

MARKET REACTIONS TOWARDS THE ANNOUNCEMENT OF SUKUK ISSUANCE: EVIDENCE FROM GULF MARKETS

Auteur 1 : Nabil EL MAJDOUB

Nabil EL MAJDOUB

(PhD student)

¹ Hassan II University/Faculty of Legal, Economic and Social Sciences of Mohammedia.

n.elmajdoub@mail.com

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Abstract

Sukuk (Islamic bonds) emerged as a revolutionary financial instrument over the last years and is considered as the flagship capital market instrument of the Islamic finance industry. However, the understanding of it is still limited compared to conventional bonds. This study aims to investigate whether the announcements of *Sukuk* issuance that carry any new information can create impact on the market's reactions using 42 *Sukuk* announcements over the period of 2010 to 2019 in four Gulf financial markets. It is revealed the absenteeism of significant abnormal returns across asymmetric and symmetric event windows for periods before and after the announcement date, concluding no wealth effect. Within the equity marketplace, these results will be of practical relevance to corporations, practitioners and decision-makers.

Keywords: Islamic finance, *Sukuk*, Event study, GCC.

1. INTRODUCTION

Islamic finance refers to financial institutions and products designed to comply with the central tenets of *Sharia* (or Islamic legal code) and is one of the most rapidly growing segments of the global finance industry since the establishment of the first modern Islamic bank on 1975 in Dubai. Islamic Finance has extended dramatically to such an extent that it has become part of G20 agenda.¹ Indeed, many countries have been led to explore new sources of financing outside the conventional frameworks in order to improve their financial systems and to renew their dynamism.

While initially concentrated in the Middle East (particularly Bahrain) and South-East Asia (mainly Malaysia), Islamic finance principles are now increasingly found elsewhere. It is present in developing economies such as Iran and Sudan where the Islamic financial sector is the sole system or where Islamic and conventional financial systems coexist such as Malaysia and the United Arab Emirates (UAE). Besides these economies, Islamic finance also exists in developed economies in Europe and the United States where a number of Islamic financial institutions have been established and where large conventional banks have opened Islamic financing windows.

The concept of Islamic finance was brought into the discussion in 2008 during the global financial crisis. Some researchers stated that Islamic finance can be the alternative from conventional finance as “it was believed to possibly prevent financial crisis to re-occur or at least reduce the impact” (Wicaksono, 2015).

The expansion of Islamic financial institutions has been accompanied by parallel developments in Islamic financial products. Starting with simple prohibitions on usury, investment in alcohol, tobacco, prostitution, etc., “Islamic financial products now cover a broad range of financial services and for roughly all conventional financial products there is almost always an analogous Islamic finance product” (Gait et al., 2007).

As a result, Islamic Finance has registered an impressive growth with worldwide Islamic financial assets rising from US\$150 billion in the mid-1990s to US\$ 2.88 trillion by the end of 2019 (ICD, 2020). This remarkable growth was spurred not only by the proliferation of Islamic banking but also by the extensive development of *Sukuk*, the alternative mode of financing to

¹ G20 summit organized in Turkey in November 2015.

conventional bonds that is compliant with *Sharia*.

Sukuk is the flagship capital market instrument of the Islamic finance industry and has clearly emerged as a key capital market instrument used by issuers ranging from sovereigns, quasi-sovereigns, financial institutions and corporates for project financing and infrastructure purposes. The investor base is also expanding and *Sukuk* has now become popular and obvious choice for retail investors in a number of jurisdictions despite very challenging global economic environment.²

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) (2015) defines *Sukuk* as “certificates of equal value representing undivided shares in the ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity”.

Sukuk commonly refers to the Islamic equivalent of bonds. However, as opposed to conventional bonds, which merely confer ownership of a debt, *Sukuk* grants the investor a share of an asset, along with the commensurate cash flows and risk. As such, *Sukuk* securities adhere to *Sharia* principles, which prohibit the charging or payment of interest.³

The global *Sukuk* issuance has grown significantly since 2001 rising from US\$1 billion to more than US\$145 billion in 2019 which was a record of issuances.

The main purpose of this paper is to assess the effects of *Sukuk* offerings on shareholders' wealth by investigating how the stock market reacts to *Sukuk* issues' announcement. The timeframe of the study will be during 2009 to 2019. Actually, while the increasing use of *Sukuk* to raise capital has a positive effect on the Islamic capital market, its effect on shareholder wealth is unclear especially during periods of high financial market volatility.

To do this, the paper is organised as follows: Section 2 will focus on the concept of *Sukuk* and its different types and structures while Section 3 reviews the related literature. Section 4 will describe the data and methodology used in the paper as well as the results and findings of our study followed by a conclusion.

² International Islamic Financial Market (IIFM), 2016.

³ Definition from the General Development Bank website.

2. SUKUK SECURITIES

The growth of Islamic finance has expanded during the last decade, particularly in the areas of *Sukuk* which are often referred to as Islamic Bonds. *Sukuk* are relatively new assets in the Islamic finance and are gaining popularity as an alternative source of funding, particularly for sovereigns and corporate organizations. Their growth has been fuelled by strong demand in the global capital market for *Sharia*-compliant instruments.

2.1. Definition and requirements

Sukuk is the plural form of *sakk*, which in Arabic means legal instrument, deed, or cheque. AAOIFI (2015) defines *Sukuk* as “certificates of equal value representing undivided shares in the ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity”.

