GROWTH AND OUTLOOK OF ASSET-BACKED SECURITIZATION IN THE MALAYSIAN CAPITAL MARKET: THE CASE STUDY OF SUNWAY CITY BERHAD

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Abstract

Asset-Backed Securitization (ABS) was introduced in Malaysia in 2001. This timely study overviews the structure of ABS in the Malaysian capital market, examines the securitization mechanism, and measures the growth and performance over the period from 2001 to 2005. The results reveal a robust growth in overall, with a significant increase of 200% in 2003. Furthermore, Islamic ABS was introduced in 2003, and their issuance size in 2005 was worth RM5.2 billion, thus surpassing the Conventional ABS with an issuance value of RM4.2 billion. We also consider company performance, specifically on the originator perspective, and focus on the commercial property sector. The results reveal that after securitizing their assets, the originators manage a reduction in debt obligations and an enhancement in earning capacities. The study concludes with the benefits that a transfer of knowledge on ABS can bring to organizational performance and to investors' portfolios. The authors believe that ABS shall become a premier alternative debt financing to companies and a portfolio diversification tool to investors in the Malaysian capital market.

Keywords: Securitisation Mechanism; Securitisation Structure; Conventional and Islamic ABS; Debt; Earnings.
INTRODUCTION

Securitization began in the United States in the 1970s when the Government National Mortgage Association, Ginnie Mae, offered investors a new type of bond, i.e. a mortgage pass through. That security promised investors the principle and interest payment generated by a pool of single-family mortgage loans from the Federal Housing Administration and the Veterans Administration. Beginning with the first Ginnie Mae pass-through, the list of securitized assets has expanded to commercial mortgage loans, car loans, computer and truck leases, loans for mobile homes, credit card receivables, trade receivables and student loans. Since the beginning of the 1980s, securitization has become a global financing tool. Furthermore, it is one of the fastest growing tools and now features in most financial markets.

Considering the Malaysian market, the origin of securitization can be traced back to 1986 when the Government set up a mortgage financing body called the National Mortgage Corp, Cagamas Bhd. Cagamas was formed following the model of US institutions as Fannie Mae and Freddie Mac. Accordingly, Cagamas functions as a special purpose vehicle (SPV) between the house mortgage lenders and the investors of long-term funds. Cagamas is the most important issuer of securitized instruments in Malaysia and the securities they issue have acquired the name “Cagamas bond”.

On 10 April 2001, the Securities Commission released mandatory guidelines on asset securitization. The guidelines permit only companies incorporated in Malaysia to offer asset-backed securities in Malaysia, either on public basis or on private basis. Since ABS was first introduced to the domestic market in 2001, much has been said about the potential for securitization in Malaysia and the fresh impetus it brings to the capital market. Three ABS deals followed quickly on the heels of the regulatory guidelines in 2001. However, the past year only saw two securitization transactions coming into the market whilst another two deals that had long been in the pipeline eventually failed
for various reasons. ABS still forms a small fraction of the growing debt market in Malaysia valued above RM100 billion.

This study investigates the use of ABS, considering the inconsistent market for asset-backed securities and the development of bond market in Malaysia. The focus is particularly on real estate backed securitization as an alternative debt financing tool. Overall, the total value of asset-backed securitization in the Malaysian market is growing rapidly from year to year. ABS is gaining acceptance and is adding new depth to the local debt market. In 2004, the issuance size reached RM3.8 billion, and in 2005, it increased by 143% amounting to RM9.4 billion. Islamic ABS also seems to contribute a positive growth to the Malaysian bond market.

Based on this premise, the initial objectives of the study are to overview the Malaysian ABS market by referring to its growth and prospect, to examine mechanics of securitization, and to measure its viability as alternative debt financing in the Malaysian capital market. The study will particularly focus on Sunway City Berhad, because it was the first ABS as alternative debt financing in the Malaysian capital market. Yearly data are collected from the annual reports of Sunway City for the period from 2000 to 2004, and analyzed using descriptive statistical tool to present the securitization mechanism. Furthermore, financial ratios are used to measure the viability of ABS.

