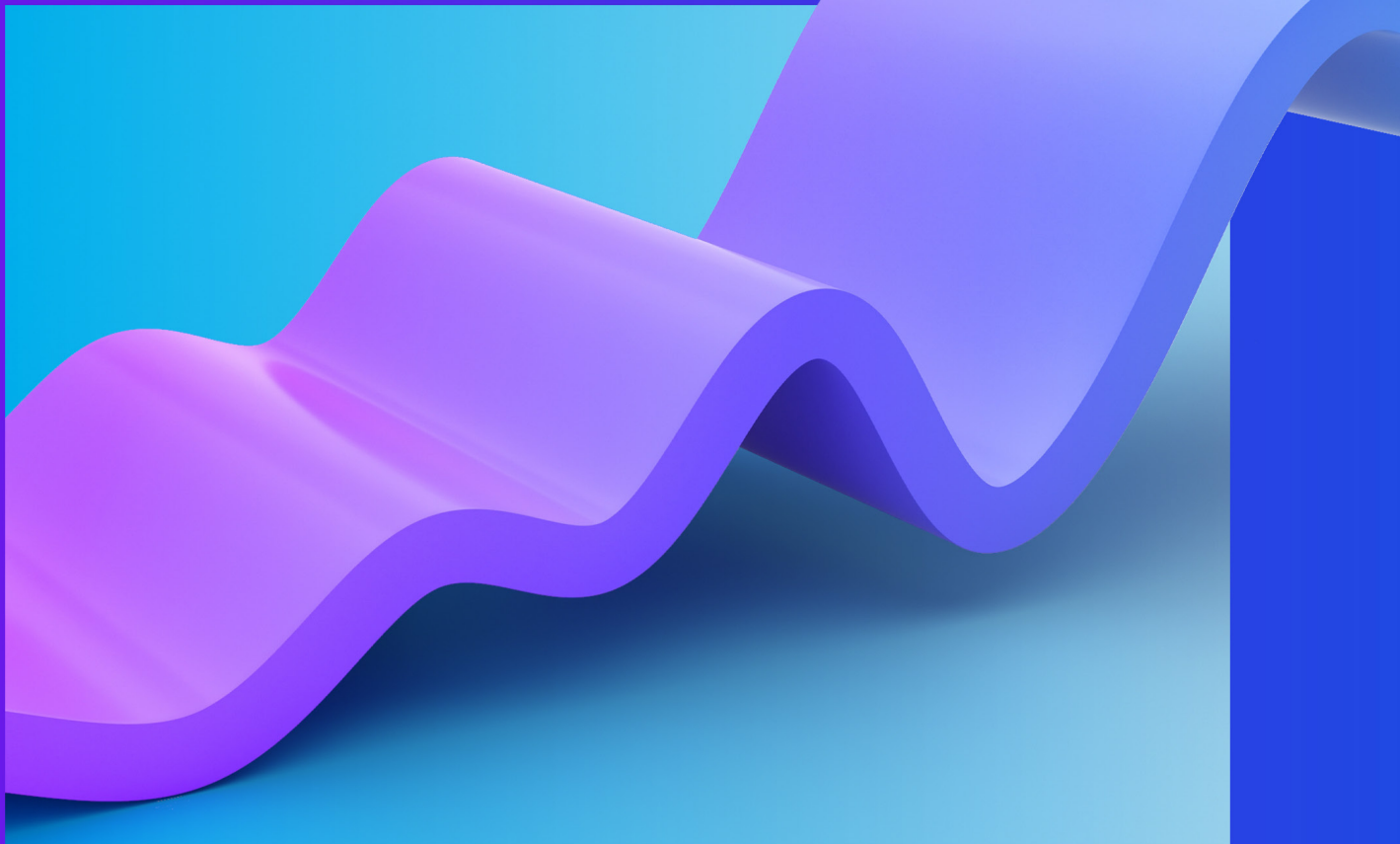




# Capital markets overview

**Trends and performance analysis of  
the capital markets in Saudi Arabia**



**September 2023**  
**KPMG Professional Services**

# Foreword

The Saudi Stock Exchange (Tadawul) has grown by leaps and bounds in a relatively short period from being an exchange serving local investors' needs with restricted capital markets products offerings and limited capacity to raise funds to becoming the tenth largest exchange globally in market capitalization at SAR11 trillion in June 2023. This achievement has come on the back of several reforms carried out in recent years by Tadawul and the Capital Market Authority (CMA) as the Kingdom seeks to diversify its economy in line with Vision 2030 initiatives. Tadawul's efforts to get the exchange recognized internationally and offer the IPO candidates a larger investor base resulted in the foreign investors' ownership in the capital market to growing from SAR198 billion in 2019 to SAR376 billion in June 2023.

