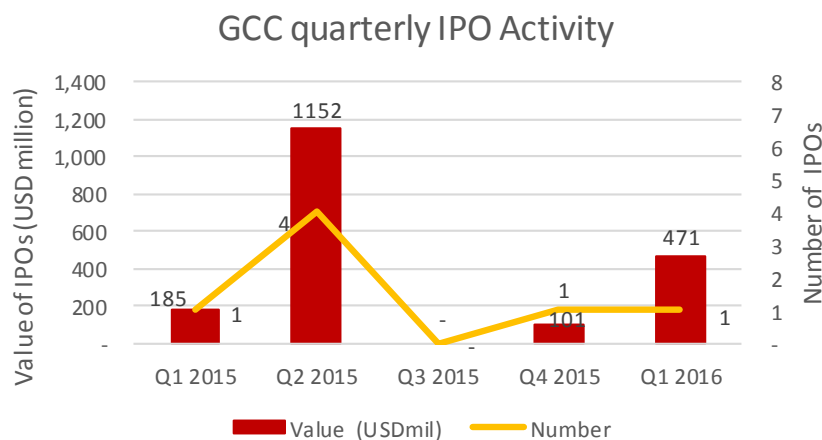


IPO Market Watch Q1 2016

*One IPO in Q1 2016
in the Kingdom*



Despite a significant offering in Q1 2016, volatility remains and activity levels stay low

IPO performance in the Gulf Cooperation Council (“GCC”) in the first quarter (“Q1”) of 2016 remained relatively sluggish in terms of the number of IPOs as volatility in oil prices and the slowdown in the global economic environment impacted capital markets activity. However the value of the only offering in the quarter improved significantly proving investor appetite exists for companies that have the right equity and growth story and operate in defensive sectors such as healthcare and education. The Kingdom of Saudi Arabia was the only active IPO market in Q1 2016 with one offering in March. Middle East Healthcare Company (MEAHCO) that owns and operates the Saudi German hospitals offered 27.61 million shares to the public (amounting to 30% of the company’s share capital) and raised proceeds of USD471 million. The company listed on the Saudi Stock Exchange, Tadawul.

Initial Public Offerings (IPOs)

Period to period performance

Looking at IPO performance in Q1 2016 compared to the same period in the prior year, although there was just one IPO, the total value raised in Q1 2016 was 2.5 times higher than compared to the same period in the prior year. Furthermore, looking at performance in the previous quarter, the one IPO in Q4 2015, also listing on Tadawul, raised USD101 million, representing 21% of the amount raised in Q1 2016.

Tadawul has been the most active market during the past 5 quarters, if not the only one and is expected to remain the market with the highest activity in the GCC taking into account the forthcoming IPOs currently in the pipeline.

Global IPOs

Global IPO issuance experienced a significant slowdown in Q1 2016. The first quarter of the year is usually a quiet period which coupled with high levels of volatility, resulted in a weaker global growth outlook with a drop in oil prices, and overall diverging central bank policies taking a toll on equity markets.

The amount of financing raised through global IPOs fell by 66% in Q1 2016 compared to Q1 2015, making it the slowest first quarter since the eruption of the financial crisis. Global IPO money raised stood at USD14.2 billion from 141 deals in Q1 2016, compared to USD42.3 billion from 252 deals in Q1 2015 and USD50.7 billion from 240 deals in Q1 2014.

Despite increasing worries about banking profitability in an environment of negative interest rates, financial services issuers proved the most active in Q1 2016, raising USD6.3 billion from 23 IPOs, followed by companies within consumer goods issuers which raised USD2.2 billion from 20 IPOs and healthcare, as third, raising USD1.8 billion from 24 IPOs.

Bond and Sukuk markets

The GCC bond and Sukuk markets have improved in Q1 2016 compared to Q4 2015 irrespective of overall activity remaining muted. We saw some positive sentiment towards the end of the quarter, however investors remain price sensitive and susceptible to challenging market conditions, and therefore bond and Sukuk pricing was higher, generating additional challenges when pricing and closing transactions. In fact several companies put on hold or delay their Sukuk/ bond raising aspirations for pricing reasons.