**LITERATURE REVIEW**

**Growth of Global ABS**

Considering securitization worldwide, it is one of the more prominent developments to emerge in the Canadian financial markets over the past decade and experience significant growth, according to Dionne and Harchaoui (2002). Outstanding securitized assets in Canada rose from under half a billion dollars in 1987 to over $63 billion by the end of 1998. The innovation enables financial institutions to raise funds
through the issuance of debt (asset-backed securities) that is secured by their receivables (securitized assets). For investors, these asset-backed securities offer a balance of safety and return that rival many traditional high-quality fixed-income investments. Over the past decade, the term securitization has been used to describe any issue of fixed-income securities whose payments are linked to a specific pool of financial assets. In Europe, Wolfe (2004) documented that the market for securitization has been growing rapidly over the last decade with new issuance of securitized debt totalling €162 billion in 2002. Furthermore, the Bond Market Association (2004) reported that the issuance of ABS rose substantially in 2004. For instance, the ABS volume reached €30.1 billion for the second quarter, 18.5% higher than the €25.4 billion issued in the first quarter, and 60% higher than the second quarter of 2003.

The picture is even more dramatic in the US, where securitized debt outstanding, including mortgage backed debt, made up 30% of the total public and private bond market, while outstanding US corporate debt made up just 20% of the total $18.6 trillion market in 2001. Propelling the growth in securitization is the continuous evolution of the issuers and the specific asset classes supporting the transactions. The International Financial Services in London (2006) reported that the issuance of ABS in the US has risen consistently in every year since 1990, rising from $50 billion to $1,103 billion in 2005. In 2004 and 2005, the issuance rose with 54% and 22%, correspondingly. As a result, the issuance in 2005 was close to double the $585 billion of 2003. The issuance of asset backed securities in the US, between 1990 and 2005, is depicted in Figure 1 below.
As another global example, when the financial crisis in Korea gave rise to an acute liquidity crunch, the Korean government saw securitization as a way to inject needed funds into the market. Thus in September 1998, the Korean government passed the Asset Backed Securitization Law and introduced the system to the Korean economy. In December 1998, two months after the law was enacted, the special purpose vehicle Orion issued KRW6.8 trillion worth of privately placed ABS. Since then, the Korean ABS market underwent a significant growth both in size and quality (Ergungor 2003).

The Underlying Assets

A securitized asset can be any form of receivable with a predictable cash flow, such as a loan, lease or mortgage, (Dionne and Harchaoui 2002). Due to the nature of the receivables, the original lenders are typically financial institutions, such as banks, near-banks, sales financing and consumer loan companies, and other types of financial intermediaries.

The fixed-income securities that arise from the pooling of these receivables are called asset-backed securities. The return on these
instruments is collateralized by the expected cash flows on the securitized assets rather than the obligation of the lending institution.

Securitization is the term used to describe the process of issuing securities backed by the cash flows from a pool of underlying assets, (Barth et.al. 2005). The assets can be of various types, including commercial and residential mortgages, leases, credit card receivables and manufactured home loans. They may even include exotic assets such as royalties from intellectual property or tax receivables.

Considering European ABS, a diverse range of financing types is covered. Collateralized debt obligations (CDO) were the biggest contributor in 2005, according to the European Securitization Forum (ESF) data. At $58 billion, CDO accounted for a third of ABS. Securities collateralized by loans totalled $49 billion and made up 28% of ABS. These included leveraged commercial, corporate, consumer and small business loans. Securities backed by credit card receivables reached $15 billion, while securities backed by leases amounted to $10 billion. Auto loans totalled $5 billion health care, insurance and utility receivables also amounted to $5 billion, according to the report of International Financial Services in London (2006).

According to the study by Sridhar (2002), asset backed securities are the most general class of securitization transaction, where the asset in question could vary from auto loan / lease / hire purchase, credit card, consumer loan, student loan, healthcare receivables and ticket receivables to even future asset receivables. The author also referred to the performance of US ABS outstanding based on asset class, as of June 30th 2001, presented in Figure 2 here.
From the above chart, credit card receivables contributes about 28% to the US securitization market. According to Ergungor (2003), it should not come as a surprise that credit card asset-backed securities first appeared in the public debt market as early as 1987.