Despite the high level of uncertainty prevailing in the global economy – driven by high inflation and interest rates, supply chain challenges and geopolitical unrest – the Kingdom's capital markets were resilient and received extraordinary funding of SAR50.8 billion in 2022 on Tadawul through IPOs and rights issues. Other than the reforms and international recognition, the increased capital markets activity is primarily on account of higher liquidity, investors' confidence and the government's push for the privatization of the Public Investment Fund (PIF) assets and other government entities. The overall growth in the Kingdom's economy, including the expansion of the capital markets, has been financed by favorable trends in oil prices.

Compared to the leapfrogging results of the 2022 Tadawul listings, the IPO drive in Saudi Arabia has moderated in 2023, though the pipeline in the second half of 2023 and beyond remains firm with 25+ companies currently working on their IPO submissions.



**With fifteen listings thus far in 2023 raising SAR3.3 billion and other companies making preparations, Tadawul has reaffirmed its commitment to developing an advanced capital market that provides a wide range of opportunities in line with Vision 2030's Financial Sector Development Program.**

Alongside giga-projects such as NEOM, whose IPO is expected in 2024, Ades International Holding Company, a PIF-backed oil & gas drilling company, is anticipated to be Saudi Arabia's biggest IPO of 2023 with SAR3.75 billion funds expected to be raised.

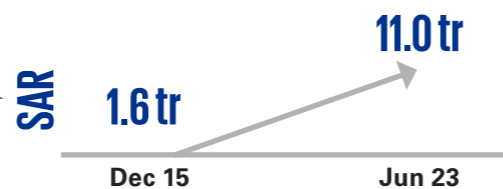
This publication aims to provide an overview of the capital markets in the Kingdom and to provide key considerations for any company contemplating an IPO journey.



**Sharukh Dumasia**  
Head of Deals

# Tadawul currently ranks as the tenth largest exchange globally in market capitalization

The Tadawul All Share Index (TASI) experienced a remarkable compound annual growth rate (CAGR) of approximately 200.0 percent between 2015 and June 2023 in its market capitalization.



Source: Tadawul website

To expand the capital market and align with Vision 2030, Tadawul and CMA have implemented several reforms as part of the wider Financial Sector Development Program (FSDP) aiming to increase the stock market capitalization (excluding Saudi Aramco) to 80.8 percent of GDP. These reforms include:

**Market liberalizing measures for foreign investors**

**Post-trade reforms**

**Tadawul's transformation into Saudi Tadawul Group**

**Improved corporate governance standards and transparency**

**Streamlining the listing process**

**Expansion in product offerings**

The Kingdom's capital markets have become more appealing to both regional and international investors due to its high liquidity, improved infrastructure and technology, transparent systems, and diverse investment offerings. In 2019, Tadawul took steps to integrate into the international capital markets by joining indices such as MSCI Emerging Markets Index, FTSE Russell, and S&P Dow Jones.

From 2019 to June 2023, foreign investors' ownership in the Saudi capital market grew by a CAGR of around 17.4 percent driven by reforms and international presence.



Source: Tadawul website

To create more opportunities for companies to raise capital and enable investors to access new markets, the Saudi Tadawul Group and the Saudi Exchange have been forming agreements with other international exchanges. Currently, there are discussions with the Shenzhen Stock Exchange in China for dual listings. In 2019, an agreement was signed with the Abu Dhabi Securities Exchange (ADX) resulting in Americana Restaurants becoming the first dual listing in 2022. There are other agreements in place with the Swiss Stock Exchange (SIX) in 2021 and the Muscat Stock Exchange (MSX) in 2022, with dual listings expected in the future.

Saudi Arabia's Vision 2030 is expected to drive spending growth in various sectors across the Kingdom, according to the S&P Global report. Key sectors that will benefit from the program include energy, real estate, tourism, digital, food, health and utilities.

