

Shariah-compliant boost for Bursa

- The financial services sector makes up only 0.5% of the 597 shariah-compliant stocks on the main market
- Listing more Islamic financial services companies will boost the local bourse, say market observers



by Emmanuel Samarathisa

In 2017, Malaysia launched the Islamic Fund and Wealth Management Blueprint in its ambition to position the country as a global hub for Islamic funds by 2021. The plan, touted to be first of its kind in the world, is aimed at developing the country as an international provider of Islamic wealth management services.

Fast forward to today, and despite the fanfare of the blueprint and a growing Islamic financial sector that includes both local and international houses, there is still a dearth of listed Islamic financial stocks on Bursa Malaysia.

According to market regulator Securities Commission Malaysia's list of shariah-compliant companies, there are only three securities under the financial services sector in the main market, making up 0.5% of the 597 stocks. Of the three, only one is a proper bank, BMB Holdings Bhd (BIMB), while insurer Syarikat Takaful Malaysia Bhd is a subsidiary of BMB. Bursa Malaysia is the third company.

This list of shariah-compliant financial services stocks is expected to be expanded soon to include MBSB Bank Bhd after it obtained an Islamic banking licence through its RM644.95 mil acquisition of Asian Finance Bank



Bank Islam Malaysia Bhd is a subsidiary of BMB Holdings Bhd, one of the three financial shariah-compliant stocks on Bursa

in February last year. It started operating as a merged entity on April 2, 2018.

In many ways the shortage of Islamic banking stocks creates a quagmire for institutional investors, especially the government-linked investment companies (GLICs), owners of some of the largest private capital in the country.

Some of these such as the Employees Provident Fund (EPF) and Lembaga Tabung Haji are required to deliver shariah-compliant dividends to Muslim investors. In the case of the EPF, it has a shariah savings option which has yet to outperform its conventional one. For 2018, the EPF declared a 5.0% dividend for its

shariah savings while its conventional savings yielded a 6.15% dividend.

A boost to the capital markets

Market observers believe that expanding the list of Islamic financial stocks would provide not only a catalyst for the local bourse but also be a draw for investors given Malaysia's status as an Islamic financial hub. "It's definitely a good move since investors would have a wider variety of companies to choose from," BMB chief economist Mohd Afzanizam Abdul Rashid tells *FocusM*.

"At the moment, the choice of shariah-compliant financial stocks is quite limited and perhaps, the price discovery mechanism could be somewhat inefficient due to the limited supply. By having more, the benchmarking process especially in areas related to equities valuation can be done more effectively as there will be apple-to-apple comparison which can really help investors to make their investment decision."

MIDF Amanah Research head

Mohd Redza Abdul Rahman observes that listing more financial institutions "would greatly provide a balanced portfolio" for institutional investors as only a handful of banks and insurers are shariah-compliant. "And yet banks make up a significant weight on the FBM KLCI. With EPF having the shariah option for its members, it would be good to have more options for their fund managers to look into," he notes. MIDF has been reported to be in talks for a merger with Al Rajhi Banking & Investment Corp (Malaysia) Bhd. It is not known whether the merged entity will seek to go public.

A three-pronged approach

But talk of having more Islamic financial services companies to be listed on Bursa has been bandied about for a while. Two years ago, then Minister in the Prime Minister's Department Tan Sri Abdul Wahid Omar rued the lack of such products on the bourse and advocated for more institutions to float on the capital market. He had three suggestions to move the idea forward.

Firstly, the formation of a second listed Islamic universal banking group which could be anchored by Bank Muamalat Malaysia Bhd or one of the larger foreign-owned Islamic banks such as Kuwait Finance House (Malaysia) Bhd.

Secondly, the listing of Islamic development finance



Listing more Islamic financial services provides more options for investors, says Afzanizam

institutions such as Bank Simpanan Nasional and Bank Rakyat. This might be possible after Prime Minister Tun Dr Mahathir Mohamad expressed a desire to list mature government entities. "Our desire is to have the GLICs play certain catalytic roles to support the economy. We would like to invite the private sector to join the GLICs in fulfilling some of the national economic agenda," he told participants at Invest Malaysia 2019 on March 10.

Thirdly, the creation of a separate listing of Islamic shares or "i-shares" among banking groups that have sizeable Islamic financial divisions such as Malayan Banking Bhd, CIMB

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Shariah-compliant securities on the Main Market

CATEGORY	TOTAL SECURITIES
Consumer products & services	126
Industrial products & services	189
Energy	28
Construction	46
Transportation & logistics	25
Property	77
Plantations	35
Technology	34
Utilities	9
Financial services	3
Healthcare	12
Telecommunications & media	13

COMPANY	MARKET CAP (AS AT 3/5/2019)
Bursa Malaysia Bhd	RM5.24b
BIMB Holdings Bhd	RM8.11b
Syarikat Takaful Malaysia Bhd	RM5.35b

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Group Holdings Bhd and RHB Bank Bhd. "For example, up to 25% of Maybank's profit is derived from Islamic finance. Since Maybank Islamic is a wholly-owned subsidiary and an integral part of Maybank, we can designate, say 20% of the latter's shares as Islamic shares, via some ring fencing arrangements," Abdul Wahid had said.

More advantages than weaknesses

But while listing more Islamic banks and insurers on Bursa has

Fuller list of shariah stocks needed

been lauded, there are some caveats to be aware of. "The lack of quality and sizeable Islamic banks which qualify for listing may pose a near-term challenge," says Akmal Hassan, managing director, AIIIMAN Asset Management. "Liquidity and valuation are some of the concerns when it comes to listing. Too few stocks in the shariah investment universe could also

result in these counters trading at a higher premium that makes them unattractive."

International Centre for Education in Islamic Finance's Prof Obiyathulla Ismath Bacha notes that such listing would also press these institutions to perform. "Because if they don't perform well, the market can under-value these companies and there is also the inevitability that these

listed entities will be compared. It also puts management under the spotlight. But I see more advantages than weaknesses for listed Islamic financial services," he says.

MIDF's Redza notes that while there is a list of shariah counters which the Securities Commission keeps tabs on, "there exists a need to have a list of shariah stocks that are well represented

across key sectors in the economy."

"We have seen companies dropping in and out, mostly due to issues related to borrowing levels exceeding the threshold allowed, among others. Nevertheless, having a shariah-compliant label would open up the companies to shariah institutional investors locally and from the Middle East." FocusM