The Mechanism

Asset Backed Securitization is one of the most important and abiding innovations to emerge in financial markets since the 1930s, (Kendall and Fishman 1996). ABS is defined as a financing technique in which a company or financial institution dedicates the cash flows from selected assets to securing certain liabilities and then creates securities from those liabilities (Giddy 1994). Wolfe (2004) described ABS as the process of transforming illiquid assets into marketable securities, hence raising the liquidity. As such, ABS is a financing technique widely employed by the international financial institutions and increasingly by the corporate sector, and government, including Malaysia, (Tan and Ting 2004).
By trading procedure, asset securitization differs from collateralized debt or traditional asset-based lending in that the loans or other financial claims are assigned or sold to a third party, typically a special-purpose company or trust. This special-purpose vehicle in turn will issue one or more debt instruments (the asset-backed securities) whose interest and principal payments are dependent on the cash flows coming from the underlying assets. The process is outlined in Figure 3.

**Figure 3: Process Of Asset-Backed Securitization**

<table>
<thead>
<tr>
<th>BANK/COMPANY</th>
<th>SPECIAL PURPOSE COMPANY OR</th>
<th>INVESTORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pool of loans/receivables</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For Islamic ABS, the process does not differ greatly except for the underlying assets, which cannot contain any elements that contradict the Syariah.

**FINDINGS AND ANALYSIS: GROWTH AND OUTLOOK OF ABS IN THE MALAYSIAN CAPITAL MARKET**

The total value of asset-backed securitization in the Malaysian market is growing rapidly overall, as shown in Figure 4. However, the ABS growth in 2001 was relatively small, with two issues valued at RM640 million. In 2002, the ABS totalled to four issues worth RM1.93 billion. In 2003, the number unfortunately dropped to three issues though valued quite higher at RM3.5 billion. Then in 2004, the number of ABS issues increased to six though worth only slightly higher at RM3.84 billion. The following year marked the turning point of the Malaysian ABS as the value increased by 140% to RM9.33 billion, though the number of issues was only eight. ABS has grown substantially since 2005, and in 2006 not only recorded the highest number of issues of 19
but also the value of RM26.44 billion. This represents almost a triple jump in comparison with 2005. The authors are motivated to study real estate ABS as many corporate borrowers seem to use their landed fixed assets (land, building and factories) as collateral to secure long-term debt from financial institutions. Hence it is important to determine the ability of originators to obtain not only a creative but also cheap way of debt financing in the Malaysian capital market.

Figure 4: Growth Of Asset Backed Securitization In The Malaysian Market (2001-2005)

The Growth of ABS in Malaysian Market From Year 2001 Until Year 2005 (RM'000)

<table>
<thead>
<tr>
<th>Year</th>
<th>Issuance Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>640</td>
</tr>
<tr>
<td>2002</td>
<td>1925</td>
</tr>
<tr>
<td>2003</td>
<td>3504.5</td>
</tr>
<tr>
<td>2004</td>
<td>3839.4</td>
</tr>
<tr>
<td>2005</td>
<td>9327</td>
</tr>
</tbody>
</table>

Source: Securities Commission

It is noteworthy to review the details of issues since 2001. In 2002, the issuance size increased by 200% amounting to RM1.93 billion. It consist of two issuers with four ABS instruments that are Senior Secured Fixed Rate Bonds, Subordinated Secured Variable rate Bonds, Subordinated Notes and Senior Notes. The issuers are Aegis One Berhad and ABS Real Estate Berhad. Both are introduced in the last quarter of 2002. In the first quarter of 2003, Auto ABS One Berhad issued Redeemable Asset-Backed Bonds worth RM510 million. Then in the third quarter of 2003, two ABS were issued. The first one worth RM1310 million, issued by Special Port Vehicle Berhad and another one based on Islamic ABS. The latter was the first Islamic ABS in the market, it was issued by Ambang Sentosa Sdn Bhd and worth RM986
million. In the last quarter of 2003, Astute Assets Berhad issued Secured Fixed Rate and Zero Coupon Bonds worth RM698.5 million. Thus, we reveal that besides increasing by 447.6% in issuance size, the number of issuer also grow steadily from two in 2001 to four in 2003. At the end of year 2004, the issuance size reaches RM3.84 billion. It included the first residential mortgage-backed securities transaction of RM1.5 billion by Cagamas. In the following year, the size increased by 142.9% amounting to RM9.33 billion.

