

**STOCK MARKET'S REACTIONS AGAINST SUKUK
ISSUANCE AND LIQUIDITY IN THE MUSLIM COUNTRIES**

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UNIVERSITI SAINS ISLAM MALAYSIA

**STOCK MARKET'S REACTIONS AGAINST SUKUK ISSUANCE
AND LIQUIDITY IN THE MUSLIM COUNTRIES**

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AUTHOR DECLARATION

I hereby declare that the work in this thesis is my own except for quotations and summaries which have been duly acknowledged

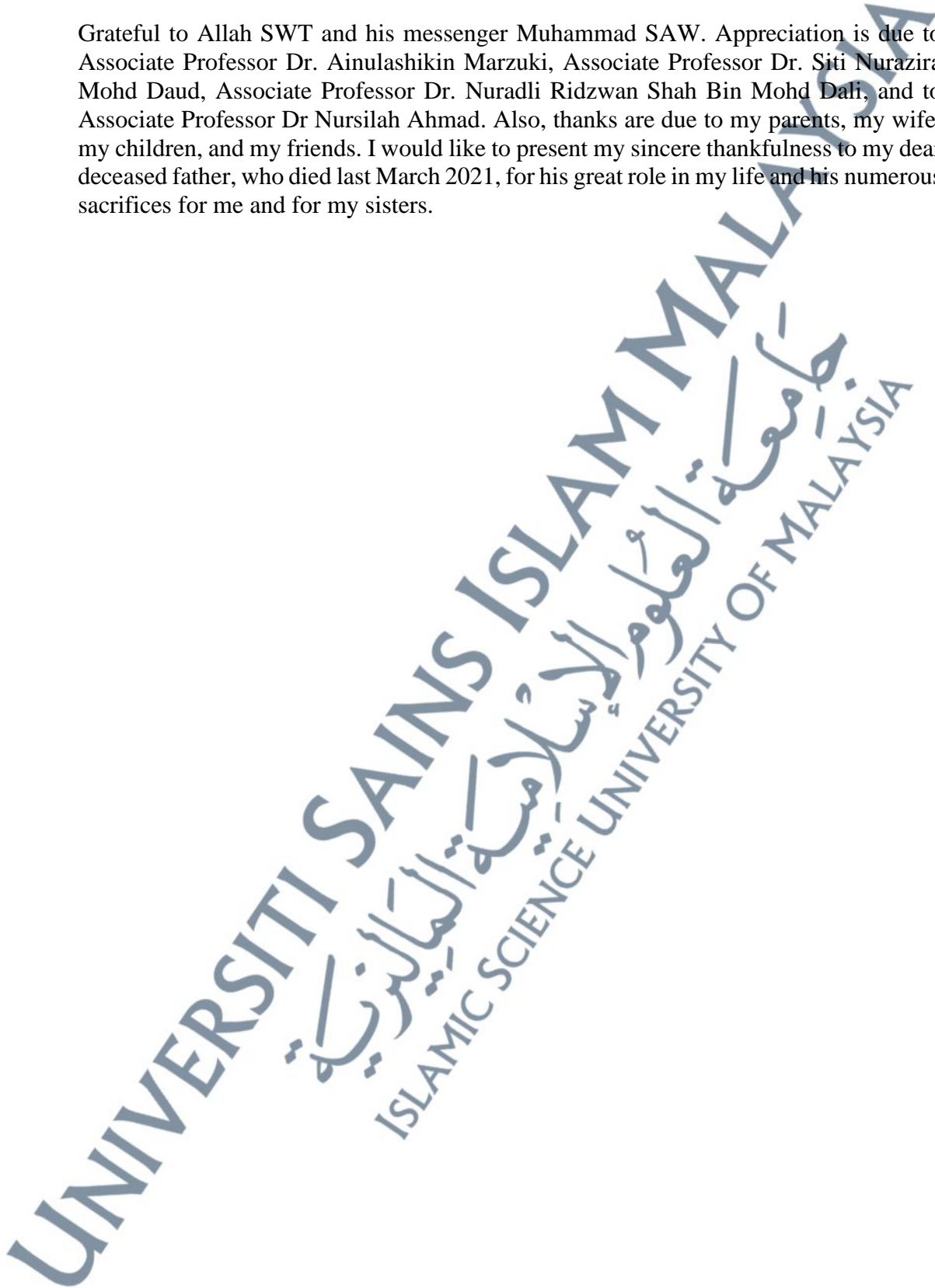
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ABSTRAK

