Danajamin guarantees aim to diversify bond, sukuk market

KUALA LUMPUR: Danajamin Nasional Bhd, the country’s sole specialised credit guarantor, plans to introduce partial guarantees to encourage a wider range of issuers in the local conventional and Islamic bond markets, its top official said. Malaysia is home to Asia’s third largest bond market and has the world’s biggest market for sukuk, but deals are dominated by highly rated issuers. Close to 90% of all bonds and sukuk are rated AA or AAA.

Set up in 2009 to help develop the domestic debt market, Danajamin has provided guarantees for over RM7 billion of issuance, 45% of that amount in the form of sukuk. The firm is one of a small but growing number of guarantors worldwide which support sukuk deals.

Danajamin, owned by the Ministry of Finance and Credit Guarantee Corp Malaysia Bhd, now plans to expand its use of partial as well as temporary credit guarantees, chief executive Mohamed Nazri Omar said in an interview. “If we guarantee every single issuance they’ll all be rated triple A and there will be no diversity … we want to deepen and stretch the market with new products.”

The move comes as Malaysia plans to remove mandatory credit ratings from 2017, in an effort to reduce issuance costs and boost market volumes.

Danajamin only guarantees ringgit-denominated deals. It has begun co-guaranteeing deals with banks to spread risks; in December, it co-guaranteed a project by Berjaya Land Bhd with OCBC Bank, and another transaction by a unit of developer Malaysian Resources Corp Bhd with CIMB Islamic and RHB Islamic.

In September, it partnered with the Credit Guarantee and Investment Facility (CGIF), a trust fund of the Asian Development Bank, to support regional transactions including sukuk.

“If we have a client who wants to do part in ringgit and part rupiah, we’ll bring in the CGIF,” said Nazri.

— Reuters