

POWERING THROUGH

Cagamas resilient despite the volatile global economy



Back in the mid-1980's, Malaysia faced challenges that needed to be dealt with. Financial institutions were not lending to homebuyers despite the demand, funding mismatch in financial institutions resulted in liquidity crunch, and there was a limited funding source since there was no bonds market.

The situation called for an institution to function as an intermediary between primary lenders and investors of long term funds and to take on the role as a credible issuer of mortgage securities. Sure enough, Cagamas Berhad answered that call.

The company was incorporated in 2007, taking the role of supporting the national objective of achieving widespread home owners, promoting the public policy objective of a 'homeownership democracy' and spearhead the long-term development of the domestic corporate bond and sukuk market.

Cagamas purchases loans and financing under two schemes: Purchase with Recourse (PWR), where Cagamas provides liquidity and takes on counterparty risk; and Purchase without Recourse (PWOR), where Cagamas absorbs all the credit risks of the loans and financing acquired.

In other words, the PWR scheme that accounts for 61% of outstanding purchases, are purchased with recourse to the asset originator, whereby the latter is responsible for any loss caused from default by the borrower or customer.

Under the PWOR scheme that accounts for 39% of outstanding purchases, loans and financings are purchased without recourse by the asset originator for default risk. The asset originator will receive a principal of the receivables up front and excess the spread as servicer fee upon collection of loan or financing instalment.

ROUGH WATERS

In 2016, the global and domestic economic growth are subdued with signs of strengthened growth in major advanced economies while soft external demand and low commodity prices dragged the Malaysian economy. Not only that, the volatility of regional currencies including the Ringgit, and concern on Malaysia's fiscal position caused weaker investor sentiment.

Despite the changing environment, the Malaysian financial system remained resilient throughout the year and domestic financial intermediation are supported by well-capitalised financial institutions. As a result, the banking system loans and deposits grew at 5.3% and 2.0% respectively, coupled with a healthy loan to deposit ratio of 89.8% in 2016.

Meanwhile, house prices continue to rise at a slower pace. Based on the National Property Information Centre (NAPIC), the Malaysian House Price Index (MPHI) showed moderation, from an annual increase of 7.3% in Q3 2015 to 5.3% in Q3 2016 and

residential property transactions nationwide contracted by 14% during that same period, while transaction value shrank by 12%.

UNSUSPECTING TURN

The surprise outcome of the US presidential election in November 2016 triggered a sharp reversal of foreign holdings which dropped by RM18.4 billion (bn) to RM168.5bn in December 2015 and caused a sudden surge in government bonds and sukuk yields.

The five, seven and 10-year Malaysian Government Securities benchmark yields spiked 55 basis point (bps), 75 bps and 69 bps respectively to end the year at 3.70%, 4.10% and 4.23% compared to levels following the Overnight Policy Rate cut by Bank Negara Malaysia on July 2016.

In the corporate bonds and sukuk space, Cagamas' total issuance for 2016 reached RM87bn and was dominated by the financial services sector at 44%, while infrastructure and utilities sector contributed 25% of the total issuance.

Its new Ringgit issuances, which included three reopening of existing stocks, continued its pace and gained a total of RM6bn (7%) of the total issuance for corporate bonds and sukuk in 2016. By the end of the year, the company became the highest traded corporate bonds/sukuk institution in Malaysia for 2016.

The company also recorded RM5.7bn purchases of loans and financing in 2016 under the PWR scheme, causing its net outstanding loans and financing to rise by 8% (RM32.5bn) in 2016. For the year ended 31 December 2016, residential mortgage dominated Cagamas' portfolio at 95.4%, followed by personal loans and financing at 2.6%, and hire purchase loans and financing at 2%.

Currently, Cagamas and its fully-owned subsidiaries, Cagamas Global P.L.C. and Cagamas Global Sukuk Berhad had cumulatively issued RM286.5bn worth of corporate bonds and sukuk, including RM43.8bn of sukuk and RM5.7bn equivalent of foreign currency issuances. ■