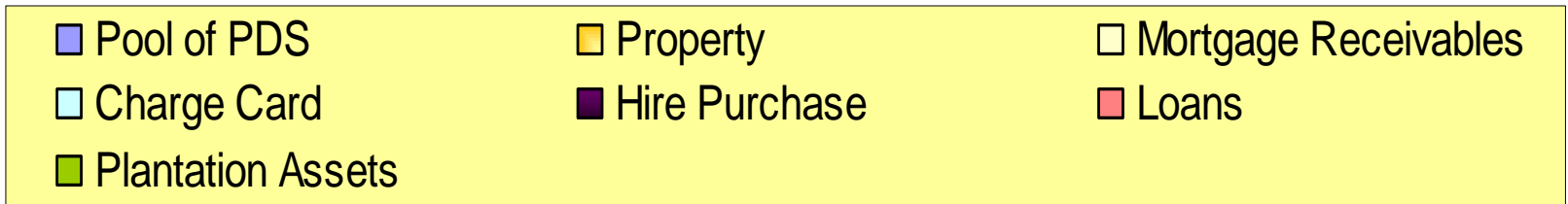
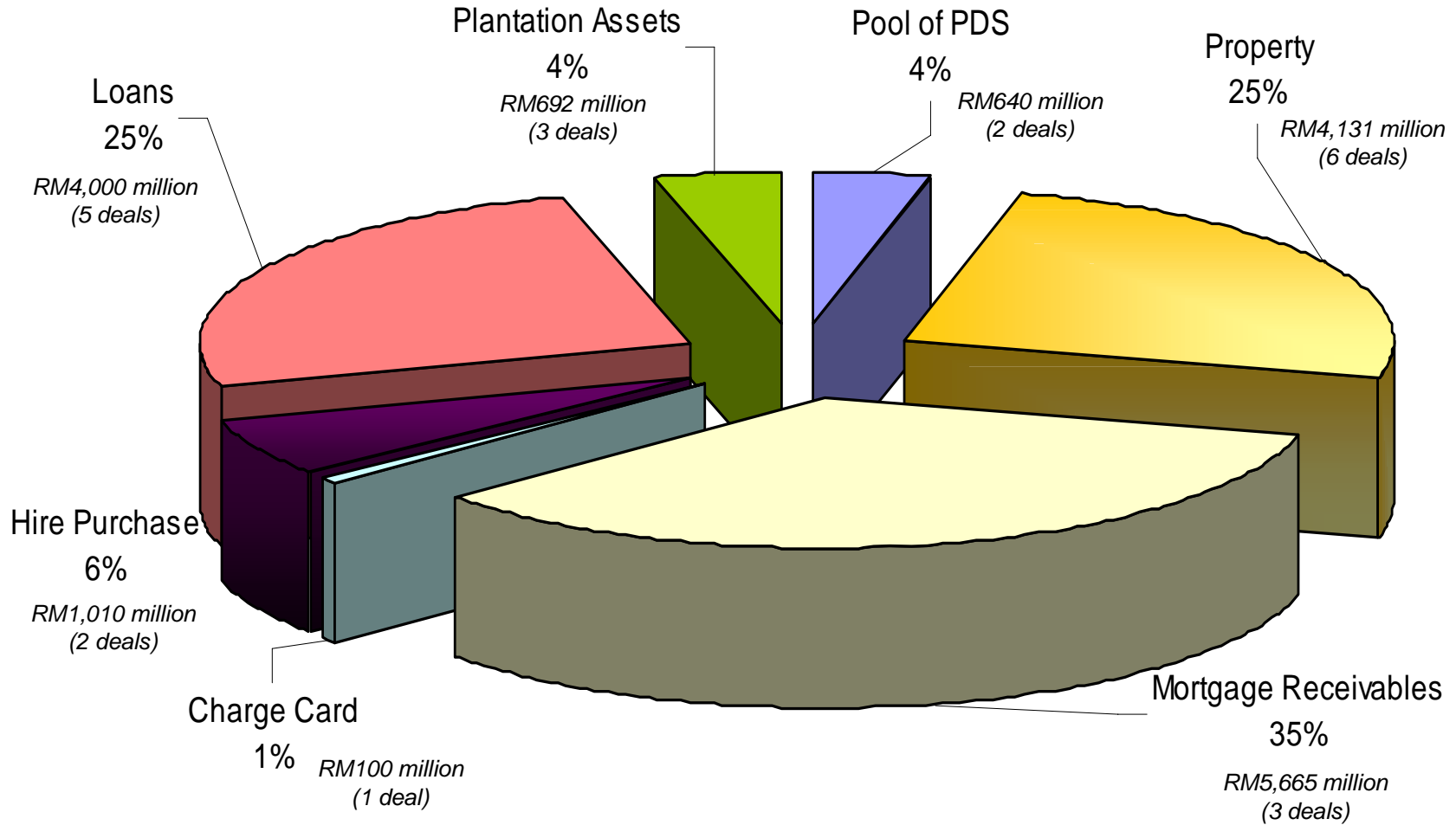
# Our Experience - ABS Issuance

