

GCC Capital Markets Watch Q2 2019



USD 866m

raised from IPOs in Q2 2019 across the GCC, compared to USD 463m in Q2 2018.

2 IPOs

in Q2 2019, down from five IPOs in Q2 2018.

USD 12bn

corporate bond issued by Saudi Aramco in Q2 2019.

The second quarter of the year has seen a slight increase in IPO activity in the GCC, with two companies listing on Saudi Arabia's Tadawul. From a debt market perspective, Saudi Aramco's bond issue was the most prominent transaction of the quarter, raising USD 12bn for the company.

Over the course of 2019, GCC IPO activity has so far been confined to the Kingdom of Saudi Arabia. The UAE Cabinet has recently published a list of sectors and economic activities eligible for up to 100% foreign ownership, which may encourage UAE market activity in the near future. A number of GCC companies are also actively undergoing preparatory work for IPOs.

Whilst there have been no equity listings on the UAE exchanges this quarter, two major groups in the UAE – Network International and Finabl (owner of UAE Exchange and Travelex) – successfully completed their IPOs on the London Stock Exchange's Main Market in April. This reinforces that UAE businesses are highly regarded by international investors and could encourage more GCC companies to follow suit in the coming quarters.

The GCC debt market was dominated by sukuk issuances in Q2 2019. Sizeable issuances by the Emirate of Sharjah and Islamic Development Bank Trust Services Limited raised USD 1bn and USD 1.5bn respectively, on Nasdaq Dubai. The debt issuance activity is expected to continue as the Kingdom of Saudi Arabia plans to issue USD 31.5bn in debt this year, to help fund government spending.

Geopolitical uncertainties will continue to impact the regional economy. The recent events in the Gulf of Oman, the tug of war between the global major economies and ongoing Brexit uncertainties are cutting the IPO windows even shorter. Companies looking to tap into the equity capital market should get themselves ready early and remain on standby, in order to maximise their chances of a successful IPO.



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Initial Public Offerings (IPOs)

Both the UAE's promising IPO pipeline and Tadawul stock exchange's developments offer some optimism for the GCC market

Overview

GCC market activity continues to be slow with only two IPOs on Tadawul in Q2 2019, compared to five in Q2 2018. However, the proceeds generated from the IPOs increased by USD 403m to USD 866m (Q2 2018: USD 463m). The increase in the total proceeds is mainly due to the sizeable retail IPO of Arabian Centres Company generating USD 659m; the Kingdom's third largest since National Commercial Bank raised USD 6bn in 2014.


A number of firms in the UAE market have indicated plans to go public in the near future, with one report estimating over USD 7bn will be raised collectively. Tourism, retail, healthcare and education sectors are all well represented amongst the candidates.

The Chief Operating Officer of the Dubai Financial Market (DFM) also indicated a healthy IPO pipeline in a recent press interview and expected its new REIT platform to have promising growth prospects.

Following Tadawul's inclusion in the FTSE Russell Emerging Markets (EM) Index and MSCI Emerging Market Index, shares in the Kingdom of Saudi Arabia have entered bull market territory, bringing record inflow of funds. This inclusion should enable easier access to the local stock market – leading to increased participation by foreign investors.

Activity on Tadawul is expected to improve as the exchange and Saudi Arabia's Capital Market Authority have issued regulations for cross-listing, allowing companies from other Gulf countries to list on Tadawul. Since last month there have been reports issued that indicate Aramco's IPO is likely to take place in late 2020 or early 2021.





Network International's listing on the London Stock Exchange

The listing of UAE-based Network International in April this year on the London Stock Exchange is the largest outbound IPO to date from the Middle East and Africa region, on any international stock exchange. The IPO opened at a significant premium, valuing the business at over USD 3bn and making it the largest IPO on the London Stock Exchange since June 2017.

