

Going for green mortgages

Cagamas eyes ESG-related issuances to drive growth and profits

CORPORATE

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KUALA LUMPUR: Sustainability-related products will be among the new business initiatives that will drive growth and profitability for Cagamas Bhd moving forward.

The national mortgage corporation intends to explore more environmental, social and governance (ESG) related issuances following its two successful issuances last year amounting to RM200mil.

"This year, we hope to continue with the momentum to increase the issuances of those in the ESG related assets. At this moment, the portion of sustainability products in our portfolio is still small. We basically need to look for more suitable assets," said Cagamas president and chief executive officer Datuk Chung Chee Leong.

In 2020, Cagamas issued Malaysia's first RM100mil Asean sustainability SRI sukuk for affordable housing and RM100mil Asean sustainability bonds for the small and medium enterprises sector.

Chung highlighted that Cagamas had embarked on its sustainability bond and sukuk framework in 2014, which has enabled the group to ride on growing investor-interest in green products.

According to S&P Global Ratings, the issu-

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ance of sustainability-linked debt instruments will top US\$200bil (RM819bil) this year due to the burgeoning sustainability-linked loan market and the growing popularity of sustainability-linked bonds.

Notably, the government's recent issuance of its first sovereign US dollar sustainability sukuk, which was oversubscribed by 6.4 times, also paved the way for other issuers to look at more of such products.

"We are looking into how Cagamas can support the regulator's initiative in the green agenda. Bank Negara is devising a taxonomy on the green agenda so Cagamas wants to support that as well," Chung told *Starbiz*.

The climate change and principle-based taxonomy will help to speed up the issuance of sustainability-linked debt as there will be a clearer guideline for financial institutions to classify sustainability-related assets.

"One of the challenges for sustainability debt issuances at the moment is that local banks have not really tagged their assets as

such. In order for us to purchase that portfolio, they have to identify it for us.

"But currently, there is no agreed upon definition that is adopted by the various parties. For example, what constitutes a green mortgage? There is no clear definition for that.

"So having a clear taxonomy in place with a clear definition will help banks tag their sustainability-related assets. Then it will be quite easy for us to undertake such issuances and purchases of assets in the future," he explained.

This will certainly boost the profile of sustainability-related financial products.

And as more large corporates and funds look to align themselves with the sustainable development goals, demand for green products should remain strong in the long run.

Chung noted that the local bond market remained vibrant and Cagamas expects to maintain debt issuances at about RM10bil this year.

"We foresee this year to be a better year and we expect inflow of foreign funds into the country. The removal of Malaysia from the FTSE Russell's watchlist has helped to some extent.

"Also, Moody's has maintained Malaysia's rating at A3. So what is next is probably S&P's review in June. Fitch has downgraded its rating for Malaysia but we hope S&P will continue to rate us as A-," he said.

With loan growth expected to pick up this year, Cagamas is looking at asset purchases of about RM9bil for 2021, compared with RM7bil last year.

Cagamas is aiming to turn in profit of about RM300mil this year, buoyed by its new initiatives including green products and housing schemes for the underserved population, particularly those in the gig economy and retirees.

For the financial year ended Dec 31, 2020, its parent company Cagamas Holdings Bhd reported a pre-tax profit of RM512.2mil compared with RM534.2mil in 2019. The group remained strongly capitalised with its total capital ratio standing at 59.1% (2019: 44.1%).

Another potential area of interest for Cagamas is in the retail bonds and sukuk segment. Cagamas has, so far, only been issuing debt for the corporate market.

It is in the midst of exploring the possibility of entering the retail bond and sukuk space with the Securities Commission and Bursa Malaysia, according to Chung.



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