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Sukuk to Fund Utility Companies

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Presentation Outline

1. Aims of the Research
2. Utility feature
3. What is Sukuk?
4. Sukuk Structure
5. Why Sukuk?
6. previous issuance



Aims of the Research

- This Research aims to investigate the possibilities of using Sukuk to fund the Utility companies.
- the paper takes a Qualitative research approach by Using various literature, financial reports, and the utility sector issuance,
- exploring the main characteristics of these companies and comparing them with the Sukuk characteristics.



Utility feature

- **Utility company is a company that generates, transmits and/or distributes**
 - electricity
 - water
 - gas
 - communication systems
 - wastes
- **Special characteristics of financing Utility**
 1. large initial cost
 2. long-term finance
 3. High debt levels
 4. Low liquidity assets
 5. stable and predictable cash flows
 - 6 . Key public service

What is Sukuk?

- Sukuk is an Islamic financial certificate of equal value representing undivided ownership in the underlying assets. its includes two important points;
 - the first is that Sukuk holders must have *real ownership* of the asset of the specific project.
 - The second is that the project and the Sukuk issuance procedure must be *Shariah compliant*.
- the originator should obtain approval from Shariah committee on Sukuk structure.



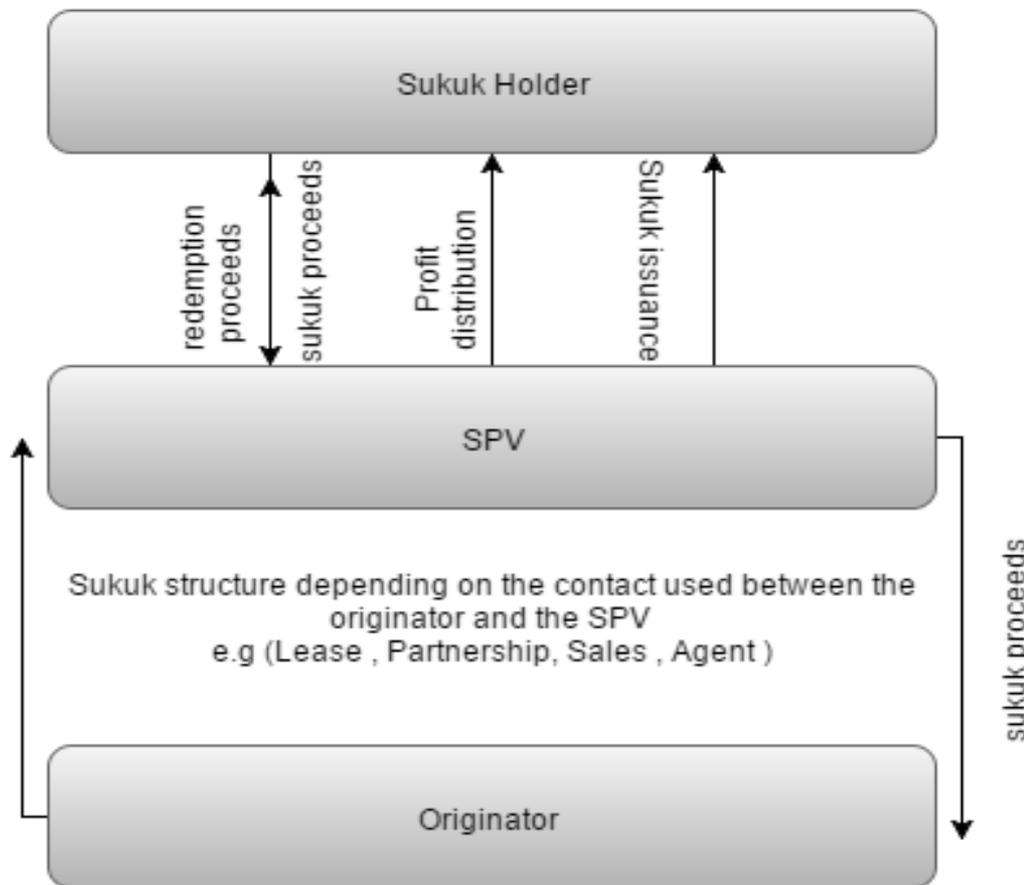
What is Sukuk?