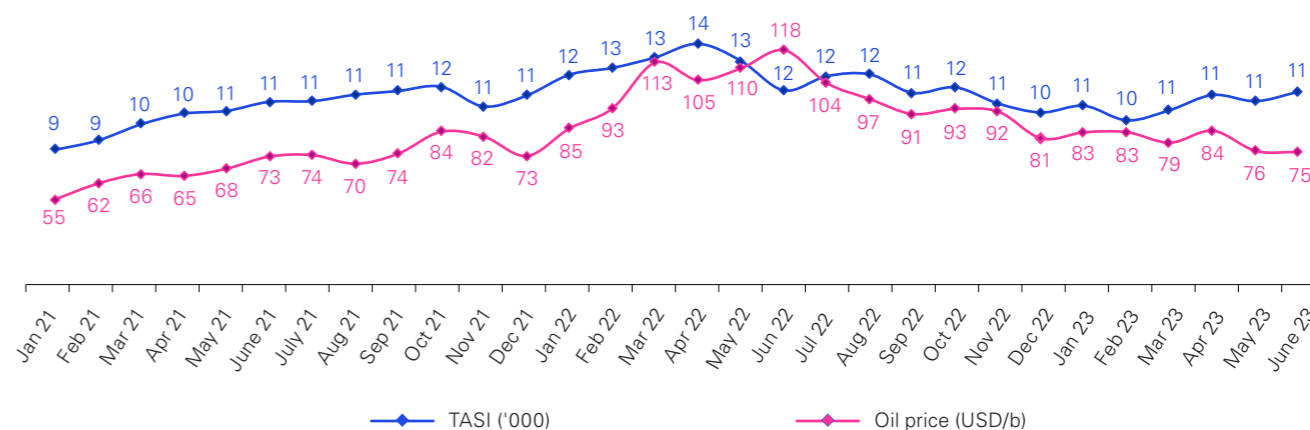
The report highlights that Saudi Arabia's banking sector alone will not be able to fund all of the projects outlined in Vision 2030, emphasizing the need for more private investment. Considering the significant investment requirements of Saudi Arabia, capital markets will play a crucial role in funding not only private sector investments but also large-scale projects such as NEOM, the IPO for which is expected in 2024.

# Supported by reform agenda, oil prices have been a major influence on capital markets

- The capital market performance in the Kingdom was strongly correlated with oil prices between FY21 and 1H23. As a result, the decline in TASI performance in 4Q 2022 was fueled by a combination of a decrease in oil prices and high uncertainty about a looming recession in global markets.
- The increase in oil prices between FY21 and FY22 was mainly driven by OPEC oil cuts combined with the Russia-Ukraine conflict.\* Higher oil prices positively impacted the Kingdom, leading to a rise in government revenue to an estimated SAR1,045 billion in FY22, up from SAR930 billion in FY21. TASI performance has fluctuated during 1H23, which can be largely attributed to the volatility in oil prices.



## Oil price vs TASI (FY21-1H23)



Source: Refinitiv, Periodical Tadawul Statistical reports  
\*Brent crude prices based on monthly weighted average

**Capital market activities have significantly improved year-on year, with the underlying key drivers being the rise in the government's push for privatization and the government's reform programs like the FSDP, leading to positive investors' sentiment, as well as favorable oil prices and higher liquidity.**

