

H1 2023 populated by ESG Sukuk featuring offshore centers



OFFSHORE CENTERS

By Manuela Belmontes and
Barbara Kramarz

During H1 2023, Fitch Ratings noted a decline of 18.5% quarter-on-quarter in Sukuk issuances from core markets. In contrast, outstanding ESG Sukuk experienced a positive trend, with a 5.7% quarter-on-quarter increase. Q2 2023 has been characterized by a growing pipeline, driven by improved pricing, pent-up demand from the previous year and a series of upcoming Sukuk maturities.

The surprise cut in oil production by OPEC+ members in April 2023 is expected to support oil prices in the short term, potentially alleviating financing requirements of certain oil-exporting sovereigns. Nonetheless, there remains a persistent demand for diversifying funding sources, which reinforces the long-term narrative of Sukuk issuances, particularly those focused on sustainability.

Offshore centers continue to feature in significant ESG-linked Sukuk issuances and, during H1 2023, there have been a number of such transactions including the following:

- Dubai Islamic Bank (DIB)'s US\$1 billion 4.8% 5.5-year sustainable senior Sukuk issuance in February 2023, through its Cayman Islands SPV, DIB Sukuk. Despite representing a larger issuance size, DIB achieved a three times oversubscription which was reported at that time to be the largest book size seen for a GCC bank in over a year.
- IsDB's US\$2 billion 4.59% sustainable Sukuk issuance in March 2023, using its Luxembourg co-issuing vehicle, IsDB Trust Services No 2 SARL.
- Al Rajhi Bank's US\$1 billion 4.75% senior unsecured sustainable Sukuk issuance in April, through its Cayman Islands SPV, Al Rajhi Sukuk. The transaction represents Al Rajhi Bank's first issuance in the US dollar market following two successful local currency-denominated issuances in 2022.



- Aldar Investment Properties's US\$500 million 4.87% Reg S green Sukuk issuance in May 2023 through its Cayman Islands SPV, Aldar Investment Properties Sukuk. The issuance is the first under Aldar's new US\$2 billion Sukuk issuance program and was four times oversubscribed.
- Majid Al Futtaim's US\$500 million sustainable Sukuk issuance in June 2023, through its Cayman Islands SPV, MAF Sukuk. Following its inaugural green Sukuk issuance in May 2019 followed by another in October 2019, this third sustainable issuance was reported to refinance an existing US\$800 million commitment.

Aside from ESG-linked issuances, other financial institutions in the GCC also tapped the global Sukuk markets with the aid of the offshore centers. In February 2023, Emirates Islamic, the Islamic subsidiary of Emirates NBD Group, successfully priced its debut AED1 billion (US\$272.2 million) dirham-denominated Sukuk through its Cayman Islands incorporated issuer, EI Sukuk Company, reported as being the first UAE bank to do so. The issuance is expected to expand financing options for UAE corporations with Shariah compliant requirements by further strengthening the liquidity of the local currency Sukuk market.

In May 2023, Banque Saudi Fransi (BSF) listed US\$900 million five-year 4.75%

Reg S senior Sukuk on the London Stock Exchange.

The Sukuk were issued through a Cayman Islands SPV, BSF Sukuk Company, and the proceeds will be used principally to assist with the growth of BSF's franchise in line with Vision 2030 initiatives.

As global Sukuk gain traction, the growing interest in this sector has extended to various countries worldwide. In March 2023, Air Lease Corporation, an aircraft leasing company based in the US, successfully priced its inaugural five-year international Sukuk of US\$600 million using a Cayman Islands issuing vehicle, Air Lease Corporation Sukuk. Market participants noted that this achievement could potentially attract other first-time issuers from regions without well-established Islamic finance markets. ☺

This article is intended to provide only general information for the clients and professional contacts of the legal services division of the Maples Group. It does not purport to be comprehensive or to render legal advice.

Manuela Belmontes is a partner in the corporate and finance teams at Maples and Calder (Dubai), the Maples Group's law firm in Dubai. She can be contacted at manuela.belmontes@maples.com. Barbara Kramarz, an associate in the same firm, assisted in authoring this report.