

**PERFORMANCE OF ISLAMIC BONDS (SUKUK) AND CONVENTIONAL
BONDS: AN EMPIRICAL INVESTIGATION FROM PUBLIC LISTED
ISSUER IN MALAYSIA.**

Noriza Mohd Saad

Siti Fara Fadila Razak

Universiti Tenaga Nasional, Kampus Sultan Haji Ahmad Shah,

26700 Bandar Muadzam Shah, Pahang, Malaysia

(O): 09-4552046 (H/P): 012-7002348 (Fax): 09-4552006

noriza@uniten.edu.my

ABSTRACT

The purpose of this study is threefold; (i) to analyze the performance of the company that issues Islamic bonds (sukuk) as compared to corporate bonds (conventional). (ii) to look at relationship between bond facets and firms' performance and (iii) to evaluate the effects of independent variables in terms of size of issuance, bond's rating, coupon rate, types of instruments and tenor of each issuance towards firm's performance. The study used a secondary data for a total of N= 966 issuance which are gathered from Bank Negara info Bond website, and Rating Agency Malaysia (RAM) for such a bond facets. Data from Thompson Data Stream and Bloomberg are utilized to represent firm's performance proxies (N=970) from 2002 until 2009. The preliminary result revealed by multivariate regression and independent T test was shown there is a statistically significant relationship between bond facets with firm's performance. Most of the public listed issuer was issued Islamic bonds as compared to conventional bond. However, this study cannot be concluded which types of instrument is better since the study period captured only eight years not enough to prove since it involved a long term investment in capital bond market.

Key words: Sukuk, Conventional Bonds, Bond facets, Firm Performance.

1.0 INTRODUCTION

The evolution cycle of sukuk in Malaysia was quick because of sophisticated Shariah-compliant products which have gained worldwide acceptance. Besides, it based on interest-free trading and followed the syariah principle for all sukuk contracts such as bai' bithaman ajil (BBA), murabahah, istisna', ijarah, musyarakah and mudharabah. Sukuk are basically investment certificates consisting of ownership claims in a pool of assets. Sukuk were widely used by Muslims as papers instead of financial obligations originating from trade and other commercial activities. However, the present structure of sukuk are different from the sukuk originally used and are similar to the conventional concept of securitization, a process in which ownership of the underlying assets is transferred to a large number of investors through certificates representing proportionate value of the relevant assets.

The Islamic Banking Act of 1983 was based on an acknowledgement of the aspirations of Muslims to have *riba*-free banking and investment services as well as the government's goal of establishing a modern financial system in every aspect to Malaysia's socio-economic goals for the 21st century economy. On a continuous basis, the Malaysian government has been revising and adapting its Interest Free Banking Scheme and securities programs to meet market and economic changes. Sukuk also known as Islamic bond was regulated under the powers of the Securities Commission (SC) in Malaysia. The main issuers of public debt are the Government of Malaysia, the central bank (Bank Negara Malaysia), and quasi government institutions (Khazanah, Danamodal and Danaharta). Private debt securities and asset-backed securities are issued by the National Mortgage Corporation (Cagamas Berhad), financial institutions and non-financial corporations. Bond issuers have an option to issue bonds under the conventional or Islamic principles. Islamic bonds are similar to conventional bonds in Malaysia. It always has

time to maturity, a coupon rate, and trades on the normal yield price relationship. For conventional investors, the structuring of the bonds by the issuer is irrelevant. The difference lies only in the way the issuer structure the bonds. An Islamic bonds is structured such that the issuance is not an exchange of paper for money consideration with the imposition of an interest as per conventional. It is based on an exchange of approved asset for some financial consideration that allows the investors to earn profits from the transactions. Approval of the assets and the contract of exchange would be based on Shariah (Islamic law) principles, which is necessary to meet the Islamic requirement. On the other hand, conventional bonds are standard bonds bearing a coupon, paying interest twice a year and have a maturity date at which they will redeem their bonds at face value or par value. The price of conventional bonds will change primarily with the change in interest rate, which could include trading activities that are deemed prohibited and are not regarded as suitable for Muslim investors.

The remainder of the paper is structured as follows. In section 2.0, the study discusses the development of hypotheses through reviewing previous articles besides provide a brief review of related research and report. In section 3.0, it was introduce the operational definition used, present the proposed methodology and describe the data for the study. The methodology is applied in section 4.0 where the statistic is derived in this section to test the model goodness of fit. Further, the result was discussed to show how the model can be put to use by individual investors. Section 5.0 concludes the paper.

2.0 REVIEW OF LITERATURE AND HYPOTHESIS DEVELOPMENT

In this study, the hypothesis are developed based on previous literature and report done by many authors, for instance Shahrim, (2006) and Al-Amine (2001) were focused on leverage and risk when issuing bonds. They mentioned that bonds issued by high leverage companies are considered risky for Muslims, as they might contain elements of gharar and may lead to maysir. In conventional bonds there is exploitation of interest rate movement, and the bond risk is assessed not by the bondholder, but by a third party rating agency. Therefore, it can be said that the bondholder's only concern is the return, without any consideration of the use of the proceeds.

