

WORLD / MIDDLE EAST

# GCC capital markets hope for watershed year

John Everington | 4/10/2021 12:13 pm



After a period of decline and delisting for the region's exchanges — apart from Saudi Arabia — hopes are now high of a rebound.



Two years after the listing of shares in Saudi Aramco made headlines around the world, Middle Eastern equity markets are once again in the spotlight. With Covid-19 lockdowns and a collapse in oil prices, 2020 was the slowest year since 2016 for new listings on primary bourses in the Arabian Gulf, with just six companies coming to market across the region, according to data compiled by PwC.

A year later, with Covid-19 infection rates falling and oil prices approaching three-year highs, 2021 is set to be remembered as a watershed year for the region, with initial public offerings (IPOs) likely to raise more money than in any year since at least 2018 (excluding the one-off impact of the Aramco sale).

In late September, Saudi renewables firm ACWA Power priced the country's largest IPO since Aramco, raising \$1.2bn and valuing the company at \$10.9bn.

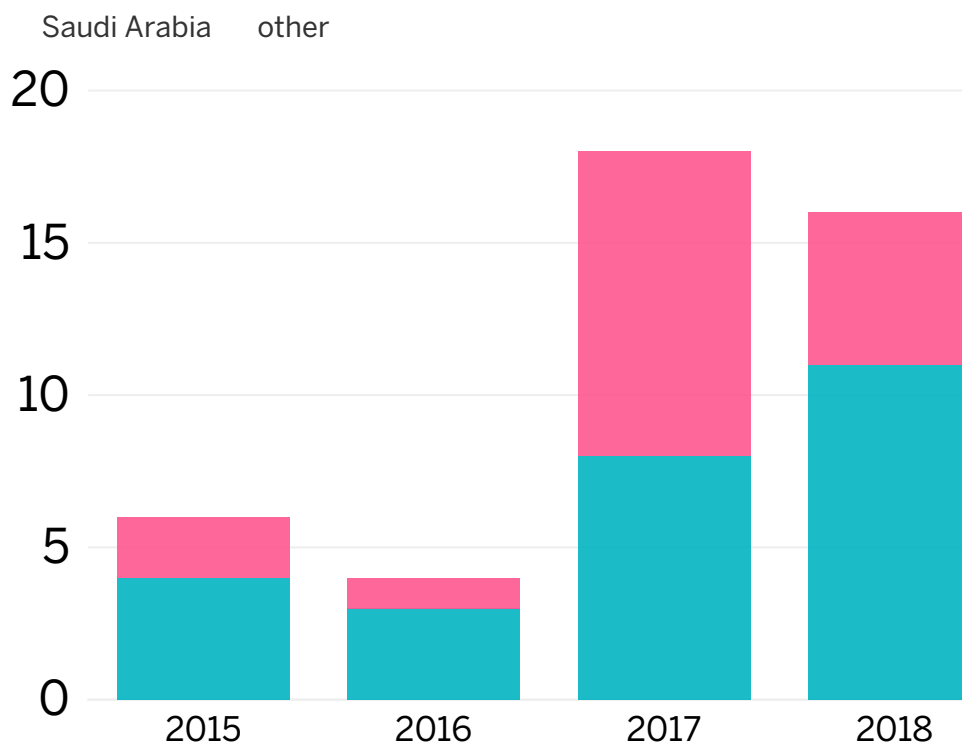
## UAE bounceback

Of greater significance perhaps is a flurry of activity in the United Arab Emirates (UAE), which included market reforms and high-profile forthcoming listings on the Abu Dhabi Securities Exchange (ADX), the largest of the country's three main bourses.

The drilling arm of the Abu Dhabi National Oil Company (Adnoc Drilling) is one of a series of high-profile state assets being offered to investors in 2021 on the ADX. The pace of activity in Abu Dhabi this year is particularly noteworthy given the absence of listing activity in the past six years, during which time just one company – Adnoc Drilling's sister company Adnoc Distribution – has listed.

With the notable exception of Saudi Arabia, such inactivity has been a common theme across the Arabian Gulf. While 35 companies listed on the primary exchange of the Saudi Exchange (Tadawul) between 2015 and 2020, the remainder of the region saw just 23 listings over the same period, according to PwC.

## Number of primary listings on GCC stock exchanges



Source: PwC

Furthermore, there have been several high-profile delistings in the region in the past 18 months, at a time when investors have been looking for greater depth in regional stock markets.