Pasaran saham telah menunjukkan tindak balas negatif dalam dekad lepas disebabkan oleh kemeruapan tinggi dan kecairan rendah. Tindak balas negatif ini disebabkan oleh beberapa peristiwa, salah satu daripadanya adalah peningkatan pengumuman sukuk. Kajian-kajian empirik menunjukkan bahawa pengumuman sukuk mencetuskan tindak balas negatif pasaran saham. Mengkaji tindak balas pasaran saham terhadap pengumuman sukuk boleh mengurangkan tindak balas negatif seperti ini. Tesis ini mengkaji tiga isu yang saling melengkap berkenaan kesan Sukuk terhadap pasaran saham di negara terpilih: pengumuman Sukuk, *spread* kadar hasil, dan kecairan Sukuk. Objektif pertama mengkaji tindak balas pasaran saham terhadap pengumuman terbitan Sukuk korporat. Sampel melibatkan 157 pengumuman Sukuk korporat dari negara-negara Asia Tenggara dan GCC dari Januari 2001 hingga September 2016. Kajian peristiwa digunakan untuk menguji tindak balas pasaran saham terhadap pengumuman Sukuk. Selepas itu, ujian-t sampel bebas dan ANOVA satu hala digunakan untuk melihat sama ada tindak balas pasaran saham terhadap pengumuman Sukuk berbeza antara rantau dan negara yang dipilih. Akhirnya, regresi linear berganda digunakan untuk mengkaji penentu pulangan abnormal. Dapatan menunjukkan terdapat pulangan abnormal negatif signifikan ke atas pengumuman Sukuk dalam beberapa tingkap peristiwa, khususnya dalam tempoh 12 hari sebelum hari terbitan sebenar. Dapatan ini adalah sumbangan baharu kepada literatur. Terdapat juga perbezaan tindak balas pasaran saham yang signifikan antara Asia Tenggara dan GCC. Objektif kedua mengkaji pergerakan bersama *spread* kadar hasil dan kemeruapan pasaran saham terbitan Sukuk korporat baharu dan *seasoned*. Sampel merangkumi 3276 pemerhatian harian *spread* kadar hasil dan kemeruapan pasaran daripada 135 terbitan Sukuk daripada 14 syarikat tersenarai di Malaysia dan Indonesia. Tempoh pensampelan adalah Jun 2014 hingga Disember 2016. Ujian Levene dan *autoregressive* digunakan untuk menguji hipotesis. Dapatan menunjukkan bahawa terdapat perbezaan *spread* kadar hasil yang signifikan antara Sukuk baharu dan *seasoned* dalam pasaran Malaysia dan Indonesia. Tambahan lagi, *spread* kadar hasil Sukuk baharu dan *seasoned* berhubung negatif dengan kemeruapan pasaran saham. Objektif ketiga mengkaji kesan kecairan Sukuk korporat terhadap kecairan pasaran saham. Sampel terdiri daripada 108 pemerhatian Sukuk di Malaysia dari Januari 2008 hingga Disember 2016. Ujian-t sampel bebas dan kuasa dua terkecil digunakan untuk mengkaji sama ada terdapat hubungan antara kecairan Sukuk dan kecairan pasaran saham. Dapatan menunjukkan bahawa dua pengukuran kecairan Sukuk mempunyai kesan signifikan dan positif ke atas kecairan pasaran saham. Selain itu, gred Sukuk yang lebih tinggi mempunyai kesan yang lebih tinggi ke atas kecairan pasaran saham berbanding dengan gred Sukuk yang lebih rendah. Kajian ini menyumbang kepada literatur dengan memperluas penggunaan teori *trade-off* untuk menjelaskan tindak balas pasaran saham terhadap pengumuman Sukuk jangka pendek. Teori ini menjangkakan tindak balas pasaran saham yang positif dalam jangka panjang, namun kajian ini menunjukkan bahawa terdapat tindak balas negatif dalam jangka pendek. Dalam bahagian kedua, kajian ini menunjukkan bahawa Sukuk baharu (*seasoned*) mempunyai risiko yang lebih rendah (lebih tinggi), tetapi ia mempunyai korelasi yang lebih tinggi (lebih rendah) dengan kemeruapan pasaran saham. Oleh itu, pengurus dana pendapatan tetap dinasihatkan untuk menukar kepada Sukuk baharu untuk mengawal kemeruapan portfolio. Bahagian akhir kajian ini menyumbang kepada teori kecairan aset, khususnya kecairan Sukuk sebagai aset kewangan, menggunakan kecairan terpendam. Kecairan Sukuk adalah penentu penting kecairan pasaran saham;