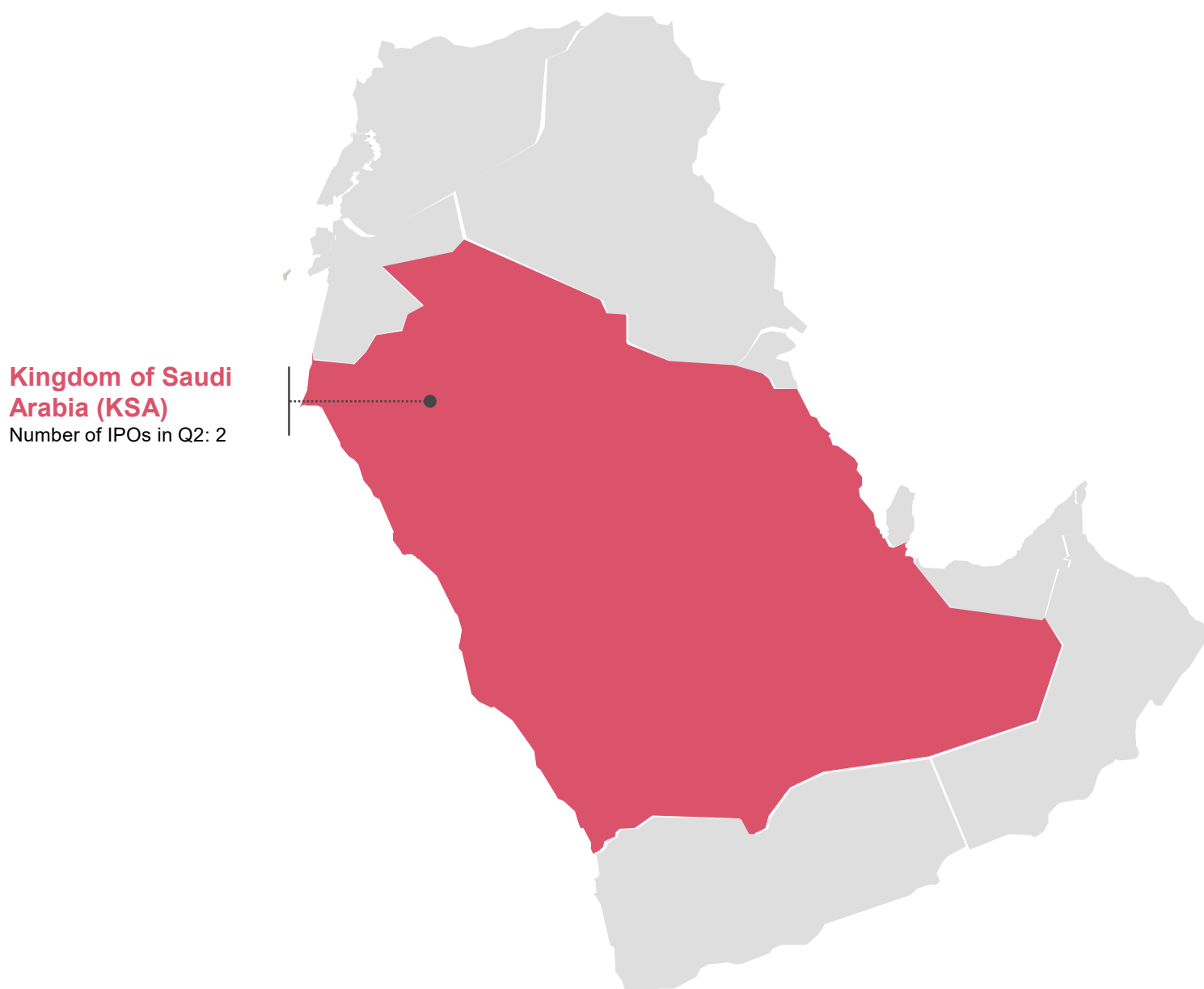
PwC played a significant role in delivering this record breaking IPO, acting as both the reporting accountant for private diligence reporting and the lead transaction structuring advisor.

Gokul Mani, Head of Primary Markets, Africa, Middle East and India from the London Stock Exchange commented, "Network International's IPO has been a resounding success on the London Stock Exchange. It is an inspiring success for other companies looking to follow similar routes to market on our exchange. It demonstrates that when transactions are well planned, well structured and well evaluated in advance, they get done at very attractive valuation multiples, with very healthy levels of oversubscription."

