

GCC IPOs : 2016 - The Year That Was...

Global event-related surprises and volatility leads to muted GCC IPO activity in 2016

The IPO market in the GCC further halved in 2016, after witnessing muted activity in 2015, and trends exhibited during the year was the lowest seen in fifteen years. Total number of corporate IPOs/listings in the region fell y-o-y to 3 issuances from 6 deals witnessed in 2015. Capital issuances via IPOs also reached its lowest levels since 2013 (USD 702 Mn), as capital raised plunged by 50% y-o-y from 2015 to USD 745 Mn. Corporates looking to enter the market preferred to stay on the sidelines, and were met with periodic surprises throughout 2016. The surprises, mostly event related, included the Brexit outcome and US presidential election results, along continued volatility in oil commodity markets up until the OPEC agreement was reached on a production cut.

Global IPO activity dips to lowest since 2013; APAC continues to provide leadership

Globally as well, IPO trends receded in 2016, albeit at a slower pace compared to the GCC, as the number of IPO issuances fell by 16% to 1,055 deals, while capital raised declined by 33% to USD 132.5 Bn, as per EY. The Asia Pacific region (APAC) reportedly dominated IPO activity globally in 2016 with 60% of the number of deals and 54% of the proceeds raised, as confidence reportedly returned to the Greater China IPO market. The US markets for IPOs witnessed its slowest year since 2009, as per the consultant, both in terms of number of deals and proceeds, as global macroeconomic certainty, market volatility and monetary policy uncertainty led to slower activity. EMEA witnessed divergent trends, as public issuances in developed markets slowed, while emerging markets saw increased activity.

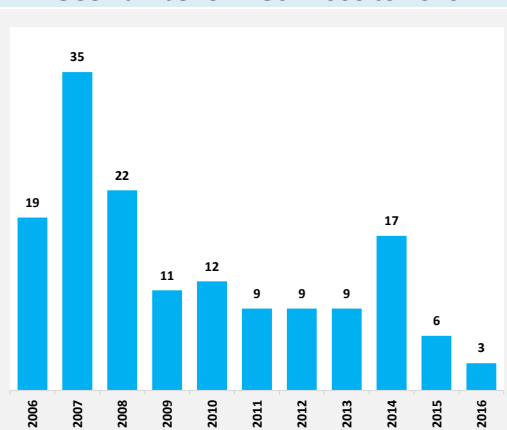
REITs make their way into GCC listings in Q4-16; Qatar starts off 2017 corporate IPO campaign

The silver lining in the GCC public issuances market was the listing of two Real Estate Investment Trusts (REITs) in Q4-16. Riyad REIT, launched by Riyad Capital, which was capitalized at SAR 500 Mn and was listed in November-16 in Saudi Arabia, and realized an upper circuit limit of a 10% daily return on day one post the listing, and finished the year up by 8.2%. Eskin Bank Realty Income Trust from Bahrain which was undersubscribed by 5%, traded on 2 January 2017 at a price of BHD 0.107 per unit. UAE, Bahrain and Saudi Arabia have REIT regulations in place, while Qatar and Kuwait's regulatory authorities are yet to issue regulations for the development of listed REITs. The first IPO that was recorded in 2017 was from Qatar, after its hiatus in 2016, as Investment Holding Group (IHG) looks to raise around QAR 491 Mn at a pricing of QAR 10.1/share by January-2017.

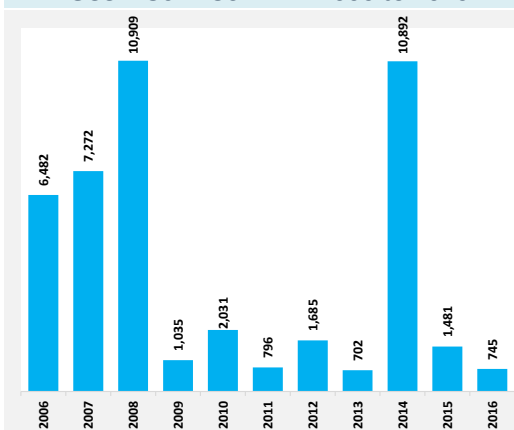
GCC IPO market looking for leadership in 2017; equity valuations and government-sponsored IPOs key

KAMCO Research expects corporates in the GCC IPO market to wait it out, and look for better macroeconomic data points to be visible before entering the market. Corporate issuers would likely look for leadership from larger issuers in terms of activity as well, to confirm positive trends for floatation. Issuers are likely to look at equity market valuations and market performance in early 2017, while firm future timelines from government-sponsored entities such as Aramco should provide much needed confidence for corporate issuers as well.