Asset-based Sukuk	Asset- backed Sukuk
Sukuk holders have beneficial ownership in the asset	the Sukuk holders have the full ownership of the underlying asset
The assets stay on the originator's balance sheet	The asset is separated from the originator's balance sheet
the Sukuk holders have resource to originator	the Sukuk holders have resource to assets
the source of payment comes from originator cash flows	the source of payment comes from the revenue generated by underlying asset

What is Sukuk?

COMPARISON	SUKUK	BOND	STOCK
Type of Security	Instrument may be equity or debt depending on underlying contract	Debt	Equity
Type of Return	Profit sharing	Coupon (interest)	Dividends
Maturity Date	Specified	Specified	Unspecified
Priority in Paying Principle	First priority	First in priority	Less in priority
Risk	Lower	Lower	Higher
Voting Rights	Not entitled	Not entitled	Entitled

General Sukuk Structure



Choosing the contract depending on the :
objectives of the Originator, level of debt
Legal framework,
Tax structure ,
And number of parties

The most common structure in the Utility sector are:
(Ijarah) lease-based
(Murabahah) sale-based
(Musharakah) equity-based



Why Sukuk?

1. large initial cost

- Establish utility investment is a capital-intensive process, with large initial cost, expensive assets and high technology system.
- Sukuk has Ability to fund large size projects by using variety types of contracts.

2. long-term finance

- Building infrastructure requires long-term finance. This reflects both the length of the construction period and the life of the underlying asset that is created.
- Sukuk has long-term maturity, it can be with 30 years.

Why Sukuk?

3. High debt levels

- large-scale projects require a large amount of debt and equity capital.
- Sukuk Instrument can be equity or debt depending on underlying contract
- There are many varieties of Sukuk that can be customized to the specific needs of the issuer for example Mudarabah, Musharakah, Ijarah Sukuk.



Why Sukuk?

4. Low liquidity assets

- No secondary market for trading these assets.
- Tradability of the sukuk depends on the nature of the underlying asset.
- By using asset backed sukuk and real transfear of the ownership of these assets, the Sukuk holders (investors & issuers) are able to trade Sukuk (assets) through the Sukuk Market.



Why Sukuk?

5. stable and predictable cash flows

- Utility investments generate cash flows only after many years of the beginning, But it provides stable cash flows because these kind of project often face few competitors.
- Sukuk holder seeking to obtain steady and stable returns and This characteristic appeal to those investors, sukuk are not linked with interest rate but linked with real return of the investment.



Why Sukuk?

6. Key public service

- Utility meet key public requirement in everyday life, such as the provision of water, energy, mobility, communication, education, security, culture or healthcare, making them a basic necessary for economic growth, prosperity and equality of life.
- The issuers of Sukuk can be either a government-related entity or a private entity.
- Invest in these projects achieve the objectives of the tenets of Islamic Law commonly known as maqasid al-Shariah which includes the goals to preserve the public good.