Therefore, the data support a scenario where asset-backed securitization is gaining acceptance and adding new depth to the local debt market. The positive trend of ABS issuance in Malaysia is further expected to maintain its momentum, given the attractiveness as an alternative source of company financing. The conclusion is also supported by the data presented in Figure 5, which shows the number of ABS transactions between year 2001 and 2005:

**Figure 5: Number Of ABS Issues Relating To PDS In The Malaysian Market**

![Bar chart showing the number of ABS issues relating to PDS in the Malaysian market from Year 2001 until Year 2005.](image)

Source: Securities Commission

Effective from 1 July 2000, the Securities Commission (SC) is the single authority that gives approvals to securitization applications. With the intention to build up and develop the Malaysian Capital Market in general and the bond market specifically, the Securities Commission further issued on 11 April 2001 the Guidelines on the Offering of Asset
Backed Securities. The issuance of the guidelines has encouraged more companies to enter the ABS market, as confirmed by the above figures. Despite the small average number of ABS issues compared to private debt securities (PDS) issues, as Figure 5 shows, the ABS presents a positive growth since the overall number of ABS approved by the SC has continuously increased. These issues often introduce new type of securities. For example in 2004, the ABS issues included the first deal involving charge card receivables and the first residential mortgage-backed securities (RMBS) transaction backed by the Government assets. Later on, the first domestic Sukuk Al-Ijarah transaction was introduced, as well as the first Sukuk combining the sale contract of Bai’Bithaman Ajil with the partnership contract of Musyarakah. Thus by the end of 2005, 33 ABS issues have been approved by the regulator.

Along with the conventional asset backed securitization, the Islamic ABS has also started as a source of funding. The number of issues is still small but growing. Figure 6 presents the size of Conventional ABS and Islamic ABS issues over the period 2001 to 2005. As mentioned earlier, the Islamic ABS in the Malaysian market began with an exceptionally sizable first issuance amounting to RM986 million. It was issued in the second quarter of 2003, by Ambang Sentosa Sdn Bhd based on Bai Bithaman Ajil (BBA) with underlying asset class of Maxisegar-Property Receivables. In 2005, Islamic ABS issuance grew up to RM5.17 billion, much greater than conventional ABS worth RM4.16 billion in that year.
In terms of the issuance size of underlying assets by sector, in the first quarter 2006, Real Mortgage Backed Securities were the largest part of the ABS market. They amounted to RM5.67 billion and represented the dominant 46% of the market. The second largest sector was from Primary Collateralized Loan Obligation (CLO). The total size of this sector was RM3 billion contributing to 24% of the market. Then, the assets subject to securitization are followed by the construction sector at 11%, and the property sector representing 9% of the total underlying assets. The property sector assets included Maxisegar-Property receivables and Sunway-Property. The issuers for the property sector were Ambang Sentosa Sdn. Bhd, ABS land & Properties Berhad and ABS Real Estate Berhad. The other sectors, i.e. Technology, Hire Purchase Receivables, and Plantation, represented 5%, 4%, and 1%, respectively. The data are summarised in the chart in Figure 7. The total size of asset backed securitization over all sectors amounted to RM12.42 billion in 2006.
PROFIL OF SUNWAY CITY

As noted earlier, Sunway City was chosen as a case study because it was the first company in Malaysia to issue ABS in 2001, following the newly introduced then guidelines by the Securities Commission. Its success story has been followed and perhaps will be followed and be practised by many other Malaysian companies from different sectors.

Corporate Structure

Sunway City Berhad (Suncity) was incorporated as a private limited company under the Company Act, 1965 on 13 July 1982 as Sri Jasa Sdn Bhd. The name was subsequently changed to Sri Jasa Development Corporation Sdn Bhd on 1 December 1986, and to Bandar Sunway Sdn Bhd on 25 July 1987. The company was converted to public limited on 24 July 1995, and assumed its present name as Sunway City Berhad on 2 April 1996. Sunway City Berhad is a member of The Sunway Group, one of the largest Malaysian conglomerates.
The company was officially listed in 1986, on the main board of Bursa Malaysia Securities, formerly known as the Kuala Lumpur Stock Exchange. Sunway City Berhad is one of the country’s fastest growing property development and property investment companies. It has 21 subsidiaries in various sectors namely hotel, commercial, retail, leisure and entertainment, hospitality, healthcare, industrial and residential properties.