GCC number of IPOs - 2006 to 2016



GCC IPOs in USD Mn -2006 to 2016



Source: Thomson Reuters, Bloomberg, KAMCO Research

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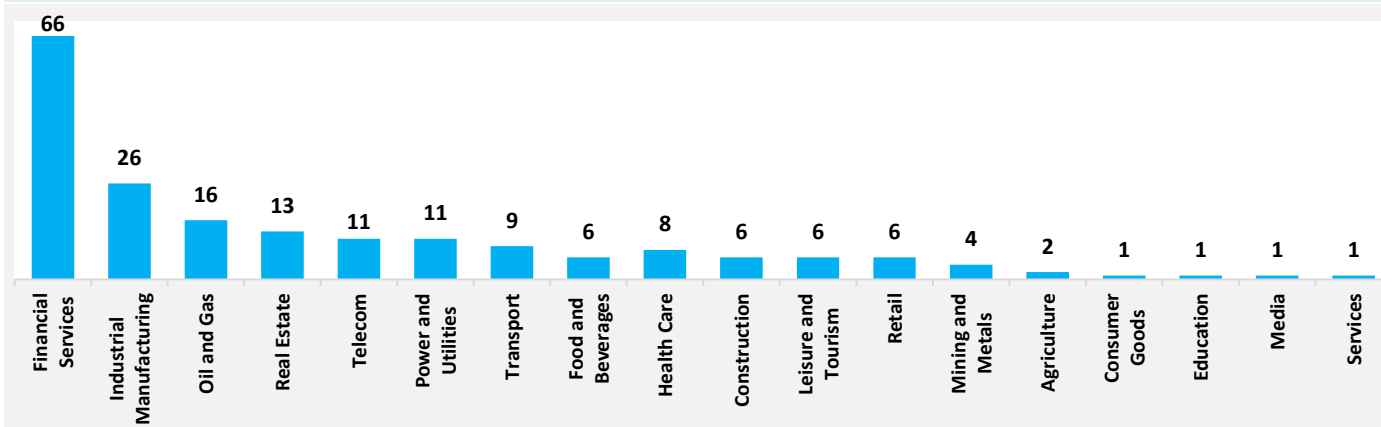
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GCC IPOs

GCC IPOs by Industry - 2001 to 2016



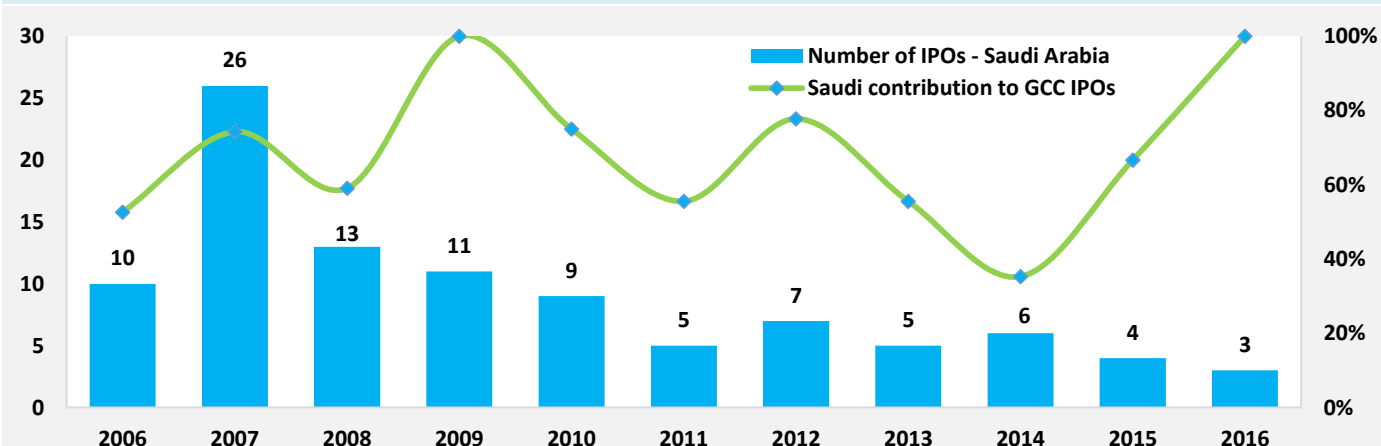
Source: Thomson Reuters, Bloomberg KAMCO Research

Corporate IPO action in the region came to a standstill in H2-16 as the market lacked confidence

Equity markets remained extremely volatile in the region, especially the Tadawul All Share index, as it remained extremely volatile in the first ten months of the year. This led issuers to stay away from the market and looking for a sustained period of confidence for their issuances. The index however finally pulled back and recovered with a strong rally in November and December to close in the green for 2016. Key drivers were the agreement on OPEC production cuts, strong liquidity in global equity market trends, and also confidence flowing from the oversubscription of the international sovereign bond sale of USD 17.5 Bn. Though Q3-16 was affected by the lull of business activity during Eid & summer holidays, the issuer market was more looking for firmer conditions to test the market, in our view.

In terms of industries, the three corporate IPOs in the GCC were split between the Health Care, Mining & Metals, and Consumer Durables industries during 2016. Financial services remained the most prominent industry in terms of issuances during the past 15 years, followed by Industrial Manufacturing and Oil & Gas. On the other hand, after a year dominated by the Transportation industry (2015), Health Care raised the largest amount of capital at approximately USD 471 Mn in 2016, from the IPO of Saudi Arabian corporate - Middle East Healthcare Company (MEHC). Saudi Arabia continued to remain the dominant player in the region's primary corporate capital markets, as all IPOs in the year that passed originated from the kingdom. Apart from MEHC, the TASI further listed Yamamah Steel Industries Company (USD 147 Mn) and L'azurde Company for Jewelry (USD 127 Mn) on the exchange.