In a *Sukuk* transaction, the holders of *Sukuk* called *Sukuk*-holders earn profit rather than interest seeing that the outcome is generated by trading or real investment rather than simple lending. According to the International Monetary Fund (IMF), *Sukuk* is the most popular modern Islamic financial instrument (Jobst et al., 2008). It is also called an Islamic bond and has similarities with conventional bonds such as coupon, maturity, etc., but there are key differences between the two products explained in table 1 below.

Table 1: *Sukuk* vs Conventional bond

<i>Sukuk</i>	Conventional bond
Refers to ownership of an asset	Refers to a debt obligation
<i>Sukuk</i> are backed to assets that are compliant with <i>Sharia</i>	Bonds may be backed to assets that are prohibited by Islam
Pricing is based on the value of the assets backing <i>Sukuk</i>	Pricing is based on credit rating
<i>Sukuk</i> value can increase when the assets increase in value	Profits from bonds correspond to fixed interest (<i>Riba</i>)
The sale of <i>Sukuk</i> is the sale of ownership in the assets backing them	The sale of bonds is the sale of debt

Source : Tahmoures, 2013

2.2.Structures

AAOIFI has laid down 14 different types of *Sukuk* and a number of techniques that can be employed to structure a *Sukuk* transaction (Ainley et al., 2007). In practice, the more commonly encountered structures are *Sukuk Mudaraba*, *Sukuk Ijara*, *Sukuk Murabaha* and *Sukuk Musharaka*. These structures can be classified into two categories (Godlewski et al., 2014):

- equity-based *Sukuk* (*Sukuk Musharaka* and *Sukuk Mudaraba*): are partnership contracts in which the investor and the issuer share profits on the basis of pre-determined rates while losses are commensurate to their contribution to the partnership.
- debt-based *Sukuk* (*Sukuk Ijara* and *Sukuk Murabaha*): the *Sukuk* issuer pays a predetermined rate of return to investors.

2.3.Emergence and recent developments in *Sukuk* market

The Organisation of the Islamic Conference International Islamic Fiqh Academy (the Fiqh Academy),⁴ issued a statement in 1988 which was the basis for the development of the *Sukuk* market. It had stipulated that “any combination of assets (or the usufruct of such assets) can be represented in the form of written financial instruments which can be sold at a market price provided that the composition of the group of assets represented by the *Sukuk* consist of a majority of tangible assets.”⁵

The first *Sukuk* followed shortly after this statement, with Shell MDS in Malaysia issuing 125 million Malaysian Ringgit *Sukuk* in 1990. After this issuance, there were no other active issuances by other *Sukuk* issuers until the beginning of the 21st century (Saeed and Salah, 2014). The first international US dollar *Sukuk* was in 2001, with the Malaysian plantation company Kumpulan Guthrie issuing US\$150 million *Sukuk* while The Bahrain Monetary Authority (now the Central Bank of Bahrain) was the first government related entity to issue *Sukuk* in 2001. Several sovereign *Sukuk* followed, Malaysia, The State of Qatar, The Republic of Pakistan and

⁴ An academy for the advanced study of Islam based in Jeddah, Saudi Arabia.

⁵ Latham & Watkins, 2016.

The Emirate of Dubai, which garnered international attention for *Sukuk* and set the stage for unprecedented international growth.⁶

As shown in figure 1a, global *Sukuk* issuance has grown significantly since 2001 rising from US\$1 billion to a record of more than US\$145 billion in 2019. Compared to 2018, *Sukuk* issuance witnessed a gain in 2019 of more than 18% due to the positive outlook of the global economy.⁷

In 2019, the outstanding *Sukuk* issuances stood at US\$551 billion which indicate growing interest in *Sukuk* (see figure 1b).

Figure 1a: Total *Sukuk* issuances

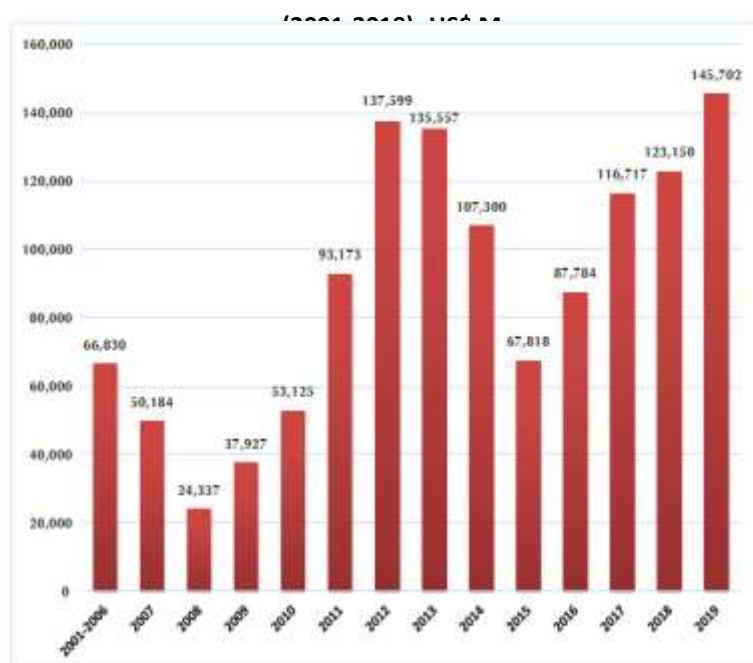
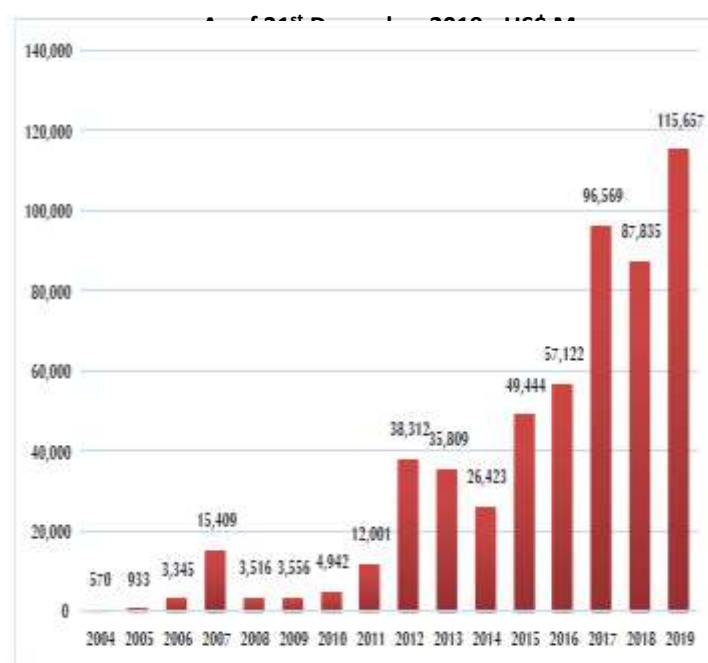