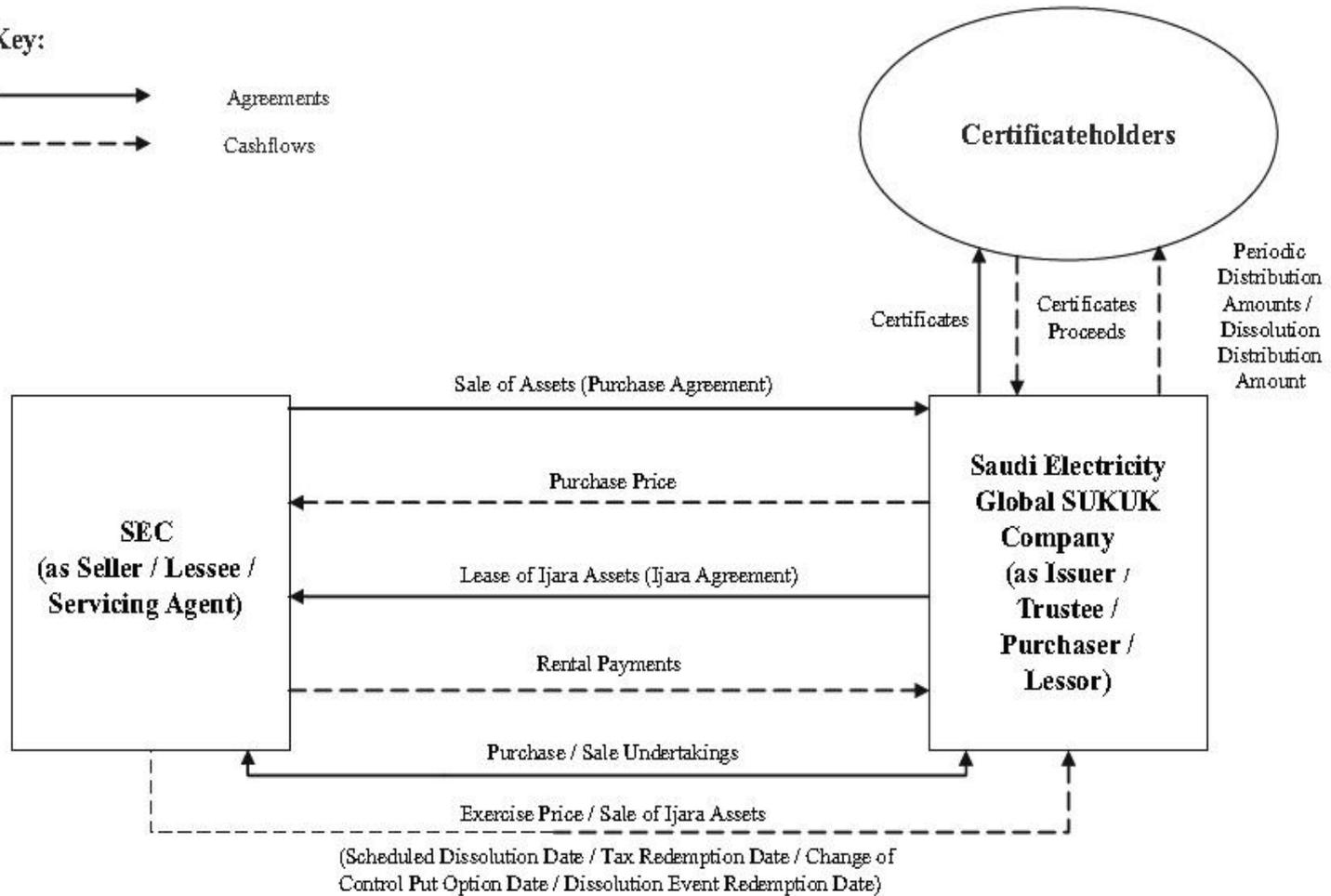
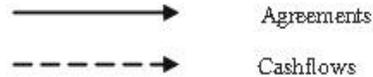


Utility companies issuance

Saudi Electricity Global Sukuk	
Issuer	Saudi Electricity Global Sukuk Co 3
Issue year	2014
Issue Size	US \$1,000 million
Sukuk Structure	Ijarah
Tenure	30 year
Listing	Irish Stock Exchange
Return Rate	5.50 per cent
Governing law	English Law and KSA Law
Use of proceeds	Proceeds will be used by the Trustee as the purchase price to be paid to SEC on the Closing Date for the purchase right of Usufruct of the Ijarah Assets
Country	KSA

Utility companies issuance

Key:

