

**MARKET REACTIONS TOWARDS THE ANNOUNCEMENT OF SUKUK ISSUANCE:
EVIDENCE FROM MALAYSIAN MARKET**



**RESEARCH MANAGEMENT INSTITUTE (RMI)
UNIVERSITI TEKNOLOGI MARA
40450 SHAH ALAM, SELANGOR
MALAYSIA**

BY :

**MUZRIFAH MOHAMED
NORLIZA CHE YAHYA
NUR ASHIKIN ISHAK**

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1. Letter of Report Submission

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institit Pengurusan Penyelidikan & Inovasi
Institute of Research Management & Innovation

Universiti Teknologi MARA
Aras 3, Bangunan Wawasan
40450 Shah Alam, Selangor, MALAYSIA
Tel: (+603) 5544 2094/2090
Faks: (+603) 5544 2096/2767
E-mel: irmiuitm@salam.uitm.edu.my



UNIVERSITI
TEKNOLOGI
MARA

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Universiti Teknologi MARA, Kampus Puncak Alam
42300 Bandar Puncak Alam
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PENERIMAAN BORANG TAMAT PROJEK PENYELIDIKAN (LESTARI)
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Dengan segala hormatnya perkara di atas adalah dirujuk.

2. Adalah dimaklumkan, Pusat Pengurusan Penyelidikan (RMC) telah menerima satu (1) salinan asal borang tamat projek bertajuk seperti di atas daripada pihak puan. Pihak RMC mengucapkan setinggi-tinggi tahniah. Sehubungan itu, projek penyelidikan pihak puan telah didaftarkan sebagai **TAMAT**.
3. Pihak puan perlu menghantar laporan akhir penyelidikan dalam bentuk satu (1) salinan cakera padat (CD) kepada RMC dalam tempoh satu (1) bulan dari tarikh surat ini.
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5.2 Enhanced Executive Summary

(Abstract of the research) – 1 page only

Drawing from the significance and implication for investors to properly comprehend trend in market reaction to the release of information from new issuance, this study aims to investigate markets reaction towards the announcement of Islamic bond or *sukuk*. The Islamic bond market provides not only an avenue for more dynamic capital trades and portfolio diversification; it is also an engine to accelerate growth in the Islamic capital market. This study specifically aims to investigate whether announcements of *sukuk* issuance carry any new information that could create impact on market reactions. The overall time frame of sample of this study was divided into three event windows; before, during and after financial crisis to ascertain any unusual impact on market return during the 2007-2008 financial crises. The stock market return was measured by FTSE Bursa Malaysia KLCI. To offer a more robust finding, this study was re-measured market return using FTSE Bursa Malaysia EMAS Index as it is more representative of the sample population. The data which are collected from Bursa Malaysia, Bloomberg and DataStream database will be then analysed using standards event study methodology of Brown and Warner (1985). Using 115 number of *sukuk* issuance covering the period from year 2002 to year 2013 (12 years), this study revealed that the effect of announcement is negative and significant 1 day before and on the announcement date. On top of that, the result finds that significant positive reaction happened 30 days after the announcement of *sukuk* issuance indicate that investors take a longer time to absorb the information of the *sukuk* announcement. However, EMAS Index shows none of significant results. The significant findings in this study (i.e., when uses KLCI) are expecting to contribute clearer evidence and strategies concerning whether information in *sukuk* can help investors to form better investment strategy.

Keywords: Sukuk, Islamic bond; Islamic Finance; Market Reactions; Stock Market Return

5.3 Introduction

One of the unique features of Malaysian financial market is the co-existence of Islamic bonds market or better known as *sukuk* market and the conventional bonds. Unlike conventional bonds, the Islamic bonds are structured to comply with Shariah principles, which prohibits the charging of *riba'* or interest. The history of *sukuk* market records Malaysia as one of the pioneering countries of Islamic bond products when it kicks off the global *sukuk* arena with the issuance of Shell MDS Sdn Bhd in 1990 ("Bloomberg Businessweek," 2013). The issuance of Shell MDS Sdn Bhd has been the spectator of the unprecedented proliferation for *sukuk* issuance especially after the global financial crisis in 2007–2008. The global financial crisis has alerted investors on the significance of other investment alternatives as a means to diversify and minimise the risk of their investment portfolio. To totally be dependent on the equity market might limit the investors' chance to optimise their portfolio return particularly during the economic downturn; *sukuk* is viewed as one of the best alternatives for risk diversification strategy.