gred Sukuk yang lebih tinggi (lebih rendah) mempunyai impak yang lebih tinggi (lebih rendah) ke atas kecairan pasaran saham. Kajian ini mencadangkan mencadangkan agar penggubal polisi tidak membuat beberapa pengumuman Sukuk dalam tempoh bersamaan, tetapi menjadualkan pengumuman Sukuk selepas tempoh tangguh selama 12 hari. Skop kajian ini terhad kepada Sukuk korporat. Sukuk kerajaan tidak dimasukkan kerana ia bebas daripada risiko, memandangkan ia dikawal selia oleh bank pusat. Kajian masa hadapan boleh memperluas skop ini dengan merangkumi Sukuk korporat dan berdaulat.

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ABSTRACT

The stock market has shown a negative reaction in the past decade due to high volatility and low liquidity. This negative reaction can be attributed to several events, one of which was increased sukuk announcement. Empirical studies have shown that sukuk announcement leads to a negative stock market reaction. Investigating the stock market reaction towards sukuk announcement can mitigate such a negative reaction. The thesis examines three complementary issues surrounding the impact of Sukuk on the stock market in selected countries: Sukuk announcement, Sukuk yield spread, and Sukuk liquidity. The first objective examines the stock market reaction towards the announcement of corporate Sukuk issuance. The sample includes 157 corporate Sukuk announcements from Southeast Asian and GCC countries from January 2001 to September 2016. Event study is employed to test the stock market reaction towards Sukuk announcement. Then, independent samples t-test and one-way ANOVA are used to see whether stock market reaction towards Sukuk announcement differs between regions and the selected countries. Finally, multiple linear regression is used to investigate the determinants of abnormal returns. The results show a significant negative abnormal return to Sukuk announcements over several event windows, specifically within 12 days from the actual issuance day. This finding is a novel contribution to the literature. There is also a significant difference in terms of stock market reaction between Southeast Asia and the GCC. The second objective investigates the co-movement of yield spreads and stock market volatility of new and seasoned corporate Sukuk issuance. The sample comprises 3276 daily observations of yield spreads and stock market volatility of 135 Sukuk issuance from 14 listed companies in Malaysia and Indonesia. The sample period is June 2014 to December 2016. Levene's test and autoregressive tests are used to test the hypotheses. The results show that there is a significant difference in yield spreads between new and seasoned Sukuk in both Malaysian and Indonesian markets. In addition, new and seasoned Sukuk yield spreads are negatively associated with stock market volatility. The third objective examines the effect of corporate Sukuk liquidity on stock market liquidity. The sample consists of 108 observations of Sukuk in Malaysia from January 2008 to December 2016. Independent samples t-test and ordinary least squares are used to investigate whether there is any relationship between Sukuk liquidity and stock market liquidity. The results indicate that two measures of Sukuk liquidity have a significant and positive impact on stock market liquidity. Furthermore, a higher Sukuk grade has a higher impact on stock market liquidity compared to a lower Sukuk grade. This study contributes to the literature by extending the application of trade-off theory in explaining the stock market reaction towards Sukuk announcement in the short run. This theory predicts positive stock market reaction in the long run, but this study evinces that there is a negative reaction in the short run. In the second part, the study shows that new (seasoned) Sukuk has a lower (higher) risk, but it has a higher (lower) correlation with stock market volatility. Therefore, fixed income fund managers are suggested to switch to new Sukuk to manage portfolio volatility. The final part of the study contributes to the theory on asset liquidity, specifically the liquidity of Sukuk as a financial asset, using latent liquidity. Sukuk liquidity is an important determinant of stock market liquidity; a higher (lower) Sukuk grade has a higher (lower) impact on stock market liquidity. The author suggests that policymakers avoid making several sukuk announcements within the same period and instead schedule the Sukuk announcements after a 12-day grace period. The scope of this study is limited to