# High-level Tadawul performance overview

## Main market – FY22

**SAR9,878.1 billion**  
Market capitalization

▼ **1.3%**

**10,478.5**  
Index closing

▼ **10.7%**

**SAR1,708.0 billion**  
Value traded

▼ **23.6%**

**223**  
Listed companies

▲ **+13**

## Nomu market – FY22

**SAR35.1 billion**  
Market capitalization

▲ **84.4%**

**19,417.3**  
Index closing

▼ **25.2%**

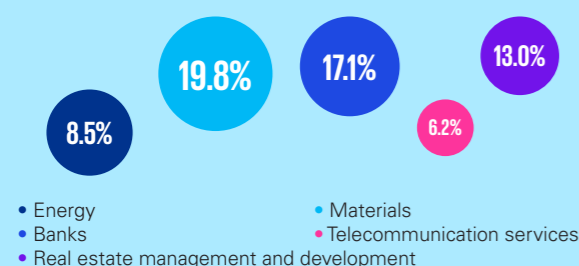
**SAR13.5 billion**  
Value traded

▲ **18.7%**

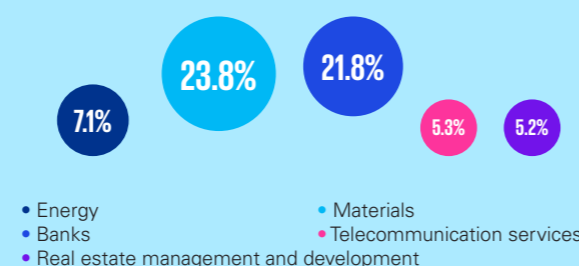
**46**  
Listed companies

▲ **+32**

### Top sectors in terms of volume traded as a percentage of total Tadawul main market – FY22



### Top sectors in terms of value traded as a percentage of total Tadawul main market – FY22



## Main market – 1H23

**SAR10,907.5 billion**  
Market capitalization

▼ **4.7%**

**11,459.0**  
Index closing

▼ **0.6%**

**SAR594.7 billion**  
Value traded

▼ **42.7%**

**228**  
Listed companies

▲ **+13**

## Nomu market – 1H23

**SAR59.9 billion**  
Market capitalization

▲ **72.9%**

**26,147.9**  
Index closing

▲ **21.1%**

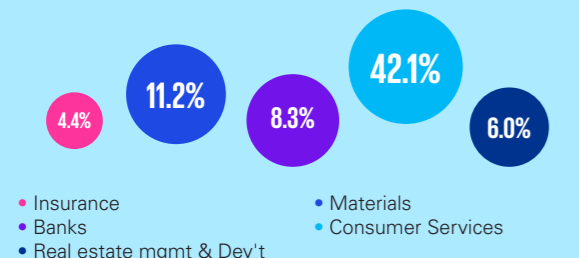
**SAR3.7 billion**  
Value traded

▼ **59.6%**

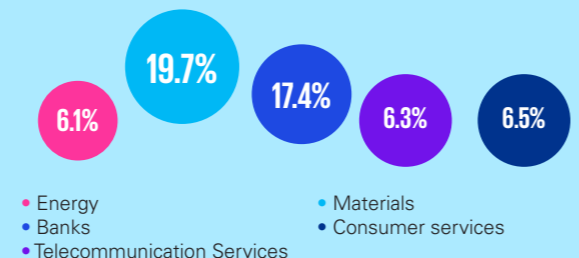
**62**  
Listed companies

▲ **+31**

### Top sectors in terms of volume traded as a percentage of total Tadawul main market – 1H23



### Top sectors in terms of value traded as a percentage of total Tadawul main market – 1H23



# Amidst global economic uncertainty, the Saudi Exchange achieved record funding in 2022 through equities markets

**SAR50.8 billion**

Total funds raised through IPOs and rights issues in FY22

**50**

Transactions in 2022

**SAR3.9 billion**

Total funds raised through IPOs and rights issues in 1H23

**18**

Transactions in 1H23

## Main market

SAR37.5bn raised ▲ **118.4% on FY21**

18 transactions ▲ **100.0% on FY21**

SAR2.9bn raised ▼ **79.4% on 1H22**

4 transactions ▼ **50.0% on 1H22**

- Main market listings generated the highest funds, with the dominant sectors in FY22 being consumer services (raising SAR8.0 billion) and the materials sector (raising SAR6.9 billion), Pharma, Biotech & Life Science (raising SAR1.3 billion) in 1H23. The majority of IPO proceeds were directed to the selling shareholders.

## Rights issue

SAR12.0b raised ▲ **563.6% on FY21**

13 transactions ▲ **30.0% on FY21**

SAR0.6b raised ▼ **99.9% on 1H22**

2 transactions ▼ **77.8% on 1H22**

- During FY22, 38.5 percent of rights issues were attributable to the insurance sector, which is mainly due to the funds required to support the business in conformity with the solvency requirements, as well as financing the increase in statutory deposit imposed by SAMA.

