



IPOs in KSA –

Windfall gains for
Investors

The global gloom of economic trouble and slowdown has impacted the IPO markets as well. IPO activity in the world market has slowed down. In the first half of 2008, there were a total of 494 initial public offerings globally as against 948 initial public offerings in the previous year for the same period. Capital raised has also fallen to USD 78.3 billions in H1' 2008 as against USD 138.5 billion in H1' 2007 for the same period.

It is the emerging markets with Middle East being major contributor, which is showing the light of hope in this situation. This is applicable to IPOs as well. In the second quarter of 2008, Saudi Arabia became fourth largest IPO market after China, Brazil and United States on the basis of value of IPOs in US dollars terms. It is the strong economic prospect that is driving Saudi economy to raise more funds from the stock markets.

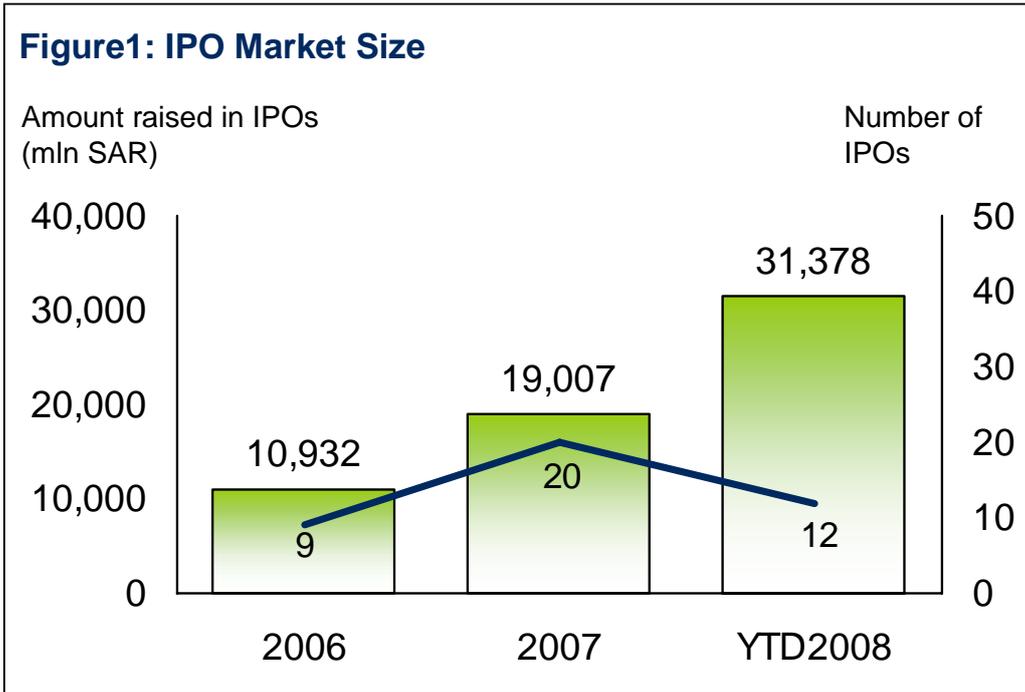
IPO Boom in KSA – Steam is far from over

The King has been a central figure in the country's modernisation process by encouraging the efforts of the Saudi Arabian General Investment Authority (SAGIA) to stimulate domestic and foreign investment, streamlining privatisation moves and acceding to the World Trade Organisation. Further, Kingdom is gradually opening up new sectors for investors including telecommunications, airlines and insurance and is continuing to support the main engines of economic growth by encouraging local and foreign private sectors to contribute to development of Saudi Arabia's new economic cities.

“Saudi private sector represents one of the most vibrant areas of business development in the entire Arab and wider Muslim worlds”

– observed John Sandwick, chairman of the Second Saudi IPO Summit in November 2007

This has translated into increasing number of IPOs year over year and the amount raised during these IPOs. For 2008YTD, the amount raised through IPOs has already crossed SAR 31bln which is 65% higher than the amount raised for the entire 2007. It is estimated that the year will close above SAR 40bln.