Besides the return, size of sukuk issuance need to be considered when making a decision in creating structure of capital by firms. Usually, the money raised from the sukuk issuance is used to invest in the underlying asset (Clifford Chance (2008); Manaf, 2007; Shahrim (2006). In addition, the issuance of Sukuk has undergone rapid increase; for example, London based financial institutions had arranged more than a dozen Sukuk issuances on behalf of Middle Eastern clients in 2006, while in 2008 Indonesia will increase the sale of both conventional and Islamic bonds in order to generate a domestic source of finance to solve its financial deficit (Emergingmarketsmonitors.com (2007); Alvi (2006, 2007).

Based on the Rating Agency Malaysia Berhad (RAM) report in 2004, the Malaysian corporate sukuk market continued to expand and mature in 2004, affirming the role that Islamic finance plays in mobilizing the capital needed by corporate. The entry of 51 corporates sukuk issues, with an aggregate value of RM15.03 billion. These represented 55% of total ringgit denominated corporate bonds issued which grossed RM27.37 billion. To the credit of the industry, these well-received sukuk issuances underscore the growing appetite for syariah-compliant instruments and

strong investor confidence in the prospects of such instrument. Meaning that, from this report the size of sukuk issuance was tremendously increasing among public and private sector in generating profit. Furthermore, Zeti Akhtar Aziz (2007) a governor of Bank Negara Malaysia said that the growing role of Islamic finance in mobilising and channeling funds to productive investment activities across borders contributes to more efficient allocation of funds across borders and facilitates international trade and investment. The more recent developments in Islamic finance are the growing significance of the sukuk market to become an increasingly important component of the development of the global sukuk market. There has been growing interest in the issuance of sukuk by corporations, sovereigns and multinational corporations; the demand for sukuk significantly exceeds the supply. Today, the global sukuk market, denominated in international currencies, is estimated to exceed USD50 billion. Although the size of the market is modest by global standards, the sukuk market is experiencing remarkable growth, increasing at an average rate of growth of forty per cent per annum. In her other articles, She also focus on the vast potential of the Islamic bond market in the economic development process, in its role in ensuring financial stability and its role in promoting greater financial integration in the global financial system. Similar with the Abdul kader Thomas (2007) also stress on the important of the sukuk market. He argue that the application of the forward lease is an innovation developed elsewhere, but made possible in the sukuk space thanks to Malaysia's progressive steps to define the broad sukuk space, and grow it with new concepts. Faisal Alshowaikh (2008) also mentioned that Malaysia has been developing a more extensive capital market after the Asian financial crisis to ensure a more resilient financial system. He also said that Malaysia is a matured market as indicated not only by the market share but also by the number of issuances. Here with, this study was developing the first and second hypotheses to outfit for the pooling regression model as below:

H1: There is a significance positive relationship between size of issuances with the firm's performance.

H2: There is a significance positive relationship between coupon rates with the firm's performance.

Ali Arsalan Tariq (2004) mentioned in his study the success and popularity of the Sukuk framework as an alternative asset management platform will invariably require inbuilt mechanisms which can be instrumental in mitigating risks that exist in the structures due to the benchmarking of Sukuk with market references such as London Inter-bank Offer Rate (LIBOR). Rodney W. (2008) provides an analysis of different sukuk structures from a financial perspective. This examination includes murabahah and ijara-based sukuk, the former offering a fixed return, and the latter, the most popular form of sukuk, a variable return. The potential for other more novel sukuk structures based on musharakah partnership contracts is also examined, and sukuk pricing issues are explored using alternative benchmarks to LIBOR. The paper finds that special purpose vehicles are a prerequisite for the successful issuance and management of sukuk. Saiful Azhar Rosly & Mahmood M. Sanusi, (2008) argue that financial contracts involving use of bay' al-inah and bay' al-dayn have been extensively used in design of Malaysian Islamic bonds. This paper argues that both these mechanisms have been found unacceptable by the majority of Islamic scholars and proposes the use of financing based on Muqarada and Musharakah principles as genuine alternatives to Interest-bearing financial instruments. Based on this four articles review, this study was comes out with third hypothesis as below:

H3: There is a significance positive relationship between types of instruments with the firm's performance.