“Saudi Arabia has been far more proactive than other countries in the region when it comes to putting in place the markets infrastructure to enable such listings, and also leaning on both the public and private sector to bring such companies to market,” a senior Gulf-based asset management professional, who asked not to be named, told *The Banker*.

“There has been a lot of pressure at the ministerial level to push such things through. We just haven't seen that level of commitment elsewhere in the region until quite recently.”

While initiatives such as those undertaken by the Abu Dhabi authorities may broaden local markets' investor appeal, questions remain as to whether they are sufficient to attract new listings from the region's family-run investment companies and a new generation of fast-growing tech start-ups.

"We probably haven't seen the last of the delistings on local markets, but there are a lot of IPOs in the pipeline in the region," says Wissam Haddad, head of investment banking and real estate at SICO in Bahrain. "Saudi Arabia is going to be the main driver of listings for some time to come."

## Saudi's privatisation vision

While Saudi Arabia's stock market has been the largest in the region for many years, equity markets in the country have seen particularly rapid development following the 2016 launch of Vision 2030, the country's ambitious economic and social development programme. The privatisation of state assets is a cornerstone of the plan.

Underlining this point was the announcement in January 2016 by crown prince Mohammed bin Salman of plans to list shares in Saudi Aramco, the national oil company and prize state asset, thought at the time to be the world's largest private company. The announcement stunned global markets, and sparked frenzied competition among New York, London and other international stock exchanges to host part of the offering.



## THERE ARE BIG COSTS TO DOING AN IPO, SO GOVERNMENTS HAVE TO PROVE TO OTHERS THAT THE BENEFITS OUTWEIGH THOSE COSTS

### Wissam Haddad, SICO



Eventually listing only on the Tadawul, the sale of a 1.5% stake in the company raised a record \$25.6bn, comfortably outstripping the 2014 sale of shares in Chinese e-commerce giant Alibaba to become the world's largest IPO.

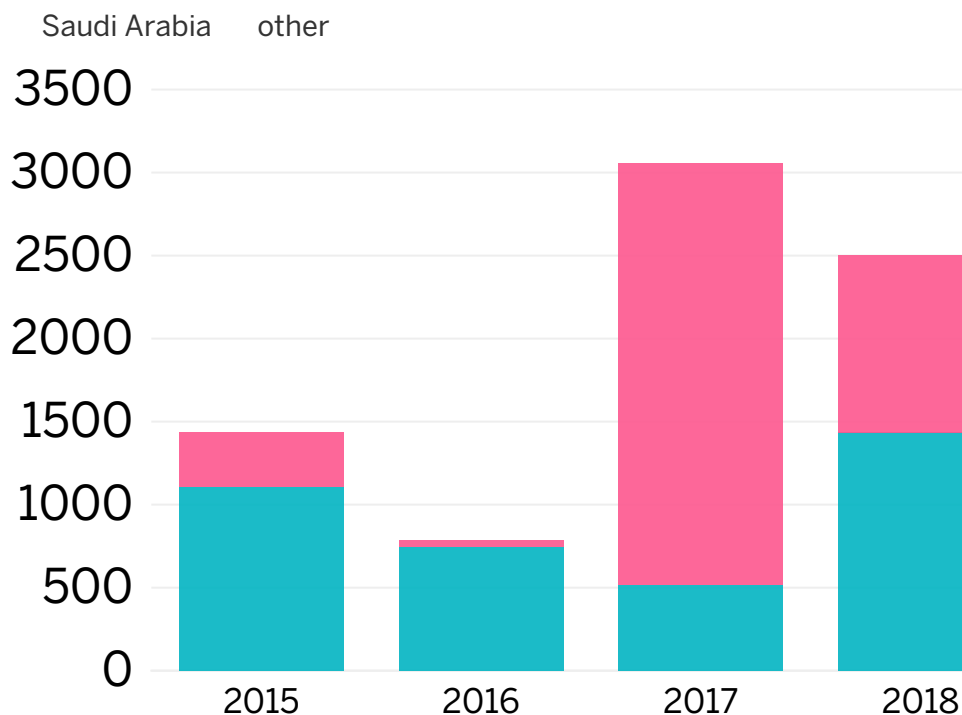
In the run-up to hosting the IPO, the Tadawul and the country's Capital Markets Authority (CMA) enacted several regulatory reforms. These saw the relaxation of restrictions on foreign ownership, with Saudi stocks subsequently included in the MSCI and FTSE's heavily tracked emerging market indices.

Three of 2021's listings on the Tadawul are: Theeb Rent A Car, Alkhorayef Water and Power Technologies and Tanmiah Food. Each issue raised just more than \$100m, with all three offerings heavily oversubscribed. They have already been eclipsed, however, by the listings of Solutions by STC — the digital solutions arm of local telco STC — and ACWA Power, the country's renewable energy giant.