IPOs by country

Both IPOs during the quarter took place on the Kingdom of Saudi Arabia's Tadawul exchange

Figure 1: GCC IPOs during Q2 2019



Arabian Centres Company

Sector: **Retail**

Money raised: **USD 659 million**

Exchange: **Tadawul**

No. of shares offered: **95 million**

Maharan Human Resources Company

Sector: **Professional Services**

Money raised: **USD 207 million**

Exchange: **Tadawul**

No. of shares offered: **11.25 million**

GCC IPO trends

Q2 witnessed some of the largest GCC IPOs of the last year

Figure 2: GCC IPO activity since 2013

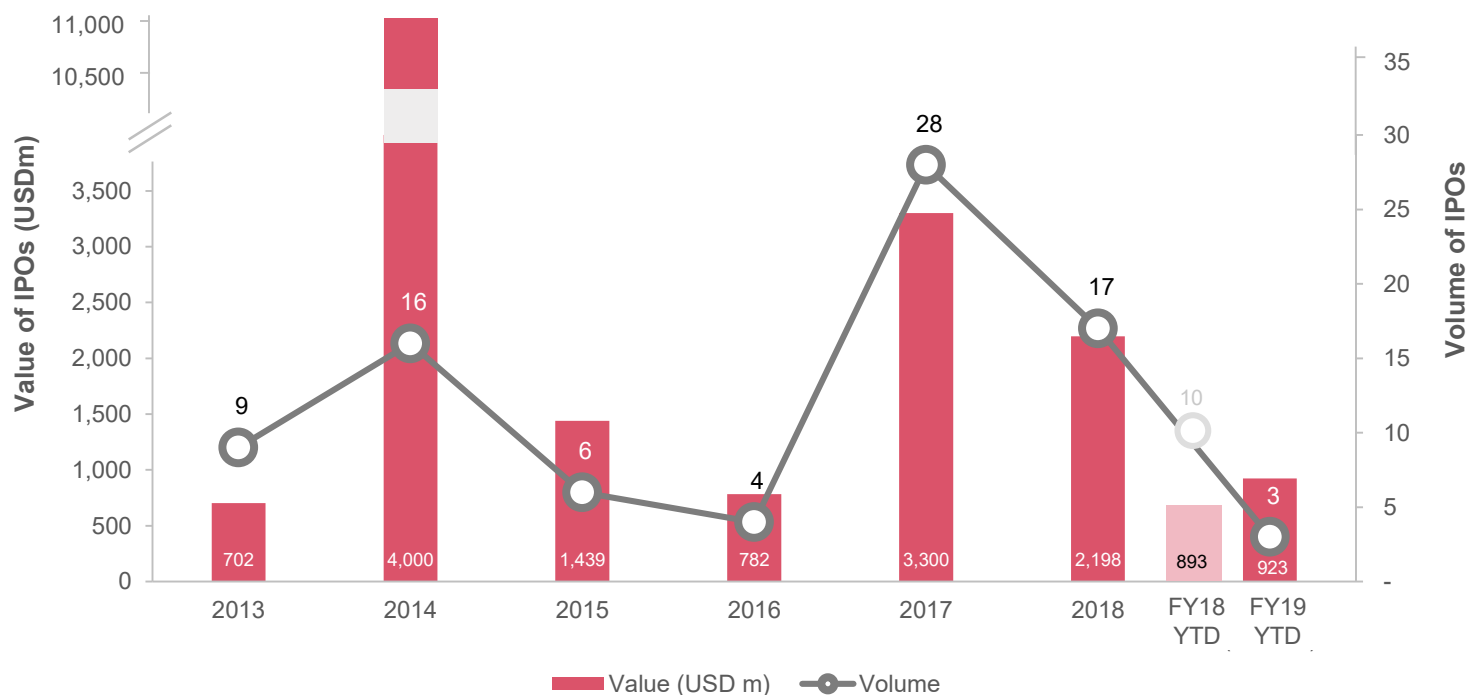
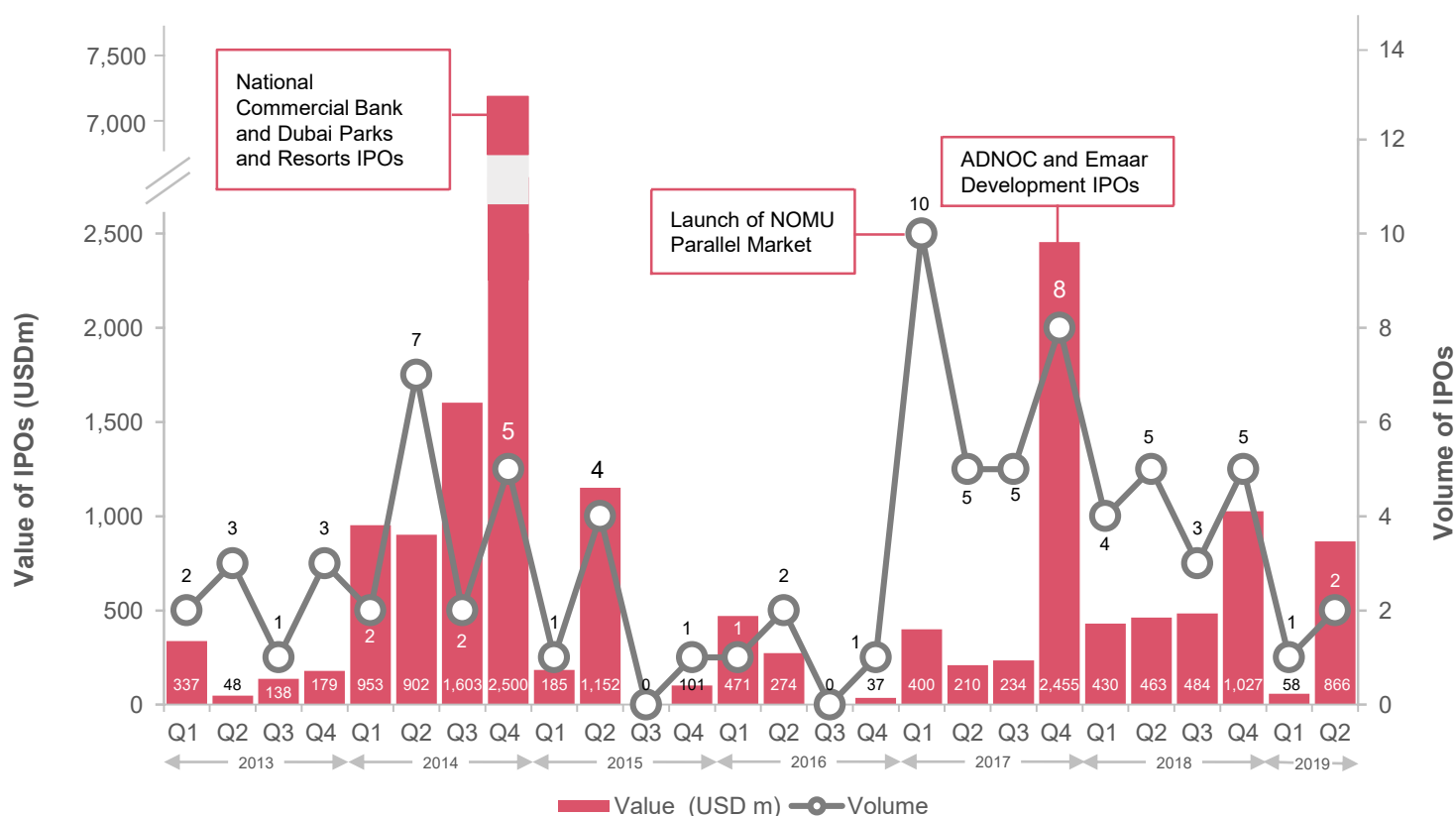