Figure 1b: Total *Sukuk* outstanding



Source : IIFM, 2020

3. LITERATURE REVIEW

Studies on *Sukuk* are relatively recent, as the first *Sukuk* issue did not occur until 1990 (Khiyar et al., 2014). Since that date, several authors have been conducted to analyze the differences existing between *Sukuk* and conventional bonds in particular with regard to the market reaction

⁶ Latham & Watkins, 2016.

⁷ IIFM 2020.

following the announcements of issue of these two instruments. Indeed, the link between Islamic finance and corporate finance is always an interesting topic in *Sukuk* literature but studies provide ambiguous results.

Ashhari et al. (2009) examined the impact of *Sukuk* and conventional bond announcements on shareholders' wealth for the period 2001 to 2006 using data for firms listed in Bursa Malaysia and an event window of 61 days. The results showed that only the *Sukuk* issue's announcement has an effect on shareholders' wealth. They also indicate that the bond offering size is a significant determinant of stock return for both *Sukuk* (negative) and conventional bonds (positive).

Ibrahim and Minai (2009) examined, for the period January 2000- June 2006, the wealth effects of *Sukuk* offerings and their determinants in Malaysia. Their results showed that the market reacts positively during event windows $[-3,0]$ and $[-3,3]$ surrounding the announcements of *Sukuk* issuance and indicated that the issuers' investment opportunity has a positive influence on the wealth effect of *Sukuk* issuance announcements while the issue and the firm sizes have a negative effect. According to the authors, these findings are attributed to a larger investor base for *Sukuk* relative to that of CB which creates cost advantages leading to a lower cost of capital. In another study, Ameer and Othman (2010) found significant negative abnormal returns near the announcement days and the responses are asymmetrical to different types of bonds issuance announcements in Malaysia over the period 2001-2007 while Modirzadehbami et al. (2011) reported a significant negative abnormal return that occurs one day before the announcement date in a sample of 45 listed Malaysian private sector companies that issued *Sukuk* during the period 2005-2008. The authors explained the results by market participant's adverse attitude toward Islamic private debt announcement during the research period.

Godlewski et al. (2011) investigated the reaction of Malaysian market investors to the announcements of *Sukuk* and conventional bond issues and found that the stock market reaction to announcement of *Sukuk* issues was negative while it was neutral to announcement on conventional bond issues. This result was explained by the huge demand for *Sukuk* and the adverse selection promoting the issuance of these certificates by lower-quality debtor firms.

For their part, Alam et al. (2013) examined the impact of *Sukuk* and conventional bonds announcement on shareholder wealth and their determinants using 79 *Sukuk* and 87 conventional bonds over the period of 2004–2012 in six developed Islamic financial markets and found that the markets react negatively to the announcement of *Sukuk* before and during

the 2007 financial crisis while they have a positive reaction to the announcement of conventional bond before the crisis and negative during and after it.

Nursilah and Syazwani (2013) investigated whether markets react asymmetrically to the issuance of selected *Sukuk* structures, namely *Ijara* (leasing) and *Musharaka* (profit-loss sharing), in Malaysia for the period 2008-2011. They use cumulative average abnormal returns on symmetric and asymmetric events based on the reaction of the FTSE Kuala Lumpur Composition Index to the announcement of *Sukuk* issuances. They conclude that markets react positively, significantly and both symmetrically and asymmetrically to *Sukuk* issuance.

Godlewski et al. (2014) found that the type of *Sukuk* as well as the quality of the scholars who have certified the compliance of the issue to *Sharia* principles are factors influencing the market valuation of the firm that issue these certificates.

Elian and Taft (2014) studied the stock exchange market reaction to corporate *Sukuk* offerings, using data for the Gulf Cooperation Council (GCC) region over the period 2004-2012. The study revealed insignificant results, including bounded asymmetric and symmetric event windows for periods before and after the announcement date, concluding no wealth effect of *Sukuk* issue's announcements.

