

A vintage year for Gulf IPOs

This year has seen a resurgence of activity in the Middle East equity capital markets, with players such as National Commercial Bank and Qatar Petroleum in the spotlight and growing interest from both regional and international investors in GCC stock exchanges. ANDREW TARBUCK, HARJ RAI and OLIVER SIMPSON provide an overview of recent events.



EQUITY CAPITAL MARKETS

By Andrew Tarbuck, Harj Rai & Oliver Simpson

A busy year on the Tadawul

2014 has proven to be the busiest year in the region's equity capital markets since the global financial crisis. By far the most active securities exchange has been Saudi Arabia's Tadawul, which has seen a number of new listings this year, led most recently by the enormous IPO by the National Commercial Bank (Al Ahli) of 25% of its shares. The US\$6 billion IPO was the largest ever in Saudi Arabia and the wider Arab world and ranks as the second-largest globally in 2014, beaten only by the world record-breaking IPO of Alibaba in New York.

While National Commercial Bank (NCB) was undoubtedly the highest profile IPO in Saudi Arabia this year to date, it was not alone. Other equity offerings on the Tadawul included those by Al Hammadi Company for Development and Investment, Abdul Mohsen Al Hokair Group for Tourism and Development, Umm Al-Qura Cement Co and Saudi Marketing Company. In September 2014, the Saudi Arabian Capital Markets Authority gave its approval for an anticipated US\$1.5 billion rights issue by the Saudi Arabian Mining Company (Ma'aden). All of this activity has confirmed the Tadawul's standing as by far the largest securities exchange in the GCC countries by market capitalization, the most liquid in terms of daily trading volumes, and the most diversified in terms of issuers.

NCB and Mesaieed: Two government-owned companies part-privatized through signature IPOs

NCB is majority-owned by the Saudi government through the Public Investment Fund (PIF), and its IPO

this year represents a major policy achievement on the part of the PIF and the Saudi government to part-privatize the kingdom's largest bank and put shares into the hands of ordinary Saudi citizens. It follows in a similar vein from the US\$880 million IPO of Mesaieed Petrochemical Holding Company (MPHC) in Qatar earlier in the year. The MPHC IPO saw state-owned Qatar Petroleum consolidate its holdings in three petrochemical units – Q-Chem I, Q-Chem II and Qatar Vinyl Company. The subsequent listing of MPHC's shares on the Qatar Exchange included innovative features to ensure maximum participation among Qatari nationals, including disadvantaged groups. The IPOs of NCB and MPHC were both highly over-subscribed (in NCB's case, 23 times oversubscribed) and were nationally significant events in their respective countries.

Opening up the Tadawul to foreign investors

Interest in the Tadawul has also increased among international investors, following the Saudi Arabian Capital Markets Authority's August 2014 publication of draft regulations that will for the first time permit non-Saudi nationals to trade directly on the kingdom's securities exchange. The final rules are expected to be announced sometime in 2015. Once in force, eligible foreign investors will benefit from the opportunity to invest directly in Tadawul-listed companies. In order to access the Tadawul directly, a foreign investor will be subject to a registration regime and must be a "qualified financial institution" as defined in the draft regulations – a definition that effectively prevents all but the very largest foreign institutional investors from being eligible. The draft regulations propose that a "qualified financial institution" must have assets under management of at least US\$5 billion. However, although the opening up of the Tadawul is limited (at least for now), it represents a significant change in Saudi Arabia's capital markets policy.

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MSCI upgrades take effect in the UAE and Qatar

Elsewhere in the Middle East region, the capital markets have been active, although not at the level and depth seen in Saudi Arabia. With effect from May of this year, MSCI – the influential US-based provider of investment decision tools and risk and performance analytics – upgraded both the UAE and Qatar from 'frontier market' to 'emerging market' status. The UAE and Qatar were the only countries upgraded as part of the review. Regulators and market participants in both countries had been hoping for the upgrade, and the news led to significant share price rises on the Qatar Exchange, the Abu Dhabi Securities Exchange and the Dubai Financial Market. The timing of the upgrades this year was particularly opportune, coming during a period of general speculation regarding a number of possible new IPOs in both the UAE and Qatar.

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‘Emerging market’ status is among the criteria used by a large number of institutional investors and private equity funds to identify markets in which they can invest. Reports say the upgrade may draw as much as US\$500 million of new investment into UAE and Qatari securities with the entry of foreign institutional investors and passive or index-tracking investors.

The upgrade by MSCI recognizes advances made by both Qatar and the UAE towards liberalization, enhanced liquidity, technical developments in their settlement and trading regimes, and relaxation of foreign ownership restrictions, although these have by no means been abolished. The promotion to ‘emerging market’ status is also seen as a more general boost for Qatar and the UAE, and an endorsement of their economic stability and business model, as they join the ranks of other emerging markets such as the BRICS (Brazil, Russia, India, China and South Africa) as well as other emerging economies such as Mexico, Turkey and South Korea.

No upgrade for other GCC jurisdictions – yet

A busy year on the Tadawul will no doubt assist Saudi Arabia in seeking a similar upgrade. Bahrain, Kuwait and Oman are still classified as ‘frontier markets’. Morocco was downgraded from ‘emerging market’ to ‘frontier market’ status, due to failure to meet minimum liquidity levels. Both Qatar and the UAE will need to continue to



encourage liquidity, which has at times been a challenge in both countries’ capital markets.

Regional equity capital markets round-up

The most active equity capital markets in the GCC region after the Saudi Tadawul have undoubtedly been those in the UAE. 2014 saw the successful listing of Emirates REIT on the NASDAQ Dubai securities exchange in the Dubai International Financial Center (DIFC) as well as the online retailer Marka VIP on the Dubai Financial Market (DFM). The year has seen two key capital markets offerings by Dubai-based real estate developers. In the summer, DAMAC

Properties launched an offer to the holders of its London-listed global depositary receipts (GDRs) to exchange their GDRs for shares in DAMAC, to be subsequently listed on the DFM. In September, EMAAR launched the IPO of its subsidiary EMAAR Malls Group PJSC, which owns and operates the Dubai Mall and Dubai Marina Mall. Each transaction represents a growing sophistication in the UAE’s capital markets. DAMAC’s exchange offer was the first of its kind in the UAE; while the EMAAR Malls IPO is the first time that an already-listed parent company in the UAE (EMAAR Properties PJSC) has spun off and listed a subsidiary.

Elsewhere in the GCC, 2014 witnessed the IPOs of two power companies in Oman – Al Suwadi and Al Batinah – as well as Al Maha Ceramics, and the offering of 48 million new shares in the Bahraini unit of the telecommunications group Zain. On the Qatar Exchange, the admission of Mesaieed Petrochemical Holding Company was joined by a QAR437 million (US\$120 million) rights issue by Doha Insurance. Overall, 2014 has been a busy and positive year in the GCC’s equity capital markets, with the promise of further activity into 2015, especially with the recently announced reforms for the Tadawul.☺

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