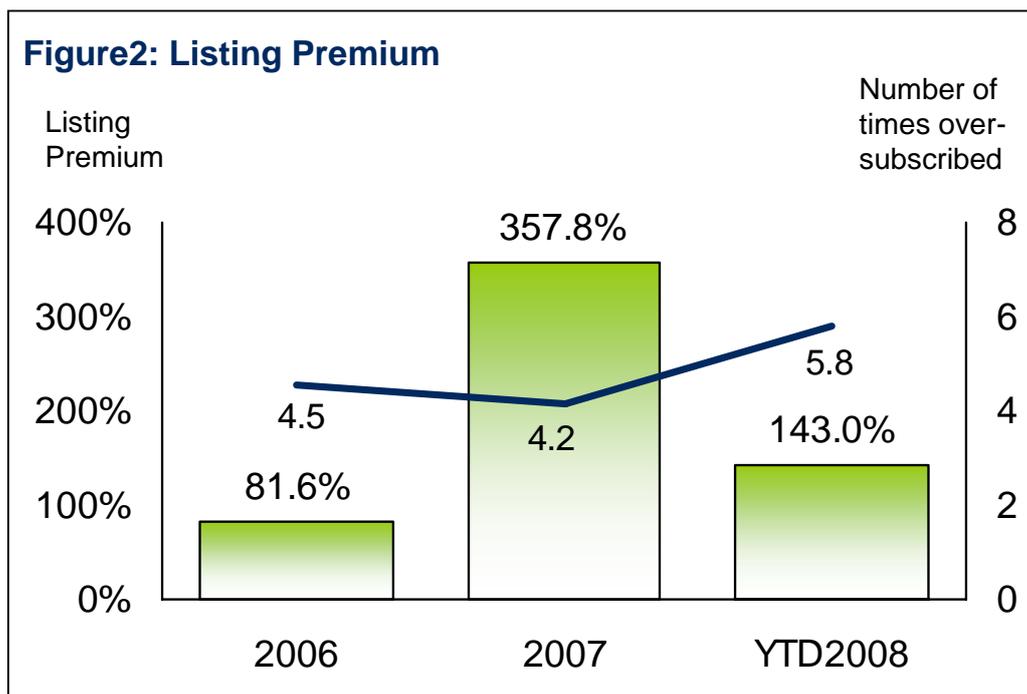


This era of unparalleled growth will see more and more companies tap the equity market as a vehicle to raise capital to fund their expansion plans. Some of the additional factors fuelling the supply of IPOs include: (a) Increasing privatisations in state-dominated sectors. Government view initial public offerings as a wealth distribution tool. Many of the sectors such as water desalination, air transport and airport services, construction and management of highways, ports and oil refineries are hence partly privatized and government stake is sold to the public (b) Insurance companies in Saudi have to necessarily come up with initial public offerings and that has resulted in quite a few IPOs in the recent past, (c) Family owned companies are realizing that public listing of an entity unlocks enormous value and enhances the business potential for future, (d) Lastly, on the regulations front, Saudi Arabia's regulations are one of the most sophisticated in the Gulf, and the regulations have helped companies going public thus benefiting from the abundance of liquidity.

KSA – the most active initial public offering (IPO) market and largest stock market by capitalization in the Middle East is expected to see approximately 50 IPOs each year for the next 5 years. Such large number of IPOs will not only expand the investor base making the markets stronger and deeper but also transfer the benefits arising out of growth of companies to large number of people.

IPOs – Safe Heaven

The demand for IPOs in the region is amongst the highest in the world, which gets oversubscribed approximately 5 times the issued capital. This could be because of the attractive valuation at which these shares are offered leading to an unprecedented premium at which they get listed. Though the average listing premium for 2008 has declined when compared to 2007 but is still higher than 2006 and is at 143%. Analysis of returns generated for the newly listed companies has been mixed though. Weighted average loss – “defined as percent change in day close price vis-à-vis listing price”, on the first trading day for the investors has been around 6%. However, the weighted average returns for the investors from the first day closing price till today has been around 12%. This is despite the fact that Tadawul has generated negative returns of 43% during the period June 2006 till today.



Which are the hot industries?

The list of industries which are tapping the primary markets is getting wider and richer. There are new kids on the block. Apart from Chemicals and Financial Services, Mining, Real Estate and Telecommunications have also raised huge amounts from the primary market in the last three years.

The largest IPO for the current year has been that of Alinma Bank which raised SAR 10.50bln. Despite its huge size, the IPO was oversubscribed by 1.7 times and was listed at a premium of 58% to its issue price.

Some of the other large deals include Saudi Arabian Mining Company which raised SAR 9.25bln and Mobile Telecommunications Company which raised SAR 7.00bln from the primary market. The IPOs had listing premium of 53% and 120% respectively.

The success of IPOs in KSA will bring more companies to raise money for expansions and more investors to reap the benefits of listing premium. The entire IPO market in KSA is expected to stay hot for several years despite the global slowdown jitters.

Who are the lead managers?

Samba Financial, JP Morgan securities and Saudi Fransi seems to have garner majority of the business. Each one of them has placed at least one of the largest IPOs in the year 2008. Samba was the lead manager for the IPO of Alinma bank, whereas JP Morgan placed Saudi Arabian Mining Co. and Saudi Fransi became lead manager for Mobile Telecommunications. Barring few deals Samba financials seems to be the favourite lead manager of majority of the bigger placements. Samba has retained the top slot consecutively for the year 2007 and year 2008.

Information provided in this report is sourced from secondary sources and sources believed to be authentic. There has been conscious effort to ensure that the information provided is correct, however i3 Consulting takes no responsibility of the correctness or completeness of the information presented in this report

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