Muzrifah et al. (2017) found that the effect of the announcement of *Sukuk* Issue is significantly negative a day before and on the announcement date and that there is a significantly positive reaction 30 days after the announcement of *Sukuk* issuance indicating that investors take a longer time to absorb the information from the *Sukuk* announcement.

Finally, Sherif and Erkol (2017) investigated the stock market reaction following the announcements of the issuance of 255 *Sukuk* compared to 205 conventional bonds of non-financial Malaysian firms between 2000 and 2015. They used standard event study methodology on fourteen event windows. Results showed an insignificant difference in the market reaction to fixed-rate *Sukuk* and fixed-rate conventional bond issuance announcements in the pre-crisis as well as the overall period. Findings showed also a highly significant difference in the stock market reaction to the issuance of the two types of bond in the post-global financial crisis period.

Since most of the studies mentioned above were only based on Malaysian sample, the results could not be generalized for the global Islamic financial market, that's why we focus our study on *Sukuk* samples from other markets particularly in three GCC countries (Saudi Arabia, Qatar and UAE).

4. EMPIRICAL ANALYSIS

The purpose of this study is to assess market reaction to announcements of Sukuk Issues. Actually, while the increasing use of *Sukuk* to raise capital has a positive effect on the Islamic capital market, its effect on shareholder wealth is unclear especially during periods of high financial market volatility. For this reason, we can assume that:

- H1: *Sukuk issues' announcements have no impact on the wealth of shareholders*

Subsequently, we propose to analyze the market reaction according to the structure of Sukuk. Indeed, we emphasized that equity-based Sukuk have been criticized in 2007 by Muhammad Taqi Usmani, a prominent Islamic finance expert, for not respecting Sharia principles. That leads us to assume that:

- H2: *the market reaction is different depending of the structure of the Sukuk (equity-based Sukuk may generate negative stock market reaction in comparison to debt-based ones).*

4.1.Data and methodology

To test our hypothesis, we use a sample of *Sukuk* issues undertaken by private companies listed in three developed Islamic financial markets: Saudi Arabia, Qatar and UAE. The analysis covers the period from January 2010 to December 2019. The objective is to investigate whether the announcements of Sukuk issuance that carry any new information can create impact on the market's reactions.

Data related to firms were extracted from DataStream Thomson Reuters and the website **www.investing.com** while data on announcements were extracted from two principal websites: **http://www.gulfbase.com/** and **http://www.reuters.com/**.

The net sample size is determined by available information on all requested variables, especially closing stock prices for corporations issuing debt and synchronized market index closing prices. We only select issues with value higher than US\$100 Million and tenor of more than one year. Our final sample comprises 42 announcements corresponding to 46 issues as presented in appendix.

The most suitable empirical analysis for this study is the event study methodology. An event study is an empirical analysis that examines the impact of a significant catalyst occurrence or contingent event on the value of a security, such as company stock (Hayes, 2020). Nowadays, this technique is widely used in corporate finance research (Beigi et al., 2013).

We use event study methodology and market model to calculate the abnormal returns (AR) around announcement of *Sukuk*.

$$AR_{i,t} = R_{i,t} - (\alpha_i + \beta_i R_{m,t}) \quad (1)$$

Where $AR_{i,t}$ is the abnormal returns on stock i during period t , $R_{i,t}$ is the observed returns on stock i during period t , $R_{m,t}$ is the market portfolio returns in period t , α_i is the constant average return of stock i and β_i is the beta estimate of stock i . α_i and β_i are estimated using market model:

$$R_{i,t} = \alpha_i + \beta_i R_{m,t} + \mu_{i,t} \quad (2)$$

Then, the abnormal returns observed for all of the firms on each day of the event window are then aggregated and divided by the number of observations to obtain average abnormal return (AAR):

$$AAR_{i,t} = \frac{1}{N} \sum_{i=1}^N AR_{i,t} \quad (3)$$

A simple test for testing $H_0: AAR=0$ is given by:

$$t AAR_t = \sqrt{N} \frac{AAR_t}{\delta AAR_t} \quad (4)$$

where δAAR_t is the standard deviation across firms at time t :

$$\delta^2 AAR_t = \frac{1}{N-1} \sum_{i=1}^N (AR_{i,t} - AAR_t)^2 \quad (5)$$

To observe the cumulative effects, the cumulative average abnormal returns ($CAAR_{-t_1, +t_2}$) are computed as below:

$$CAAR_{t_1 t_2} = \sum_{t=t_1}^{t=t_2} AAR_t \quad (6)$$

The announcement day (day 0) is defined as the day the bond offering was first make known to the public. We estimate market model parameters over the period (-150, -21). This screening reduces the sample size to companies that have at least 130 days of stock returns. We examine one-day [0,0], three-days [-1,+1], five-days [-2,+2], seven days [-3,+3], eleven days [-5,+5], twenty-one days [-10,+10], thirty-one days [-15,+15] and [-20,+20] forty-one days' event windows and calculate AAR and CAAR.

⁸ In each country, the main stock market index represents national market index.

We also use asymmetric event windows: four-day [-1,+2] and [-2,+1], sixteen days [-10,+5] and [-5,+10], twenty-one days [-15,+5] and [-5,+15], twenty-six days [-10,+15] and [-15,+10], thirty-one days [-20,+10] and [-10,+20]. Indeed, financial markets in emerging countries are not expected to be as efficient as those in developed economies, so there could be a leakage of information when new *Sukuk* are issued. As such, it is possible that abnormal returns are realized prior to the announcement date (Nursilah & Syazwani, 2015).

