



The Cambridge Security Initiative

SAUDI ARABIA: IMPLICATIONS OF ARAMCO'S IPO

NOVEMBER 2019

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After considerable delays since Saudi Crown Prince Muhammad bin Salman (MBS) first announced Aramco's IPO as integral to the diversification strategy of Vision 2030, the decision to proceed on the Saudi Tadawul incorporates key political, economic and security considerations. This IPO is not only vital to the Kingdom's long term economic goals, but MBS also needs the political success to shore up Saudi's domestic and international reputation in the face of the Khashoggi murder last year, the resource-draining conflict in Yemen, and recent attacks on Saudi oil fields by Iranian proxies.

A strong valuation for Aramco is central to the aspirations of Vision 2030. However, it will not achieve the \$2 trillion figure MBS desires due to reduced global demand for oil and current geopolitical instability. Primary investors are likely to be wealthy Saudis who regard purchasing shares in Aramco as a patriotic duty, alongside sovereign wealth funds in Russia and Asia courting the royal family in Riyadh. This, MBS hopes, will ensure a high, stable valuation for the national institution. Listing on the Tadawul, rather than London or New York, also insulates Aramco from the more stringent transparency regulations of the international financial markets. The timing of the listing is likely motivated by fears of a further dip in oil prices; economic growth for Saudi Arabia in 2019 was just 0.5 per cent due to a decline in oil revenue.

OUTLOOK

Whilst limited, the IPO of the world's most profitable but notoriously opaque organisation, could create more instability for the Kingdom in the short term. Domestically, there is the possibility of a political backlash if Saudi shareholders get burned. However, MBS's control of the banking industry will temper the financial risks wealthy Saudi investors face, with loosened lending regulations. Geopolitically, the danger of increasing tensions with Iran, exacerbated by the war in Yemen, render Aramco's oil fields vulnerable to further attacks that could impact production, and therefore share prices. With this in mind, the IPO could act as a stabilising force, incentivising a more cooperative stance towards Iran to diffuse the risk of further attacks. In the longer term, Aramco will have to develop a more transparent institutional culture to satisfy international investors. The Kingdom has already jumped up in the World Bank's Ease of Doing Business index by 30 places from 2019 to 2020, and this trajectory is likely to continue.