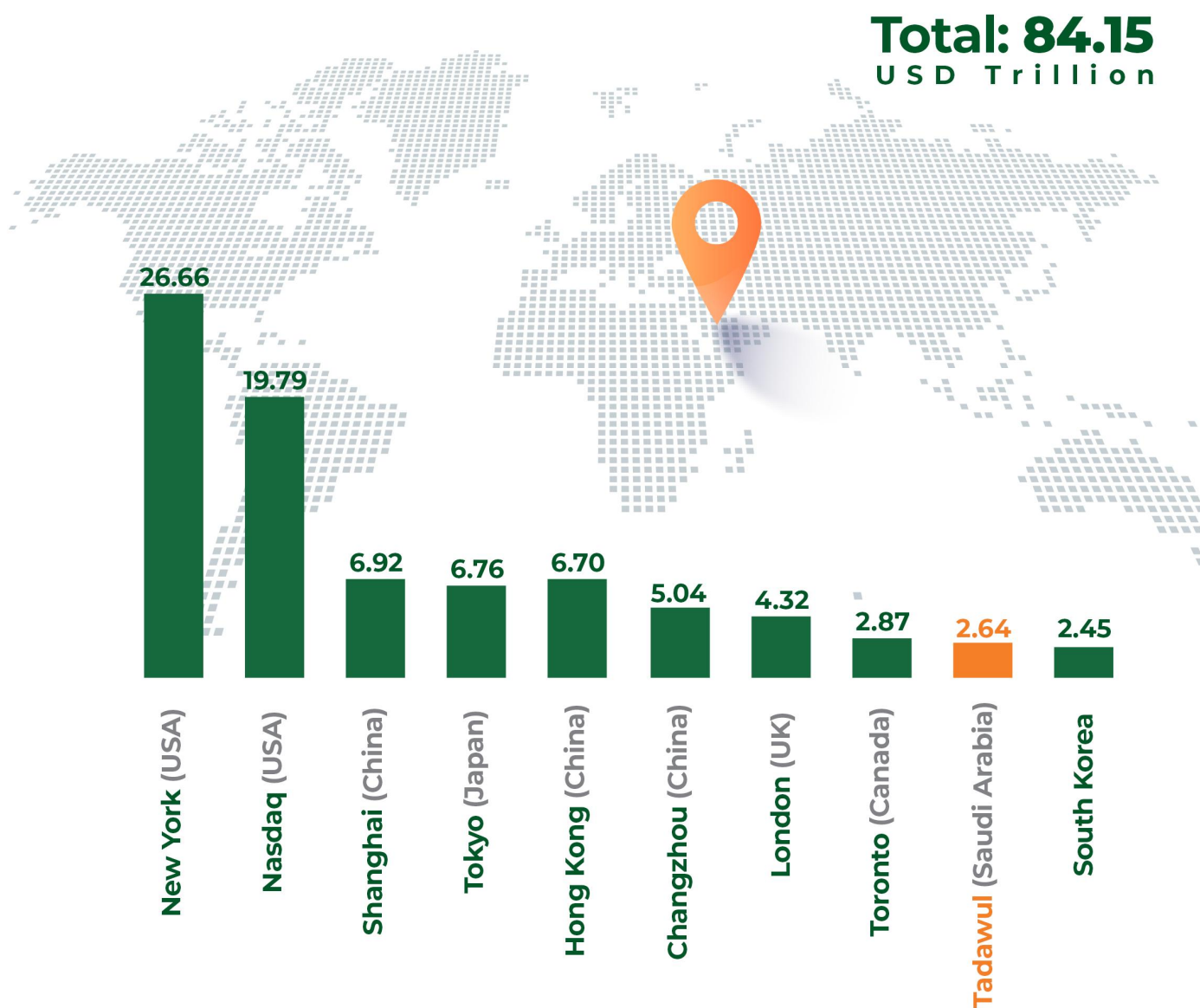




# Saudi Arabia is Dominating MENA IPO Market

Saudi Arabia has been the best performing of all the emerging markets since the onset of the pandemic. The market capitalization of Saudi Arabia's Tadawul Exchange grew 24.2% annually to reach \$3.19 trillion in the first quarter of 2022, as it continues to have increased momentum. Saudi Arabia has also been seeing growing interest for IPO issuances and topped the GCC in terms of the number of listings in 2021, where it accounted for 57% of IPOs in the region by numbers and generating 60% of the proceeds. This rise in IPOs in the Kingdom, not only reflects the efforts the country is exerting to strengthen the economy as part of its Vision 2030 but also emphasizes the Kingdom's success in recovering from the pandemic, especially with the increased interest and participation of foreign investors.



