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Affected firms given 6 months to comply with new guideline

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PETALING JAYA: Shares in some of the biggest names on Bursa Malaysia, including SP Setia Bhd and Bumi Armada Bhd, may come under some pressure from funds that follow strict syariah investment guidelines after they failed to make the cut into Securities Commission's (SC) revamped list of syariah-compliant companies.

As of Aug 31, there were 176 Islamic-based equity investment funds with net asset value (NAV) of RM38.2bil or 11.8% of the combined NAV of RM323.8bil syariah-based and conventional-based funds.

The one of biggest Islamic fund manager in the country is Lembaga Tabung Haji.

A quick check showed that the pilgrim fund owns susbtantial stake in a number of companies that had been dropped from the new syariah counters. These includes an 8.8% in Malaysian Resourecs Corp Bhd, as well as in Konsortium Logistik Bhd and Ann Joo Resources Bhd.

Filings with Bursa showed that LTH added 134,600 shares in MRCB last Wednesday, before the updated list was released by the SC.

LTH had yet to respond *StarBiz* queries on Friday with regards to their position in these companies

Under the new revised syariah-compliant rules, the SC has added a financial ratio benchmark rules, in which companies' cash and debts in conventional accounts must be less than 33% of its total.

Meanwhile, in terms of revenue, the revised methodology also ask companies to comply with either 5% or 20% (depending on business activity) contribution of syariah non-compliant activities to the overall revenue.

There was a total of 158 counters dropped from the syariah-compliant securities list on Friday as the revised screening methodology for such securities came into force.

Islamic funds would have a six-month grace period to sell down their stakes in companies that were no longer classified as syariah-compliant, the SC said.

But they won't have to sell if the stock is below their cost of investment.

"We are aware of the new ruling to come in force in November and that we had made the necessary adjustments in our portfolio, but it didn't put us underwater," said Aberdeen Asset Management Sdn Bhd managing director Gerald Ambrose, who oversees US$1.7bil.

Its unit, Aberdeen Islamic Asset Management Sdn Bhd, has been managing syariah mandates for a number of years on a white label basis.

Ambrose said he had previously advised the companies that could be reclassified as non-syariah-compliant under the revamped guidelines to take the necessary actions to ensure that they remained in the updated list.

"Some of the companies have taken our advice, some don't really mind to be dropped out," he said.

Some analysts believed that adhering the SC's revised syariah guidelines should be a "relatively straightforward" process.

For companies with cash-to-asset ratio of more than one-third, they can shift some funds into Islamic deposit accounts, as long as the profit income do not exceed 5% of total group's revenue.

For companies with debt-to-asset ratio above 33%, they would need to convert some of those debts into Islamic debts.

The updated list, which takes effect on Nov 29, features a total of 653 syariah-compliant securities. These counters constitute 71% of the 914 listed securities on Bursa.

It excludes conventional financial institutions, and companies involved in gaming, tobacco and brewery.

Headline	Syariah list shake-up		
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Frequency	Weekly	PR Value	RM 4,353

Syariah list shake-up

A total of 148 companies have become non-syariah compliant counters under Securities Commission Malaysia's (SC) revised guidelines.

Among the companies that have been removed from the syariah-compliant list are Bumi Armada Bhd, S P Setia Bhd, AirAsia Bhd, Dutch Lady Milk Industries Bhd, YTL Power International Bhd, Berjaya Food Bhd and Scomi Engineering Bhd.

This is not because these companies ventured into non-halal activities such as gaming or selling alcoholic drinks. The reason could just be that more than one-third of their borrowings are non-Islamic.

Under the revised screening methodology, the SC's Shariah Advisory Council (SAC) has adopted a two-tier quantitative approach that applies business activity and financial ratio benchmarks. Under these, cash placed in conventional accounts and instruments and interest-bearing debt must be less than 33% of a company's financial position.

In a statement, the regulator says the revision has taken into consideration the rapid development of the Islamic finance industry in Malaysia since the syariah screening methodology was introduced in 1995.

The SC believes that the revision will potentially spur greater inflow of foreign Islamic funds into Malaysian syariah-compliant equities, thus expanding the Islamic capital market's global reach.

An influx of investment funds bodes well for the local equity market. However, is there really a need for such a harsh requirement? More importantly, will it eventually lead to fewer syariah-compliant counters? If that became the case, would Islamic funds still be keen on Bursa Malaysia?

It has yet to be seen if the revised syariah-compliant requirements will draw more Islamic funds to the local stock market. However, local Islamic-based funds, for example Lembaga Tabung Haji, are already feeling the heat as they have invested in some of the 148 counters that have now become non-syariah compliant. E