From view of conventional bonds, Modigliani and Miller (1958) argue that the presence of perfect capital markets, all financial decisions including debt maturity do not matter. Stiglitz (1974) has formalized and extended Modigliani and Miller's propositions to demonstrate that the debt maturity structure is irrelevant for firm value under perfect market assumptions. However, market imperfections, which are later introduced primarily based on the role of agency cost, signaling and asymmetric information, liquidation risk or taxes, have led to theories supporting the choice of debt maturity mix either short or long term debt. Enclosed, the study was concluding the fourth hypotheses as below:

H4: There is no significance relationship between maturity of bond or tenure with the firm's performance

According to a report released by the Islamic Finance Information Services (IFIS) February 10, 2008, the sukuk market continues to enjoy a year -on-year increase despite a slowdown in the rate of growth. However, a drop in the number of sukuk issued in Southeast Asia mainly result of a fall in Malaysian corporate medium-sized issuance. Despite this, Malaysia remains the world's leader in sukuk issuance by both number and value, with 2007 trade totaling about RM25 billion. In addition, the Malaysian ringgit remains the most common currency for sukuk issuance, followed by the dollar. Furthermore, Andreas J. et. al (2008) said that the recent years have witnessed a surge in the issuance of Islamic capital market securities (*sukuk*) by corporates and public sector entities amid growing demand for alternative investments. As the *sukuk* market continues to develop, new challenges and opportunities for sovereign debt managers and capital

market development arise. Mohd Izazee Ismail (2002) said that the growth of Islamic Private Debt Securities (“IPDS”) in Malaysia has been very encouraging since the first issue in 1990. In 2001, the issuance of IPDS constituted 43% of total PDS issued compared to 34% in 2000. With its continued strong presence, we can expect IPDS to take up a larger share than conventional PDS in 2002. The Islamic bonds issued in 2001 were mainly to finance large privatized projects such as water and power projects which require higher capital outlays. The Al-Bai Bithaman Ajil (“ABBA”) structure has been the preferred choice to finance such projects with long gestation periods. Besides ABBA, another popular IPDS tool is the Murabahah concept which caters for short- to medium-term requirements. With that, the last hypothesis was set up as below:

H5: The Islamic bonds will have a higher means than conventional bonds among public listed issuer in Malaysia.

3.0 RESEARCH METHODOLOGY

3.1 Operational Definition of sukuk versus conventional bonds and its facets.

Sukuk or Sikak come from Arabic word means Islamic bond or Islamic Investment Notes. Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) released an exposure draft of its Shari’ah standards concerning Sukuk in November 2002. The exposure draft of AAOIFI Shari’ah Standard No. 18, p.4 stated that “*Investment Sukuk are certificates of equal value representing, after closing subscription, receipt of the value of the certificates and putting it to use as planned, common title to shares and rights in tangible assets, usufructs, and services, or equity of a given project or equity of a special investment activity.*” According to Manaf (2007), Islamic bond, or sukuk, is an investment certificate which allows investors to claim ownership of underlying assets. Many types of sukuk issues in Malaysia capital market i.e. sukuk Murabahah and sukuk Bai Bithamin Al-Ajil (BBA) which rated the most popular Islamic private

debt securities issued (Noriza et. al, 2009) and these are also proved by Rating Agency Malaysia (RAM), besides sukuk Musyarakah, sukuk Ijarah, sukuk Istisna and etceteras. Again, according to Manaf (2007), there are seven types of Islamic bond based on model of financing and trades which structure the bond. These are mudaraba/ muqarabah sukuk, musharaka sukuk, Ijarah sukuk, Murabaha sukuk, Salam sukuk, Istisna sukuk and Hybrid sukuk.

Al Fairuzabadi (2007) was defined the words sukuk in his Al Muhit qamus, p.960 as “to strike or to hit, the connotation is allied to strike one’s seal on a document. Sukuk also refers to Islamic securities that comply with syariah principles and rules which prohibit the issues of gambling and riba (excessive interest rate charging). As compared to conventional bond focus on corporate bond in this study defined as a debt security issued by a corporation and sold to investors. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations (Investopedia website). In Malaysian capital market, word sukuk has been used interchangeably with the syariah securities as poles apart from the conventional bonds. There are several bond facets was studied either Islamic or conventional issuance such as coupon rate, rating, size of issuance and tenure of maturity. In this study, the types of bond instrument were indicated 1 for the Islamic bond and 2 for the conventional bond. Data on coupon rate was collected based on the ranking; 1 if the bond issuance is zero coupon bond or 0 percent interest which is normally issued by government like Malaysian Government Bond, T-bonds, subordinated bonds, commercial paper, medium terms notes and many more, 2 for less than 3 percent, 3 for 3 to 5 percent, 4 for more than 5 percent and 5 for floating rate of interest. Similar ranking was developed to represent data on bond rating where 1 for AAA (high class bond); 2 for AA; 3 for A; 4 for BBB and 5 for others (C and below which is classify as a speculative bond or junk bond).