Top 10 Stocks Exchange in the World (March 2021)



# IPO Boom in the MENA Region

- The recent movements in oil prices are fueling an IPO boom in the MENA region in 2022, helping it to surpass the European IPO market for the second time since the global financial crisis. The only other time that MENA IPOs have exceeded those in Europe since 2009 was in 2019 when Saudi Aramco completed the world's biggest-ever IPO.
- Russia's invasion of Ukraine and higher interest rates have put a lid on listings in all countries, but the Gulf has so far avoided most of the volatility and global investors have flocked to offerings in the region. For example, Aramco posted its highest profit since its record stock market listing after oil prices jumped in the wake of the Ukraine war. This was also combined with supportive regional regulatory actions as well as a shift in investor sentiment back towards MENA markets.

• In Q1 2022, MENA Region saw a 400% Y-o-Y increase in the number of firms listing with **15 IPOs** raising proceeds of **\$4 billion**, a jump of **1,242%** in value when compared to the same period in 2021. In contrast, global IPO volumes during Q1 2022 fell 37%, with proceeds down by 51% year-on-year. The year's biggest IPOs in value in MENA in 2021 were in the utilities, energy and financial services sectors, with Saudi Arabia's International Company for Water and Power Projects (ACWA Power Company) leading with proceeds of US\$1.21 billion on the Tadawul.

MENA IPOs in H1 (to 30 June 2021)



- Saudi Arabia's Riyadh Bank has taken the top spot this quarter in Bloomberg's IPO league table for Europe, the Middle East, and Africa, which is usually dominated by US and European institutions.

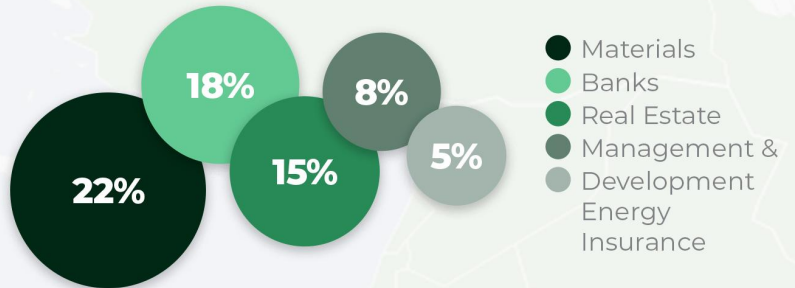
# Saudi Arabia is “The Middle East’s Biggest IPO Market”

• Saudi companies raised almost \$9.3bn from share offerings in 2021, making it one of the most active IPO markets in the Middle East and Africa, according to data compiled by Bloomberg.

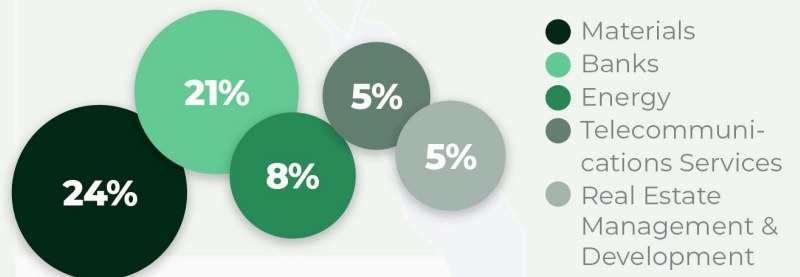
• Saudi Arabia topped the region in terms of IPO issuances in 2021. There were 20 public listings of Saudi companies (9 on Tadawul and 11 on Nomu).

• Saudi Arabia dominated listings activity in Q1 2022 with 6 IPOs on Taawul’s Main Market and 7 IPOs on the Nomu-Parallel Market, for a total of 13 IPOs raising US\$ 3.9 billion in proceeds.