| No          | Issuer                   | RM (mln)      | Issue Date | Underlying receivables   |
|-------------|--------------------------|---------------|------------|--|
| 1           | Prisma Assets Bhd        | 225           | Aug-01     | Diversified pool of PDS  |
|             |                          | 30            |            |  |
|             |                          | <b>255</b>    |            |  |
| 2           | CBO One Bhd              | 360           | Dec-01     | Diversified pool of PDS  |
|             |                          | 25            |            |  |
|             |                          | <b>385</b>    |            |  |
| 3           | Securita ABS One Bhd     | 310           | Dec-01     | Loans sold to Danaharta  |
|             |                          | 285.39        |            |  |
|             |                          | <b>595.39</b> |            |  |
| 4           | ABS Real Estate Bhd      | 120           | Sep-02     | Property rental receivables  |
|             |                          | 75            |            |  |
|             |                          | 45            |            |  |
|             |                          | 210           |            |  |
|             |                          | 466.2         |            |  |
|             |                          | <b>916.2</b>  |            |  |
| 5           | Aegis One Bhd            | 900           | Nov-02     | Cashflow CLO   |
|             |                          | 100           |            |  |
|             |                          | <b>1000</b>   |            |  |
| 6           | Auto ABS One Bhd         | 190           | Jan-03     | Car loans  |
|             |                          | 195           |            |  |
|             |                          | 125           |            |  |
|             |                          | <b>510</b>    |            |  |
| 7           | Ambang Sentosa           | 401.6         | Jul-03     | Receivables from a selective pool of SPA within participating projects   |
|             |                          | 249.7         |            |  |
|             |                          | 398.1         |            |  |
|             |                          | <b>1049.4</b> |            |  |
| 8           | Special Port Vehicle Bhd | 85            | Aug-03     | Annual receivable payments due to KDSB from Port Klang Authority under the SPA of a land, comprising a schedule payment over the period of 2003-2017 |
|             |                          | 85            |            |  |
|             |                          | 100           |            |  |
|             |                          | 100           |            |  |
|             |                          | 100           |            |  |
|             |                          | 100           |            |  |
|             |                          | 130           |            |  |
|             |                          | 130           |            |  |
|             |                          | 150           |            |  |
|             |                          | 150           |            |  |
|             |                          | 180           |            |  |
| <b>1310</b> |                          |               |            |  |

