



## Press Release

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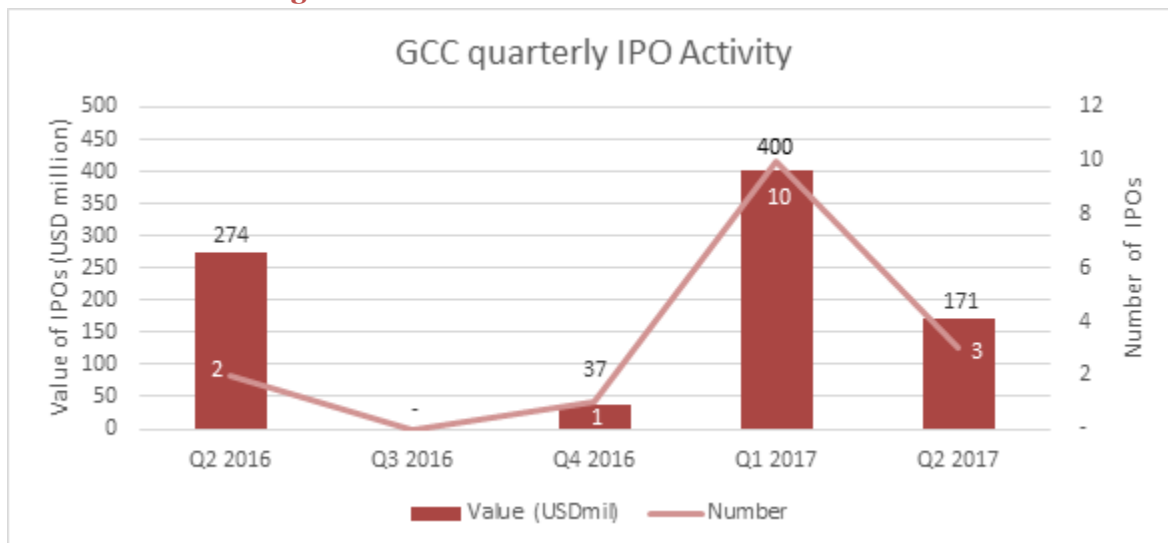
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# A decline in IPO activity in Q2 2017 as market volatility weighs on investor sentiment

Dubai – 14<sup>th</sup> August 2017:

## Initial Public Offerings



After a positive start to the year, IPO performance in the Gulf Cooperation Council (“GCC”) in the second quarter (“Q2”) of 2017 witnessed a slowdown in both the number of offerings and total proceeds raised. The Kingdom of Saudi Arabia (“KSA”) hosted the only (three) IPOs of this quarter; they were allocated between Saudi Stock Exchange primary market (“Tadawul”) and the parallel market (“NOMU”).

On the primary exchange front, the only offering in Q2 2017 was by Jadwa REIT Alharamin FUND (“the Fund”), which floated a total of 36 million shares, raising proceeds of USD 96 million. The primary objective of the Fund is to provide its investors with current income by investing in income-generating real estate assets in Saudi Arabia, with a principal focus on the Holy Cities of Makkah and Medina.

On the parallel market front, the first and largest offering in Q2 2017 was by Thob Al-Aseel Co (“Al Aseel”), which floated 3 million shares, raising proceeds of USD 68 million. Al Aseel is engaged in import, export, wholesale and retail in textiles and readymade garments. The second offering was by Al Kathiri Holding Co (“Al Khathiri”), which floated 0.8 million shares, raising proceeds of USD 6.7 million. Al Khathiri manufactures and distributes construction materials through its subsidiaries.

### **Period to period performance**

In terms of IPO performance in Q2 2017 compared to the same period in the prior year, the number of offerings has slightly increased, with three IPOs in Q2 2017 compared to two IPOs in Q2 2016; however the total proceeds raised in Q2 2017 was 38% lower compared to Q2 2016.

Further, IPO activity in the first half of 2017 (“H1 2017”), witnessed an increase in the number of offerings (13) compared to H1 2016 (three), which was largely due to the increased activity in Q1 2017; however proceeds raised in H2 2017 were 23% lower as compared to H1 2016.