Saudi Arabia contribution to GCC IPO activity - 2006 to 2016



Source: Thomson Reuters, Bloomberg, KAMCO Research

All corporate IPOs listed in the GCC during 2016 remained oversubscribed, with Yamamah Steel receiving the maximum response from investors, as the issue was oversubscribed by 4.8 times. L'azurde Company for Jewelry received significant positive response as well, as the issue was oversubscribed by over 2.9 times, followed by Middle East Healthcare Company from which saw its IPO being oversubscribed by 2.7 times. Despite the volatility, KSA remained the only active GCC IPO market in 2016, as it saw all 3 of the region's corporate IPO deals listed on its exchange. In terms of individual country contribution to overall GCC IPO activity, Saudi Arabia continues to be the most important contributor. Despite the overall slowdown in activity in the region, Saudi Arabia contributed to 68% of the IPOs since 2006 and also contributed to an average of 5 deals per year over the past five years.

Of the three names that were listed on GCC exchanges during 2016, only one name – Middle East Healthcare Company closed the year in the green. This resulted in an average performance of a negative 15.4% for stocks listed during 2016. The negative performance for the listings was largely driven by L'azurde Company for Jewelry which plunged by 41.5% by the end of 2016 from its listing date of June-16, while Yamamah Steel Industries lost ground post listing and declined by over 19%.

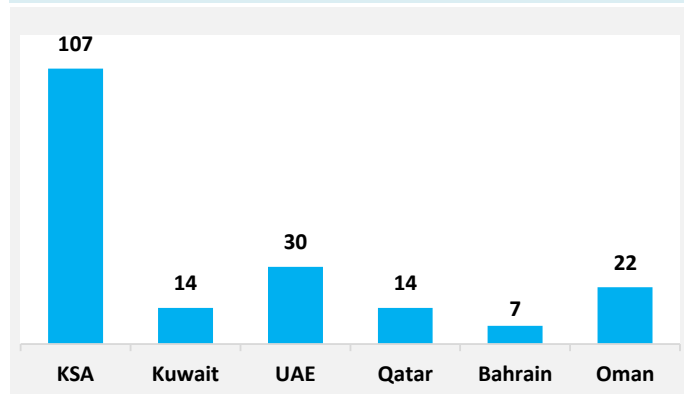
Issuer	Industry	Exchange	Listing		% Change in 2016 (on IPO/listing price)			Benchmark Index in 2016
			Date	Oversubscribed	1st Day	1st Month	Since Floatation	Since Floatation/Listing
Corporates								
Middle East Healthcare Company	Healthcare	KSA	28-Mar-16	2.7X	9.8%	13.1%	14.6%	15.02%
Yamamah Steel Industries Co.	Steel	KSA	19-May-16	4.8X	0.0%	3.0%	-19.2%	7.69%
L'Azurde Co for Jewelry	Retail - Consumer Durables	KSA	28-Jun-16	2.9X	8.1%	-9.3%	-41.5%	11.27%
REITs								
Riyad REIT Fund	REIT	KSA	13-Nov-16	-	10.0%	2.5%	0.9%	8.21%
Eskan Bank Realty Income Trust	REIT	Bahrain	Yet to list	-	-%	-%	-%	Traded only in 2017

Source: Bloomberg, KAMCO Research

Global IPOs

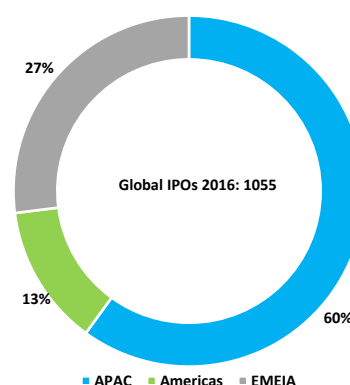
Globally, IPOs in 2016 fell below its previous 10-year annual global median of over 1,200 deals, as all regions decreased on a y-o-y basis both in terms of number of deals and proceeds raised. The Asia region saw the number of deals fall by 6% to 673 deals raising, while proceeds raised fell by a higher 21% to USD 71.5 Bn as per EY. Greater China was the key contributor to activity in the APAC region as 331 IPOs were recorded in the region while issuances dipped 23% y-o-y from 2015 to USD 46.2 Bn. The EMEIA region which includes Middle East and India came in second both in terms of IPO deal numbers and proceeds. Nevertheless capital raised was down 44% y-o-y, at USD 37.7 Bn, while the number of deals fell 25% y-o-y to 285 IPOs. US IPOs witnessed a weaker year in 2016, as IPO deal numbers were down 36% from 2015 at 112 deals, and capital raised through primary issues was down 37% to USD 21.3 Bn.

GCC IPOs by country - 2001 to 2016



Source: Thomson Reuters, Bloomberg, KAMCO Research

Global IPO regional split - 2016



Source: EY, KAMCO Research

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