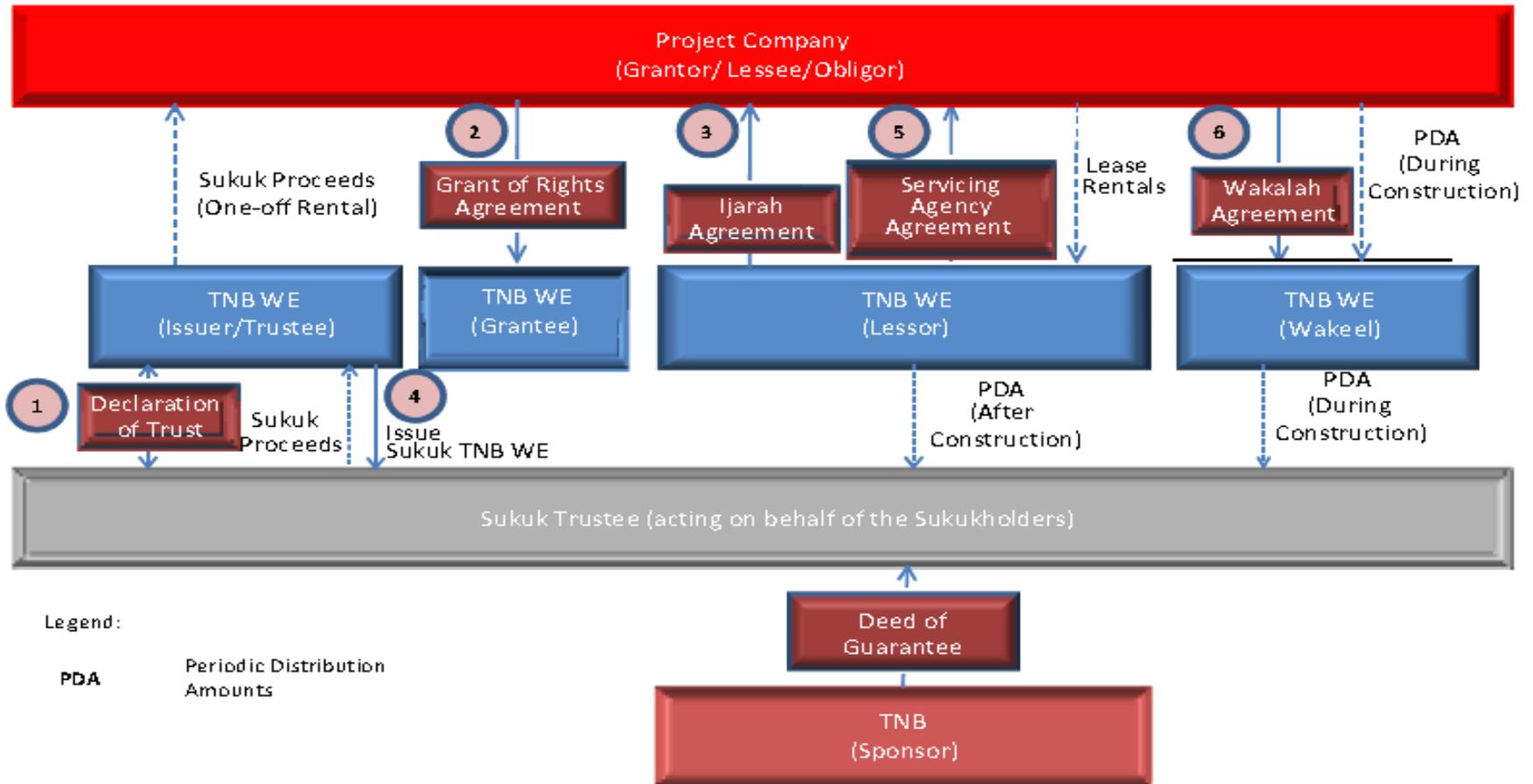


Utility companies issuance

Tenaga Nasional Berhad	
Issuer	TNB Western Energy Berhad (TNB WE)
Issue Date	2013
Issue Size	RM4.0 billion
Sukuk Structure	Hybrid Sukuk Ijarah and Wakalah.
Tenure	up to twenty seven (27) years
Listing	Bursa Malaysia
Return Rate	5.58%
Governing law	Laws of Malaysia and exclusive jurisdiction of the courts of Malaysia
Use of proceeds	benefits and usufruct right and entitlements over the use of the Project Lands for a period of 28 years
Country	Malaysia

