

Saudi Arabia: Toward FDI recovery

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- Attendance at the Future Investment Initiative (FII), held on 29-31 October highlighted a bounce back in senior foreign participation, a year after the Khashoggi murder crisis.
- Aramco aims to attract investors to its IPO by foregoing its right to receive a portion of cash dividends on shares, cutting royalties to the state, and allowing non-resident institutional foreign investors to subscribe.
- Uncertainty regarding the global economic slowdown and its potential effect on the oil market could soften Saudi growth, although the non-oil economy will strengthen.

Davos in the Desert bounces back

Saudi Arabia continues to present a favourable risk/reward trade-off crucial to reversing the lower-than-average FDI performance of the last two years. The FII highlighted a resumption in interest from foreign investors, a year after some shunned it over the murder of journalist Jamal Khashoggi in the Saudi consulate in Istanbul.

- The third edition of the conference -- nicknamed "Davos in the Desert" -- focused on sustainability, tech industry growth and discussions on advancing global industries.
- Following a relative decline last year, there were more than 6,000 attendees at this year's event, including CEOs from Blackrock, Blackstone, SoftBank.
- The US also led a large delegation including Jared Kushner, President Donald Trump's son-in-law and senior adviser.
- Deals worth over USD 20B were signed.
 - The Saudi Arabian General Investment Authority (SAGIA) announced the signing of 23 investment agreements worth USD 15B.
 - Al Alakaria Real Estate company signed a USD 5B deal with Canadian conglomerate and entertainment centre specialist Triple Five Group to develop the kingdom as a tourist destination.
- Aramco signed several agreements including:
 - A deal with US industrial services company Baker Hughes worth USD 230M for investment in artificial intelligence;
 - A USD 1B deal with Spanish metals company Tubacex Group for cladding manufacturing facilities;
 - A joint venture worth USD 600M with emerging markets investor APQ Global;
 - A collaboration on data analytics deal was also signed worth USD 200M with French software giant Dassault Systèmes.

Table 1 - Saudi Arabia Macroeconomic Indicators¹

	2016	2017	2018	2019e*	2020f
Real GDP Growth (%)	1.7	-0.7	2.2	1.9	3.0
Crude Oil Production (M Bpd)	10.5	10.0	10.3	10.2	10.5
Oil GDP Growth (%)	3.6	-3.1	2.8	0.7	3.5
Non-oil GDP Growth (%)	0.2	1.3	2.1	2.9	2.7
CPI Inflation (%)	2.0	-0.9	2.5	-1.1	2.2
Fiscal Balance (% of GDP)	-17.2	-9.2	-5.9	-6.5	-5.1
C/A Balance (% of GDP)	-3.7	1.5	9.2	6.9	6.0
Total Gov't. Gross Debt (% of GDP)	13.1	17.2	19.1	23.0	24.7
Total Gross Extn'l Debt (% of GDP)	24.6	34.8	37.0	40.2	42.2
Gross Official Reserves (Mos. of Imports)	31.7	27.9	26.7	26.5	25.8
Nominal GDP (USD B)	645.0	689.0	782.0	786.0	813.0
Population (Millions)	32.4	33.1	33.7	34.2	34.8

- Other deals included a USD 120M agreement between SAGIA and Brazil's BRF Foods, and a USD 700M deal with Modular Middle East to set up operations in the kingdom.
- According to Invest Saudi Arabia's Fall 2019 Investment report, launched on the sidelines of the FII, over 250 overseas businesses were granted investor licenses in Q3 2019, marking a 30% increase over the same period last year.
 - Arabia's ranking improved in the World Bank's Doing Business Index 2020, rising 30 places to 62 in the list from a year ago.
 - o Among sub-indices, the kingdom's "Starting a Business" ranking notably improved to 38 from 141.
 - o A number of initiatives were launched by various entities over the past couple of years, such as SME-booster Monshaat, which have helped in this advancement.

Aramco gets green light

The long-awaited Saudi Aramco IPO is set to start trading in December on the Riyadh stock exchange (Tadawul).

- Aramco is looking to float a 1% to 2% stake on the Tadawul, raising as much as USD 40B.
 - Should Aramco raise more than USD 25B, it would become the largest IPO since Alibaba's in 2014.
 - Over USD 28B would make it the largest ever, taking inflation into account.
- Vision 2030 calls on Aramco to diversify down the value chain and become more integrated, without increasing its oil capacity.
 - For now, it will stick to its maximum capacity of 12 Mb/d (12.5 Mb/d including its share of the Neutral Zone with Kuwait, which remains shut down with no major signs of a restart).
 - Based on an anticipated rise in production, the Saudi government expects annual oil revenues to increase by 80% by 2023.

