Malaysian power sector catalyst for sukuk development

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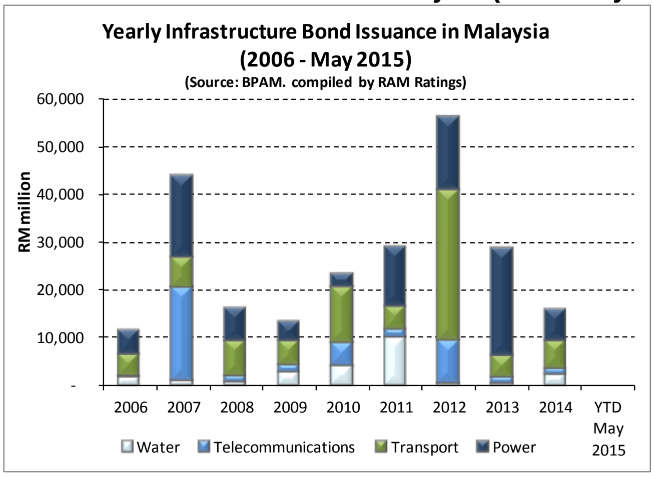
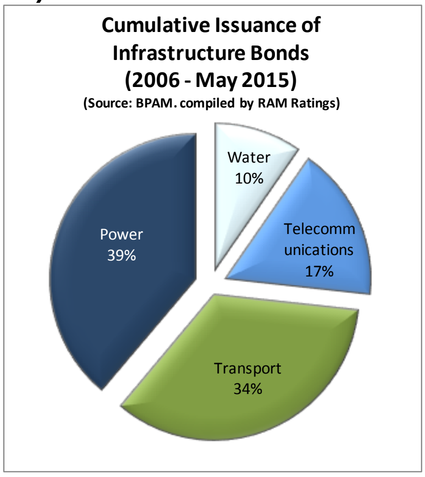
In conjunction with the region's integration under the ASEAN Economic Community, RAM Ratings has published the maiden report in its ASEAN Power Series. This report presents RAM's assessment of the power sector's structure, regulatory landscape, capacity and fuel-supply situation, the key players and how these influence the industry's growth and infrastructure funding.

In support of Malaysia's aspiration of achieving "high-income nation" status by 2020, its power sector has played a pivotal role in energising the domestic economy while being developed alongside gradual regulatory reforms. The Malaysian power sector is characterised by its supportive regulatory environment, robust Power Purchase Agreements (PPAs) and strong sponsors as well as counterparties.

These are the key catalysts that have supported the growth of power bonds in the country. Since the first bond issue by an independent power producer (IPP) in 1993, the Malaysian power industry has been one of most active sectors tapping the local bond market for its funding needs, with tenures ranging from 10 to 30 years. "Power bonds have accounted for 39% of Malaysia's RM239 billion of infrastructure bond issues in the last decade," highlights Chong Van Nee, Co-Head of Infrastructure and Utilities Ratings. Based on RAM's data and information gleaned from FAST (Fully Automated System for Issuing/Tendering), sukuk has become more prominent over the years, with more than 93% of IPP bond issues comprising sukuk after 2000, compared to only 25% before that. "Nearly all of Malaysia's outstanding IPP bonds - amounting to RM28 billion - are sukuk issues," adds Chong.

Infrastructure bond issues in Malaysia (2006–May 2015)





Source: Bond Pricing Agency Malaysia (BPAM).
** Issuance up to May 2015 amounted to only RM155 million.*

Meanwhile, recent developments to ensure energy security and the sustainability of the sector include the introduction of imported gas to further diversify Malaysia's fuel-supply sources and increased efforts to develop renewable energy. The debut of incentive-based regulation for Peninsular Malaysia has also paved the way towards increased transparency when setting tariffs. As generating capacity is expected to grow in tandem with the nation's development agenda, the Government's necessary push for competitive bidding and continued subsidy rationalisation are critical for the longer-term wellbeing of the sector.

RAM's report on the Malaysian power sector, *Energising a steady growth path*, highlights the following points:

- National and state-owned utility companies continue to dominate the landscape.
- Solid government backing through subsidies and periodic tariff reviews.
- Robust PPAs allow strong private-sector participation.
- Diversified fuel supply and generation mix.
- Matured local-currency bond market supports long-term funding of power infrastructure.

RAM will be releasing power sector reports on selected ASEAN countries in the coming months. These publications can be accessed via our website, www.ram.com.my.