Utility companies issuance

Structure Diagram

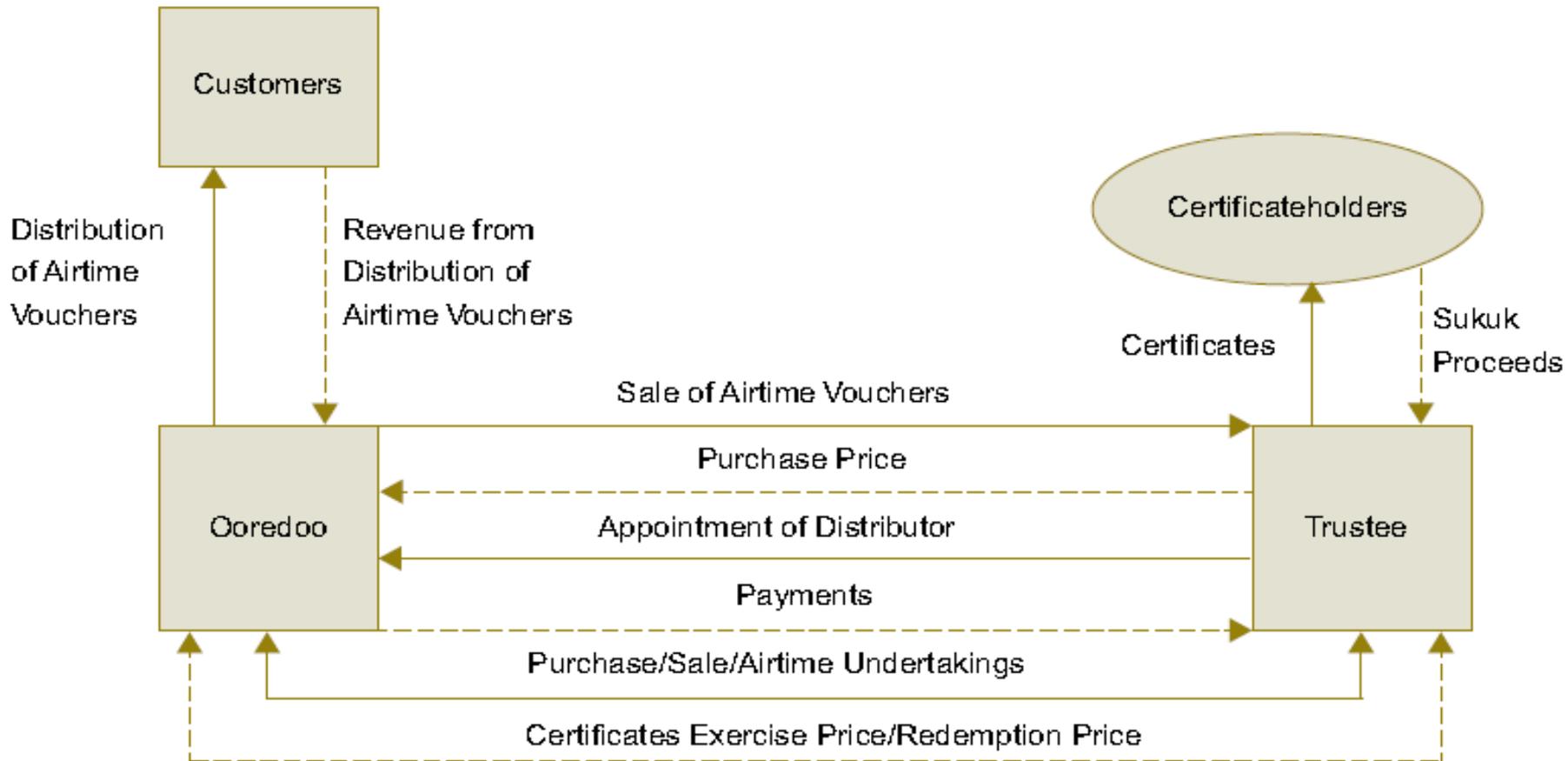


Utility companies issuance

Ooredoo , formerly known as Qatar Telecom (Qtel)	
Issuer	Ooredoo Tamweel Limited
Issue Date	November 2013
Issue Size	USD1.25bln
Sukuk Structure	Murabaha
Tenure	five-year
Listing	Irish Stock Exchange
Profit Rate	3.039%
Governing law	English law and Qatar law
Use of proceeds	Net proceeds from the sale of the sukuk will be used by Ooredoo for general corporate purposes including refinancing existing indebtedness
Country	Qatar