3.2 Sampling and Data Collection

The sample of mixed 970 issuance Islamic and conventional bond had been randomly selected from the BNM bond info's website in Malaysia for eight conservative year's period from 2002 to 2009. For the purpose of collecting information on the bond facets, this study obtained data from the RAM where there are sufficient for gathering such data considering Islamic and conventional perspectives. Thompson's DataStream and Bloomberg were used to employ the data on firm's performance (N=966) i.e. return on assets (ROA), return on equity (ROE), operating profit margin (OPM), asset turnover (AT), book value (BV), net profit margin (NPM), fixed asset turnover (FAT), log sales (which is represent the size of firm), log debt to equity (LnDTE) and log debt to assets (LnDTA). The determination of the dependent variables mostly depends on these recent surges of studies done by Cantor and Packer (1995) on rated or non-rated securities affect default risk; Kaminsky and Schmukler (2002) on types of rating affect other asset and Gande and Parsley (2003) also on rating or bond grade effects yield or returns; Karmilla et. al. (2009) on various types of returns links to sukuk pricing and in details was mentioned sukuk issuer may devise sukuk pricing in setting returns to the holders in many ways. For example, sukuk issuer may introduce a variable returns to the holders of the certificates. A contrast to return factor which is focus on risk done by Khan and Ahmad (2001) identify various unique credit risks that are particular to Islamic finance. Sukuk issuances maneuver for the large fraction in emerging bond markets where posses less sophisticated risk management mechanisms counterparty. The rescheduling and rearrangement of bond issuances at higher markup rate is not permissible due to the prohibition of excessive interest rate charging or *riba*. Thus, counterparties would be more inclined to default on their commitments to other parties. In fact, agency costs are higher with regard to equity arrangements.

Next, the relationship between the bond facets and firms' performance will be estimated using the following regression equations:

$$ROA_i = \alpha + \beta_1(RATING_i) + \beta_2(ISSUE_i) + \beta_3(INST_i) + \beta_4(TENOR_i) + \beta_5(COUPON_i) + \varepsilon_i$$

$$ROE_i = \alpha + \beta_1(RATING_i) + \beta_2(ISSUE_i) + \beta_3(INST_i) + \beta_4(TENOR_i) + \beta_5(COUPON_i) + \varepsilon_i$$

$$OPM_i = \alpha + \beta_1(RATING_i) + \beta_2(ISSUE_i) + \beta_3(INST_i) + \beta_4(TENOR_i) + \beta_5(COUPON_i) + \varepsilon_i$$

$$AT_i = \alpha + \beta_1(RATING_i) + \beta_2(ISSUE_i) + \beta_3(INST_i) + \beta_4(TENOR_i) + \beta_5(COUPON_i) + \varepsilon_i$$

$$BV_i = \alpha + \beta_1(RATING_i) + \beta_2(ISSUE_i) + \beta_3(INST_i) + \beta_4(TENOR_i) + \beta_5(COUPON_i) + \varepsilon_i$$

$$NPM_i = \alpha + \beta_1(RATING_i) + \beta_2(ISSUE_i) + \beta_3(INST_i) + \beta_4(TENOR_i) + \beta_5(COUPON_i) + \varepsilon_i$$

$$FAT_i = \alpha + \beta_1(RATING_i) + \beta_2(ISSUE_i) + \beta_3(INST_i) + \beta_4(TENOR_i) + \beta_5(COUPON_i) + \varepsilon_i$$

$$LnSALES_i = \alpha + \beta_1(RATING_i) + \beta_2(ISSUE_i) + \beta_3(INST_i) + \beta_4(TENOR_i) + \beta_5(COUPON_i) + \varepsilon_i$$

$$LnDTE_i = \alpha + \beta_1(RATING_i) + \beta_2(ISSUE_i) + \beta_3(INST_i) + \beta_4(TENOR_i) + \beta_5(COUPON_i) + \varepsilon_i$$

$$LnDTA_i = \alpha + \beta_1(RATING_i) + \beta_2(ISSUE_i) + \beta_3(INST_i) + \beta_4(TENOR_i) + \beta_5(COUPON_i) + \varepsilon_i$$

Where α = the constant term,

β = the slope or coefficient estimates of the explanatory variables,

$RATING_i$ = the bond rating by the i th issuance,

$ISSUE_i$ = the size of issuance of the i th bond,

$INST_i$ = the types of instruments of the i th issuance,

$TENOR_i$ = the time to maturity period of the i th issuance,

$COUPON_i$ = the coupon rate of the i th bond, and

ε_i = the standard error of the i th bond.

4.0 RESULTS AND DISCUSSION

Table 1 revealed the minimum, maximum, mean and standard deviation of bond facets and firm's performance indicators. Amidst the period of studied (2002-2009), the minimum value of firm's performance is shown bad sign representing statistically negative value to all variables for instance ROA (-13.486), ROE (-134.283), OPM (-62.172), NPM (-106.753, LnDTE (-0.797) and LnDTA (-1.061). Otherwise, the maximum value indicates positive value to all. Nonetheless, the means value didn't show encouraging figure since ROE indicate negative and other ratios indicate low. Most of the bond issuance is sukuk or Islamic bond and represent high grade bond with the mean 2.315 means the bond rating is between AA to A.

