
GCC Capital Markets Watch Q1 2018



USD 430m

raised from IPOs in Q1 2018
across the GCC (Q4 2017:
USD 2.5 billion).

4 IPOs

in Q1 2018 across GCC.

USD 6.5bn

of bonds issued by the
Sultanate of Oman.

“The main theme in the GCC equity markets for this quarter has been REIT IPOs. GCC is a region well known for real estate investment. Given their access to affordable long term financing and high dividend yield, REITs have been welcomed by investors. The outlook for the remainder of 2018 is difficult to predict. Challenges continue to exist in the private sector and although oil prices have rebounded, the impact of increased government spending is yet to materially positively impact the sector.

GCC sovereign and corporate debt issuers got off to a good start this year. The expectation of higher rates in the future and the continuation of fiscal reforms has contributed to a number of high value issuances in 2018 at competitive rates.

At the global level, increasing inflation risk and uncertainty in monetary policy have contributed to volatility in the global equity markets. Deutsche Borse was the top exchange by value, hosting the largest IPOs in the quarter with the carve-out IPO of medical technology company **Siemens’** Healthineers.”



Steve Drake
PwC Middle East Capital
Markets Leader

Initial Public Offerings (IPOs)

IPO activity slow in Q1 2018, with Tadawul being the only active IPO market, however outlook continues to be positive with a strong pipeline

Overview

Improved macroeconomic fundamentals - including oil prices, regional geopolitical conditions, and the ongoing implementation of reform policies by the GCC governments are some of the factors contributing to a general uptick in the regional IPO activity in 2018. Overall, USD 430 million was raised in Q1 2018 from four IPOs on Tadawul by REITs. This activity was significantly lower compared to Q4 2017, mainly due to the absence of any large IPOs in this quarter. In addition, the weak performance in February 2018 across GCC equity markets was largely attributable to global selloff due to inflation risks and interest rates hikes. Despite no IPOs on DFM, the exchange welcomed the secondary listings of NAEEM

Holding for Investments SAE and Ithmar Bank which were originally listed on the Egyptian Stock Exchange and Bahrain Stock Exchange, respectively.

Meanwhile, FTSE Russell has upgraded Saudi Arabia to a **“Secondary Emerging” market** following a number of positive steps and initiatives undertaken by the Saudi government and market authorities to improve transparency and governance. As a result, FTSE Russell has launched a new dedicated Saudi Arabia index series alongside the global and regional Saudi inclusion indexes.



