

China Islamic Bond Push Renews as Global-Focused Funds Quadruple
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By Elffie Chew and Liao Y-Sing

(Bloomberg) -- China Inc. plans its first dollar sukuk issuance to tap a four-fold increase in Chinese funds that can invest in bonds overseas.

Sichuan Development Financial Leasing Co. plans to sell \$300 million of Islamic bonds via Singapore-based special purpose vehicle, Silk Routes Capital Pte., in December, according to sale adviser Silk Routes Financials. The deal is being done in the city-state because China doesn't have equal tax treatment for sukuk, said Bobby Tay, an adviser at the consultancy.

The planned offering follows China's inaugural ringgit sukuk by Country Garden Holdings Co. last year. The support for Islamic finance complements President Xi Jinping's 'One Road, One Belt' goal of reviving historical trade routes with the Middle East. Research firm Z-Ben Advisors estimated Chinese funds that invest in bonds overseas through the nation's Qualified Domestic Institutional Investors program more than quadrupled this year to 17.4 billion yuan (\$2.6 billion) as of Sept. 30.

"This is a step in the right direction and could potentially lead to more Chinese corporates diversifying their funding sources via the sukuk market," said Hasif Murad, an investment manager at Kuala Lumpur-based Aberdeen Islamic Asset Management. "The predominant interest for this issuance will remain from yield-hungry domestic Chinese investors."

Silk Routes Capital hired Standard Chartered Plc, CIMB Group Holdings Bhd., Bank of China Ltd. and Bank of China International Ltd. to help to arrange investor meetings in the Middle East, Malaysia, Brunei, Singapore and Hong Kong, Tay said. The sukuk will use the structure of commodity murabaha, where goods are bought and then resold with a pre-agreed mark-up, he said.

The Islamic debt will likely have the same ratings as Sichuan Development Holdings Co., the parent of the leasing company, according to Tay. The investment arm of Sichuan provincial government is assessed A-, the fourth-lowest investment grade by Fitch Ratings. Officials in the two companies couldn't be immediately reached by phone.

Silk Road

In a sign the traditional Silk Road is coming back to life, Chinese companies are building roads, railways and ports along the route to the Middle East, Africa and Europe. The first cargo train from China to Afghanistan completed its journey in September, marking another advance in Xi's project to deepen his nation's influence along the old trade routes.

For a primer on China's modern 'Silk Road' strategy, [click here](#)

Issuance of global Shariah-compliant securities climbed 28 percent so far this year to \$38.7 billion, after dropping 28 percent to \$35.6 billion in 2015, the least since 2010, according to data compiled by Bloomberg.

Assuming Sichuan's sukuk rating is at par to the parent, the five-year could be priced 150 basis points to 170 basis points over the similar-maturity Treasury, equivalent to 2.75 percent to 2.95 percent, according to Jeddah-based Sedco Capital. "This would be a good start for dollar sukuk in China," Fakrizzaki Ghazali, a senior fixed income analyst at Sedco Capital, said in an e-mail Monday. "For the size of \$300 million, it should be easily absorbed by the market, more so if they eventually become index-eligible, which helps improve their liquidity profile."

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