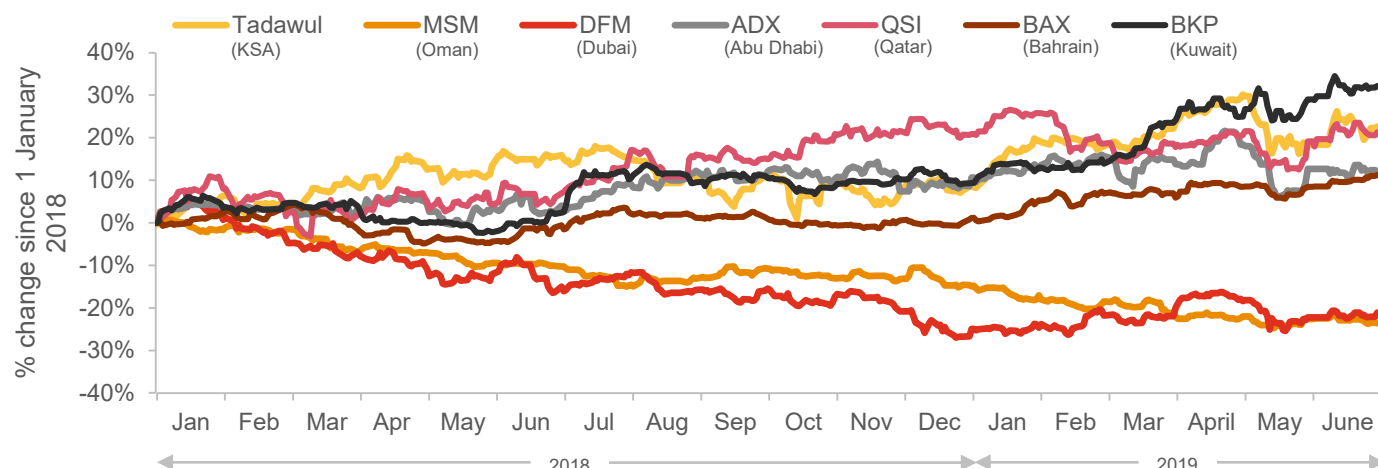
Figure 3: GCC quarterly IPO activity since 2013