Bond Issuances

In sovereign issuances, the Central Bank of Kuwait and the Central Bank of Bahrain were the most active players during this quarter. The Central Bank of Bahrain issued 10 treasury bills each worth USD184 million (BD70 million) with maturities of three months, three treasury bills each worth USD92 million (BD35 million) with maturities of six months and one treasury bill worth USD526 million (BD200 million) with a maturity of one year. The issuances with three month maturities from the Central Bank of Kuwait amounted to USD2.6 billion (KWD775 million), while issuances with six month maturities amounted to USD1.4 billion (KWD425 million).

Steven Drake, Head of PwC's Capital Markets and Accounting Advisory Services team in the Middle East said:

"The key elements characterising the 2015 capital markets performance related to uncertainty over oil prices and the geo-political developments in the GCC region which continued during the first part of 2016. However the GCC pipeline for the remainder 2016 looks promising. IPOs put on hold in 2015 due to regional instability are expected to come back in 2016 as lower oil prices become the norm and are factored into the market."

"Over the longer term we would expect to see positive impacts on the Saudi Arabia equity markets in particular as result of the recently announced government reforms although it is difficult to predict exactly when that might be. Similarly, the Capital Market Authority (CMA) desire to increase the number of Saudi Arabia listed entities on the Saudi exchange is expected to have a positive impact on IPO volumes in the medium term."



ICICI Bank (UAE Branch) was amongst the most prominent issuances in terms of corporate bonds together with Burgan Bank (Kuwait). ICICI Bank issued its USD700 million 10 year bond with a coupon rate of 4%, while Burgan Bank issued its bond in two tranches: subordinated notes of USD100 million (KD30.1 million) with a fixed interest rate of 6% maturing in 10 years, and subordinated notes of USD233 million (KD69.9 million) with a floating interest rate of 3.95% above the Kuwait Central Bank rate maturing in 10 years.

Sukuk Issuances

Dubai Islamic Bank successfully issued USD500 million 5 year Sukuk attracting geographically diversified investors from Europe, Asia and the MENA region. The offering was 2.4 times oversubscribed.

On the sovereign front, the Central Bank of Bahrain was one of the most active players in the region issuing three Sukuk Al Salam each worth USD113 million (BD43 million) and three short term leasing type Sukuk each worth USD68 million (BD26 million).

Steven Drake, Head of PwC's Capital Markets and Accounting Advisory Services team in the Middle East region said:

"Bond and Sukuk markets were relatively quiet in the first quarter of 2016; albeit activity improved compared to the last quarter of 2015 and is expected to pick up further in the next quarter. However, uncertain market conditions for the remainder of 2016 continue to cause uncertainty within the investor community and the debt market in general."

"In February 2016, Standard & Poor's downgraded Saudi Arabia, Oman and Bahrain due to the prolonged decline of oil prices which emphasizes the need for actions from those governments to reduce its high dependence on oil exports. The structural reforms announced by several GCC governments are anticipated to diversify public revenues from oil dependence and to restrict the public expenditure. If these reforms achieve their stated goals we would then hopefully see future re-ratings having a positive effect on the regional debt markets."



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About Capital Markets Watch GCC

Capital Markets Watch GCC surveys conventional bond and Islamic issuance and new primary market equity IPOs on the GCC's principal stock markets and market segments (including exchanges in Kingdom of Saudi Arabia, Kingdom of Bahrain, Kuwait, Sultanate of Oman, Qatar and the United Arab Emirates) on a quarterly basis. This survey was conducted between 1 January 2016 and 31 March 2016 and captures the relevant data based on their transaction date. Capital Markets Watch GCC is prepared by PwC Middle East (www.pwc.com/me). All market data is sourced from publicly available information and has not been independently verified by PwC.