Initial Public Offerings

All four IPOs in Q1 2018 hosted on the Kingdom's Tadawul exchange

Figure 1: GCC IPOs during Q1 2018

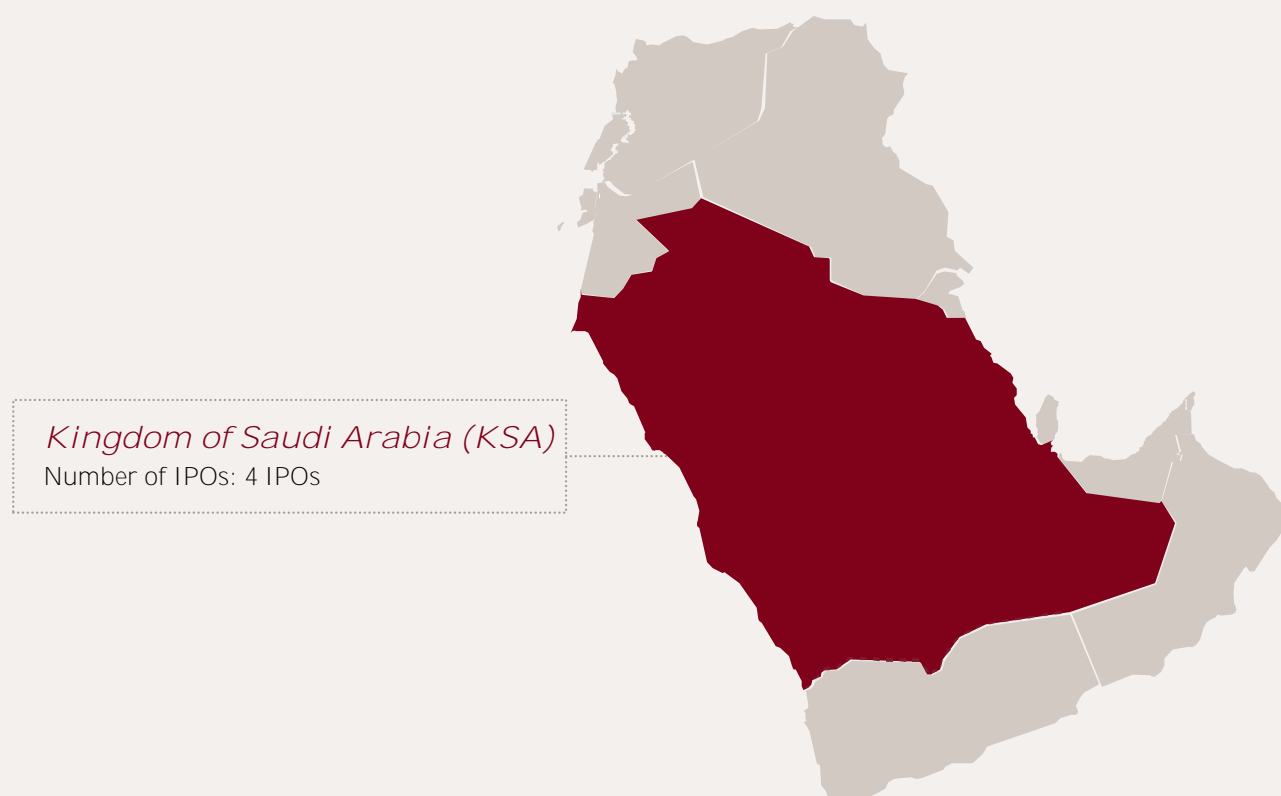


Figure 2: Top 3 GCC IPOs in Q1 2018 by money raised



GCC IPO trends

