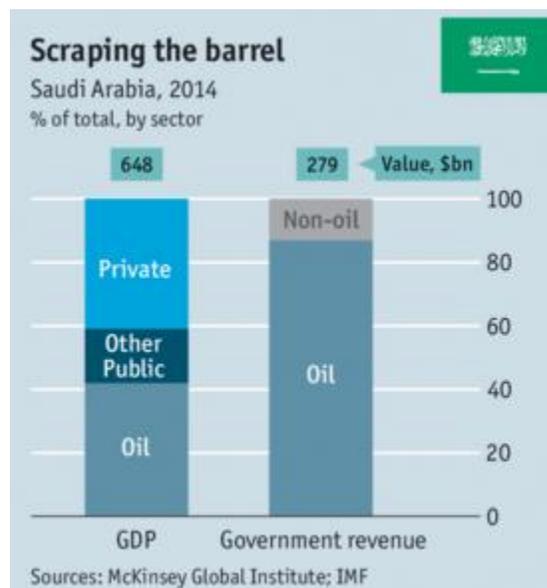
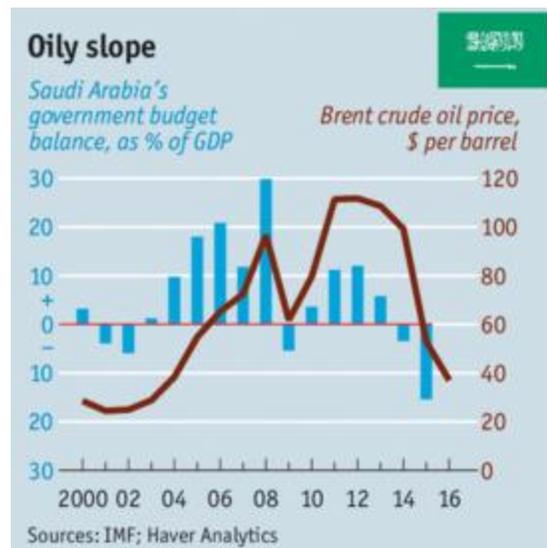


- **INGOT BROKERS
SAUDI ARAMCO
REPORT**

Since Prince Mohammad bin Salman was appointed head of the defence ministry and the Council for Economic and Development Affairs, Saudi Arabia undergoing a “Thatcherite revolution” with a number of plans for a drastic overhaul of the economy. As part of this, Saudi Arabia is deliberating a stock market floatation of the state owned oil entity Saudi Aramco. The kingdom faces the daunting challenge of adjusting to the new \$100 per barrel age thanks to a policy they have adopted to protect market share by maintaining oil production. In an official statement, Saudi Aramco confirmed they are considering “listing in the capital markets of an appropriate percentage of the Company’s shares and/or the listing of a bundle of its downstream subsidiaries.”

Oil price collapse

The catalyst for the slew of economic reforms in Saudi is of course the recent tumble in oil prices. In 18 months the oil price has tumbled over 75%. The IPO announcement comes as the state is struggling to manage its mounting budget deficit as the dependence on oil leaves the government’s budget in disarray. Even after budget cuts last year Saudi Arabia reported a budget deficit of 15% of GDP in 2015. With the price of oil falling from \$115 per barrel in 2014 to \$28 per barrel, the country has had to rely on foreign exchange reserves to balance the books. As a result foreign reserves have fallen by \$100 billion, to \$650 billion. The collapse of the oil price serves as a wake-up call; an over-reliance on oil has led to bad practices. With oil currently trading lower than the depths reached during the height of the financial crisis. There has been a relentless surge in production from OPEC and non-OPEC producers as players compete to maintain market share. Goldman Sachs estimates that demand is outstripped demand by 1.5 million barrels per day in Q42015. With the introduction of Iranian barrels to the glutted market and production levels not budging Goldman Sachs is taking a bearish stance with respect to the outlook for 2016. More than



500,000 barrels per day are expected to flood into the market once the sanctions linked to Iran's nuclear program are lifted by the U.S. and EU. Goldman is currently estimating the bottom at \$20 per barrel before producers are forced out of the market. With this in mind, Aramco is forced to tighten its belt and reevaluate the fiscal budget. Prince Mohammad bin Salman views the collapse should be seen as an opportunity to clean up Saudi finances and diversify the economy.

Budget reforms

The prince unveiled his budget in December is targeting subsidies on water, energy and fuel, which cost the treasury 13.2 per cent of gross domestic product, less than half of which go to households. The government has slashed public spending by a quarter, raised \$27bn through local debt issuance last year and is considering an international bond programme in 2016. The \$80bn in cuts, bringing spending down to \$267bn, will be followed by more austerity as the government looks at a budget of \$229bn-\$240bn.

To raise government revenue serious consideration is being given to an IPO of the nation's state owned oil company and sell stakes in state assets in areas ranging from telecoms to power stations and the national airline. The government plans to sell off land to developers, such as the 4 million square metres it owns around Mecca, the most expensive real estate in the world, with the view of increasing tourism to holy sites. Within five years, the plan is that Saudis will be paying market prices, with compensation for low income households in the form of direct payments. Added to this, Saudi's will be required to pay value-added tax of 5% on non-essentials, in a move co-ordinated with members of Gulf Co-operation Council.

Valuing Saudi Aramco

The secretive national oil and gas producer, a large and complex company, has stated it has hydrocarbon reserves amounting to 261 billion barrels of oil, more than 10 times that of ExxonMobil, the largest listed company worth \$323 billion. Aramco is a swing producer with output at 10 million barrels per day and producing one in every eight barrels of oil in the world. Added to this the company's domestic and overseas refining assets, estimates floating around are putting the Saudi Aramco valuation at approximately \$2.4-3 trillion. If a small slice of its shares were to be placed on the Saudi stock exchange, it would increase substantially, boosting the domestic stock market.

In terms of the size of the IPO, the initial talks are indicating that it could be around 5% as the Saudi's are wary about relinquishing too much control to external investors. In terms of efficiency the company is second only to Kuwait as it produces oil at the lowest breakeven cost which will no doubt attract a premium. However, in order to be listed on any international exchange such as London or New York, the oil giant will be required to reveal more to investors about the company. If there is some resistance to providing information, we may see a discount attached to the share valuation as a result of this.