Afterwards, a simple test is undertaken to test $H_0: CAAR=0$:

$$t_{CAAR} = \sqrt{N} \frac{CAAR}{\delta CAAR} \quad (7)$$

where $\delta CAAR$ is standard deviation of the cumulative abnormal returns across the sample:

$$\delta^2 CAAR = \frac{1}{N-1} \sum_{i=1}^N (CAR_i - CAAR)^2 \quad (8)$$

4.2. Results and discussion

Table 2 shows sample composition by issuer country and type of *Sukuk* (debt based (*Ijara* and *Murabaha*) or equity based (*Mudaraba*)). In terms of the origin of the issuer country, firms from UAE represent the majority of our sample (almost 57%). Major *Sukuk* types in our sample are of *Ijara* (61%) followed by *Mudaraba* (21%) and *Murabaha* types (17%). Thus, debt-based *Sukuk* account for 78% of the sample.

Table 2: Composition of the sample

Country \ Sukuk Type	Equity based	Debt Based	
	Mudaraba	Ijara	Murabaha
Saudi Arabia	3	11	2
UAE	4	16	5
Qatar	3	1	1
Total	10	36	

Source : Author's calculation

The results of the event study methodology are presented in Table 3. It demonstrates a summary

of CAAR computed and their t-statistics for the overall period (2010-2019).

Table 3: Summary of CAARs for each event window

Event window	Measures	Sukuk (42)*	Country		
			UAE	KSA	Qatar
(0,0)	CAAR	-0,28%	-0,42%	-0,24%	0,04%
	t(CAAR)	-1,4446	-1,5888	-0,5880	0,1454
	<i>p value</i>	0,1562	0,1258	0,5674	0,8914
(-1,1)	CAAR	-0,39%	-0,88%	0,00%	0,57%
	t(CAAR)	-0,8804	-1,3207	-0,0006	1,4123
	<i>p value</i>	0,3838	0,1996	0,9995	0,2307
(-2,2)	CAAR	-0,62%	-0,97%	-0,27%	-0,42%
	t(CAAR)	-1,2031	-1,6311	-0,3256	-0,4722
	<i>p value</i>	0,2358	0,1105	0,7503	0,6614
(-3,3)	CAAR	-0,38%	-0,79%	0,31%	-0,21%
	t(CAAR)	-0,6890	-1,0134	0,3104	-0,2260
	<i>p value</i>	0,4947	0,3214	0,7616	0,8323
(-5,5)	CAAR	0,06%	-0,63%	1,41%	-0,09%
	t(CAAR)	0,0929	-0,6662	1,1718	-0,0650
	<i>p value</i>	0,9264	0,5119	0,2640	0,9513
(-10,10)	CAAR	-1,01%	-2,41%	1,49%	-0,78%
	t(CAAR)	-1,1842	-1,9118	1,3707	-0,4553
	<i>p value</i>	0,2432	0,0684 **	0,1956	0,6725
(-15,15)	CAAR	-0,39%	-1,21%	1,57%	-1,53%
	t(CAAR)	-0,3456	-0,7892	0,8185	-0,4801
	<i>p value</i>	0,7314	0,4381	0,4291	0,6562
(-20,20)	CAAR	-1,64%	-2,92%	1,21%	-2,89%
	t(CAAR)	-1,3686	-1,6939	0,6378	-1,1815
	<i>p value</i>	0,1786	0,1038	0,5356	0,3029
(-1,2)	CAAR	-0,43%	-0,88%	0,10%	-0,01%
	t(CAAR)	-0,8491	-1,1305	0,1192	-0,0123
	<i>p value</i>	0,4008	0,2699	0,9071	0,9908
(-2,1)	CAAR	-0,58%	-0,96%	-0,37%	0,16%
	t(CAAR)	-1,2103	-1,3613	-0,4292	0,3287
	<i>p value</i>	0,2331	0,1866	0,6754	0,7588

(-5,10)	CAAR	-0,77%	-2,01%	1,02%	0,56%
	t(CAAR)	-0,9453	-1,7315	0,8342	0,3158
	p value	0,3500	0,0968 **	0,4205	0,7680
(-10,5)	CAAR	-0,18%	-1,03%	1,87%	-1,43%
	t(CAAR)	-0,2380	-1,0136	1,3851	-0,9923
	p value	0,8131	0,3213	0,1912	0,3772
(-5,15)	CAAR	-0,02%	-1,24%	2,08%	0,38%
	t(CAAR)	-0,0223	-0,9366	1,1268	0,1788
	p value	0,9823	0,3587	0,2819	0,8668
(-15,5)	CAAR	-0,30%	-0,60%	0,90%	-2,00%
	t(CAAR)	-0,3429	-0,5287	0,5220	-0,8190
	p value	0,7334	0,6021	0,6112	0,4588
(-10,15)	CAAR	-0,26%	-1,64%	2,54%	-0,96%
	t(CAAR)	-0,2577	-1,1576	1,4808	-0,4441
	p value	0,7979	0,2589	0,1644	0,6799
(-15,10)	CAAR	-1,13%	-1,98%	0,52%	-1,35%
	t(CAAR)	-1,2097	-1,4534	0,3879	-0,4949
	p value	0,2333	0,1596	0,7049	0,6466
(-20,10)	CAAR	-1,59%	-2,73%	0,41%	-1,29%
	t(CAAR)	-1,4965	-1,7328	0,2851	-0,4608
	p value	0,1422	0,0965 **	0,7804	0,6689
(-10,20)	CAAR	-1,06%	-2,60%	2,29%	-2,38%
	t(CAAR)	-1,0108	-1,8185	1,2703	-1,3930
	p value	0,3180	0,0820 **	0,2281	0,2360

* Number of announcements

**significant at 10% level

Source : Author's calculation

Across all event windows, we notice that all computed CAARs are negative except only 1 event window that show positive CAAR (-5,5). However, the CAAR p-values indicate insignificant results, including asymmetric and symmetric event windows for periods before and after the announcement date.