• The largest IPO during Q1 2022 for the MENA region was in Saudi Arabia, with Al Nahdi Medical Co. raising US\$1.38 billion in the Kingdom’s biggest IPO since Saudi Aramco’s listing in 2019. Saudi Arabia’s digital security firm Elm Information Security Company had the second biggest IPO of the quarter, raising US\$819 million in proceeds.



Top 5 Industry Groups Traded By Volume - Q1 2022



Top 5 Industry Groups Traded By Value - Q1 2022

Source: Saudi Tadawul Group

• According to Tarek Fadlallah, chief executive officer of Nomura Asset Management, Middle East, “Sentiment in Saudi Arabia is bullish due to brisk economic activity, sequential gains in corporate profits, lucrative IPO activity, a strong real estate market, and very high oil prices.”

• The IPO pipeline remains strong, as the Tadawul Group chief executive announced 50 applications had been received for listing in 2022, out of which 20-25% are for main board listings.

• Tadawul is currently focusing on providing listed companies with new financing tools such as debt instruments to offer more options to clients with varied returns and risk.

## Aramco Case: **أرامكو السعودية** saudi aramco

Saudi Aramco went public with the world’s largest-ever IPO in 2019, with shares surging more than 15% in two days of trading and giving the state oil giant a valuation of \$2 trillion, which at the time became the world’s most valuable publicly-traded company. The world’s biggest IPO increases the market size of Saudi Arabia’s Tadawul exchange by 370%, making it the seventh-biggest stock market in the world as it overtakes Canada, Germany and India, according to Bloomberg.



# Saudi Arabia has been Positioning itself as an Attractive Destination for Investors

Tadawul supports the Vision 2030 goals by increasing the private sector's contribution to the economy, diversifying the economy through reduction of dependence on oil, drawing in more foreign investment and growing the SME sector. Making Saudi Arabia a more investor-friendly entity has been a national priority. Some of the changes that support such initiative include: setting up a dedicated team that caters to international investors, asset managers, index providers, and brokers, in addition to managing international outreach efforts. The Exchange also plans to expand its team to operate in international locations, starting in London later this year.

The stock market is now structured to provide the facilities entrepreneurs and investors need, while the bureaucracy is being streamlined to make the process of conducting business easier. Although officials are mostly emphasizing non-oil-related projects in high-tech, mining and tourism, the reality is that Saudi Arabia is likely to continue growing in industries where it has a natural advantage.

Accordingly, there has been a big increase in the number of qualified foreign investors in Saudi Arabia, reaching more than 2500 investors in early July 2021 and continues to grow weekly. Since the implementation of Tadawul's Qualified Foreign Investor program in June 2015, their ownership reached a total of **\$60.9 billion** as of the end of August 2021. Most investment currently comes from the UK, Europe, and the US, and efforts to increase Asian participation are underway.





# Capital Market Authority (CMA) Initiatives

CMA's strategic plan 2021–2023 includes several initiatives focused on improving market attractiveness, increasing transparency in the financial market and raising investor awareness. The authority aims to list 68 new companies between 2021 and 2023. Moreover, CMA is focused on increasing institutional investor turnover to 41% of the total market turnover (36% in FY19) by FY23. These efforts would encourage investment in the capital market and make it more efficient.

Furthermore, to encourage private sector companies to list on Saudi Exchange, some incentives have been provided to the listed companies in cooperation with CMA and different government organizations. Below are some important incentives provided to the listed companies:



Increased loan limits by Saudi Industrial Development Fund



Facilitated approval process to register joint ventures with foreign partners



Increased funding percentage and credit service limits for each customer



Fast-track service from General Authority for Zakat, Tax, and Customs Authority (ZATCA) to cater to requests from listed companies



Preference in business and government procurement (under competition and government procurement rule)



Higher funding limits for projects in health, education, and real estate development (Mega Projects)



Preferential interest rate on long-term project finances up to SAR 500mn for a single project, and up to SAR 1bn for multiple projects

# Saudi-Family Businesses are Positively Responding to this IPO Boom

Saudi family-owned companies have been long reluctant to opening their books to external shareholders, but now they are lining up to list stakes as the country's stock market booms. Saudi Arabia's private sector is driven by family businesses, and Covid-19 did affect a lot of them, with many facing liquidity crunch. This has made them realize that the best way to quickly access liquidity is monetizing shares. Also, they realized that such move will institutionalize the business from a governance and sustainability perspective while helping the company to diversify their capital for growth. That's why many of them are now looking to raise cash from their established businesses while equity valuations are high and IPOs are being massively oversubscribed.