**Steve Drake, Head of PwC’s Capital Markets and Accounting Advisory Services team in the Middle East said:**

*“During Q2 2017, the Kingdom of Saudi Arabia continued to be the main driver of IPO market activity in the GCC, while the NOMU parallel market for small and medium-sized enterprises in the Kingdom remained popular among investors.”*

### **Global IPOs**

Against a backdrop of lower political uncertainty and normalising monetary conditions, equity markets displayed an upward trend, volatility remained low and listing conditions were favourable. Political uncertainties in Europe decreased with the victory of Macron in France’s presidential election, and his party in subsequent parliamentary elections. Voting in the UK led to a hung parliament, which is likely to lead to further uncertainty surrounding the path of Brexit negotiations, which officially began on June 19th. Finally, Trump’s tax and infrastructure plans remain mired in uncertainties, as the Administration is having to deal with an investigation into links with Russia and calls for the President’s impeachment.

The last few days of June marked a stark reversal for global monetary policy, with Draghi and Carney delivering nearly simultaneous hawkish statements. A few days earlier, the Federal Reserve had raised rates for the second time this year, and begun discussions on unwinding its massive balance sheet. Nevertheless, inflation is not picking up, and pressures even eased as the price of oil fell to a nine-month low in June.

Further global IPO activity in Q2 2017 increased by nearly 50% in terms of both proceeds and the number of IPOs compared to Q2 2016. Compared to Q1 2017, activity also increased in Q2 2017, though less pronouncedly. In total, 379 IPOs raised USD 52.6 billion compared to USD 35.2 billion via 253 IPOs in Q2 2016 and USD 68 billion via 420 IPOs in Q2 2015.

Asia-Pacific was dominant in terms of the number of IPOs again, accounting for 57% (216) of global transactions. EMEA and the Americas accounted for 22% (84) and 21% (78), respectively. Nonetheless, in terms of proceeds, the Americas was almost on a par with Asia-Pacific. Both accounted for 36% of money raised in Q2 2017, yet proceeds in Asia-Pacific were slightly higher at USD 19.1 billion, compared to USD 18.7 billion in the Americas. Finally, EMEA accounted for 28% (USD 14.8 billion) of proceeds. For the year as a whole, the Americas still ranks first in terms of money raised.

## **Bond and Sukuk Markets**

The appetite for debt issuance in the GCC surged throughout Q2 2017. Sovereign issuance by GCC governments remained the main theme, whilst the quarter saw KSA issue its first US dollar denominated sukuk, raising proceeds of USD 9 billion. The GCC main economies maintained high credit quality and investment grade status.

### *Bond Issuances*

Corporate bond issuance remained very active across the region while sovereign bond issuance activity slowed down in Q2 2017. In the UAE, Industrial & Commercial Bank of China Limited - Dubai Branch ("ICBC") listed three bonds on Nasdaq Dubai, amounting to USD 400 million, USD 300 million and EUR 500 million. In KSA, ACWA Power Management and Investments ("ACWA"), issued bonds amounting to USD 814 million. In Kuwait, National Bank of Kuwait (NBK) issued non-guaranteed bonds of USD 750 million as part of its medium-term bonds issue programme.

### *Sukuk Issuances*

On the sovereign front, the government of KSA was the biggest contributor in the region, issuing a USD 9 billion Islamic sukuk, followed by Sultanate of Oman's ("Oman") USD 2 billion issuance. The KSA sukuk was structured into a USD 4.5 billion five-year sukuk tranche at 100 basis points over the mid-swap rate and an equal-sized 10-year tranche at a spread of 140 basis points to the benchmark. The Oman seven year sukuk was structured at 235 basis points to the benchmark.

On the corporate front, Dar Al-Arkan Sukuk Company Ltd issued a USD 500 million sukuk. The issuance received significant interest from international market participants with the order book close to SAR 4 billion (USD 1.05 billion), equal to two times of the amount issued.

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

*"Debt issuance in the GCC countries remained popular throughout Q2 2017 as GCC governments' sovereign issuance were oversubscribed domestically and internationally. However, consecutive interest rate hikes by US Federal Reserve may hamper GCC government debt appetite, while a hawkish policy would trigger a surge in borrowing cost across the global and regional debt market".*

*Ends*

### **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 April 2017 and 30 June 2017 and captures the relevant data based on their transaction date. Capital Markets Watch GCC is prepared by PwC Middle East ([www.pwc.com/me](http://www.pwc.com/me)). All market data is sourced from publically available information and has not been independently verified by PwC.

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