



SAUDI ARAMCO: WHATS THE BIG DEAL WITH THIS REALLY BIG DEAL

The month of December will bring an unprecedented event within the energy sector. On December 4th, Saudi Arabia's state-owned oil company, Saudi Aramco, is hoping to raise approximately USD\$25.60 billion in an initial public offering (IPO). This IPO has the potential of becoming the largest offering in history, sneaking by the Alibaba Group offering of USD\$25.03 billion back in 2014. Once the shares being sold make their way out of state-owned hands and into those of private investors, Saudi Aramco will become the largest publicly traded company in the world. To put this into perspective, Amazon is currently the largest company with a market capitalization of approximately USD\$800 billion. Although the valuation of Saudi Aramco has not been finalized, estimates range between USD\$1.6 trillion to USD\$1.7 trillion, a range that would catapult the company to the top of the valuation list. Perhaps you jumped ahead and did the math already, but at an IPO of USD\$25.60 billion would represent approximately 1.7% stake of the company. This means Saudi Arabia would retain ownership of the lion's share of Saudi Aramco; approximately 98%. Intrigued yet? We are as well.





Now that we've laid out some of the context, what could this IPO mean for investors and their portfolios? Here's a few worthwhile considerations.

Public Investment Fund of Saudi Arabia sending a signal to the world:

- Back in 2017, 32-year-old Prince Mohammed declared that the Public Investment Fund of Saudi Arabia was going to begin diversifying away from energy, taking a more strategic approach to investing. This would include infrastructure projects, real estate, technology and other institutional investments. Although Saudi Arabia has made this claim before, with energy prices at benign levels and coming from a prince who has become known for making dramatic social change, the announcement seemed to carry more weight. If the largest sovereign wealth fund in the world, at USD\$320 Billion, which also happens to be in the backyard of the largest oil producer globally, is diversifying away from energy, perhaps this is sending a signal to investors.

Lack of Access:

- The IPO of Saudi Aramco is a behemoth. However, the shares will only be listed on the Tadawul (Saudi Arabian) stock exchange. For this reason, the investor pool is likely to consist of sovereign wealth funds, large institutions, strategic investors and locals. Given the size of the deal, support from these large investment pools of capital, also referred to as "cornerstone investors", will be critical. Beyond that, the deal may not garner a great deal of mainstream investor support; unless everyone rushes to open a Tadawul e-trade account, however we think this is unlikely.

Valuation:

- When it comes to IPO valuations, companies enjoy making a statement. With the potential of being the largest IPO in history, this one certainly will. From the perspective of Saudi Arabia, they would like to set the mark as high as possible. Investment bankers involved in the deal have influenced the valuation. Although they are hired to market the shares of the offering in good faith, this can be easier said than done. Some might question if they're incentivized to "price it right". Pricing it strategically, at an attractive valuation for investors, could help set the share price on a positive trajectory. Investors will also have a keen eye on what the price means for the dividend yield of the investment. At a USD\$1.6 to USD\$1.7 trillion-dollar valuation, the yield would be approximately 4.4% to 4.7%. That compares to Exxon Mobil at 5% and Shell at 6.4%. Will this lower yield be enough to entice the institutional and "cornerstone" investor base? Some have their doubts, including ourselves.

**Lack of Influence:**

- With the Saudi Arabian government retaining over 95% ownership in the state-owned company, analysts have some concern whether the powers that be will operate in the best interest of shareholders. With public shareholders owning a meager 1.5% to 2% of the company, will they be able to protect their interests, or will they simply be along for the ride? These risks exist with other state-owned enterprises, such as Gazprom in Russia, but are worth noting in this case as well.

Political Landscape:

- Perhaps there's an aspect to this deal that goes beyond the money, risk and return. There may be sovereign wealth funds in the world looking to benefit politically by making an investment in Saudi Aramco, positioning themselves strategically within the political arena. Admittedly, we would view this as bordering on a conspiracy theory, but with the current geo-political disorder in the world it's hard to not consider it as a possibility.

Overall, the deal is poised to be the largest public offering in history and could influence the energy sector outside of the Tadawul exchange. If it is priced strategically and goes well, this could potentially re-invigorate an energy sector that has been vastly ignored for the last 24 months. The sector still faces some major challenges, particularly here in Canada, but perhaps this could be a positive catalyst. On the other hand, if the deal goes poorly, it could add salt to the wound of a sector that has struggled to stop the bleeding. As an investment manager, from our perspective the deal is notable however our investment process is focused on key investment factors. Analyzing key fundamentals is central to our process and discipline. To that end, although we are keen to support the companies here in our backyard, these key investment factors have been suggesting that the energy sector is not an efficient place to allocate capital for the time being, outside of a select few exceptions. Although focusing on fundamentals may be boring to some, it is critical in how we manage money and is the basis for protecting and growing capital on behalf of our clients. If you have interest in hearing more about the key investment factors that drive our investment selection process, we would encourage you to contact a Matco Financial representative.

TREVOR GALON, CFA

Chief Investment Officer

tgalon@matcofinancial.ca



MATCO FINANCIAL INC.

Originally founded in 2006 to manage and service seven family offices, today Matco offers the benefits of our extensive investment management experience to individual investors, foundations, endowments, condominium corporations, trusts, corporations and not-for-profit organizations.

Our mission is to simplify the investment world for our clients by understanding their needs and providing exceptional investment solutions that preserve and grow capital.

For more information please visit www.matcofinancialinc.com

Matco Financial is an independent, privately held discretionary investment counsellor and asset management firm that serves the needs of individual investors, institutions, advisors, trusts, corporations and not-for-profit organizations. Matco provides investment advisory services to investors on a discretionary basis through mutual funds and separately managed accounts. This communication is intended for information purposes only and does not constitute an offer or solicitation by anyone in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Matco Financial Inc. makes no representations as to the accuracy or any other aspect of information contained in other websites. All statements that look forward in time or include anything other than historical information are subject to risks and uncertainties and are not guarantees of future performance. Investors should not rely on forward looking statements. Actual results, actions or events, could differ materially from those set forth in the forward looking statements.

*Copyright © *2016* Matco Financial Inc., All rights reserved.*

Our mailing address is:

400, 407 - 8th Avenue SW
Calgary, AB T2P 1E5

Phone: 403.539.5740
Fax: 403.539.5744

www.matcofinancialinc.com

Want to change how you receive these emails?
[unsubscribe from this list](#) [update subscription preferences](#)