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MARKETS

Saudi Aramco to Become Holding Company With Listed Subsidiaries

The partial initial public offering will be one of the biggest in history

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Saudi Arabia plans to list up to 5% of its state-owned oil company on stock exchanges in Riyadh and possibly the U.S., setting up an IPO that could pose big rewards for bankers and even bigger risks for investors.

Deputy Crown Prince Mohammed bin Salman outlined the plan Monday. He said Saudi Arabian Oil Co., better known as Aramco, was worth between \$2 trillion and \$3 trillion. That means a 5% listing could in theory raise \$100 billion to \$150 billion for the kingdom as it works to defray the impact of the steep drop in oil prices.

The rub is the kingdom will be asking investors to pay up for stakes in a once-private company that was nationalized four decades ago—when the “am” in “Aramco” stood for “American”—and one that remains a vital instrument of state policy.

The tough-to-answer questions include whether the operations that pump the kingdom’s vast oil reserves will be part of the deal, what the company might be worth if they aren’t and whether there will be sufficient protections for the minority of public investors.

The listing also would require a new threshold of public accountability for a secretive state-run company that currently doesn’t disclose its annual revenue, profit or debt. It also could bring new scrutiny to Saudi Arabia’s proven reserves of crude oil, which have stood at around 260 billion barrels for years without significant new finds, even though



Saudi and foreign investors stand in front of the logo of Saudi state oil giant Aramco during the 10th Global Competitiveness Forum on Jan. 25. PHOTO: AGENCE FRANCE-PRESSE/GETTY IMAGES

the company pumps more than three billion barrels of oil or more a year.

“Aramco’s listing has many benefits, the most important and before everything is transparency,” the prince said in an interview with television network Al Arabiya. “It will be under the supervision of all Saudi banks, all analysts, all Saudi thinkers. Even more, all international banks and research and planning centers in the world will monitor it intensively.”

The prince made his comments on Aramco as he announced a plan to transform the kingdom’s oil-dependent economy into one more focused on private enterprise. The Saudis are trying to raise cash during a period of sharply lower oil prices and transition to a world that is less dependent on oil.

Aramco would be jointly listed in Saudi Arabia and possibly the U.S. in a process that could take six to nine months, the prince said.

A top Saudi oil adviser, Ibrahim Muhanna, told The Wall Street Journal last week that New York was the leading contender for the second listing, with London and Hong Kong also in contention.