The principal project of Suncity was the development of the 494-acre Sunway City into an integrated township. Through subsequent land acquisition, the township development finally spanned over 800 acres. The success of Sunway City spurred on the developer to take on various developments around the country, most notably the 1,309-acre Sunway City Ipoh, a joint-venture with Perbadanan Kemajuan Negeri Perak in 1996.

The company has various significant achievements since it was founded. First and foremost, Suncity has received four recognitions from the International Real Estate Federation (FIABCI) World Award. The first reward was won by Sunway Lagoon Theme Park as the “Best Resort / Leisure Development” in 1993, and “The Best Shopping Centre” award went to Sunway Pyramid in 2000. “The Best Hotel Development Award” was won by the Sunway Lagoon Resort Hotel in 2001, and Sunway Lagoon Resort won the prestigious “FIABCI d’ Excellent Award” in the Leisure Category.

**Reasons For Asset Securitization**

Suncity had undertaken the securitization exercise for the following reasons:

I. To enable the company to obtain a fair sale price for the properties owned.

II. To enable the company to continue to enjoy productive use of the properties through sale and leaseback option.
III. To reduce gearing of the company, enhance earnings per share and other performance ratios.

IV. To raise funds for working capital and expansion of the company’s property development business at a lower cost.

Sunway City Berhad ABS exercise in 2001 is a landmark property deal, as it involved the largest property and asset sale by a single corporation in Malaysia. In fact, Suncity was the first ABS backed mainly by property assets. The company securitized the portfolio of properties and asset of seven Suncity’s subsidiaries, commencing on 30 October 2002. The portfolio comprised Suncity’s corporate headoffice building (Menara Sunway), three hotel buildings (Sunway Lagoon Resort Hotel, Sunway Hotel Penang, Sunway Hotel Seberang Jaya), college buildings (Sunway college), Sunway Lagoon Theme Park and Surf Pool, and Sunway Pyramid Preference Shares.
## ABS Financing

