SHARED RISK & REWARD

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Reading List

Ireland's ESB considers sukuk issue in Malaysia (link)

IMF Working Paper: Islamic Banking: How Has It Diffused? (pdf)

Ministry of Finance: Islamic finance in Ireland, March 2010 (pdf)

Accountancy Ireland: Islamic finance in Ireland, December 2011 (link)

Blog Posts This Week

Arcapita's ambitious plan to exit bankruptcy

Would closer cooperation make the halal sector and Islamic finance worth more than the sum of the parts?

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The Benefits of an Irish Sukuk

Reuters reports that the state-owned Irish Electricity Supply Board (ESB) is considering issuing up to €1 billion ($1.3 billion) in sukuk in Malaysia within the next 12-18 months, potentially using its generating plants as assets to attract capital from the GCC and Malaysia as the Euro crisis leads to more difficult access to credit. (Note: nothing here should be taken as a recommendation to buy anything).

The company has refinanced much of its debt already, but still has €1.4 billion in debt coming due (including revolving credit) during 2013 and 2014, which any financing in 2012 will be primarily used to refinance. But, the company has significant liquidity needs to fund capital expenditures which S&P expects to be €700 billion in the 12 months following its August report.

With the Irish economy still only slowly growing (electricity usage and economic growth move in tandem) and funding markets in Europe still jittery, there seems like an opportunity for Islamic finance to offer a value proposition for the state-owned utility. It would be an opportunity as well for the Irish government to demonstrate its commitment to attracting more Islamic finance to the country.

What is the value proposition? Wouldn't there be no greater demand for a sukuk than a conventional bond and only a higher cost for the Shari'ah structuring? That depends. Future demand for sukuk is in part dependent on oil prices (see link to IMF paper to the left), which are dependent on global economic growth and a Eurozone debt crisis resolution, which would lower funding costs for conventional bonds, reducing the benefit that a sukuk could provide.

But, so long as demand for sukuk continues to exceed supply, there may be an opportunity for the ESB to get comparable or even lower cost from a sukuk because there are so few large non-Financial European sukuk (in fact, there are none except a very small one issued by a UK-based company).

Offering a sukuk with a different profile and different underlying risk profile that is likely to be differently correlated with the sukuk from the GCC and Malaysia will provide investors with some diversification. And with no other investment opportunities with similar characteristics available, it could receive greater demand than a conventional Eurobond, and therefore a potentially lower financing cost.

If these expectations come to fruition, it could provide an opportunity for Islamic finance and for Ireland .

Until next week,
Blake Goud