# Our Experience - ABS Issuance (Con't)

|    |                           |                |        |   |
|----|---------------------------|----------------|--------|---|
| 9  | Astute Assets Bhd         | 675            | Oct-03 | A subordinated fixed rate term loan extended to AmFinance Bhd |
|    |                           | 23.5           |        |   |
|    |                           | <b>698.5</b>   |        |   |
| 10 | Domayne Asset Corp Bhd    | <b>100</b>     | Jan-04 | Credit card receivables                                       |
| 11 | ABS Land & Properties Bhd | 55             | Feb-04 | Properties  |
|    |                           | 24             |        |   |
|    |                           | 24             |        |   |
|    |                           | 5.5            |        |   |
|    |                           | <b>108.5</b>   |        |   |
| 12 | Synergy Track Bhd         | 63.5           | Mar-04 | Retail & Office Property                                      |
|    |                           | 37.9           |        |   |
|    |                           | 18.9           |        |   |
|    |                           | 18.9           |        |   |
|    |                           | 12.8           |        |   |
|    |                           | <b>152</b>     |        |   |
| 13 | Kerisma                   | 870            | May-04 | CLO   |
|    |                           | 30             |        |   |
|    |                           | 100            |        |   |
|    |                           | <b>1000</b>    |        |   |
| 14 | Cagamas MBS Bhd           | 580            | Oct-04 | RMBS  |
|    |                           | 340            |        |   |
|    |                           | 290            |        |   |
|    |                           | 345            |        |   |
|    |                           | <b>1555</b>    |        |   |
| 15 | Cepat Assets Bhd          | 60             | Jan-05 | Auto loans receivales   |
|    |                           | 110            |        |   |
|    |                           | 120            |        |   |
|    |                           | 130            |        |   |
|    |                           | 80             |        |   |
|    |                           | <b>500</b>     |        |   |
| 16 | MOCB                      | <b>556.555</b> | Mar-05 | Government receivables  |
| 17 | Premium Commerce Bhd      | <b>600</b>     | May-05 |   |
| 18 | Cagamas MBS               | <b>2050</b>    | Aug-05 | Mortgage loans  |
| 19 | ABS Plantation Assets     | <b>95</b>      | Sep-05 | Plantation assets   |
| 20 | CapOne Bhd                | <b>1000</b>    | Sep-05 | CLO   |
| 22 | Cagamas MBS               | <b>2060</b>    | Dec-05 | Mortgage loans  |
| 24 | Quanto Assets             | <b>462</b>     | May-06 | CLO   |

