



2ND TURIN ISLAMIC
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UNIVERSITÀ DEGLI STUDI DI TORINO

DM DIPARTIMENTO
DI MANAGEMENT

Islamic Index: is it an opportunity for Utilities Companies?

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Presentation Outline

1. Objectives of the research project
2. Introduction
3. Islamic finance and utilities financing needs
4. Islamic index: is it an opportunity?
5. Islamic index listing requirements
6. Applications on utilities companies
7. Conclusion



1. Objectives of the Research Project

- Studying the possibilities, the challenges and the opportunities for the utilities sector
- Studying the rating of utilities companies in Islamic Index
- Studying the requirements needed in order to be Sharia Compliant



2. Introduction :

Utilities Sector includes companies that generate and/or distribute using infrastructure in :

- **Electricity :**
 - converted or alternative electricity

- **Gas :**
 - distribution to end user

- **Water and other services :**
 - Water provided to end user or treatment plants
 - Other services i.e. sewage, pipelines, wastes..etc



2. Introduction: (cont.)

Utilities companies have the following features:

- High financing requirements (mainly long term)
- High initial cost for infrastructure
- High level of fixed assets
- Low levels of liquid non operating assets
- Stable return on investment and return on equity
- High level of debts



2. Introduction: (cont.)

Islamic Finance Guidelines:

➤ Yes :

- Halal Business (permitted)
- Underlying Asset
- Profit/loss sharing

➤ No :

- Haram Business (unpermitted)
- Gharar (Uncertainty)
- Maysir (Gambling)
- Riba (Usury)



3. Islamic Finance & Utilities Financing Needs

Provide the needed liquidity using instruments that are Sharia Compliant

Instruments could be:

- Islamic equity fund
- Sovereign funds
- Sukuk & equities
- Mutual funds

4. Islamic Index: Is it an opportunity?

Being Sharia-compliant and rating in Islamic index offers:

- **Capital Market Instruments**
- **Long Term Investments**
 - **Islamic equity funds**
 - Safer and more stable in market shocks
 - Long term equity investment for risk aversion investors



5. Islamic Index Listing Requirements

Should be Sharia Complaint through:

- Passing the screening process for assuring its compliance
 - Qualitative Criteria
 - Quantitative Criteria

- Approved by a Sharia Supervisory Board



5. Islamic Index Listing Requirements

Qualitative Screening:

Exclusion of all prohibited businesses that are considered not permitted according to Sharia

Quantitative Screening:

Exclusion of companies with values above the threshold of the financial ratios

- Liquidity ratio, Interest ratio, and Debt level ratio.



Qualitative

Activity	S&P Sharia index	Dow Jones Islamic Market Index	Sharia FTSE Global Equity Index	MSCI Islamic Index	SEC Sharia advisory Council Malaysia
Alcool	AI	AI	CB	CB	CB
Tobacco	AI	AI	CB	CB	CB
Pork	AI	AI	CB	CB	CB
Pornography	AI	AI	CB	CB	CB
Gambling	AI	AI	CB	CB	CB
Media	AI	AI	-	-	-
Conventional Financial Services	AI	AI	CB	CB	CB
Conventional Insurance Services	AI	AI	CB	CB	CB
Weapon	-	AI	CB	-	-
Gold/ Silver Hedging	AI	-	-	-	-
Entertainment	AI	AI	CB	CB	CB
Hotel	AI	AI	CB	CB	CB



Quantitative

	S&P	Dow Jones	FTSE	MSCI	SEC
Level of Debt	Total Debt / Market Capitalization (avg 36 months) < 33 %	Total Debt / Market Capitalization (avg 24 months) < 33 %	Total Debt / Total Assets < 33 %	Total Debt / Total Assets < 33.33 %	Total Debt / Total Assets < 33 %
Interest Ratio	Cash & Interest bearing Securities / Market Capitalization (avg 36 months) < 33 %	Cash & Interest bearing Securities / Market Capitalization (avg 24 months) < 33 %	Cash & Interest bearing Securities / Total Assets < 33 %	Cash & Interest bearing Securities / Total Assets < 33.33 %	-
Liquidity Ratio	Accounts Receivables / Market Capitalization (avg 36 months) < 49 %	Accounts Receivables / Market Capitalization (avg 24 months) < 33 %	Accounts Receivables & Cash / Total Assets < 50 %	Accounts Receivables & Cash / Total Assets < 33.33 %	Cash / Total Assets < 33 %
Non Permissible Income NPI	NPI (excluding interest) / Total Revenues < 5 %	-	NPI (including interest) / Total Revenues < 5 %	NPI / Total Revenues < 5 %	NPI / Total Revenues 1st < 5% 2nd < 20%



6. Application on Utilities Companies

RusHydro Group Consolidated Statement of Financial Position (in millions of Russian Rubles unless noted otherwise)

	Note	31 December 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	7	686,190	633,846
Investments in associates and joint ventures	8	14,032	30,301
Available-for-sale financial assets	9	4,132	5,794
Deferred income tax assets	16	5,355	4,066
Other non-current assets	10	25,021	24,976
Total non-current assets		734,730	698,983
Current assets			
Cash and cash equivalents	11	34,394	34,472
Income tax receivable		1,965	2,679
Accounts receivable and prepayments	12	48,012	45,385
Inventories	13	22,133	21,449
Other current assets	14	41,872	53,144
		148,376	157,129
Non-current assets and assets of disposal group classified as held for sale		664	-
Total current assets		149,040	157,129
TOTAL ASSETS		883,770	856,112



6. Application on Utilities Companies

EQUITY AND LIABILITIES

Equity

Share capital	15	386,255	386,255
Treasury shares	15	(26,092)	(10,662)
Share premium		39,202	39,202
Retained earnings and other reserves		179,556	164,735
Equity attributable to the shareholders of OJSC RusHydro		578,921	579,630
Non-controlling interest		16,230	17,177
TOTAL EQUITY		595,151	596,707
Non-current liabilities			
Deferred income tax liabilities	16	35,891	35,066
Non-current debt	18	119,187	131,890
Other non-current liabilities	19	11,195	12,030
Total non-current liabilities		166,273	178,986
Current liabilities			
Current debt and current portion of non-current debt	18	57,843	19,887
Accounts payable and accruals	20	51,558	49,473
Current income tax payable		536	115
Other taxes payable	21	11,913	10,944
		121,850	80,419
Liabilities of disposal group classified as held for sale		496	-
Total current liabilities		122,346	80,419
TOTAL LIABILITIES		288,619	259,405
TOTAL EQUITY AND LIABILITIES		883,770	856,112

7. Conclusion

Utilities sector and Islamic Finance are matching perfectly:

- Halal Ethical business
- High fixed Assets (underlying assets)
- High need for long term financing
- Low levels of liquidity

Potential Challenge

- High level of debt



7. Conclusion

Rating in Islamic index is a good opportunity for Utilities Companies:

- Offers diversified financing instruments
- Being Sharia Compliant means Lower debt and therefore more stability especially in times of crises
- Could be optimal selection for risk aversion investors



Thank You

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Grazie!

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