Despite lower IPO volumes in Q1 2018 compared to Q1 2017, offering values were higher at USD 430 million

Figure 3: GCC IPO activity since 2013

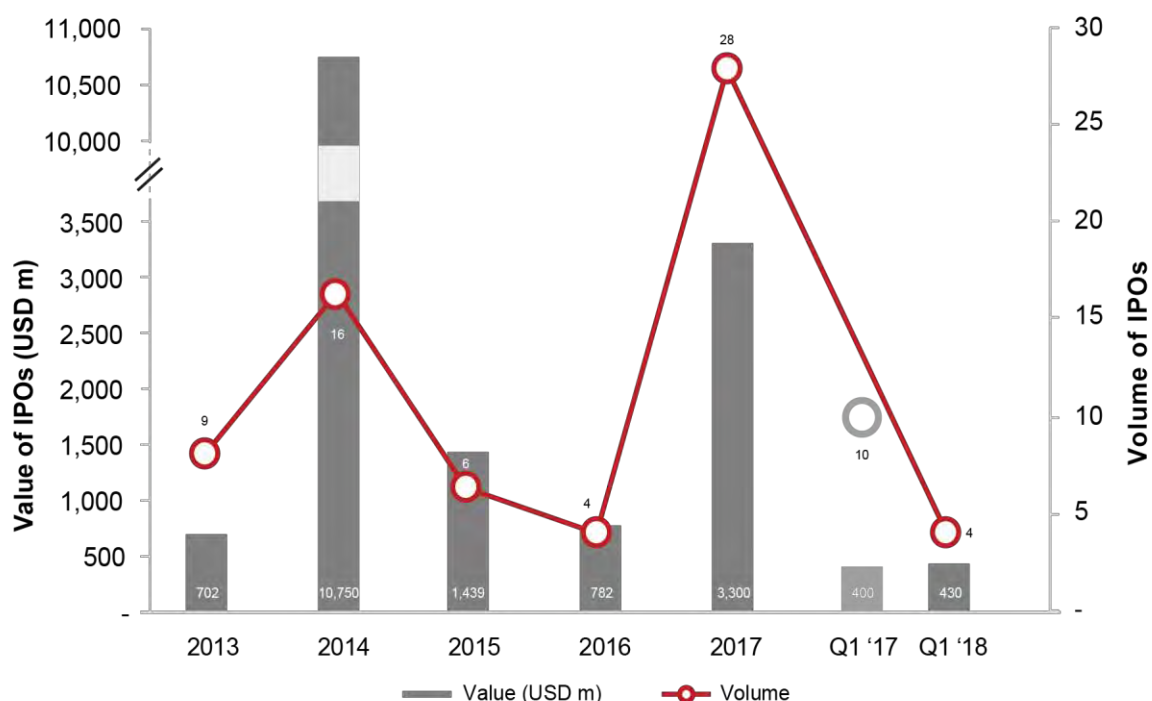
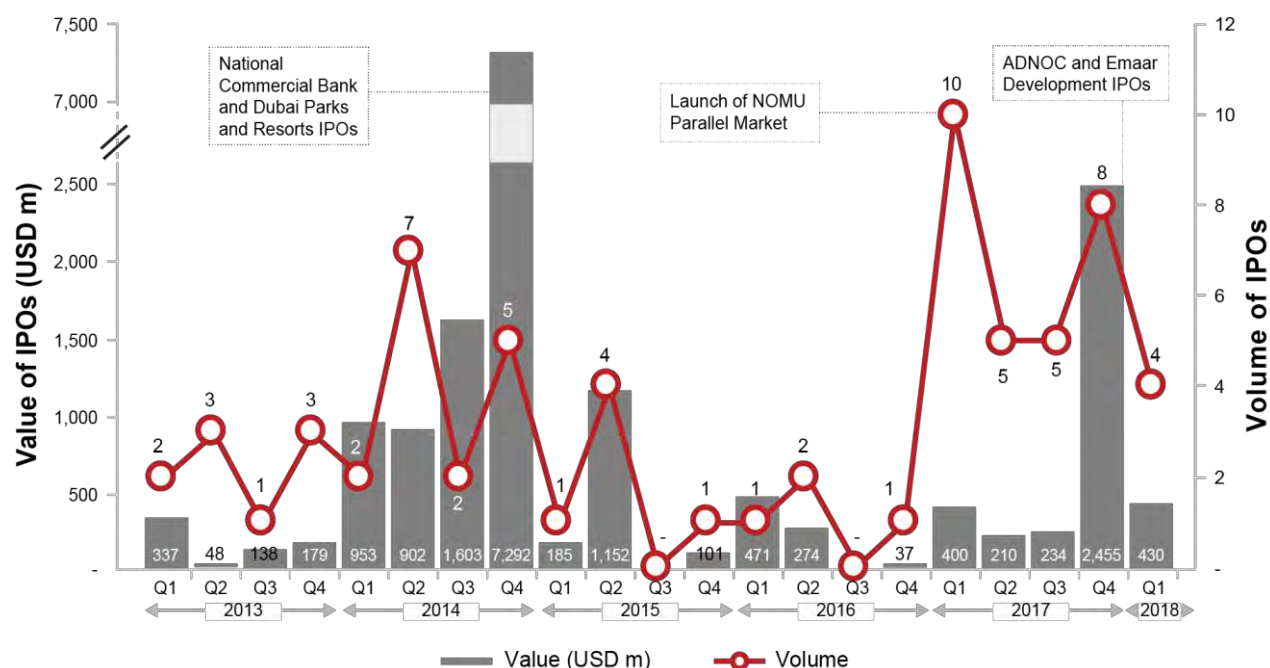