# Classes of Asset Securitised





**3**

# **The Malaysian Experience - Case Study**

# Case Study

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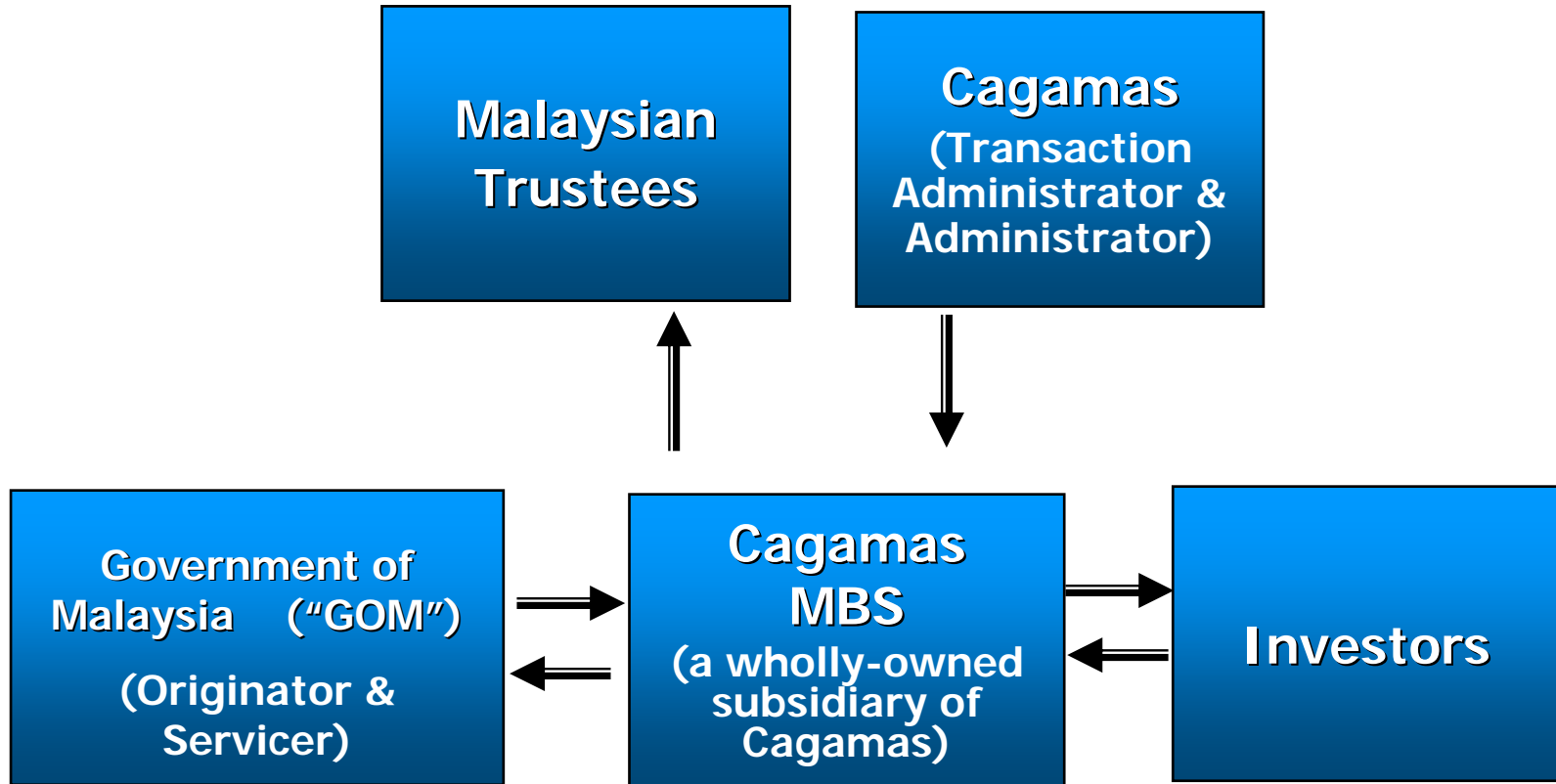
Cagamas Berhad