Market performance

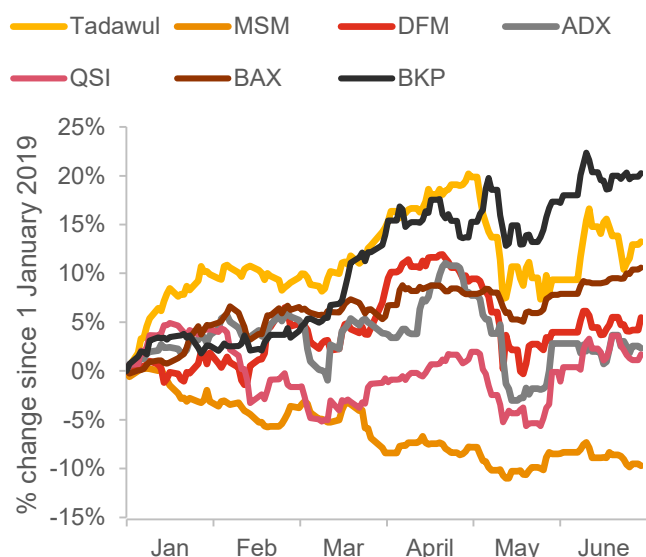
Tadawul and Boursa Kuwait are the better performers in the GCC in the year to date

Figure 4: GCC equity markets performance by cumulative total return since 1 January 2018



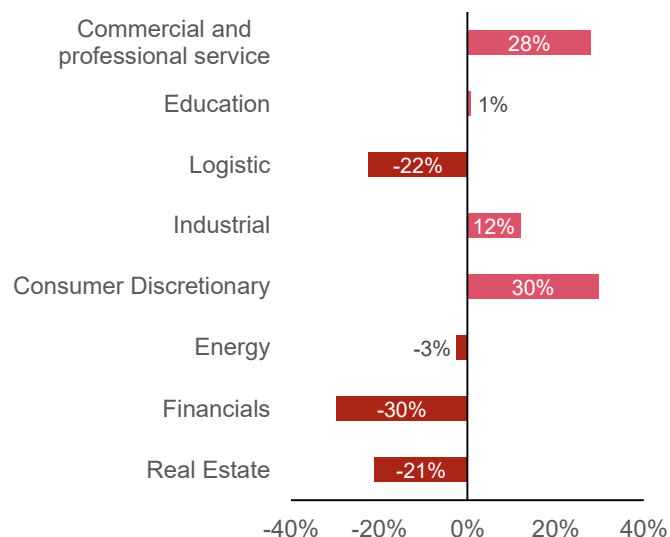
Source: Eikon (Thomson Reuters), PwC analysis

Figure 4a: GCC equity markets performance by cumulative total return since 1 January 2019



Source: Eikon (Thomson Reuters), PwC analysis

Figure 5: Share price performance of 2018 and 2019 GCC IPOs* by sector, relative to the respective all share index, from the IPO date to 30 June 2019



*The IPOs of Integrated Holding Co KCSC, National Building and Marketing, Al Nefae Umm Alqura REIT and Al Moammar Information System Company have been excluded due to insufficient data.

