



# Saudi Aramco and the IPO of a Lifetime

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Among the most eagerly anticipated listings of our times, and likely to become the largest Initial Public Offering (IPO) in history, Saudi Aramco, is expected to debut on the energy stock market by the end of the year—and investors all over the world are competing for a piece of it. Aramco is the largest oil producer in the world and generated some \$33.8 billion in the first half of 2017 alone. As the debate around the ‘one in a generation’ listing heats up, it is important to take a closer look at the ‘most profitable company in the world’.

The oil-giant was initially founded by the Standard Oil Co. of California (today’s Chevron) in 1933, when it signed a deal with the Saudi government, creating the Californian-Arabian Standard Oil Company, which turned into the Arabian-American Oil Company—Aramco—in 1944. Saudi Arabia gradually gained ownership of the company, purchasing a 25% stake in 1973, and eventually owning 100% of the company by 1980. Through the national ownership, Aramco has exclusive access to all of Saudi Arabia’s rich oil reserves (the largest in the world at an estimated 265 billion barrels)—some 13 times as large as the reserves booked by Exxon Mobile—the largest independent oil company. Aramco produces over 10 million barrels of oil daily.

The symbiosis between Aramco and the Saudi government has allowed both to flourish and generate massive amounts of wealth. Aramco pays an income tax of 50%, down from 85% since 2017, and an oil price-linked royalty of 20% of revenue at an oil price up to \$70 a barrel, 40% between \$70 and \$100, and 50% when crude oil prices surpass \$100 a barrel. Through these mechanisms, petroleum production remains the key source of income for the Kingdom. Crown Prince Mohamed bin Salman (MbS) aims to change this, with the ambitious ‘Vision 2030’ project, to expand various industries such as tourism, technology, entertainment and fashion, and to diversify the energy sector. The funds needed to turn the vision into reality, however, still needs to be provided by the crude oil production— by Saudi Aramco. Many speculate this was the reason that MbS announced the ambition of opening Aramco up to the public, by making a maximum of 5% of the company available to international investors.

The implications are huge, as Saudi Arabia puts the worth of Aramco at \$2 trillion, which would put the IPO at a massive \$100 billion. To put this into perspective, the largest IPO of all time to date is held by Alibaba Group, having reached \$25 billion. If the Saudi predictions are accurate, Saudi Aramco’s IPO would be as large as all top 5 IPO’s of all time combined.

This offering is a doubly attractive offer because Saudi Aramco is nearly debt free. The company made cash distributions to the government totalling \$13 billion in the first half of 2017, as compared to shareholder payouts of \$6.4 billion by Exxon and \$7.8 billion by Royal Dutch Shell Plc, which, combined, produce less oil than Aramco.

As the race towards the offering enters its last phases, questions of the impact of the lingering oil prices and the recent changes in taxation policy have given room for speculations among investors. However, the massive earnings of Aramco in 2017 speak a different language, as the cost of a barrel averaged a relatively low \$53 in that time. Prices have recovered to some \$70 in 2018, which leads to speculation that the company will net even larger earnings this year. Aramco is working on stabilizing global oil prices through an OPEC/non-OPEC deal, including Russia, which has seen signatories cut production, leading to oil prices significantly recovering from a near all-time low of \$40 a barrel in 2016.

Aramco is much more than an oil company, it is a key player in regional and global market stability, geopolitical security, and a driver of innovation and cooperation through its extensive investments, with capital expenditures twice the amount of its market competitors. As many aspects of this 'blockbuster listing' remain speculative, one thing is certain: The IPO will topple any preceding offerings, and be a vital step in the Kingdoms move away from oil-dependency.

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