The size of issuance value bond have been log due to thousand million figure issues by certain companies for examples Projek Lebuhraya Utara-Selatan Berhad (PLUS Bhd) on 27-Dec-2007 for RM3,550 million and Public Bank Berhad on 5-Jun-2009 for RM5,000 million. Statistics shown the maturity period of the bond or tenure indicate 100 years is the longest and less than a year for the short term bond with the mean of 7.105 years maturity period.

Bond coupon shows that majority of the issuance is zero coupon. It should be noted that government is a major player in Malaysian capital market which offered low rate to zero resulted to low standard deviation at 1.109 meaning bearing a low risk.

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Dev.
ROA	966	-13.486	44.909	2.011	7.415
ROE	966	-134.283	129.642	-8.703	52.619
OPM	966	-62.172	79.510	43.952	28.416
AT	966	.000	2.130	.307	.348
BV	966	.000	6.000	2.174	1.761
NPM	966	-106.753	59.688	3.595	46.879
FAT	966	.000	57.906	1.572	3.417
LnSALES	962	1.034	4.492	2.859	.608
LnDTE	947	-.797	2.524	1.940	.428
LnDTA	948	-1.061	5.253	1.665	.594
RATING	970	1.000	5.000	2.315	1.087
LnISSUANCE	970	3.602	9.892	6.828	1.105
INSTRUMENT	970	1.000	2.000	1.224	.417
TENURE	970	.000	100.000	7.105	5.589
COUPON	970	.000	6.000	1.408	1.109

Table 2 shows the result for the multiple regressions for all variables involved in the study. From the result we can see that bond rating and coupon have a statistically significant positive relationship with the ROA at 1 percent and 10 percent confidence level with P value of 9.047 and 2.505 respectively. Other bond facets such as issuance, instrument and tenure do not have significant value. Meaning that, H1 and H3 were rejected at this level. Similar evidence applied to ROE where only rating (P=13.047) and coupon (P=3.394) was shown significant positive relationship at 1 percent confidence level and the other explanatory variables are not. OPM shown significantly negative relationships with rating, instrument and coupon but tenure indicate positive and result was shown not significant with size of issuance. Surprisingly that AT and FAT were shown a significant result to all bond facets. This is, however, only 2 bond facets (rating and tenure) shown a significant positive result to NPM and the improvement of significant result for log Sales and log DTA with 4 and log DTE with 3 bond facets have a relationships. Thus, H2 and H4 were accepted. R-squared and adjusted R-squared for all firm's performance proxies indicate results between 0.083 to 0.398 and 0.079 to 0.395 respectively and therefore explaining a somewhat not strong relationship because only 8.3 to 39.8 percent

of the variation in firm's performance proxies is explained by the variation in the bond facets.

F-statistics had shown significant value for all variables at 1 percent confident level.

Table 2: Regression Results

Dependent	Constant	Rating	Issuance	Inst	Tenure	Coupon	R Square	Adj. R	F-value
ROA	-2.020	9.047	-.087	.029	-.285	2.505	0.109	0.104	23.452
	.044	.000***	.931	.977	.776	0.012*			.000***
ROE	-5.440	13.047	-.595	1.021	.322	3.394	0.214	0.210	52.353
	.000	.000***	.552	.308	.747	0.001***			.000***
OPM	16.399	-6.399	-.567	-9.336	8.409	-9.593	0.398	0.395	127.094
	.000	.000***	.571	.000***	.000***	.000***			.000***
AT	3.067	2.850	-4.321	9.409	-5.137	2.663	0.232	0.228	57.924
	.002	0.004**	.000***	.000***	.000***	0.008**			.000***
BV	-1.759	2.444	8.615	-7.264	-.898	3.460	0.083	0.079	17.469
	.079	0.015*	.000***	.000***	.369	0.001***			.000***
NPM	-2.173	12.993	-1.515	-.768	2.663	.868	0.185	0.181	43.518
	.030	.000***	.130	.443	0.008**	.385			.000***
FAT	-6.137	4.129	3.740	2.066	1.822	5.172	0.125	0.121	27.553
	.000	.000***	.000***	0.039**	0.069*	.000***			.000***
LnSALES	9.977	-7.954	13.859	-.990	-2.803	1.865	0.317	0.313	88.759
	.000	.000***	.000***	.322	0.005**	0.062*			.000***
LnDTA	25.309	-5.610	-.735	-2.393	2.215	-9.156	0.199	0.195	46.703
	.000	.000***	.462	0.017**	0.027**	.000***			.000***
LnDTE	13.192	-.158	3.003	-6.974	-3.002	-1.407	0.106	0.101	22.387
	.000	.874	0.003***	.000***	0.003***	.160			.000***

The results in the table 3 and 4 could be discuss together since the objective of this analysis done to occupy the 1st objective of this study, that is to analyze the performance of the company that issues Islamic bonds (sukuk) as compared to corporate bonds (conventional). Levene's test for equality of variances was shown a significant result to all the proxies explaining that there are significantly means different between issuance Islamic bonds (sukuk) with conventional bonds. Out of 966 issuance, a total of 753 issuance is sukuk and 213 issuance is conventional to represent data on firm's performance and 753 out of 970 is sukuk and remaining balance of 217 is conventional bonds representing bond facets.

