

The kingdom has delayed the Aramco IPO due to unfavourable market conditions

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The on again, off again saga to list shares in Saudi Aramco took another turn this week, as reports issued late on Thursday announced a new delay to the company's mega IPO due to unfavourable market conditions. This can reliably be taken to mean that the company's advisers cannot secure a \$2trn valuation, a key demand of Crown Prince Mohammed bin Salman (MbS). The outward-looking crown prince sees the IPO as a central component of the country's Vision 2030 economic diversification strategy.

Convincing analysts that a \$2trn valuation of Aramco is justified has proven difficult; despite being the world's most profitable company, with a solid operating model, guaranteed revenues and a top leadership, most estimates sit somewhere between \$1trn and \$1.5trn.

There has been increasing activity surrounding the IPO in recent weeks, from declarations by the Aramco leadership that an announcement was imminent and moves to market the IPO to global investors, to a pick-up in meetings between the banks working on the transaction. These events occurred even in the face of a number of headwinds, including the damaging attacks to two key Saudi oil facilities in September; persistently gloomy global macroeconomic sentiment; US-China trade tensions; and – perhaps most importantly – oil prices far below what's required for Aramco to secure a high valuation. Tellingly, oil price forecasts remain under downward pressure in the near term. Advisers have privately indicated that a new timeframe for the IPO will incorporate the company's next set of earnings, either the third quarterly results or, more realistically, the full-year results to allow for market conditions to improve. This may push a potential announcement on the listing to early 2020.

Last year IPO plans were delayed to allow more time to achieve the \$2trn valuation and prepare for a dual-listing – one local and one international – and it was understood that Aramco would be listed in 2020 or 2021. Since then, however, an accelerated schedule allowing for a faster but smaller listing on the Saudi Tadawul exchange had seemingly gripped the leadership without, it appears, the necessary economic conditions in place for a successful issue this side of 2020.

Despite the financial reasoning for a wait-and-see approach, this latest development after all the recent excitement isn't an encouraging sign for the feasibility of Vision 2030. The state's PR machine

is expected to be in overdrive at the high-profile Future Investment Initiative event, dubbed “Davos in the Desert,” at the end of the month in Riyadh.

Connecting the dots

A target \$2trn valuation for an oil company – albeit a state-owned behemoth from the world’s largest oil exporter – was always going to be highly ambitious if not outright impossible. There has also been private disquiet among both government and company officials about an equity listing. It is believed that MbS is adamant on securing \$100bn from the IPO, even if it would mean selling more than the widely touted 5% of the company.

A short (ish) delay in plans to list on the Tadawul from November to early 2020 or beyond would allow the company to assess and incorporate its latest financial statements and hold off any decision until after the next scheduled OPEC+ meeting in December, where further cuts to oil output may be agreed to boost oil prices.

[President Vladimir Putin’s recent visit to Saudi Arabia](#) resulted in few large contractual agreements but did affirm a commitment to stabilising global oil markets. Further, there is a need to rebuild confidence following the September attacks on Abqaiq and Khurais, which may only be possible during a period of sustained geopolitical stability in the region.

Efforts to secure global support for the IPO ahead of a listing also appear to have fallen short. Investors – though relishing the prospect of a mega IPO from a major Saudi corporate – have openly expressed consternation at the valuation, and some big sovereign and institutional investors have said publicly they have no intention of investing due to various reasons, including a shift in investments away from fossil fuels. This has led to Saudi Arabia leaning more heavily on prominent “friends and family” in the immediate neighbourhood, which wasn’t really the intention and isn’t enough.

Regional markets have yet to react to the latest delay. The news, which was reported late Thursday/early Friday broke during the Gulf weekend. The markets will re-open on Sunday, which, coincidentally, was the date Aramco was expected to officially announce its intention to float.

Whatever the next episode in this ongoing story, it seems for now at least that financial nous has prevailed and MbS will have to accept that his desired valuation is unlikely to be achieved any time soon. Is this a sign that the assertive crown prince is willing to take on board the advice of his trusted bankers and advisers, or that his advisers have failed to get him the result he so desperately commands?