By country, CAAR are mostly negative across all the event windows but are insignificant except in the case of UAE where CAAR are negative and significant in 4 event windows namely [(-10,10),(-5,10),(-20,10),(-10,20)].

To determine the effect of type of *Sukuk* on the stock market reaction, we computed CAAR depending on *Sukuk* structure (equity-based or debt-based). The results are presented in Table 4 below.

Out of 51 days, debt-based Sukuk (Ijara and Murabaha) show in 90% of event windows negative CAAR. However, these results are insignificants except in 4 event windows. Besides, CAARs of equity-based Sukuk (Mudaraba) are mostly positives but insignificants.

Table 4: Summary of CAARs for each Sukuk structure

Event window	Measures	Sukuk Type		
		Mudaraba	Ijara	Murabaha
(0,0)	CAAR	-0,77%	-0,11%	-0,30%
	t(CAAR)	-2,0082	-0,3920	-1,0891
	<i>p value</i>	0,0755 **	0,6987	0,3122
(-1,1)	CAAR	-0,60%	-0,35%	-0,49%
	t(CAAR)	-1,5528	-0,4913	-0,4900
	<i>p value</i>	0,1549	0,6279	0,6391
(-2,2)	CAAR	-0,21%	-0,59%	-1,58%
	t(CAAR)	-0,3931	-0,7195	-1,4451
	<i>p value</i>	0,7034	0,4791	0,1917
(-3,3)	CAAR	0,15%	-0,27%	-1,36%
	t(CAAR)	0,5245	-0,3099	-1,1794
	<i>p value</i>	0,6126	0,7595	0,2768
(-5,5)	CAAR	0,32%	0,53%	-1,66%
	t(CAAR)	0,5164	0,4999	-1,1711
	<i>p value</i>	0,6180	0,6219	0,2799
(-10,10)	CAAR	-0,06%	-0,63%	-3,32%
	t(CAAR)	-0,1173	-0,4615	-2,1298
	<i>p value</i>	0,9092	0,6487	0,0707 **
(-15,15)	CAAR	1,61%	-0,19%	-3,48%
	t(CAAR)	0,9305	-0,1124	-1,7781
	<i>p value</i>	0,3764	0,9115	0,1186
(-20,20)	CAAR	0,04%	-1,56%	-4,00%
	t(CAAR)	0,0356	-0,8323	-1,6329
	<i>p value</i>	0,9723	0,4138	0,1465
(-1,2)	CAAR	-0,36%	-0,30%	-1,15%
	t(CAAR)	-0,6607	-0,3867	-0,8790
	<i>p value</i>	0,5253	0,7025	0,4085
(-2,1)	CAAR	-0,45%	-0,64%	-0,92%
	t(CAAR)	-1,1364	-0,7955	-1,1742
	<i>p value</i>	0,2851	0,4345	0,2787

(-5,10)	CAAR	-0,31%	-0,36%	-2,54%
	t(CAAR)	-0,3324	-0,2810	-1,9450
	p value	0,7472	0,7812	0,0928 **
(-10,5)	CAAR	0,57%	0,26%	-2,44%
	t(CAAR)	1,8193	0,2179	-1,6970
	p value	0,1022	0,8294	0,1335
(-5,15)	CAAR	0,88%	0,35%	-2,26%
	t(CAAR)	0,5270	0,2297	-1,5199
	p value	0,6109	0,8204	0,1723
(-15,5)	CAAR	1,05%	0,00%	-2,87%
	t(CAAR)	1,7160	-0,0031	-1,7229
	p value	0,1203	0,9976	0,1286
(-10,15)	CAAR	1,13%	0,08%	-3,04%
	t(CAAR)	0,8327	0,0496	-1,7342
	p value	0,4266	0,9608	0,1265
(-15,10)	CAAR	0,42%	-0,90%	-3,76%
	t(CAAR)	0,4809	-0,6138	-2,1796
	p value	0,6421	0,5454	0,0657 **
(-20,10)	CAAR	0,27%	-1,42%	-4,39%
	t(CAAR)	0,3088	-0,8644	-2,0172
	p value	0,7645	0,3963	0,0835 **
(-10,20)	CAAR	-0,29%	-0,77%	-2,93%
	t(CAAR)	-0,2753	-0,4511	-1,6100
	p value	0,7893	0,6561	0,1514

* Number of announcements

**significant at 10%

Source : Author's calculation

level

Therefore, an important conclusion at this stage is the insignificant negative market reaction to Sukuk issuance within the three countries, suggesting that announcing additional debt issues may be interpreted as a negative signal causing adverse selection problems (asymmetric information) between market participants. This finding is in contrast with the results of the study conducted by Ashhari et al. (2009) that found a wealth effect on the Islamic bond issues in Malaysia for the period 2001 to 2006. However, it generally validates the results suggested by Godlewski et al. (2011), which states that negative market reactions to debt announcements may be explained by two factors:

- more debt would cause higher levels of credit as well as bankruptcy risks;

- Agency costs that results from the conflicts of interest between shareholders and debtholders that may enhance moral hazard behavior, which can be perceived negatively by stock markets.