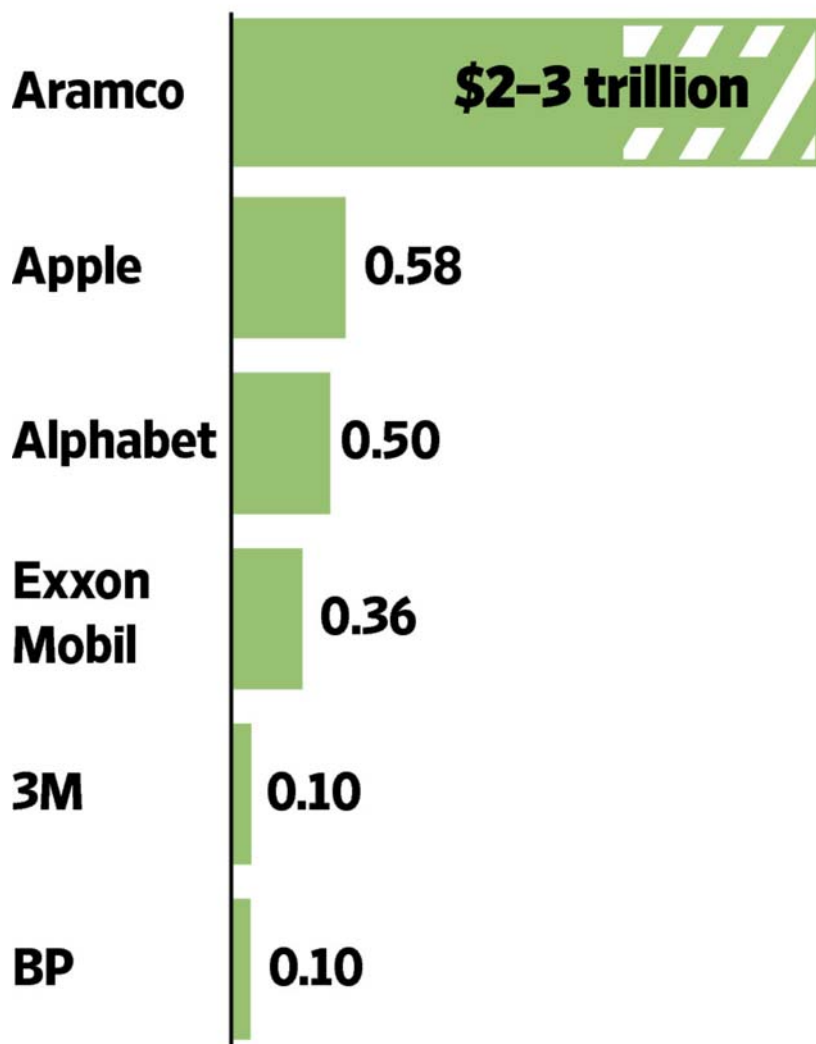
Prince Mohammed first broached the possibility of an initial public offering for Aramco earlier this year. It isn’t clear how he came up with the valuation of \$2 trillion to \$3 trillion.

Still, the prospect of an Aramco listing has sparked a frenzy among bankers, who have set aside early skepticism and now travel regularly to Riyadh in the hope of winning a role in what could become one of the largest IPOs ever.

Despite the deputy crown prince’s comments, one person recently briefed on the kingdom’s plans said officials still are determining how to handle issues around the

New Yardstick

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Sources: Prince Mohammed bin Salman (Aramco); FactSet

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kingdom's oil reserves.

The person reckoned any listing could take at least 12 to 18 months to move forward.

Bankers say no adviser has been retained yet for the IPO. International banks such as J.P. Morgan Chase & Co. have been active in the kingdom for decades and can fall back on close ties with the Saudi government. Consultancy McKinsey & Co. also is playing an important role by advising the Saudi government, these bankers have said.

Aramco likely will push banks to take below-average fees to get a cut of the deal, the person briefed on the kingdom's plans said.

Typically, IPO fees range between 5% and 7% of a deal's size. For deals over \$10 billion, the average fee is 2%, according to Dealogic.

Fees on Aramco likely would come in closer to 1%, the person said.

The person also said the offering likely will be smaller

than current figures suggest and likely will include only the company's refining and petrochemical arms.

The company manages but doesn't own the kingdom's reserves, and a number of Saudi experts and insiders have said Saudi Arabia wouldn't include its production assets in any listing.

Its methods and reserves are tantamount to state secrets.

An offering still could top the largest on record— Alibaba Group Holding Ltd.'s \$25 billion IPO that valued the Chinese e-commerce company at \$169 billion, according to Dealogic. It would easily top the largest oil deal on record—the 2006 \$11 billion IPO of state-controlled Russian oil company, OAO Rosneft.

Robin Mills, nonresident fellow for Energy at the Brookings Doha Center, said Aramco would have to spell out its loyalties to the government and the royal family clearly in any IPO.

It also would have to disclose more details about its reserves production and finances, he said.

“There would also have to be minority shareholder protection and a fiduciary duty for the board,” Mr. Mills said.

Paul Hodges, a special adviser to ICIS, a petrochemicals information company, said the culture change awaiting Aramco would be similar to what Chinese companies went through 15 years ago when that country prepared to enter the World Trade Organization.

“The process of listing will completely change the character of the company, and demand a new openness from its senior management,” Mr. Hodges said.

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