### Table 8: The Terms Of ABS Notes By Sunway City Berhad

<table>
<thead>
<tr>
<th>Terms</th>
<th>Sunway City Bhd</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPV/Issuer</td>
<td>ABS Real Estate Bhd (AREB)</td>
</tr>
<tr>
<td>Arranger/Lead manager</td>
<td>Deutsche Bank (Malaysia) Bhd</td>
</tr>
<tr>
<td>Mode of issue</td>
<td>Private placement</td>
</tr>
<tr>
<td>Date announcement</td>
<td>16 May 2002</td>
</tr>
<tr>
<td>Primary subscriber</td>
<td>Deutsche Bank (Malaysia) Bhd</td>
</tr>
<tr>
<td>Facility description</td>
<td>ABS notes issued via an asset backed securitization comprise:</td>
</tr>
<tr>
<td></td>
<td>a) Senior Notes Class A, B, C1 and C2</td>
</tr>
<tr>
<td></td>
<td>b) Subordinated Class D Notes</td>
</tr>
<tr>
<td>Issue size</td>
<td><strong>Senior Notes</strong></td>
</tr>
<tr>
<td></td>
<td>Class A  RM 120 million  Class C1 RM 45 million</td>
</tr>
<tr>
<td></td>
<td>Class B  RM 75 million  Class C2 RM 210 million</td>
</tr>
<tr>
<td></td>
<td><strong>Subordinated Notes</strong></td>
</tr>
<tr>
<td></td>
<td>Class D  RM 466.20 million</td>
</tr>
<tr>
<td>Legal maturity date</td>
<td>6 years from the date of issue of the ABS notes</td>
</tr>
<tr>
<td>Coupon rate</td>
<td><strong>Senior Notes</strong></td>
</tr>
<tr>
<td></td>
<td>Class A  5.25%  Class C1 8.00%</td>
</tr>
<tr>
<td></td>
<td>Class B  5.75%  Class C2 7.875%</td>
</tr>
<tr>
<td></td>
<td><strong>Subordinated Notes</strong></td>
</tr>
<tr>
<td></td>
<td>Class D  20.00%</td>
</tr>
<tr>
<td>Coupon frequency</td>
<td>Semi-annual based on actual / 365 days</td>
</tr>
<tr>
<td>Redemption</td>
<td><strong>Senior ABS Notes</strong></td>
</tr>
<tr>
<td></td>
<td>Mandatory redemption on legal maturity date. Early redemption possible by Suncity.</td>
</tr>
<tr>
<td></td>
<td><strong>Subordinated Notes</strong></td>
</tr>
<tr>
<td></td>
<td>It can only be redeemed after all outstanding principal and interests have been fully repaid.</td>
</tr>
<tr>
<td>Status of the ABS Notes</td>
<td>Secured against properties, shares, lease payments on the properties and redemption and dividends of the redeemable preference share.</td>
</tr>
</tbody>
</table>
Table 2: The Financial Performance For Financial Year (FY) 2000-2004 On Selected Financial Ratios.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a) ROA</td>
<td>(RM'000)</td>
<td>(RM'000)</td>
<td>(RM'000)</td>
<td>(RM'000)</td>
<td>(RM'000)</td>
</tr>
<tr>
<td>1882844</td>
<td>1879134</td>
<td>1585412</td>
<td>25480</td>
<td>66906</td>
<td></td>
</tr>
<tr>
<td>= -0.21%</td>
<td>= -3.27%</td>
<td>= -11.78%</td>
<td>=1.11%</td>
<td>=2.45%</td>
<td></td>
</tr>
<tr>
<td>b) ROE</td>
<td>(RM'000)</td>
<td>(RM'000)</td>
<td>(RM'000)</td>
<td>(RM'000)</td>
<td>(RM'000)</td>
</tr>
<tr>
<td>474256</td>
<td>408976</td>
<td>225057</td>
<td>762858</td>
<td>838953</td>
<td></td>
</tr>
<tr>
<td>=-0.82%</td>
<td>= -15.02%</td>
<td>= -83%</td>
<td>= 3.34%</td>
<td>= 7.97%</td>
<td></td>
</tr>
<tr>
<td>c) DTA</td>
<td>(RM'000)</td>
<td>(RM'000)</td>
<td>(RM'000)</td>
<td>(RM'000)</td>
<td>(RM'000)</td>
</tr>
<tr>
<td>1267486</td>
<td>1340816</td>
<td>1220046</td>
<td>1534726</td>
<td>1895683</td>
<td></td>
</tr>
<tr>
<td>=0.67 x</td>
<td>= 0.71 x</td>
<td>= 0.77 x</td>
<td>= 0.66 x</td>
<td>= 0.69 x</td>
<td></td>
</tr>
<tr>
<td>d) DTE</td>
<td>(RM'000)</td>
<td>(RM'000)</td>
<td>(RM'000)</td>
<td>(RM'000)</td>
<td>(RM'000)</td>
</tr>
<tr>
<td>474256</td>
<td>408976</td>
<td>225057</td>
<td>762858</td>
<td>838953</td>
<td></td>
</tr>
<tr>
<td>=2.67 x</td>
<td>= 3.28 x</td>
<td>= 5.42 x</td>
<td>= 2.01 x</td>
<td>= 2.26 x</td>
<td></td>
</tr>
<tr>
<td>e) NTA</td>
<td>RM 1.42</td>
<td>RM 1.43</td>
<td>RM 1.77</td>
<td>RM 1.87</td>
<td>RM 2.01</td>
</tr>
</tbody>
</table>

Key: ROA = Return on Assets  
(measure the ability of a firm to make net income for every ringgit invested in assets)  
ROE = Return on Equity  
(measure the ability of a firm to make net income for every ringgit provided by shareholders)  
DTA = Total Debt to Total Assets  
(measure the portion of capital funded by debt on its assets)  
DTE = Total Debt to Total Equity  
(measure the relationships between debt and equity capital)
NTA = *Net Tangible Asset* (measure the net value of a firm per share basis)

**Figure 8:** A Comparative Return Between Sunway City Berhad And Kuala Lumpur Property Index

**Comparative Return Between Sunway City Berhad and Property Industry Index from Year 2000 to Year 2004**

Source: *Bursa Malaysia Berhad, 2004*

**RESULTS AND DISCUSSION**

Sunway City Berhad (Suncity) is the Malaysia’s first property backed securitization. Suncity entered asset-backed securitization as one of the sources for long term debt financing. The purpose was to manage their debts and to focus on the core business, property development. The company, participating as originator in the ABS transaction, sold their assets and shares to the special purpose vehicle ABS Real Estate Berhad (AREB) worth RM 892 million.