Figure 4: GCC quarterly IPO activity since 2013



Source: Bloomberg terminal, PwC analysis

Market performance

During Q1 2018, Tadawul was the highest performing stock market, followed closely by ADX, while all other GCC stock indices posted negative returns

Figure 5: GCC IPO activity since 2013



Source: Bloomberg terminal, PwC analysis

Global IPOs

A strong start to the year with IPOs almost reaching the USD 50 billion proceeds mark

Figure 6: GCC IPO activity

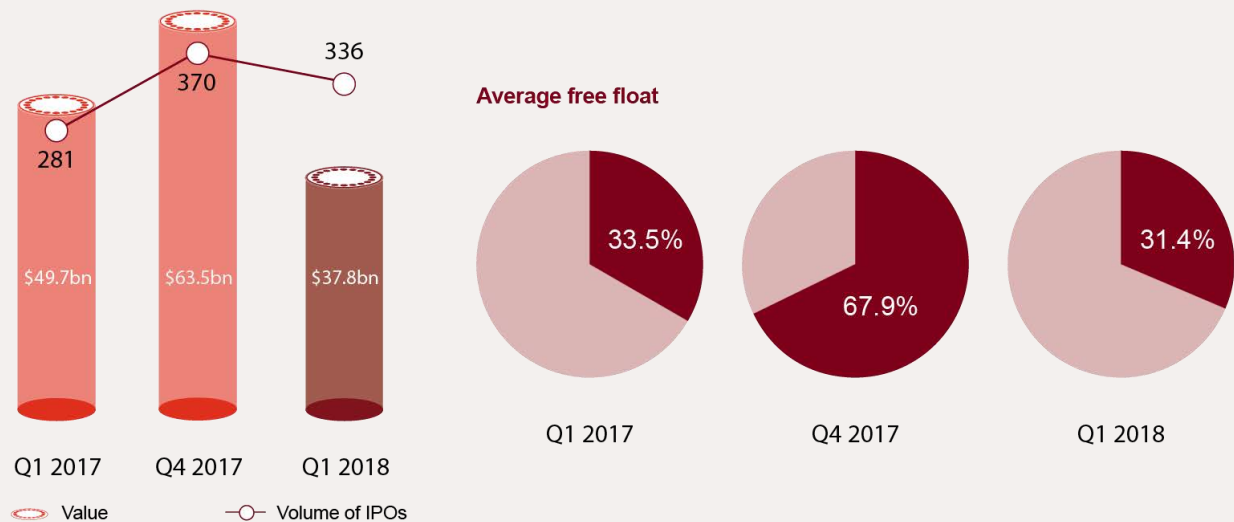
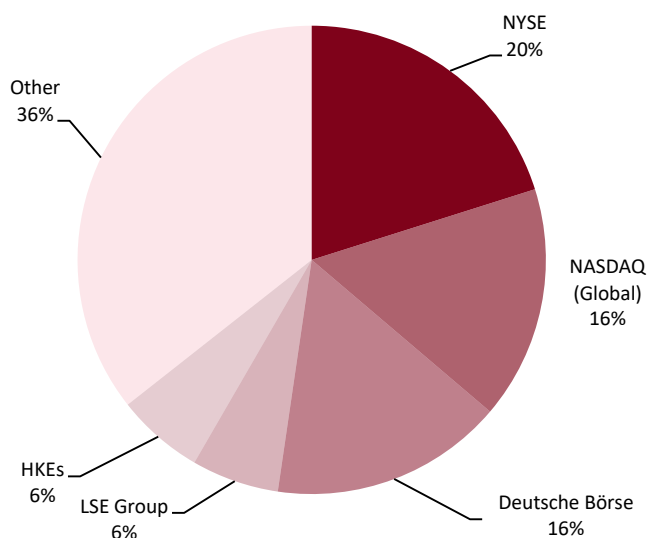


Figure 7: Top stock exchanges by % of total IPO value raised



Source: Dealogic as at 31 March 2018

Despite a solid start to the year, volatility returned in force during the first quarter of 2018. As wage growth accelerated in the US, investors feared inflation would rise in tandem and drive the Federal Reserve to increase rates faster than expected. This caused a market selloff in the first week of February. Furthermore, rising trade tension caused by the implementation of tariffs on steel and aluminium in the US is injecting some further uncertainty in the market.

The global IPO pipeline for 2018 continues to look very promising, despite Saudi Aramco's mega IPO now being postponed to 2019. Sound corporate earnings and relaxed monetary conditions will continue to support high equity valuations. However, when monetary conditions tighten further in both Europe and the US, volatility levels are expected to rise.

Figure 8: Top 3 global IPOs in Q1 2018 by money raised

1 Siemens Healthineers
 Exchange: Deutsche Börse
 Pricing date: **15-Mar-18**
 Money raised: USD 4.5bn
 Free Float: **13.0%**

2 PagSeguro Digital
 Exchange: NYSE
 Pricing date: **23-Jan-18**
 Money raised: USD 2.6bn
 Free Float: **38.0%**

3 iQIYI
 Exchange: NASDAQ
 Pricing date: **28-Mar-18**
 Money raised: USD 2.3bn
 Free Float: **17.7%**

GCC bond and sukuk issuances

GCC debt markets continue to be active in Q1 2018, with a sizeable sovereign issuance from Oman

Q1 2018 saw the comeback of the Sultanate of Oman to the international bond market, with a USD 6.5 billion sovereign bond issuance, its largest ever on record. Corporate debt issuers were also active this quarter, amid strong demand for high-yield bonds, accompanied by an increase in investors' confidence in GCC hydrocarbon economies.



Largest sovereign international bond issuance by a GCC government in Q1 2018

The Sultanate of Oman international bond, consist of three tranches: a USD 2.8 billion 30 year tranche, a USD 2.5 billion 10 year tranche and a USD 1.3 billion 5 year tranche.



Total value of high-yield bonds issued by Shelf Drilling Holding Ltd in Q1 2018

Shelf Drilling Holding Ltd. issued a USD 600 million high-yield bond, carrying an 8.25% coupon, and maturing in 2025.



Total value of Maaden Phosphate Company sukuk issuance in Q1 2018

Maaden Phosphate Company issued one of the largest sukuks this quarter, of USD 933 million, maturing in 7 years.

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About **PwC's GCC Capital Markets Watch**

GCC Capital Markets Watch surveys IPOs on GCC's principal stock exchanges and market segments in addition to conventional bonds and Sukuk issuance on a quarterly basis. This survey was conducted between 1 January 2018 and 31 March 2018 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 publically available information and has not been independently verified by PwC.