

## GCC IPO market weathers the storm

Florence Eid-Oakden, Ph.D, Chief Economist  
Ghalia Al Bajali, Analyst

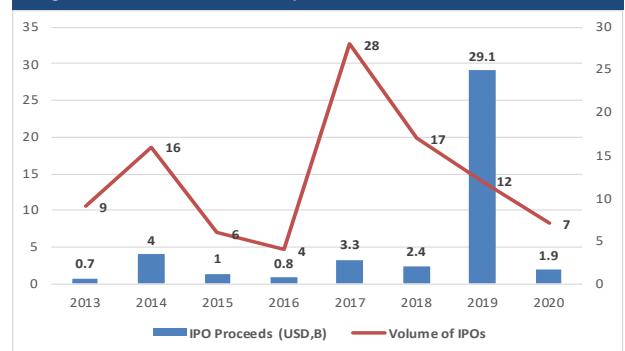
- While the pace of IPOs across the GCC in 2020 has cooled from a record performance in 2019, the market remained active, particularly in H2 of 2020
- Saudi Arabia is expected to lead the primary market again this year on the back of government support as the country seeks to deepen its capital markets.
- Pick-up in GCC IPOs will be influenced by the longevity of the pandemic, by the oil price recovery, and by how swiftly economic wheels start to turn again.

### GCC IPO Markets: Down but not out

Despite the headwinds brought on by the pandemic and the longer-than-expected period of low oil prices, the GCC's primary market has been able to sustain a relatively solid level of IPO activity in 2020. We expect IPO performance to continue its upward trend this year.

- Overall, global IPO issuance in 2020 reached its highest level in a decade, due in large part to a surge in US and Chinese domestic listings.
  - Issuances by the end of Q4 of 2020 reached to 1,591, a 15% YoY increase from 2019, with proceeds totalling USD 331B, a nearly 42% YoY increase.
- COVID-19 has brought new trends in how companies are choosing to list and raise capital. Most notably the marked increase in Special Purpose Acquisition Companies (SPACs) in the US in 2020, which led to the largest SPAC IPO in history - raising a record of USD 82.1B, a sixfold increase from 2019.
  - In the US and Mainland China, listings in 2020 increased to USD 127B (120% YoY) and USD 74B (77% YoY) in proceeds, respectively.
- In the MENA region, IPO activity remained active as well.
  - IPO issuance in H1 of 2020 was down 11% by volume and 43% in proceeds, with eight offerings listed at USD 900M, compared with the same period last year. But since then, the market sell-off led issuances to pick up.
- Steady activity in the region's IPO arena was primarily led by the GCC. The total number of IPOs from the GCC, on both regional and international exchanges, reached USD 1.8B in 2020, with 7 issuances in total.
  - While this is a significant decline compared with the USD 29B in proceeds and 12 issuances from 2019, the high level of capital raised then was due to the record-breaking IPO of Saudi Aramco.
- Saudi Arabia's bourse led the GCC with net IPO proceeds in 2020 of USD 1.5B - 78% of total issuances in the GCC in the primary markets, with four of the seven IPOs listed on the Tadawul, the Saudi Stock Exchange.
  - For context, this was higher than the USD 1.3B worth of IPOs issued in Germany during the same year.
- The kingdom, which wants to deepen its capital markets, has been encouraging family-owned or closely held companies to list publicly. Top deals include:
  - Dr Sulaiman Al Habib Medical Services, a local healthcare operator which witnessed the largest IPO in the region in 2020. Proceeds of the deal totalled nearly USD 700M from the 15% of total shares issued.
  - This was followed by BinDawood Holding Company, a supermarket retailer that manages over 70 hypermarkets across Saudi Arabia. From the 20% stake listed, the company raised USD 585M.
- Qatar witnessed the second largest primary issuance in the region, with the IPO of QLM Life & Medical Insurance Company, which raised USD 178M in December 2020.

Figure 1 - GCC IPO Activity<sup>1</sup>



- Meanwhile, the UAE re-entered the market with the issuance of Al Mal Capital REIT worth USD 95M. Oman Aman REIF also drew investor attention earlier in the year raising USD 52M after it sold 50% of its shares.

### 2021: Issuance aplenty for GCC

Looking ahead, Saudi Arabia is set to lead the IPO market once again this year, as deals are already lining up - around 15 listings are expected to be issued. The UAE is also expected to drive the pipeline following the weak equity-listing activity last year.

- On 17 January, Saudi Arabia's Projects Support Fund Initiative signed an agreement with Tadawul to provide USD 2.7B in economic stimulus for listed companies.
  - The initiative targets private sector companies in the healthcare, education and large real estate development sectors.
- In Q3 of 2020, Saudi Arabia's Tadawul launched its first derivatives market, as part of the Financial Sector Development Program's key initiatives under Saudi Vision 2030.
  - Tadawul is also laying the groundwork for its own IPO which is expected this year.
  - This marks a significant step in introducing sophisticated market products and creating a trading environment attractive to local and international traders.
- Additionally, Saudi Basic Industrial Corp (SABIC), valued at USD 84B and majority owned by Saudi Aramco, is planning an IPO for its speciality chemical unit to raise USD 500M in the coming months.
  - The unit generates around USD 2B in revenue each year. The listing, which is still in the planning stage, is set to coincide with the company's restructuring plans and is expected to be the second-largest deal for the country after Saudi Aramco in 2019.
- Separately, Saudi White Cement Company has been listed on the Nomu Parallel Market, setting Saudi Arabia's bourse as the first GCC exchange to allow direct listings.
  - This allows access to a broader spectrum of investors as Nomu is an alternative equity market with lighter listing requirements compared to the main market.
- For the UAE, the IPO market is set for a major upswing this year. Among the key drivers will be the Dubai Expo in H2 of 2021 and the launch of the Nasdaq Dubai Growth Market in October 2020, which allows SME companies valued below USD 250M to list publicly.
- Given the high financing needs coming from mounting fiscal pressures, and the acceleration of diversification plans, we expect to see strong activity in capital markets across the GCC countries. Downside risks, however, remain.
  - Activity in 2021 will depend on the performance and the volatility of the secondary market and the pace of economic growth, which remains contingent on the speed and success of vaccine deployment.

<sup>1</sup> Arabia Montior; PWC, Bloomberg, Kamco Invest.

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**Arabia Monitor**  
Aston House | Cornwall Avenue | London N3 1LF  
Tel +44 203 239 4518  
[info@arabiamonitor.com](mailto:info@arabiamonitor.com)  
[www.arabiamonitor.com](http://www.arabiamonitor.com)