The portfolio of property and assets being securitized has shown very good performance in the Malaysian market. It consists of Sunway College building and land, Sunway Lagoon Resort Hotel building and land, Sunway Hotel Penang building and land, Sunway Hotel Seberang Jaya building and land, Menara Sunway Office building and land, plant and equipment in Sunway Lagoon Theme Park, and redeemable
preference shares (PRS) in Sunway Pyramid Sdn Bhd. Suncity raises RM 450 million from the ABS issues by AREB.

Upon completion of its ABS in financial year 2001, Suncity has recorded a better financial performance as demonstrated in Table 2. The return on asset and equity has improved, indicating the ability to make profits. Likewise, its debt obligations have been declining, indicating its efficiency in managing debts. The net tangible asset per share also increases substantially from RM1.43 in 1999 to RM2.01 per share in 2005, indicating an increased value of the shareholders’ funds. More importantly, Suncity repaid approximately RM348 million in bank borrowing, and hence reduced its gearing. In terms of industry analysis, focusing in 2001, Suncity’s total return is -29.41% while KL Property Index is -38.23%. Therefore, Suncity performed well compared to the KL Property Index, during the ABS. This is demonstrated in Figure 8.

As measured with financial ratios, Suncity demonstrates its ability to utilize its ABS for innovative financing and risk management purposes. In other words, its ABS can be viewed as the process where pools of illiquid and relatively homogenous financial assets are converted into a tradable security in a secondary debt market. From risk management perspective, Suncity ABS allows its loan originators to specialize in bearing only those risks in which they have a comparative advantage, while shifting other risks to third party. As such, Suncity has valuable time to focus on its property developments as the core business, without fearing on the volatility of domestic interest rates and inflationary pressure.

Through ABS, Suncity also gives the opportunity to banks to sell off large fixed income portfolios, and subsequently obtain inexpensive financing as opposed to direct borrowings. Therefore, Suncity has the ability to improve its risk sharing, and the potential to create value for the firm and wealth for the shareholders. With the success of its first ABS, Sunway Group securitised further its quality assets. In mid-August 2003, its two subsidiaries, Sunway Holdings and Sunway Construction undertook another real estate backed securitizations. The securitization
involved the disposal of properties and companies owned by Sunway Holdings and Sunway Construction worth RM185 million and RM55 million, respectively. The successful securitizations undertaken by Suncity have lead to other companies in Malaysia taking the opportunity to use ABS as new form of financing.

CONCLUDING REMARKS

Through the analysis in this study, it can be concluded that despite securitization being slow to take off, the Malaysian market should expect more exciting times ahead, buoyed by strong investor appetite for highly rated papers and growing confidence in heavily structured instruments. Meanwhile, the major challenges for the market will revolve around accounting and regulatory issues, concerns over which may have somewhat dampened activity to date. Though guidelines on issuing ABS are available, much of the Malaysian market processes remain untested as they are still in the early stages of development.

Furthermore, the legal and tax implications for the various transaction parties in an asset securitization arrangement still represent a grey area to the market participants. Asset securitization is still a relatively new financing concept and it will take time to be fully developed in the Malaysian market. Overall, securitization activities have increased significantly in several Asian countries including Korea (since 1997) and Singapore (since 1998). In Malaysia, the trend for securitization has been growing since 2001, with the introduction of the 2001-2010 Capital Market Master plan by the Securities Commission. This is complemented and supported by the quarterly Islamic Finance Bulletin published by Rating Agency Malaysia (RAM).

With the ABS framework in place, asset backed securitization provides significant benefits to the parties involved. From an originator’s perspective, securitization provides a vehicle for transforming relatively illiquid financial assets into liquid and tradable capital market instruments. Besides, cash strapped companies with weak credit ratings
but having good cash flow generating assets will have access to a wider scope of corporate financing options at cheaper funding costs.

Of equal importance is the fact that securitization can serve as an effective risk management tool for corporate, particularly financial institutions, to minimize their interest rate and maturity mismatches. By securitizing their loans and receivables, financial institutions would be able to offer long-term fixed-rate financing to their customers without significant exposure to the risk of interest rate and maturity mismatches. Hence, securitization offers an ideal mechanism by which financial institutions can shift their concentrated credit, interest rate and market risks associated with their portfolio activities to the more diverse capital market, thereby reducing risks of individual institutions and systemic risks within the financial system.

REFERENCES