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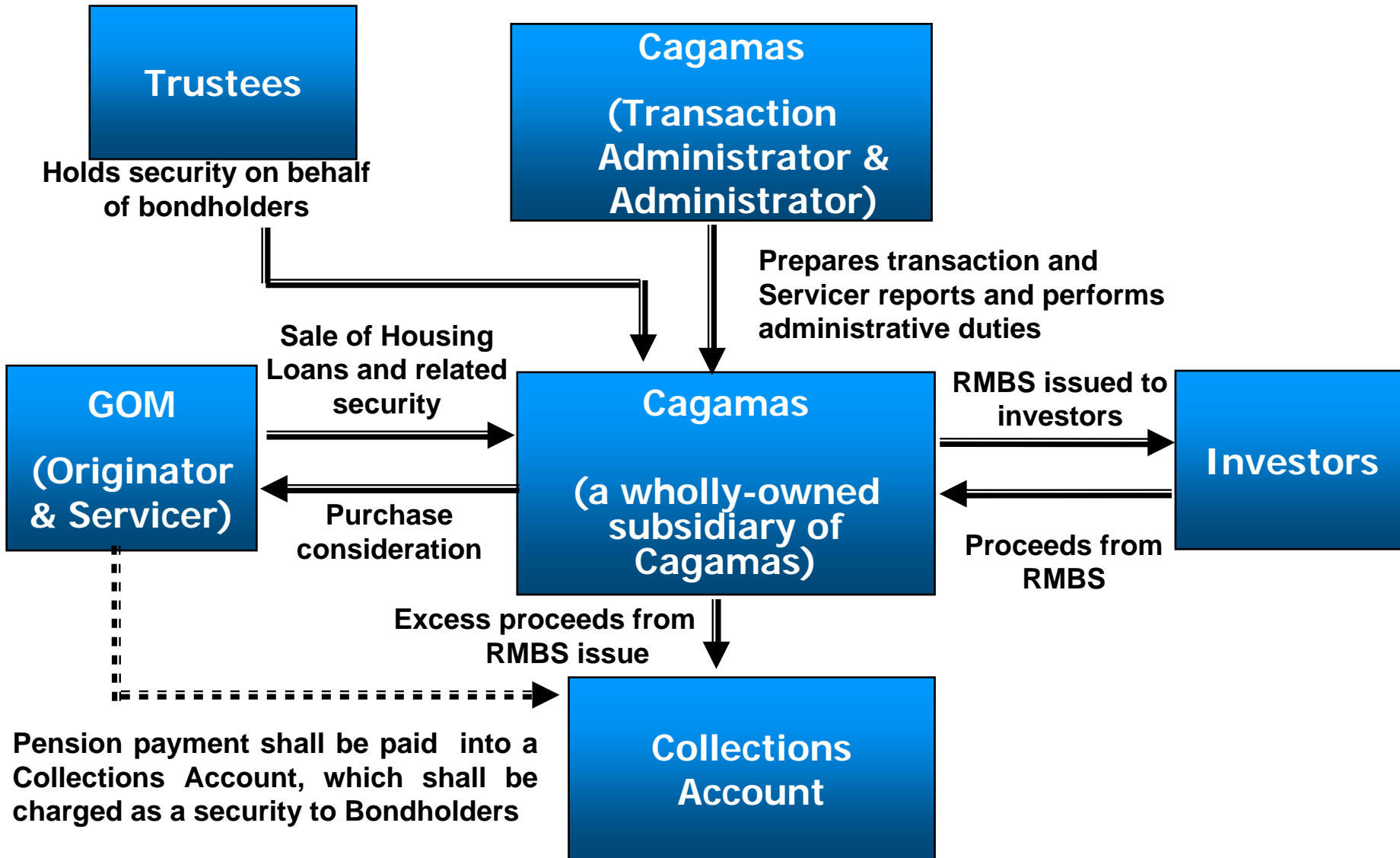
RM 1.5 billion Nominal Value Residential  
Mortgage–Backed Securities

Advised by:  **Aseambankers**

# Key Transaction Parties



# Transaction Structure – RM 1.5 billion RMBS



# Key ingredients for the success of the Issuance



## High Quality Assets

- Installments deducted at source
- Well seasoned portfolio
- Stringent eligibility criteria
- Low prepayment risk
- Insignificant default
- MRTA coverage > principal outstanding
- GOM as paymaster



## Superior Structure

- GOM repurchase obligations
- Retrospective purchase



## Strong Counterparties

- GOM as Servicer
- Cagamas, the holding company as the Transaction Administrator & Administrator