Utility companies issuance

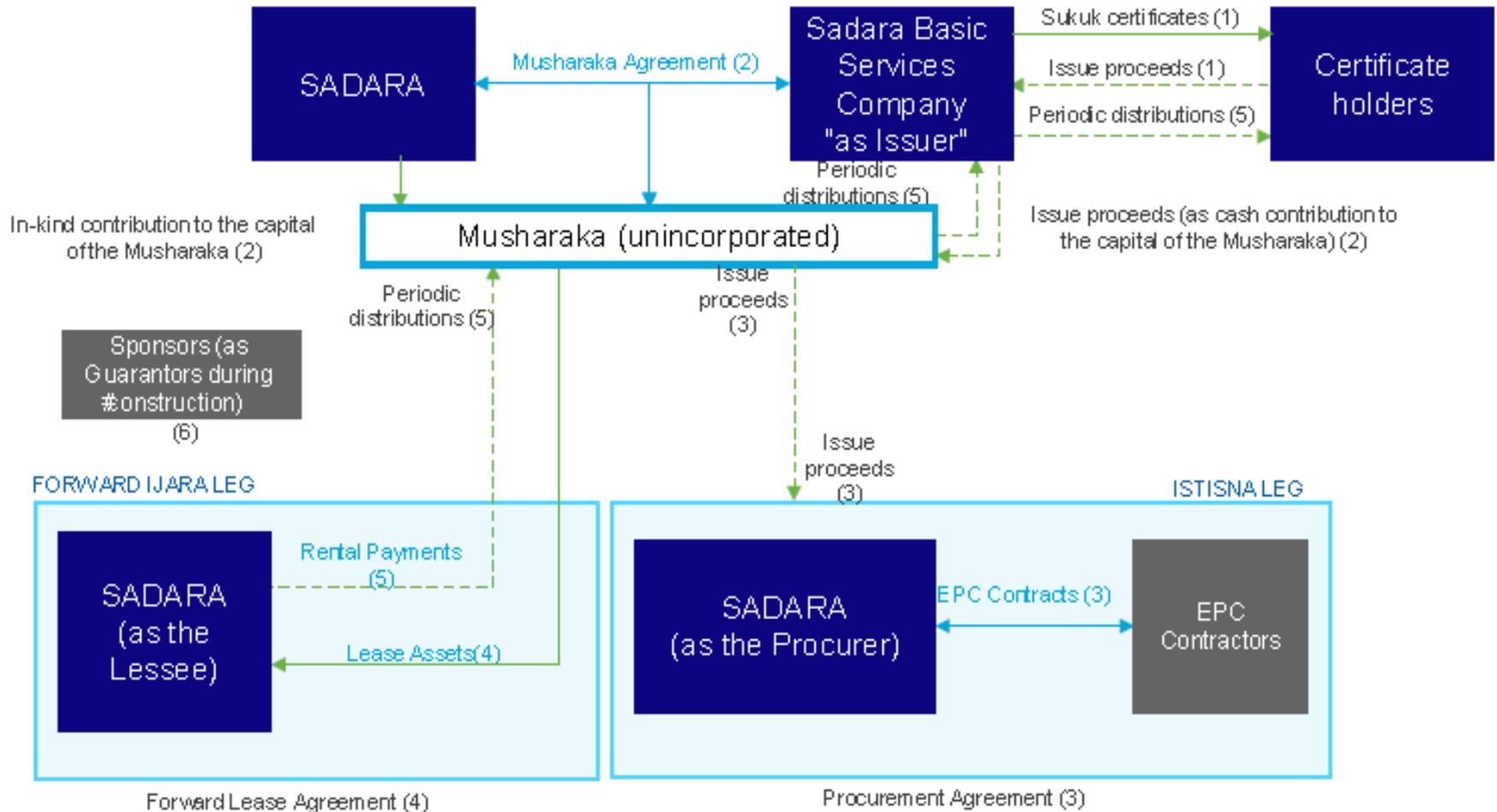
Ooredoo Tamweel Limited Sukuk Structure



Utility companies issuance

Sadara	
Issuer	Sadara Basic Services Company
Issue Date	2013-04-02
Issue Size	SAR 7,500,000,000 = US\$2 billion
Sukuk Structure	the Shariah structure of the sukuk is essentially a combination of Istisna and Ijara with a Musharaka contractual overlay interposed between the two
Tenure	15 December 2028 15 years
Listing	Saudi Stock Exchange (Tadawul)
Profit Rate	6 month SAIBOR plus 0.95 per cent
Governing law	KSA law and English law
Use of proceeds	The proceeds of the issue of the Certificates, after deduction of certain agreed transaction costs and expenses (including, without limitation, the combined management and selling commission due to the Joint Lead Managers and Joint Bookrunners), will be contributed by the Issuer to the Musharaka to be used in accordance with the Business Plan.
Country	KSA

Utility companies issuance



Thank You

شكراً جزيلاً

Grazie!

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