Solutions by STC, which was spun off from Saudi Telecom, received CMA approval for an offering of 20% of its share capital in late June. The share sale was priced at SR151 (\$40) per share — top of an indicative range — in mid-September, eventually raising \$966m. The order book was 130 times oversubscribed during the book-building process. Shares surged 30% on their first day of trading.

## Value of primary listings on GCC stock exchanges (excluding Saudi Aramco)

\$m



Source: PwC

Perhaps even more significant is the sale of an 11.1% stake in renewables giant ACWA Power — which is 50% owned by Saudi's sovereign wealth fund, the Public Investment Fund — formally announced in early September. While not on the same scale as Aramco, demand for the shares has been sky high; the listing drew SR1.127tn (\$300.4bn)-worth of orders from institutional investors, 248 times what was offered by the company.

Unsurprisingly, the sale was priced at the top of the company's indicative price range, raising \$1.2bn and making it the largest IPO in the Middle East since the Aramco listing in 2019.

### UAE bourses struggle

The Tadawul's success at hosting listings stands in stark contrast with other exchanges in the region; only Oman's Muscat Securities Market has hosted more than five listings on its primary market between January 2015 and June 2021, its 11 IPOs raising an average of just \$48m, according to data from PwC.

Of particular note is the dearth of listings in the UAE, the region's second largest economy and its hub for international business for the past 20 years. While the country's stocks are also included in the FTSE and MSCI emerging market indices, its three stock exchanges — the ADX, the Dubai Financial Market (DFM) and Nasdaq Dubai — did not host any new offerings between 2017 and 2020. This dry spell was finally broken with the Dh350m (\$95m) listing of Al Mal Capital Real Estate Investment Trust on the DFM in January.

Making matters worse has been the departure of high-profile names from Dubai indices. Emaar Properties, the real estate developer behind Dubai's landmark Burj Khalifa, said in March it planned to take private its subsidiary Emaar Malls, which listed on the DFM in 2014.

June then saw the announcement of a plan by Dubai-based billionaire Hussain Sajwani, owner of Dubai-based real estate developer Damac Properties, to take the company private via a takeover by Maple Invest, a British Virgin Islands company also owned by Mr Sajwani. The announcement ironically came as Dubai property prices began to recover after several years of decline. The proposal is currently under review by the UAE's Securities and Commodities Authority.

DXB Entertainment, the operator of Dubai-based theme parks Motiongate and Legoland, was taken private in June by its majority shareholder Meeras Holding, after visitor numbers fell short of expectations. Last year, ports operator DP World, the largest listed company on the Nasdaq Dubai, was taken private by the Dubai government.

## Domestic issues?

While the announcements of the various delistings, accompanied by the imminent departure of asset manager Investcorp from the Bahrain Stock Exchange, have all come within a relatively short period of time, observers have downplayed the suggestion that systemic issues with local markets contributed to companies' decisions to delist.

Analysts have suggested that Dubai real estate companies are trading at a discount to the average price-to-earnings of the wider market, making going private an attractive option.



Wissam Haddad, SICO

“For Damac, I’m sure that the strategic investor, Hussain Sajwani, understands that the intrinsic value of the company is higher than the share price,” Tariq Qaqish, chief executive of Salt Fund Placement in Dubai, told Reuters.

DXB Entertainment, meanwhile, was at a disadvantage, having sold shares on the DFM in 2014, two years before its resorts opened their doors to customers.

“For a greenfield company to list its shares even before it was operational was a highly unusual move,” says SICO’s Mr Haddad. “It was a wide-reaching project with a lot of ambitions that didn’t pan out in the early stages, due to factors such as Covid-19, lower oil prices and lower tourist numbers from key visitor destinations like Russia.”

Yet the departure of big names does not bode well for exchanges when few new companies are coming in to replace them, particularly with the relative lack of diversity in UAE markets.

“On the DFM, just four stocks account for 67% of the index, while for the ADX it’s only three,” said the Gulf-based asset manager. “By contrast it’s just 38% in Saudi Arabia, even when you include Aramco — meaning you have a very long tail of large stocks to invest in across 10 to 15 sectors.”

## **Abu Dhabi bounces back**

Faced with such challenges, authorities in Abu Dhabi have taken decisive action. Marking its 20th year of operations in 2021, the ADX unveiled its ‘ADX One’ strategy in January, with a bold plan to double its market capitalisation (which stood at Dh750bn at the end of 2020) within three years.

