

INTERVIEW



with a FIRM hand

TBY talks to **Chung Chee Leong**, President & CEO of Cagamas Berhad, on supporting asset purchases, the importance of sukuk issuing capacity, and strategies for overcoming currency volatilities.

How would you describe the growth of the secondary mortgage market?

We issued sukuk and bonds to the market to support our asset purchases in the secondary mortgage market. To date, we have issued approximately MYR290 billion worth of bonds and sukuk. Even during periods of economic crisis, investors were buying Cagamas papers; in fact, there were more buyers of Cagamas papers than usual, demonstrating the strength of Cagamas. We have never had a single technical default in our history, which is one of the reasons why we received a Moody's rating of A3 in 2013. We have entered the international capital market as we are seen as a market leader in the domestic capital markets. In terms of pricing, other corporate issuers use Cagamas as a benchmark.

Malaysia is the global leading sukuk issuing country. How significant is this for Cagamas' portfolio?

Some MYR43 billion of our total bonds were sukuk. Sukuk are popular because the Malaysian government,

the Central Bank, and the Securities Commission have put together a complete financial ecosystem, including Islamic banks, Islamic securities companies, takaful operators, Islamic asset management companies, and Islamic pension funds, which provide ready demand for sukuk issuance. The demand for sukuk is greater than conventional bonds. Sukuk yields are often lower or the same as corporate bonds, whereas the reverse holds internationally. The Islamic finance ecosystem, the infrastructure, and the tax incentives all contributed to the success of sukuk. In 2015 and 2016, we issued sukuk in Singapore dollars—the first sukuk issuances in that currencies for both years. We can issue in any currency, depending on pricing and demand. We always issue in the currency that provides the most competitive pricing at that time.

How do you anticipate and strategize on currency volatilities?

When we issue in foreign currency to fund a purchase in ringgit, we make sure they are

fully hedged through a cross currency swap; we would not take on any foreign exchange risks. In terms of foreign currency issuances, there are three variables; the first being the benchmark—for example, for dollars it would be the US Treasury. The second is the spread over the benchmark, which depends on our credit rating and investors' perception of the company and country. There is also the cross-currency swap. When the currency is volatile, the cross-currency swap rates are not favorable because the bank would take a bigger margin to hedge its own volatility as well. If a currency is more stable, it is probably easier to get a cross-currency swap at a more reasonable and competitive price. When the currency is weak, there are a number of foreign investors who come to Malaysia to buy Cagamas ringgit papers. Previously, foreign investors were only buying up Malaysian government securities, and not corporate papers. As a matter of fact, after Cagamas embarked on the Multi-currency Medium Term Notes (EMTN) Program, the investor base diversified significantly with its foreign investors growing to approximately 70% from the total of investors, with the remaining 30% comprising of Malaysian investors. As a consequence, foreign investors are now more familiar with Cagamas' name and are interested to invest in Cagamas ringgit papers. The weaker exchange rate attracts them, but when the ringgit is stronger, things may change again.

What are your goals for the year ahead?

We do expect to do a bit more than 2015 but that depends on the market. We can raise up to MYR20-30 billion in sukuk and bonds but we need to allocate these funds for pur-

Increasing
bond and sukuk
issuance from
MYR6 to 8 billion

chases of loans. When banks sell us loans, we would tap the market and issue bonds or sukuk. To date, we have issued MYR3.4 billion worth of bonds and sukuk. Loan growth among banks is a little sluggish right now, and the banks' needs for liquidity have slowed down. We will still be able to do a bit more than we did last year. We issued around MYR6 billion in 2015, while in 2016 we envision about MYR8 billion. ✖

BIO

Chung Chee Leong is currently the President & CEO of Cagamas Berhad, Malaysia's national mortgage corporation, a post he has held since April 1, 2012. He is also a member of the Advisory Board of the Asia Pacific Union for Housing Finance (APUHF). He is currently the Chairman of the Asian Secondary Mortgage Market Association. Prior to his appointment, he accumulated 29 years of experience in central banking focusing mainly on financial system stability and the financial sector. He has served as the Director of Bank Negara Malaysia's (BNM) Banking Supervision Department as well as the Risk Management Department.