In other words, debt announcements may send negative credibility signals regarding the quality of the issuing firm, thus causing adverse selection problems (asymmetric information) between market participants and leading to higher agency costs—and hence adverse stock market reactions.

A second reason that might explain this insignificant negative market reaction in the GCC countries is the controversy regarding Sukuk compliance with Sharia principles that leads to limited investor base. Similarities between Sukuk and conventional bonds actually reduce investor belief in Sukuk as a pure Islamic finance security (Elian et al., 2014). As a point of illustration, in 2007, Muhammad Taqi Usmani, Chairman of the *Sharia* Board of AAOIFI criticised a number of *Sukuk* structures used in the market, in particular *Mudaraba* and *Musharaka* for not being *Sharia*-compliant.

The other reason that might explain these results would be attributed to the investors increased awareness regarding Islamic bonds features having in common with equity which is in line with the study conducted by Modirzadehbami et al. (2011). In fact, Sukuk cannot be classified exclusively as debt because it has common features with stocks. Therefore, considering the similarities between Sukuk and equity, negative market reaction to Sukuk offering can be explained by relying on the results of prior studies on the negative impact of equity announcement on the stock return suggesting that Firm value is negatively affected by the issue of convertible bonds (Abhyankar et al., 1999).

5. CONCLUSION

This research sets out to determine the stock market reaction to announcements of Sukuk in GCC countries. We use the event study methodology to a sample of companies in three major GCC stock markets namely KSA, Qatar and UAE. Our findings support the view that stock markets react negatively to Sukuk Issue's announcements even though the reaction is mostly insignificant. We attribute this result to three potential reasons.

Firstly, the issue of additional debt may be interpreted as a negative signal due to the belief that more debt would cause greater moral hazard. This belief leads to higher agency costs—and hence adverse stock market reactions.

A second potential justification for the low wealth effect of Sukuk issuance announcements is that GCC region suffers smaller investor bases for Sukuk due to the fact that these securities are still controversial in regard to compliance with Sharia principles. In other words, the features that Sukuk have in common with conventional bonds reduce the belief in Sukuk as a pure Islamic finance security causing a lower investor base for Sukuk which leads to no significant wealth effect.

A third possible reason may be attributed to the investors increased awareness regarding Islamic bonds features having in common with equity.

The results of this study contribute to understand the implications of *Sukuk* issuance and then of the expansion of *Sukuk* markets and may be useful for investors and regulators. However, other determinants could be taken into consideration in future researches such as: Sukuk characteristics (Coupon, maturity, rating, Scholars' Certification...), types of issuers (sectors, rating...), quality of accounting information disclosure...

APPENDIX

Sukuk announcements (42 announcements corresponding to 46 issues)

Company name	Index	Issue size	Currency	Value in USD	Type	Date of announcement	Date of issue	Country
Dubai Islamic Bank (DIB)	DFM GI	750 000 000,00	USD	750 000 000,00	Ijara	07/11/2019	20/11/2019	UAE
Emaar Properties	DFM GI	500 000 000,00	USD	500 000 000,00	Murabaha	03/09/2019	17/09/2019	UAE
Dubai Islamic Bank (DIB)	DFM GI	750 000 000,00	USD	750 000 000,00	Mudarabah	16/01/2019	22/01/2019	UAE
Aldar Properties	ADX General	500 000 000,00	USD	500 000 000,00	Murabaha	10/09/2018	01/10/2018	UAE
DANA GAS	ADX General	530 000 000,00	USD	530 000 000,00	Ijara	13/08/2018	13/08/2018	UAE
Abu Dhabi Islamic Bank (ADIB)	ADX General	750 000 000,00	USD	750 000 000,00	Mudarabah	09/08/2018	20/09/2018	UAE
Sharjah Islamic Bank (SIB)	ADX General	500 000 000,00	USD	500 000 000,00	Ijara	02/04/2018	18/04/2018	UAE
Dar Al Arkan	TASI	600 000 000,00	USD	600 000 000,00	Ijara	02/10/2019	15/10/2019	Saudi Arabia
Saudi Telecom	TASI	1 250 000 000,00	USD	1 250 000 000,00	Mudarabah	25/04/2019	13/05/2019	Saudi Arabia