¹ Arabia Monitor; IMF.

* Subject to downward revision.

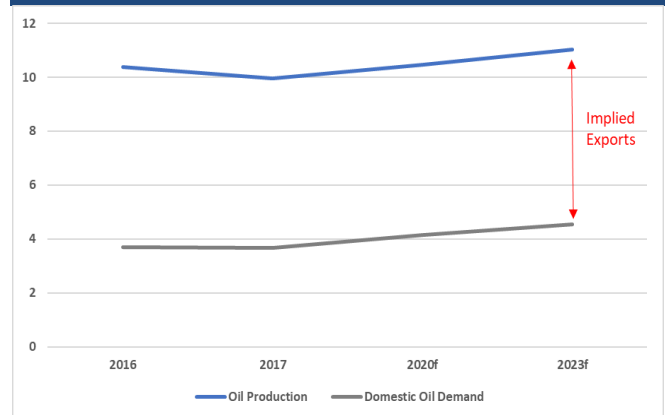
- The government forecasts oil revenues to reach USD 213.7B in 2023 (at a Brent oil price of USD 75 per barrel (pb) and a Saudi export price of USD 73 pb) from the expected USD 117.3B in 2017. This would be consistent with average production of 9.95 Mb/d and domestic consumption of 3.67 Mb/d at a Saudi export price of USD 51 pb.
- Over the last two years, Aramco has accounted for about one in every eight barrels of crude oil produced globally.
 - The company's net 2019 income at the end of Q3 stood at USD 21B, about six-times that of other oil giants such as ExxonMobil Corp.
- In its offering, Saudi Arabia and the company are presenting benefits to foreign investors, including;
 - Giving priority to new shareholders by foregoing the company's right to receive a portion of cash dividends on shares;
 - Cutting royalties the company pays to the state to 20% from 50% from 1 January 2020, and;
 - Allowing non-resident institutional foreign investors to subscribe.
- The IPO will open up Aramco to new perspectives, but is unlikely to change its fundamental approach to business, or its role in managing oil markets, even if this is notionally delegated to government bodies overseeing Aramco.

Non-oil macro story momentum

Saudi Arabia is expecting economic growth for the year to be slower than it had earlier assumed. But while continued structural reforms will place some pressure on growth in the short-term, recent data on non-oil indicators have been positive.

- While no breakdown between oil and non-oil was provided, the Ministry of Finance forecasts overall growth to average 1.9% between 2019 and 2022.
 - The IMF is also forecasting 1.9% growth for 2019. But the uncertainty regarding the global economic slowdown and its potential effect on the oil market could soften growth.
 - Brent prices dropped by 5% in October to an average of USD 62 pb versus highs of USD 81 pb seen in the same period last year.
 - While part of the decline was due to the quicker- than-anticipated restoration in Saudi oil production, prices also dropped as a result of the global trade war.
 - More broadly also, uncertainty from this trade tension is clouding the outlook for oil demand growth.
 - The World Bank has projected that Saudi Arabia's economy will grow by 1.6% in 2020 and 2.2% in 2021, noting announced reforms to boost the private sector in the kingdom.

Figure 2 – Saudi Production & Implied Exports (Mb/d)²



- Data on Q2 2019 real GDP showed the economy grew by 0.5% from a year earlier, down from annual growth of 1.6% in Q1. The oil sector declined by 3%, while non-oil GDP rose by 2.9%.
- For the non-oil sector, which the kingdom is seeking to expand, notably through its Vision 2030 programmes, growth is expected to be stimulated by expansionary fiscal policy.
 - While continued structural reforms will place some pressure on growth in the short-term, recent data on non-oil indicators have been positive.
 - Improving point-of-sale transactions in September (+26% YoY), increases in ATM transactions (+2.8% YoY) and declining deflation indicate improving consumer spending in the economy.
 - Credit to the private sector continued to rise in September (+3.8% YoY), while bank claims to the public sector rose in September (+23.7% YoY).
- However, non-oil exports continued to decline in August for the seventh month in a row, down by 5.6% YoY.
 - This was mainly driven by a 13% YoY drop in rubber and plastic exports, despite a 15% YoY rise in petrochemical exports during that month, accounting for 33% of total exports.
 - Non-oil imports also declined by 2.8% YoY in August, driven by a 15% YoY drop in imports of “other commodities”, partially offset by 10% YoY rises in machinery & electrical exports and transport & equipment, together constituting 40% of the total imports.
 - Meanwhile, China continued to be the top export destination and also the largest import country in August.
 - Any further slowdown in China and/or official pullback from stimulus would, of course, have a proportional impact on Saudi trade with Beijing.

² Arabia Monitor; BP statistical Outlook.

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