

An aerial photograph of the Middle East region, including Saudi Arabia, Iraq, and parts of Turkey and Iran. The image is overlaid with a blue and green color scheme, highlighting the geographical features and the Persian Gulf. The word "ARCAPITA" is written in white capital letters in the top left corner.

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Privatization in the GCC

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Historically, oil-dependent GCC economies have been exposed to fluctuating oil prices. This has been a major driver for diversification and privatization efforts undertaken by member countries. The demand shock caused by the Covid pandemic saw oil prices drop significantly, worsening the strain on fiscal budgets. Despite sharply increasing oil prices resulting from global geopolitical instability, developing the private sector has become an integral part of the economic diversification initiatives undertaken in the region. Privatization programs and initiatives are a government focus in the region, which is witnessing a series of privatizations of state-owned companies, with the aims of enhancing the size and scale of capital markets and creating sovereign liquidity to finance other economic projects.

Saudi Arabia has had several successful IPOs starting with Saudi Aramco in 2019, which was three times oversubscribed, and raised USD 29.4 billion. Aramco listed at USD 8.53 per share and is currently trading at USD 10.25¹. Saudi Arabia also listed its utility, ACWA Power, in 2021, raising USD 1.21 billion. The UAE had multiple successful IPOs so far this year: AD Ports listed on Abu Dhabi Exchange (ADX) in February, raising USD 1.1 billion; Dubai Electricity and Water Authority list on Dubai Financial Market Exchange in April, raising USD 6.1 billion (37 times oversubscribed); Borouge listed on the ADX in June, raising USD 2 billion (42 times oversubscribed); Tecom listed in July, raising USD 463 million.

Developing the private sector has become an integral part of the economic diversification initiatives undertaken in the region



Dubai aims to increase market capitalization of its capital markets to USD 820 billion by 2025². It plans to list a number of state-owned companies, of which Salik and Empower have been announced, in addition to those listed above. Saudi Arabia is revisiting its plan to issue more shares in Aramco. It is considering selling up to another 2.5% of Aramco, equating to approximately USD 50 billion at current valuation³ and a potential dual listing in London or Singapore, with proceeds going to PIF to invest in non-hydrocarbon sectors.⁴

¹ Close July 18th 2022
² <https://www.ft.com/content/765e67a4-832b-420d-b216-da6dca6fb38d>
³ Close July 18th 2022
⁴ Saudi Aramco Looks to Sell \$50 Billion Stake in Fresh Share Listing - WSJ

GCC countries have been considering privatization programs since the 1990s. The move towards privatization in the GCC region required the enactment of privatization laws. Saudi Arabia, as an example, launched a privatization program in 2018 as part of its Vision 2030. The Private Sector Participation Law was enacted last July, targeting privatization across 16 different sectors, aiming to increase the private sector's contribution to GDP from 40% to 60% by 2030. Saudi Finance minister Mohammed AL Jadaan said that KSA has identified 160 projects across 16 sectors for privatization with the aim of raising USD 55 billion by 2025. The majority, USD 38 billion, is expected to be raised through asset sales, while the remaining will be raised through public-private partnerships (PPPs).



Privatization initiatives in the GCC will serve multiple objectives. Importantly, privatized entities will attract foreign direct investment into the region. The listings that are happening across GCC will draw international capital into the region, and with it the requisite infrastructure and jobs. Advancing the capital markets in scale, efficiency, and clarity is key to progress in the region. Additionally, privatizations will provide capital to governments for large-scale economic development and diversification schemes. A diversified economy will facilitate more stable future growth.

The primary objective of privatization is to attract foreign direct investment into the region

For private equity investors such as Arcapita, privatization brings new investment opportunities from asset sales and PPPs, as more sectors become open to private investment. Privatization will also provide the need for the enactment of new legislations and laws that would aid in the development of the investment landscape. Public listings of government entities also build credibility, volume, and depth for regional capital markets, elevating them to international standards and developing a more attractive platform for future investment targets and divestments.

It is likely that GCC privatization programs will remain a priority, regardless of prevailing oil prices. The goals of the governments in the region are clear: convert assets to cash via IPOs to build a war chest of funds with which economic development and diversification projects can be pursued, while creating a more robust and efficient capital market of sufficient scale to attract increased foreign investment.