Table 3: Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means					
								95% Confidence Interval of the Difference	
		F	Sig.	t	Sig.	Mean Diff.	Std. Error Diff.	Lower	Upper
ROA	Equal var. assumed	11.358	.001	-3.996	.000	-2.282	.571	-3.402	-1.161
	Equal var. not assumed			-4.240	.000	-2.282	.538	-3.340	-1.223
ROE	Equal var. assumed	157.975	.000	-6.413	.000	-25.659	4.001	-33.511	-17.807
	Equal var. not assumed			-10.455	.000	-25.659	2.454	-30.475	-20.843
OPM	Equal var. assumed	45.604	.000	18.872	.000	35.582	1.885	31.882	39.282
	Equal var. not assumed			19.433	.000	35.582	1.831	31.981	39.183
AT	Equal var. assumed	289.910	.000	-12.707	.000	-.317	.025	-.366	-.268
	Equal var. not assumed			-8.499	.000	-.317	.037	-.391	-.244
BV	Equal var. assumed	10.245	.001	2.521	.012	.344	.136	.076	.611
	Equal var. not assumed			2.877	.004	.344	.119	.109	.578
NPM	Equal var. assumed	163.028	.000	-2.407	.016	-8.737	3.629	-15.859	-1.615
	Equal var. not assumed			-4.080	.000	-8.737	2.141	-12.939	-4.535
FAT	Equal var. assumed	82.581	.000	-8.862	.000	-2.261	.255	-2.761	-1.760
	Equal var. not assumed			-5.790	.000	-2.261	.390	-3.030	-1.492
LnSALES	Equal var. assumed	5.681	.017	-5.513	.000	-.256	.047	-.348	-.165
	Equal var. not assumed			-5.080	.000	-.256	.050	-.356	-.157
LnDTE	Equal var. assumed	156.377	.000	9.355	.000	.305	.033	.241	.369
	Equal var. not assumed			6.242	.000	.305	.049	.209	.401
LnDTA	Equal var. assumed	9.517	.002	8.945	.000	.406	.045	.317	.495
	Equal var. not assumed			9.519	.000	.406	.043	.322	.490
RATING	Equal var. assumed	128.887	.000	-10.341	.000	-.822	.080	-.979	-.666
	Equal var. not assumed			-7.967	.000	-.822	.103	-1.026	-.619
LnISSU	Equal var. assumed	13.691	.000	-18.442	.000	-1.351	.073	-1.495	-1.208
	Equal var. not assumed			-17.125	.000	-1.351	.079	-1.507	-1.196
TENOR	Equal var. assumed	46.138	.000	1.294	.196	.557	.430	-.288	1.402
	Equal var. not assumed			.792	.429	.557	.703	-.828	1.942
COUPON	Equal var. assumed	266.868	.000	-9.634	.000	-.787	.082	-.947	-.627
	Equal var. not assumed			-7.098	.000	-.787	.111	-1.005	-.569

Results from independent sample T test in table 4 shown that conventional bonds (ROA=3.790) and (ROE=11.298) indicate higher mean as compared to Islamic bonds (ROA=1.508) and (ROE=11.298). However, inverse result shown to OPM where Islamic bonds (51.798) is higher mean than conventional (16.216). In terms of other proxies of firm's performance shown that conventional bonds indicate higher means except for OPM as mentioned. BV is important for the firms as a default risk benchmark (Hakim, S.R. and Shimko D., 1995). In general, default is caused by the firm's inability to meet its obligations in a required timely given. It can be

highlighted here; the firm's with issuance of Islamic bonds have many default risk cases as compared to conventional bonds issuances.

As regards on leverage performance, the lowest is better for the firm means that they bear a low risk in their financing. Result shows that conventional bonds have a lower means compared to Islamic bonds for both log DTA and log DTE. Islamic bonds indicate good rating offers to public listed issuer as compared to conventional bonds based on mean results of 2.131 (high grade of bonds with majority of AA class) instead of 2.954 (quite low grade, BBB class).

Size of issuance shown that conventional bond is higher means than Islamic bonds with value of 7.877 and 6.525 respectively. Albeit, the numbers of Islamic bond issuer is higher than conventional bonds but the total value in ringgit Malaysia shows that conventional bond issuance is higher. Therefore, a rise in the firm's debt may be interpreted as the beginning of more risky investment to follow and consequently, a large amount of bond issues a higher a risk bear in long term investment. This an empirical study only employ eight years period study is not enough to prove the long term investment managed by firms.