The following month saw the exchange, which is owned by state holding company ADQ, announce a cut in transaction fees on all trading activities from 0.225% to 0.175%. Plans have also been announced for a derivatives market, in collaboration with Nasdaq, to be launched before the end of 2021.

Crucially, government-owned entities have announced plans for several listings of key assets, with the ADX set to experience its busiest year for IPOs in at least a decade.

First came June’s announcement of the sale of a 40% stake in Abu Dhabi-based satellite operator Yahsat by Abu Dhabi’s Mubadala Investment Company, the first major IPO on the bourse since the listing of Adnoc Distribution in 2017. Pricing at the top end of the indicative range, the offering raised Dh2.68bn. The same month saw the listing of investment firm Alpha Dhabi Holding, a subsidiary of ADX-listed IHC.

In September came the announcement of the listing of a minimum 7.5% stake in Adnoc Drilling, the region’s largest national oil drilling company by rig count. Adnoc announced a fixed price of Dh2.30 per share, valuing the company at \$10bn. The offering, finalised in late September, saw it sell an 11% stake for \$1.1bn, with shares set to begin trading on the ADX in early October.

September also saw ADQ, ADX’s owner, reveal its intention to sell a yet-to-be-determined number of shares in free zone and ports operator Abu Dhabi Ports by the end of the year.

Mubadala is said to be considering an IPO of Emirates Global Aluminium, the country’s largest non-energy industrial firm, according to reports by Bloomberg. The news agency also reported in September that Adnoc and chemical producer OCI plan to list shares in their fertiliser joint venture Fertiglabe as early as October.

## **Broadening appeal**

The roster of new listings — together with some smaller listings on the ADX’s secondary market — appears to represent a concerted effort by authorities to broaden the exchange’s appeal to foreign investors in particular. “This looks like a coordinated effort by the Abu Dhabi authorities to get the ADX back on the move, and even position itself as an alternative to what’s happening in Saudi on the Tadawul,” says the senior Gulf-based asset manager.

“You can see that the government has gone for assets that have a natural demand from overseas investors, as there’s certainly going to be plenty of demand for shares in Adnoc Drilling and companies like Emirates Aluminium. They feed into the global energy story rather than a real-estate story in Dubai, which is going to be more local in its appeal.”

For now, the sale of strategic assets by government entities is key to building market momentum, which may in turn prompt hitherto reluctant private sector entities (notably large family-run investment firms) to come to market as well.

“If governments in the region can produce a number of successful listings — ones that lead to a rise in share prices and generate a sufficiently diverse class of shareholders — then you may start to see other listings from family companies and other private companies,” says Mr Haddad at SICO. “There are big costs to doing an IPO, not to mention ongoing compliance and regulatory requirements, so governments have to prove to others that the benefits outweigh those costs by getting these big sales right.”

## Herding unicorns

One key test will be whether local exchanges can persuade local tech unicorns to shun options such as New York or London and list their shares in the region. Despite Solutions by STC raising money via its Tadawul offering, the majority of regional tech players that have not gone down the private funding route have so far looked elsewhere for equity issues.

Network International, the payments subsidiary of Emirates NBD, Dubai’s largest bank by assets, chose London for its 2019 listing. The following year, Dubai-based social networking platform Yalla became the first UAE tech firm to list on the New York Stock Exchange, raising \$139.5m via the sale of 18.5 million American depositary shares.

Most recently, Anghami, the Middle East’s largest music streaming platform, announced in March it was going public on the Nasdaq in New York via a merger with Vistas Media Acquisition Company, valuing the company at \$220m.

The preference thus far for overseas listings stems from the ongoing perception that Middle Eastern investors are still hesitant when it comes to the new class of tech start-ups.

“There’s a new class of more sophisticated Middle Eastern investor emerging, but still the majority investors in this region don’t understand such companies in the way that international investors do,” says the Gulf-based asset manager. “Ultimately, if you’re a company like Anghami, at this point you’re still going to be looking for international funding rather than local funding, which is why I suspect it chose the route that it did.”

Yet as quality listings increase in number and regional investor sophistication grows, local tech unicorns are likely to consider regional listings more seriously.

“Investors ultimately need to be connected somehow to the businesses that are coming to market,” says Mr Haddad. “Most of these rapidly growing companies are still, at the end of the day, regional entities, meaning that even if you list in a place like New York you’d ultimately be selling to investors in the region. Going forward, local exchanges can deliver enough value for such listings, and are starting to attract international capital.”



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