corporate Sukuk. Government Sukuk is excluded because it is free of risks, given that it is regulated by the central bank. Future studies could extend the scope to cover both corporate and sovereign Sukuk.



الملخص

الصكوك هي مصدر بديل لرأس المال للشركات التي تسعى للتمويل، كذلك للمستثمرين الذين يسعون لتنويع استثماراتهم في المحافظ الاستثمارية. على الرغم من التطور الملحوظ للصكوك، إلا أن معظم حاملي الصكوك يحتفظون بها حتى تاريخ الاستحقاق، مما يؤثر على عائد سوق الأسهم وتقلبها وسيولتها. تناول الرسالة ثلاثة أنشطة للصكوك، وهي الإعلان عن الصكوك، وفارق عائد الصكوك، بالإضافة إلى سيولة الصكوك في عينة من الدول المختارة. الهدف الأول من الرسالة هو اختبار رد فعل سوق الأسهم تجاه إعلان إصدار صكوك الشركات. شملت العينة 157 إعلاناً عن صكوك مؤسسية من دول جنوب شرق آسيا ودول مجلس التعاون الخليجي خلال الفترة من يناير 2001 إلى سبتمبر 2016. تم استخدام منهجية دراسة الحدث لاختبار رد فعل سوق الأسهم تجاه إعلان الصكوك. كما تم استخدام اختبار T المستقل و اختبار تحليل الفروق أحادي الاتجاه لمعرفة ما إذا كان هناك اختلاف في رد فعل سوق الأسهم تجاه الإعلان عن الصكوك ضمن الاقليمين وكذلك الدول المختارة. أخيراً، تم استخدام الانحدار الخطي المتعدد للتحقيق في محددات العوائد غير الطبيعية. تشير النتائج إلى أن هناك عوائد سلبية كبيرة غير طبيعية لرد فعل سوق الأسهم تجاه إعلانات الصكوك عبر العديد من نوافذ الأحداث. هناك أيضاً اختلاف كبير في مدى رد فعل سوق الأسهم بين منطقة جنوب شرق آسيا ودول مجلس التعاون الخليجي. يبحث الهدف الثاني الحركة المشتركة بين فروق عائد إصدار صكوك الشركة الجديدة والموسمية وتقلبات سوق الأسهم. تتكون العينة من 3276 ملاحظة يومية من 14 شركة مدرجة من 135 عائد إصدار صكوك وتقلبات سوق الأسهم من ماليزيا واندونيسيا والتي تمتد من يونيو 2014 إلى ديسمبر 2016. تم استخدام اختبار ليفين واختبارات الارتداد الذاتي لاختبار الفرضيات. تظهر النتائج أن هناك فرقا ذو دلالة احصائية بين هوامش عائد الصكوك الجديدة والموسمية في كل من أسواق ماليزيا واندونيسيا. كما وجد أن فروق عائد الصكوك الجديدة والموسمية مرتبط بشكل سلبى بتقلبات سوق الأسهم. الهدف الثالث هو دراسة تأثير سيولة صكوك الشركات على سيولة سوق الاسهم. تتكون العينة من 108 ملاحظة للصكوك في ماليزيا في الفترة من يناير 2008 إلى ديسمبر 2016. تم استخدام اختبار الفروق للعينات مستقلة لاختبار في المربعات الصغرى العادية للتحقق من وجود أي تأثير بين سيولة الصكوك وسيولة سوق الأسهم. تشير النتائج إلى وجود تأثير إيجابي ذو دلالة احصائية لمقاييس لسيولة الصكوك على سيولة سوق الأسهم. علاوة على ذلك، فإن جودة الصكوك الأعلى لها تأثير سيولة أعلى على سيولة سوق الأسهم مقارنة بالجودة المنخفضة للصكوك. تساهم هذه الدراسة من خلال التوسع في تطبيق نظرية المقايضة في شرح رد فعل سوق الأسهم تجاه إعلان الصكوك على المدى القصير. بينما تتنبأ افتراضات هذه النظرية برد فعل إيجابي لسوق الأسهم