Result of coupon rate postulate that Islamic bonds issuance have better (lower mean = 1.231) than conventional bonds (higher mean = 2.018) where low coupon rate will be increase the price of the bond by theoretically and versed versa. It can be concluded that, H5 was accepted since Islamic Bonds indicate higher means than conventional bonds among public issuer in Malaysia.

Table 4: Group Statistics

	INSTRUMENT	N	Mean	Std. Dev.	Std. Error Mean
ROA	ISLAMIC BOND	753	1.508	7.518	.274
	CONVENTIONAL BOND	213	3.790	6.760	.463
ROE	ISLAMIC BOND	753	-14.361	57.532	2.097
	CONVENTIONAL BOND	213	11.298	18.617	1.276
OPM	ISLAMIC BOND	753	51.798	24.565	.895
	CONVENTIONAL BOND	213	16.216	23.311	1.597
AT	ISLAMIC BOND	753	.237	.231	.008
	CONVENTIONAL BOND	213	.555	.531	.036
BV	ISLAMIC BOND	753	2.249	1.835	.067
	CONVENTIONAL BOND	213	1.906	1.445	.099
NPM	ISLAMIC BOND	753	1.669	52.412	1.910
	CONVENTIONAL BOND	213	10.405	14.126	.968
FAT	ISLAMIC BOND	753	1.073	2.260	.082
	CONVENTIONAL BOND	213	3.334	5.570	.382
LnSALES	ISLAMIC BOND	749	2.802	.577	.021
	CONVENTIONAL BOND	213	3.058	.669	.046
LnDTE	ISLAMIC BOND	747	2.005	.303	.011
	CONVENTIONAL BOND	200	1.700	.673	.048
LnDTA	ISLAMIC BOND	748	1.751	.582	.021
	CONVENTIONAL BOND	200	1.345	.523	.037
RATING	ISLAMIC BOND	753	2.131	.878	.032
	CONVENTIONAL BOND	217	2.954	1.446	.098
LnISSUANCE	ISLAMIC BOND	753	6.525	.920	.034
	CONVENTIONAL BOND	217	7.877	1.052	.071
TENURE	ISLAMIC BOND	753	7.230	3.201	.117
	CONVENTIONAL BOND	217	6.673	10.209	.693
COUPON	ISLAMIC BOND	753	1.231	.862	.031
	CONVENTIONAL BOND	217	2.018	1.566	.106

5.0 CONCLUSION AND RECOMMENDATIONS

In this study, it can be concluded that majority of the issuances is Islamic bonds. This finding was proven by Muhammad and Adrian from Bank Negara Malaysia in their paper on corporate bond market in Malaysia (BIS papers No.26) p.126, Islamic capital market products have garnered universal acceptance as viable alternatives to conventional products where 49.4 percent of funds raised in the private debt securities (PDS) market in 2004 were through Islamic products. It also found evidence indicating that there is a relationship between bond facets with the AT and FAT. Almost all firms' performance proxies have shown a significant value with rating except for DTE imply that issuer should deeply considered bond rating in their future

issuances to tap the bond market at competitive rates. In Malaysia capital market, prior to July 2000 all corporate bond issues were subject to a mandatory minimum rating requirement of BBB or above, however this compliance rule was subsequently lifted. Overall multivariate regression shown that bond facets; size of issuance, instrument, tenure and coupon rate also significantly influenced the at least 5, 6, 7 and 8 out of 10 proxies of performance respectively. It was also found that there is a relationship between the variables despite the fact that the relationship was not a strong relationship as the value of R square is below 60%, consistent with suggestion made by Gompers et al. (2003). Again, this an empirical study only employ eight years period study is not enough to prove either Islamic or conventional bonds do performed better in the long term investment managed by firms. The study also believe that for future research, more sample period should be used.

REFERENCES

AAOIFI (2002), Investment Sukuk (Shar'iah Standard No. 18), Manama: Accounting and Auditing Organization for Islamic Financial Institutions.

Abdulkader Thomas. 2007. "Malaysia's Importance to the Sukuk Market": *March 2007 Report*. American Journal of Islamic Finance. ajif.org.LLC.

Al-Amine, M.B.M. (2001), "The Islamic Bond Market: Possibilities and Challenges", International Journal of Islamic Financial Services, vol. 3, No. 1.

Ali Arsalan Tariq, 2004. Managing Financial Risks of Sukuk Structures, M.Sc. International Banking. AA Tariq Copyright, Loughborough University, UK.

Al-Fairuzabadi (2007); Al-Qamus Al-Muhit; pp. 960.

Alvi, I.A. (2006), Increasing the Secondary Market for Sukuks: Overview and Considerations.

<http://www.iifm.net/IIFM%20Presentations.php>

Alvi, I.A. (2007), Need for a Global Unified Sukuk Market: Key Challenges & Role of Islamic Financial Institution. <http://www.iifm.net/IIFM%20Presentations.php>

Andreas Jobst, Peter Kunzel, Paul Mills, and Amadou Sy, 2008. Islamic Bond Issuance, What Sovereign Debt Managers Need to Know, IMF Policy Discussion Paper, IMF Policy Discussion Paper, July 2008

Bank Negara Malaysia (2007), Annual Report. Kuala Lumpur.