Almunajem, one of Saudi Arabia's largest food companies, in December, 2021 became one such company to list on Tadawul, while the exchange was on a multiyear high. It offered a 30% stake which raised around \$300m. Other family companies that listed last year include Theeb Rent a Car and Alkhorayef Water and Power Technologies. The most notable one was retail pharmacy chain Nahdi Medical Co that jumped 15% in its Riyadh debut on 22 March, 2022 after a \$1.4 billion IPO, marking the biggest listing in Europe, the Middle East, and Africa in 2022.



**CMA Chairman Mohammed El-Kuwaiz**, pointed out that 30% of family businesses avoid public offering due to a fear of losing control of the company.





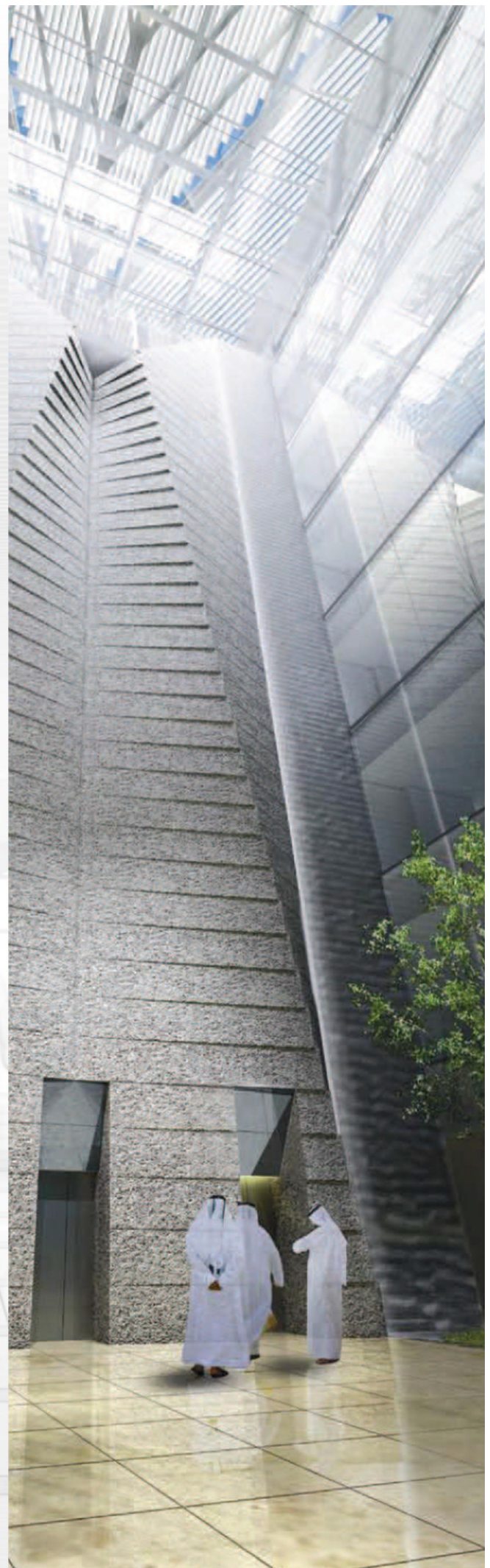
# The Future Outlook

MENA region's capital markets have rebounded, yet the mid-to-long-term outlook remains somewhat uncertain, particularly in the context of rising interest rates, high inflation and global geopolitical tensions. According to **Gregory Hughes, EY MENA IPO and Transaction Diligence Leader**, "When we consider that a great number of state-owned entities have announced their listing plans, and recent MENA listings have been so heavily oversubscribed, we are quite clearly moving through a period of high demand and strong investor sentiment. Key question remains as to whether there is sufficient liquidity in the regional markets to cover the expected pipeline of large government backed IPOs in the near term."

According to **HSBC's Samer Deghaili, Regional Head of Capital Markets**, "Many large emerging market funds and even the traditional asset managers today are focusing on Saudi Arabia and UAE stories, where, two or three years ago, they would not really be looking at this side of the world as they saw growth in Brazil or in China. Today, that growth is being delivered to them in our markets."