To date, *sukuk* is reported as the most active Islamic financial instrument issued in debt market and an important avenue for fundraising mechanism for companies and also as investment activities for investors. As depicted in Figure 1, even though the total number of global *sukuk* issuance experienced a temporary drop in the year 2008, it regained its momentum in 2009. The consistent growth of its size issued from year to year indicates that the global *sukuk* market is gradually developing. In other words, the debt market participants (e.g. firms and investors) have begun to recognise the significance of *sukuk* as an alternative investment channel. Further on the statistic, despite a decline in the total amount of *sukuk* issuance in 2008, Malaysia is still positioned as the largest *sukuk* market in the world during and after the financial crisis (Bank Negara Malaysia and Securities Malaysia, 2009).

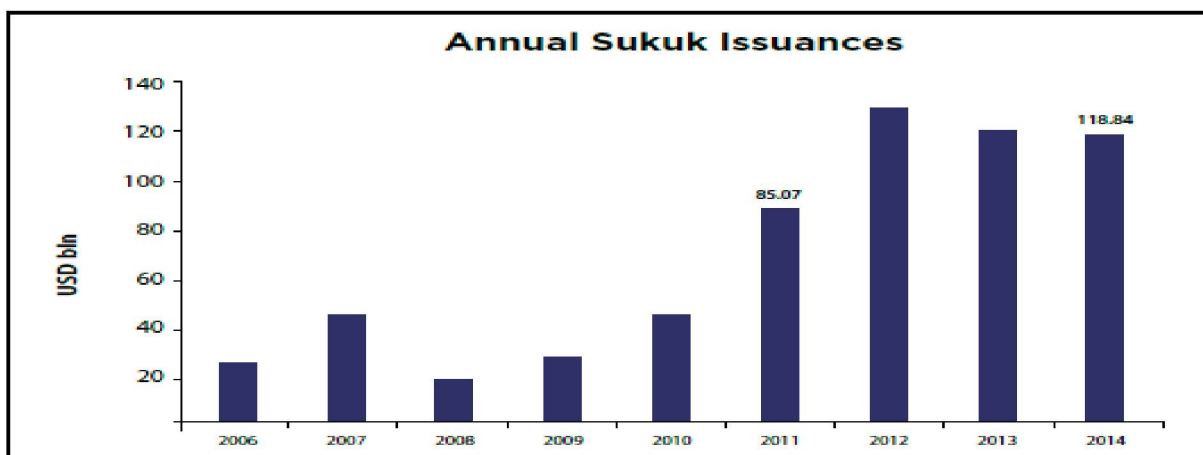


FIGURE 1: Global *Sukuk* Issuance, from 2006 to 2014
Sources: ISRA, IFIS, Zawya, Bloomberg

Concurrently with the development of *sukuk* market over the decade, the number of academic research circulated on debt market were also expanded. Specifically, past researchers were engrossed on the market reaction towards the releasing of "new" information from the newly-issued bond. Regardless of markets, previous studies were inclined to scrutinise market reaction towards information and the new bond issued during the intense economic phases or periods (i.e. financial crisis period). The inclination and wide attention during the period of crisis is probably due to the possibility of immense adverse implication faced by investors if they failed to astutely read and understand how the market behave or react. Specifically, the naturally profit-motivated investors are exposed to zero and/or negative returns on their investment if the market behaviour towards the new issuance is not clearly understood. The inability to comprehend market reaction and behaviour will cause the investors' prediction on the market to go against them.