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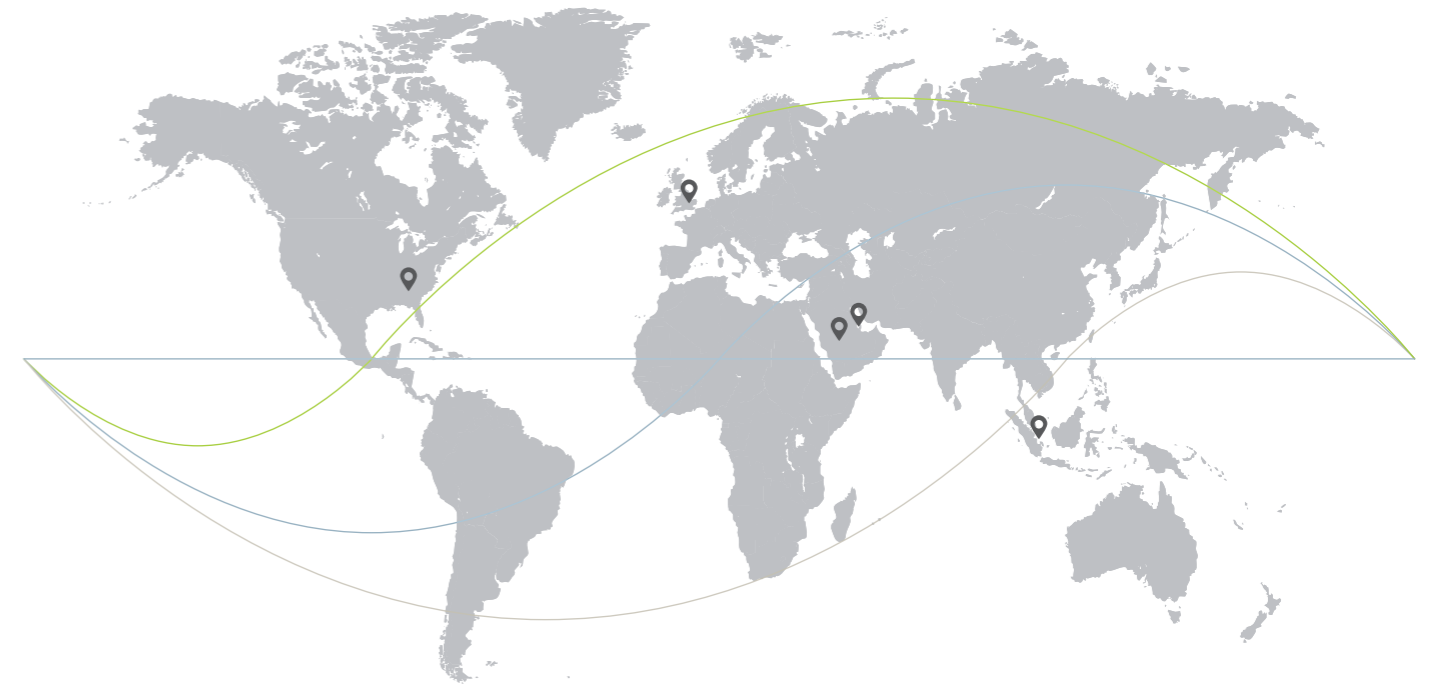
Image source: CNN

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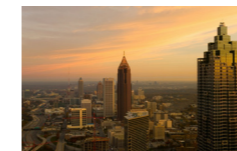
Overview

Arcapita is a premier asset manager offering diverse investment opportunities, focusing on private equity and real estate. At the center of one of the fastest growing wealth markets in the world, Arcapita's management has been serving an exclusive group of investors in the GCC region over the past two decades. With offices in Bahrain, Atlanta, London and Singapore, Arcapita's management team has completed over 90 transactions with a total value of approximately \$30 billion and possesses a footprint to invest on a global scale. Arcapita focuses on defensive and counter-cyclical sectors supported by long-term macroeconomic and demographic trends.

With two decades of experience, Arcapita's management has built a global investment platform to access the opportunities that exist in our core markets of the US, Europe, Middle East and Asia.



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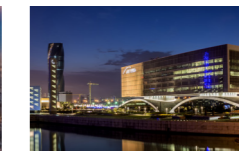
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