Also, Saudi Arabia's stock exchange launched futures trading on single stocks on July 4, 2022, amid efforts to bolster liquidity and lure investors into the region's biggest stock market. A single-stock future is a type of futures contract between two parties to exchange a specified number of stocks in a company for a price agreed today with delivery occurring at a specified future date. The move will "enable local and international investors to hedge and manage portfolio risks more effectively as well as diversify products available for trading and hedging in the market," **Tadawul** said in a statement.

So, although the war has hit equity markets across the world resulting in several issuers now looking at postponing their market entry, the Gulf markets so far have remained resilient. The current pipeline of IPOs suggests investors can expect multiple new offerings in the next few quarters and the trend is likely to continue, as market optimism would continue to encourage new listings in the Kingdom.

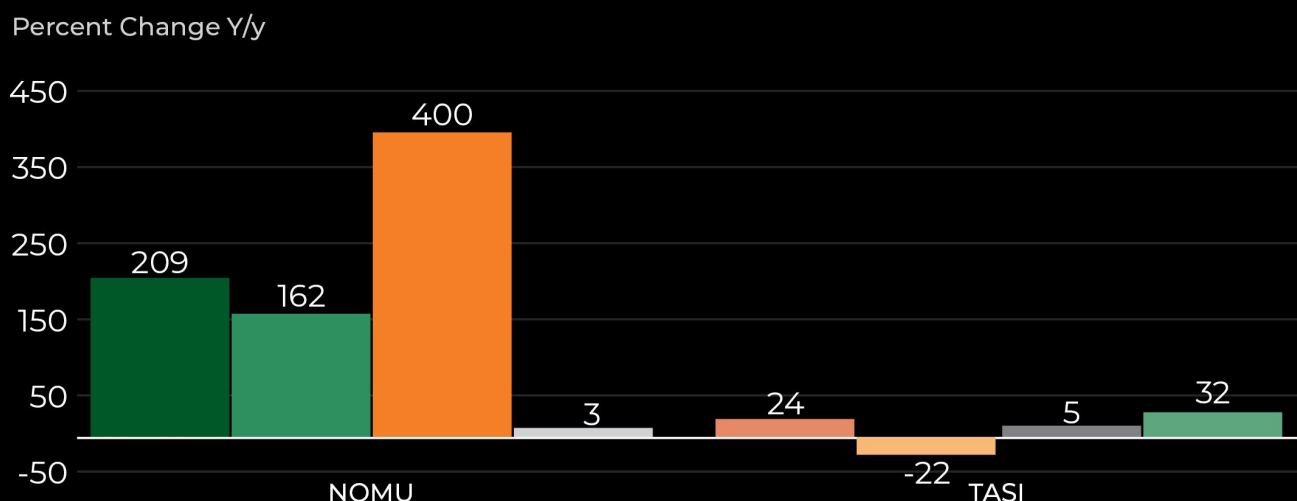




# Small & Medium-sized Companies are Now Targeting the Parallel Nomu Market

Given the importance the SME sector has in the Vision 2030 programs, the Saudi government has been keen to assist SMEs to take the first steps into the Nomu parallel market. Nomu is a parallel equity market with lighter listing regulations, offering a huge prospect for growth to smaller companies which don't yet meet the requirements for the Main Market TASI. In Q1 2022, Nomu market cap grew at a faster rate than the main market's TASI during the first quarter of 2022, where it grew by 209% compared to 24% by TASI.

## Saudi Arabia's Parallel Stock Market Performance vs Main Market NOMU vs. TASI, 1Q '22/1Q '21



Source: Capital Markets Authority (CMA), Saudi Stock Exchange (Tadawul)

■ MCap ■ Trading Value ■ # of Listed Companies ■ Index Performance

Despite the fact that Nomu has less restrictive-listing rules, for example, no profitability track record is required, still investors expect IPO candidates to be market ready in terms of internal systems and controls, strategy, governance models, etc. Thus, a rigorous pre-IPO readiness assessment is a vital step to develop a clear picture of the organization's capabilities and aspirations. **So, how can SMEs prepare to go Public into the Nomu Parallel Market? This will be tackled in more depth in our next issue of LOGIC Insights!**

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