Clifford C. (2008); Introduction to Sukuk.

<http://www.cliffordchance.com/showimage/showimage.aspx?>

Emergingmarketsmonitor.com (2007), Indonesia: Rising deficit demands new bond strategy.

[http:// www.emergingmarketsmonitor.com](http://www.emergingmarketsmonitor.com)

Faisal Alshowaikh, CEO of Asian Finance Bank. 2008. "Overview of Malaysian Sukuk Market" Malaysia Islamic Financial Centre (MIF). Monthly bulletin on February 2008.

<http://www.MIFmonthly.com>

Gande, A. and Parsley, D.C.(2003); News Spillovers in the Sovereign Debt Market; Journal of Financial Economics, 75. pp 691-734.

Gompers, P. A., Ishii, J. L. and Metrick, A.(2003), Corporate Governance and Equity Prices. Quarterly Journal of Economics, Vol. 118, No. 1, pp. 107-155.

Hakim, S.R. and D. Shimko, D. (1995), The Impact of Firm's Characteristics on Junk-Bond Default; Journal of Financial and Strategic Decisions (Summer 1995)

Islamic Finance Information Service (IFIS). 2008. "Sukuk Issuance Continues to rise despite Slowdown". IFIS report on Sunday. February 10, 2008.
<http://www.tradingmarkets.com/.site/news/stock>

Kaminsky, G and Schmukler s.l, (2002); Emerging Market Instability: Do Sovereign Rating Affect Country Risk and Stock Returns?; World Bank Economic Review, 16. pp171-195.

Karmila H.K, Marliana A. and Abdul Ghafur, I (2009); Capital Adequacy Requirements for Sukuk; 1st Insaniah-IRTI International Conference on Islamic Economics, Banking and Finance; CD Preceeding.

Khan, Tariqullah and Habib, Ahmad (2001), Risk Management: An Analysis of Issues in the Islamic Financial Industry, Jeddah: IRTI Occasional Paper # 5.

Malaysia International Islamic Financial Centre-MIFC .2007. “Islamic Bonds/Sukuk Market”
<http://www.sc.com.my/eng/html/bondmkt/bonIsBonds.html>

Malaysian Rating Corporation Berhad (MARC) .2006. “Rating Approach To Sukuk Musyarakah Transactions”. MARC Report on February 2006. pp.1-6. <http://www.marc.com.my>

Manaf, I.A. (2007). Islamic bonds (sukuk): Its introduction and application.
<http://www.sebi.ac.id/>

Modigliani, M. & Miller, M.H. (1958). The Cost of Capital, Corporation Finance and The Theory of Investment. American Economic Review, 53, pp.261-297.

Mohd Izazee Ismail .2002. Rating Agency Malaysia Berhad (RAM). “Islamic Private Debt Securities: Issues & Challenges”. RAM report on March 2002.

Muhammad, I. and Adrian, W.; The Corporate Bond Market in Malaysia; BIS papers No.26, pp.114-128.

Noriza M.S, NorEdi A.M, Melinda M, and Mohd Nasir Y. (2009); The Performance of Sukuk Issuer in Malaysia; Proceeding of 2008 IBAF conference (USIM).

Rodney, W. (2008); Innovation in the Structuring of Islamic Sukuk Securities; International Journal of Systems and Ethics. Vol. 24 (2008) Issue 3rd July, pp.170-181.

Saiful A. R. & Mahmood M. S. (2008); The Application of Bay' Al-'Inah and Bay' Al-Dayn In, Malaysian Islamic Bonds: An Islamic Analysis, International Journal of Islamic Financial Services Vol. 1 No.2 Shariq Nisar .2008. "Islamic Bonds (Sukuk): Its Introduction and Applications". Finance in Islamic. <http://www.financeinislam.com/index.php>

Shahrim, Z. (2006), "Sukuk (Islamic bonds): A Malaysian perspective".

Stiglitz, J. E (1974). "On the Irrelevance of Corporate Financial Policy". American Economic Review, 64, pp.851-866.

Zeti Akhtar Aziz .2007. "The challenge for a global Islamic capital market – strategic developments in Malaysia". Keynote address Governor of the Central Bank of Malaysia, at the Sukuk Summit 2007. London. 20 June 2007.

Zeti Akhtar Aziz .2007. "Malaysia's experience in strengthening its market for global sukuk activities". Keynote address Governor of the Central Bank of Malaysia, at the 2nd Malaysian Islamic Finance – Issuers and Investors Forum 2007 "Malaysia as Global Sukuk Centre: Towards Greater Vibrancy of Malaysian Sukuk Market". Kuala Lumpur. 13 August 2007.