NOVEMBER 7, 2019

FIERACAPITAL

Saudi Aramco

The IPO of the largest company in the world

Following an announcement last week of the launch of the IPO process, it is becoming increasingly likely that Saudi Aramco will become a publically listed company by the end of 2019. Leaving the potential investment merits of the company to one side for a moment, this will be a seminal event for Saudi and the greater region's equity markets and provide more information and transparency on the world's largest oil company and therefore on the Saudi economy as a whole than we have ever witnessed. We believe it is another clear signal that reforms in Saudi will continue to progress and that the capital markets will continue to play a key role in the development of the economy.

Putting Aramco in context, a number of analysts involved in the deal have given indications of the value of the company ranging from USD 1.2 trillion to well above USD 2 trillion. In comparison, the largest listed company in the world currently is Apple with a market capitalisation of USD 1.14 trillion.

Looking at Aramco from an operational perspective, it has a very high return on capital (41% in 2018) with predictable FCF generation, and a sustainable base dividend guided out for the next five years. The company produced 1 in every 8 barrels of global crude oil from 2016 to 2018. According to the November 3, 2019 announcement, Aramco has the lowest upstream cost and capex per barrel globally versus global IOCs and has over 250 billion BOE of proved crude reserves.

Due to its size and likely free float, Aramco should be eligible for fast track inclusion in both the FTSE and MSCI Emerging Market indices within 10 days of the IPO. The impact on the two indices and subsequent passive flows into the stock are highly dependent on the size of the deal and the valuation of the company but it is very conceivable that the company will be in the top 10 MSCI Emerging Market index stocks and that the Saudi weight in the Index will increase to above 4%.

Whilst as ever our investment decision will depend on the results of our bottom up investment process, with valuation being a key component, we believe the increase in profile and focus of the region's equity markets can only be improved by this listing.

The Middle East remains the most underinvested Emerging Market region by foreign investors globally with Saudi foreign ownership still at only 7% of the market.

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