على المدى الطويل ، تقدم هذه الدراسة دليلاً على وجود رد فعل سلبي على المدى القصير. في الجزء الثاني ، تضيف الدراسة إلى الجدل الدائر حول حركة انتشار عائد الصكوك وتقلب سوق الأوراق المالية حيث تتسم الصكوك الجديدة (الموسمية) بمخاطر أقل (أعلى) ولكن ارتباط أعلى (أقل) بتقلب سوق الأسهم. يوفر ذلك نظرة ثاقبة لمديري صناديق الدخل الثابت للتحويل إلى الصكوك الجديدة لإدارة تقلبات المحفظة. يساهم الجزء الأخير من الدراسة في نظرية سيولة الأصول وتحديد سيولة الصكوك كأحد الأصول المالية باستخدام السيولة الكامنة. تعتبر سيولة الصكوك أحد المحددات المهمة لسيولة سوق الأسهم ، كما أن درجة الصكوك الأعلى (الأقل) لها تأثير أعلى (أقل) على سيولة سوق الأسهم. يقتصر نطاق هذه الدراسة على صكوك الشركات. تم استبعاد الصكوك الحكومية ، حيث أن هذا النوع من الصكوك خالٍ من المخاطر كما ينظمه البنوك المركزية. يمكن للدراسة المستقبلية أن توسع نطاق تغطية كل من صكوك الشركات والصكوك السيادية.