Global IPOs

The Americas was the IPO leader in Q2 2019 in terms of proceeds, whereas Asia Pacific led by volume. EMEA activity suffered from geopolitical uncertainties and weakening of local economic fundamentals

In Q2 2019, global equity markets navigated through mixed sentiments with renewed dovish stances from central banks, offset by escalating trade tensions between global economic powers. The S&P 500, nonetheless, reported a gain of 6.9% in June, its best June performance since 1955. Global IPO proceeds rose slightly in Q2 2019 compared to Q2 2018, supported by IPOs of Silicon Valley unicorns – most notably Uber's USD 8bn IPO in May on NYSE. An IPO activity slowdown in Asia-Pacific was compensated by an increase in activity in the Americas. Global IPO proceeds increased by 1% year-on-year whereas the number of transactions fell by 14%. In total, 280 IPOs raised USD 62.6bn compared to 325 IPOs raising USD 62.2bn in Q2 2018.

The market in further offerings continued its third year decline with 767 offerings raising total proceeds of USD 116.7bn in Q2 2019, compared to 813 FOs raising USD 133.5bn in Q2 2018.

The Americas took the lead for IPO proceeds raised in Q2 2019, whereas Asia-Pacific led by volume. The former accounted for 53% (USD 33.3bn) of proceeds and 31% (86) of the total number of IPOs in the quarter. Asia-Pacific accounted for 24% (USD 15.0bn) of proceeds, but 53% (147) of the number of IPOs. EMEA trailed behind, accounting for 23% (USD 14.4bn) of IPO proceeds, and 17% (47) of the number of transactions in the quarter. This ranking also holds true on a year-to-date basis.

Figure 6: Global IPO activity

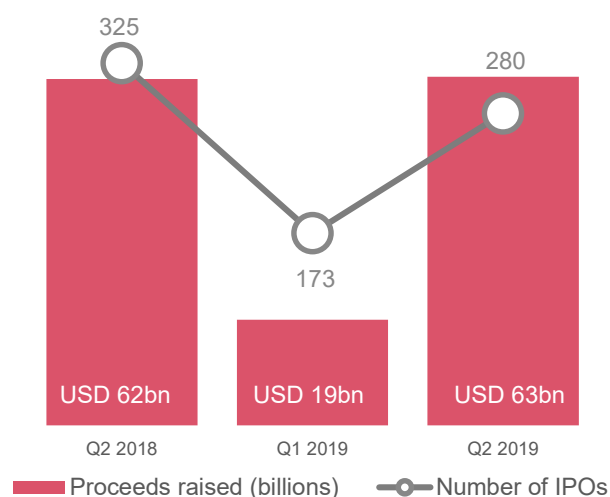
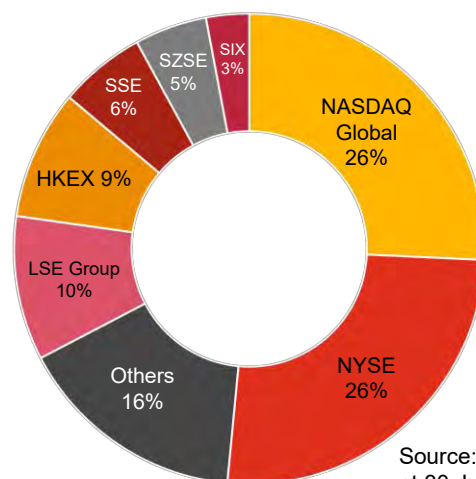
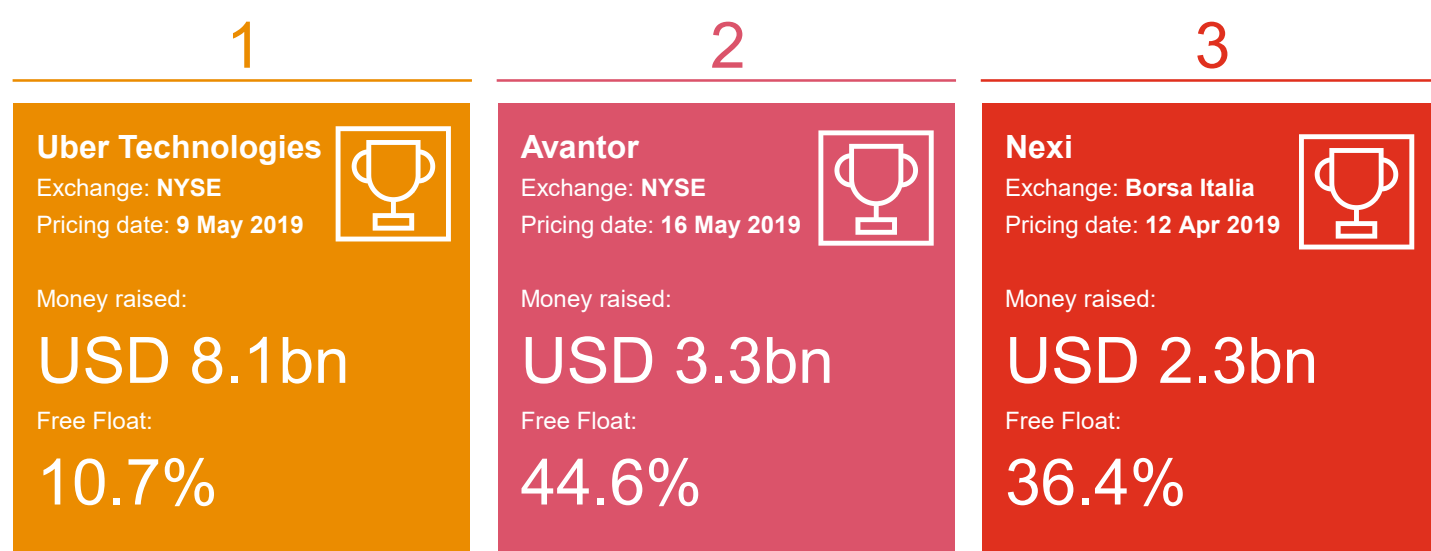


