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Saudi Aramco likely to hit \$2trln valuation target - experts

There's pent-up demand for investors who are eager to get their hands on Aramco's shares, say experts



By Cleofe Maceda , ZAWYA

Saudi Aramco is poised to meet its valuation target of \$2 trillion and will secure a fast entry into global indices after it begins trading its shares on the Saudi stock exchange, the Tadawul, on December 11, according to analysts who spoke with Zawya.

They did not, however, reveal precisely when the target would be met.

The high pent-up demand from investors, coupled with the state oil giant's decision to reduce production and incentivize those who hold their shares "uninterruptedly" for about six months, is going to drive share prices up and exceed targets, experts said.

Salmaan Khawaja, partner for M&A and transactions advisory at Grant Thornton UAE, said the initial public offering (IPO) was already 4.6 times oversubscribed, an indication that there's a lot of people who are eager to get their hands on Aramco's shares.

"One could, therefore, conclude that there is an expectation for more demand for the Aramco shares and this will likely result in the share price going north in its early days of trading," Khawaja told Zawya.

Following the recent IPO that raised \$25.6 billion, Aramco will kick off trading of its shares on the Saudi stock exchange under the code "2222" from 9:30 a.m. on Wednesday, with a 10 per cent daily price fluctuation limit.

Saudi Arabia's energy minister Prince Abdulaziz bin Salman said he believed that the state-run oil giant is worth more its \$1.7 trillion valuation ahead of its initial public offering set for December 11.

"We believe that the value of the company is way higher than \$1.7 trillion," he told Reuters, adding Aramco had fallen victim to a wider industry downturn which had dropped its valuation below the \$2 trillion that Saudi Crown Prince Mohammed bin Salman had targeted.

Some critics have said that the \$2 trillion target set by Saudi Crown Prince Mohammed bin Salman will not be met, although banks had earlier issued mixed valuations.

HSBC said the state-run oil giant is worth between \$1.59 trillion and \$2.1 trillion, while French bank BNP Paribas pegged the value at more than \$1.4 trillion.

Iyad Abu Hweij, the managing partner at Allied Investment Partners PJSC, said investors will be looking to increase their holding in the stock during the early days of trading, “with the issue being oversubscribed by many folds.”

“[This will create] a potential upside of subscribers who intend to close their positions immediately,” said Hweij. “Additionally, with the special incentives offered to investors who hold the stock for longer periods, we expect to see demand on the stock exceeding supply,” he added.

Besides, Vijay Valecha, chief investment officer of Century Financial said, the latest decision by Saudi Arabia to extend its voluntary reduction of 400,000 barrels of oil per day will “help put a floor on the oil price and support Aramco’s shares.”

Analysts are also unanimous in saying that Aramco’s shares will be admitted quickly into several global indices, including the MSCI, FTSE and S&P. And once that happens, there will be approximately \$2 billion to \$3 billion worth of inflows, according to Valecha.

“With its listing, Aramco will become the largest company on planet earth and this will force the index compilers to fast-track its inclusion,” he said.

“When it comes to being included in indices, size really does matter and that aspect goes in Aramco’s favour here, albeit that the offering represents a relatively small proportion of the company than what would typically be expected for inclusion in the indices,” added Khawaja.

(Writing by Cleofe Maceda; editing by Seban Scaria)