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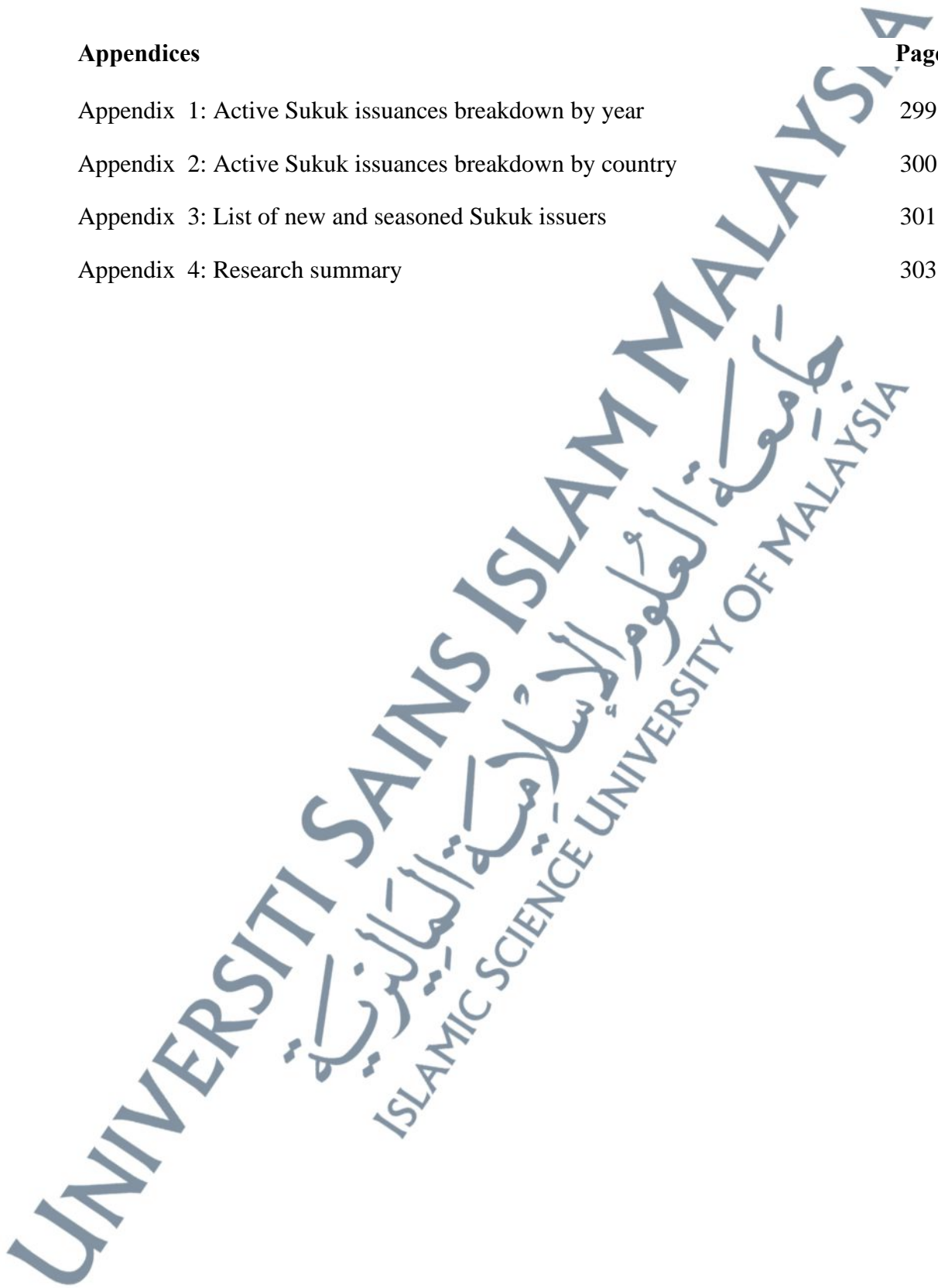
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LIST OF ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
AAR	Average Abnormal Return
ARCH	AutoRegressive Conditional Heteroscedasticity
ASEAN	Association of Southeast Asian Nations
BBA	Bai' bithaman ajil
BIDS	Bond Information and Dissemination System
BNM	Bank National Negara
CAAR	Cumulative Average Abnormal Return
CMA	Capital Market Authority
EPM	Executing Participant Member
ETP	Electronic Trading Platform
FICO	Fair, Isaac and Company
GARCH	Generalized AutoRegressive Conditional Heteroscedasticity
GCC	Gulf Cooperation Council
GII	Government Islamic Issuance
GPM	General Participant Member
GSKI	Global Sukuk index
ICRA	Credit Rating Indonesia
IFSB	Islamic Financial Services Board
IIFM	International Islamic Financial Market
IIRA	International Rating Agency
IMF	International Monetary Fund
IPO	Initial Public Offering
IRC	Imputed Round Trip Cost
KLCI	Kuala Lumpur Composite Index
KLIBOR	Kuala Lumpur Interbank Offer Rate
MARC	Malaysian Rating Corporation Berhad
MGS	Malaysian Government Securities
MSCI	Morgan Stanley Capital International
OTC	Over the Counter
PACRA	Pakistan Credit Rating Agency
PFMB	Pilgrims Fund and Management Board
POT	Pecking Order Theory
RAM	Rating Agency Malaysia
SC	Securities Commission
SIMAH	Saudi Credit Bureau
SPV	Special Purpose Vehicle
SSB	Shari'ah Supervisory Board
TPM	Trading Participant Member
UAE	United Arab Emirates
USD	United States Dollar
WB	World Bank
YTM	Yield to Maturity