Figure 7: Top exchanges by % of total IPO proceeds raised



Source: Dealogic as at 30 June 2019

Figure 8: Top 3 global IPOs in Q2 2019 by proceeds



GCC bond and sukuk issuances

Aramco's mega bond issue led the GCC debt market to global limelight

The GCC debt market showed a significant level of activity in Q2. Saudi Aramco completed its inaugural bond issue raising USD 12bn globally. Equally remarkable was the extent of its oversubscription, where the books were more than eight times covered.

The debt market has also been active in the UAE. The Emirate of Sharjah and the Islamic Development Bank Trust Services Limited raised USD 1bn and USD 1.5bn, respectively, on Nasdaq Dubai.

We expect to see more bond and sukuk transactions before the end of 2019, especially in the Kingdom Of Saudi Arabia, as it plans to issue USD 31.5bn in debt this year to help fund government spending. At the time of writing, the Saudi government is reported to be preparing for its first euro-denominated bond issue.

USD 256m

Value of sovereign bonds issued in Q2 2019 by the Government of Oman.

The Government of Oman issued its sixtieth sovereign bond on 28 April 2019, raising USD 256m with a coupon rate of 5.75%, maturing in seven years.

USD 12bn

Value of corporate bond issued by Saudi Aramco.

Saudi Aramco issued five tranches of corporate bonds with coupon rates of 2.75%, 2.875%, 3.5%, 4.24% and 4.375%, maturing in 2022, 2024, 2029, 2039 and 2049 respectively.

USD 1.5bn

Value of sukuk issuance in Q2 2019 by Islamic Development Bank (IDB) Trust Services Limited on Nasdaq Dubai.

Islamic Development Bank (IDB) Trust Services Limited issued USD 1.5bn worth of sukuk on Nasdaq Dubai, with a coupon rate of 2.8%. This is IDB's tenth issuance on the Middle East's international financial exchange. Proceeds raised from the ten issuances total USD 12.54bn.



How PwC can help you

At PwC, we understand that good preparation is essential to a successful IPO and debt issuance. We have experience in a wide range of international, regional and domestic IPOs and debt issuances, and can provide expert guidance from initial planning, through to execution and beyond.

IPO and debt preparation

Our IPO and debt **Readiness Assessment** is an early stage diagnostic review of the critical areas needed for a successful issuance. We will highlight where current processes, procedures, structures and practices fall short of the requirements for a company whose securities are to be publicly traded and provide recommendations on how to address these gaps.

IPO and debt execution

We work with issuers and their advisors to provide IPO and debt advisory and assurance services. This may include working capital reporting, financial due diligence, financial positions and prospects procedures assessment, assistance with MD&A drafting in relation to a prospectus, comfort letters and project management.

About PwC's GCC Capital Markets Watch

GCC Capital Markets Watch surveys IPOs on GCC's principal stock exchanges and market segments as well as conventional bond and sukuk issuances on a quarterly basis. This survey was conducted between 1 April 2019 and 30 June 2019 and captures the relevant data based on their transaction date. GCC Capital Markets Watch 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.

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