## Highest Credit rating

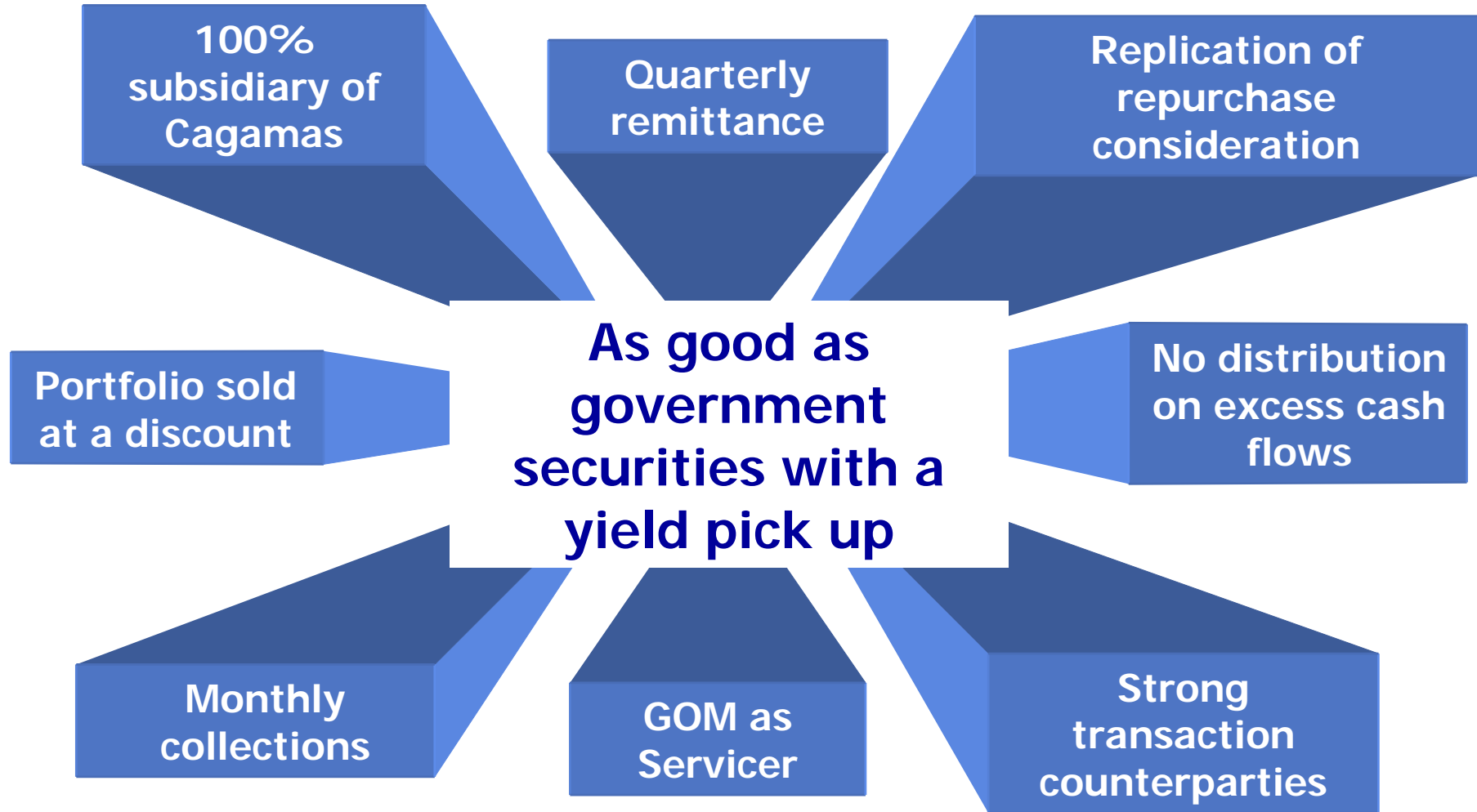
- AAA by MARC & RAM

# Key Features of the Portfolio

## Government Staff Housing Loans

- ❑ Large static Portfolio
- ❑ Small balances and installments
- ❑ Credible and passive borrowers
- ❑ Insulated from economic cycles and volatilities
- ❑ Excellent payment stream
- ❑ Highly secured / creditworthy payment source
- ❑ Well seasoned pension mortgages
- ❑ More than adequate life insurance coverage
- ❑ Secured and well collateralised
- ❑ Principal balance outstanding outweighs bonds outstanding

# Safe and Strong Trade





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**Outlook**

# Outlook - Overall Backdrop Remains “Bond Positive”

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- Malaysia’s bond market remains the most successful in the region
- Conducive economic environment to fuel bond market growth
- Regulators and market participants remain an integral component of a successful bond market
- **Relatively low interest rate environment** encourages corporates to speed up debt issuances to lock in rates at present levels
- Anticipate a dynamic bond market in 2006

# Outlook & Perspectives

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- Within the increasing magnitude of Malaysia's Debt Capital Market, ABS has made tremendous headways in becoming a popular alternative source of financing.
- In the niche mainstream financial industry, ABS is on an upward trend.
- The increasing popularity for ABS is largely due to the need for rating upgrade, balance sheet management and as an alternative financing source.
- As a result of ABS tremendous growth, Malaysia's financial landscape has advanced in terms of diversity parallel with other conventional products.
- In moving forward we are even looking at synthetic securitisation of assets.

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**Virtually anything with cashflow can be securitised**