ALMARAI	TASI	500 000 000,00	US D	500 000 000,00	Murabaha	19/02/2019	05/03/201 9	Saudi Arabia
DAMAC PROPERTI ES	DFM GI	400 000 000,00	US D	400 000 000,00	Ijara	01/04/2018	18/04/201 8	UAE
Dubai Islamic Bank (DIB)	DFM GI	1 000 000 000,00	US D	1 000 000 000,00	Ijara	24/01/2018	06/02/201 8	UAE
DAMAC PROPERTI ES	DFM GI	500 000 000,00	US D	500 000 000,00	Ijara	10/04/2017	20/04/201 7	UAE
Dar Al Arkan	TASI	500 000 000,00	US D	500 000 000,00	Ijara	08/03/2018	21/03/201 8	Saudi Arabia
Riyad Bank	TASI	4 000 000 000,00	SA R	1 070 000 000,00	Murabaha	05/05/2015	24/06/201 5	Saudi Arabia
Dubai Islamic Bank (DIB)	DFM GI	1 000 000 000,00	US D	1 000 000 000,00	Ijara	01/02/2017	14/02/201 7	UAE
Emaar Properties	DFM GI	750 000 000,00	US D	750 000 000,00	Murabaha	07/09/2016	15/09/201 6	UAE
DP WORLD	DFM GI	1 200 000 000,00	US D	1 200 000 000,00	Murabaha	16/05/2016	31/05/201 6	UAE
Dubai Islamic Bank (DIB)	DFM GI	750 000 000,00	US D	750 000 000,00	Ijara	18/05/2015	03/06/201 5	UAE
Sharjah Islamic Bank (SIB)	ADX Gener al	500 000 000,00	US D	500 000 000,00	Ijara	03/03/2015	17/03/201 5	UAE
Aldar Properties	ADX Gener al	750 000 000,00	US D	750 000 000,00	Ijara	19/11/2013	03/12/201 3	UAE

Abu Dhabi Islamic Bank (ADIB)	ADX General	1 000 000 000,00	USD	1 000 000 000,00	Mudarabah	30/10/2012	19/11/2012	UAE
Emaar Properties	DFM GI	500 000 000,00	USD	500 000 000,00	Ijara	10/07/2012	18/07/2012	UAE
Dubai Islamic Bank (DIB)	DFM GI	500 000 000,00	USD	500 000 000,00	Ijara	08/05/2012	30/05/2012	UAE
Abu Dhabi Islamic Bank (ADIB)	ADX General	500 000 000,00	USD	500 000 000,00	Ijara	22/11/2011	30/11/2011	UAE
Abu Dhabi Commercial Bank (ADCB)	ADX General	500 000 000,00	USD	500 000 000,00	Mudarabah	09/11/2011	22/11/2011	UAE
National Petrochemical CO PETROCHEM	TASI	1 200 000 000,00	SAR	320 000 000,00	Ijara	02/06/2014	23/06/2014	Saudi Arabia
Ooredoo QSC	QE General	1 250 000 000,00	USD	1 250 000 000,00	Murabaha	20/11/2013	03/12/2013	Qatar
Qatar Islamic Bank (QIB)	QE General	750 000 000,00	USD	750 000 000,00	Ijara	23/09/2010	07/10/2010	Qatar
Qatar Islamic Bank (QIB)	QE General	750 000 000,00	USD	750 000 000,00	Mudarabah	17/09/2012	10/10/2012	Qatar

Qatar Islamic Bank (QIB)	QE General	750 000 000,00	US D	750 000 000,00	Mudarabah	14/10/2015	27/10/2015 5	Qatar
Qatar Islamic Bank (QIB)	QE General	750 000 000,00	US D	750 000 000,00	Mudarabah	12/05/2017	23/05/2017 7	Qatar
Banquet Saudi France (BSF)	TASI	2 000 000 000,00	SAR	533 000 000,00	Ijara	13/05/2014	18/06/2014 4	Saudi Arabia
Saudi Electricity Company SECO	TASI	1 500 000 000,00	US D	1 500 000 000,00	Ijara	02/01/2014	01/04/2014 4	Saudi Arabia
Saudi Electricity Company SECO	TASI	1 000 000 000,00	US D	1 000 000 000,00	Ijara	02/01/2014	01/04/2014 4	Saudi Arabia
Saudi Electricity Company SECO	TASI	4 500 000 000,00	SAR	1 200 000 000,00	Ijara	14/11/2013	30/01/2014 4	Saudi Arabia
Saudi Electricity Company SECO	TASI	1 000 000 000,00	US D	1 000 000 000,00	Ijara	17/03/2013	08/04/2013 3	Saudi Arabia
Saudi Electricity Company SECO	TASI	1 000 000 000,00	US D	1 000 000 000,00	Ijara	17/03/2013	08/04/2013 3	Saudi Arabia
Banquet Saudi	TASI	1 900 000 000,00	SAR	507 000 000,00	Mudarabah	13/10/2012	18/12/2012 2	Saudi Arabia

France (BSF)								
Saudi Electricity Company SECO	TASI	1 250 000 000,00	US D	1 250 000 000,00	Ijara	20/03/2012	04/04/2012	Saudi Arabia
Saudi Electricity Company SECO	TASI	500 000 000,00	US D	500 000 000,00	Ijara	20/03/2012	04/04/2012	Saudi Arabia
Saudi International Petrochemical Cry SIPCHEM	TASI	1 800 000 000,00	SAR	480 000 000,00	Mudarabah	14/12/2010	06/07/2011	Saudi Arabia
Abu Dhabi National Energy Co. (TAQA)	ADX General	650 000 000,00	MYR	215 000 000,00	Murabaha	03/10/2011	26/02/2012	UAE
Sharjah Islamic Bank (SIB)	ADX General	400 000 000,00	US D	400 000 000,00	Ijara	03/05/2011	25/05/2011	UAE
Sharjah Islamic Bank (SIB)	ADX General	400 000 000,00	US D	400 000 000,00	Ijara	03/05/2011	26/05/2011	UAE
Emaar Properties	DFM GI	500 000 000,00	US D	500 000 000,00	Ijara	18/01/2011	03/08/2011	UAE

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