## Nomu market

SAR1.3b raised ▼ **-31.9% on FY21**

19 transactions ▲ **216.7% on FY21**

SAR0.4b raised ▼ **42.9% on 1H22**

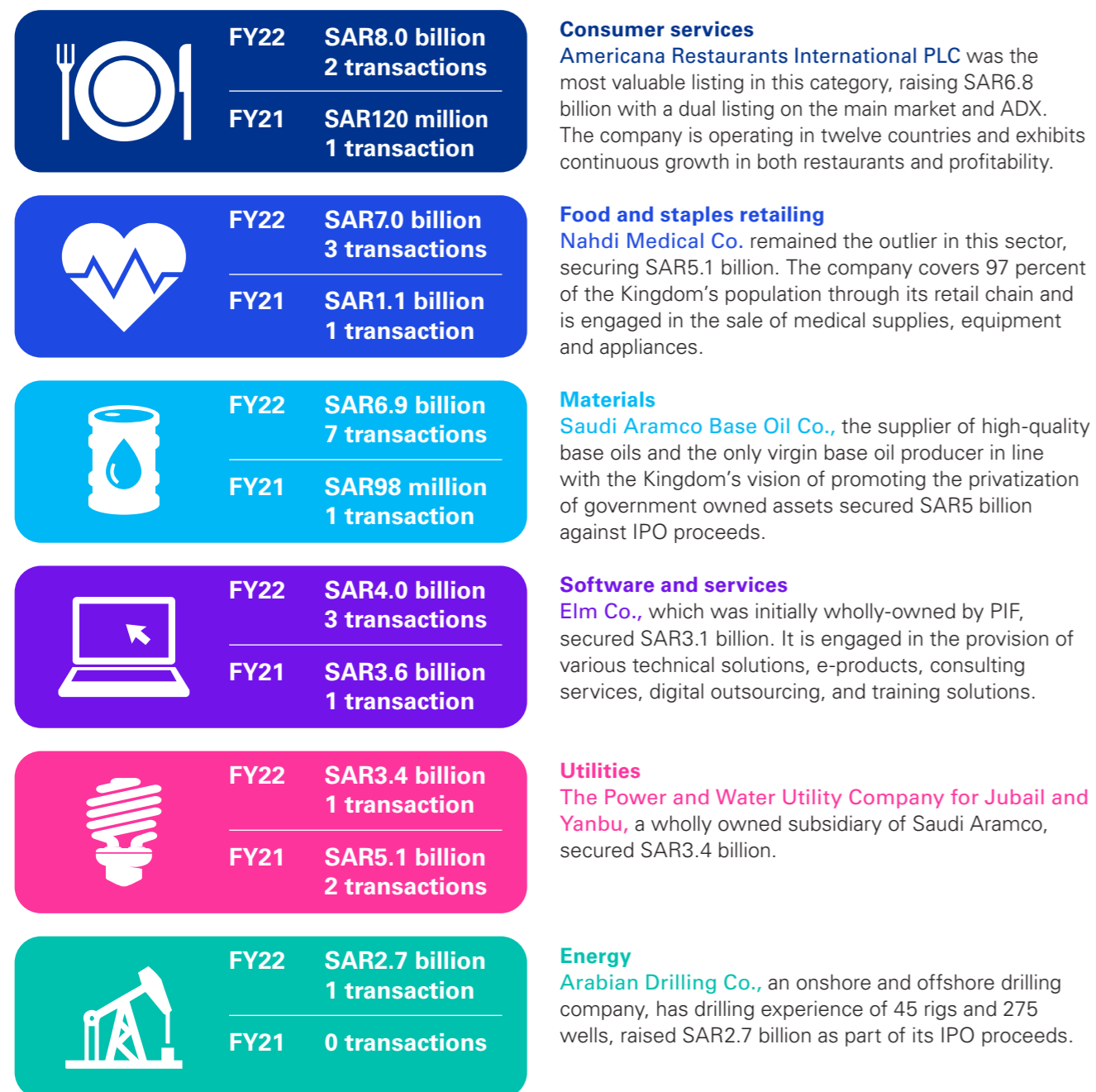
11 transactions\* ▲ **57.1% on 1H22**

- The Nomu market witnessed a decline in funds raised in FY22 and 1H23 despite an increase in the number of listings. This was on account of Jahez International's listing, which exceptionally raised over SAR1.6 billion in FY21, whereby CMA intended to increase the market capitalization of the parallel market combined with relaxing parallel market listing requirements.
- Large-cap listings on Nomu since were largely discouraged by CMA, indicating a preference for such entities to be listed on the main market instead.

Source: Tadawul, CMA, Vision 2030

\*Saudi Call Trading Co. was cancelled post Jun23

## Diverse sectors across main market IPO listings from FY21 to 1H23



Source: Tadawul and KPMG analysis

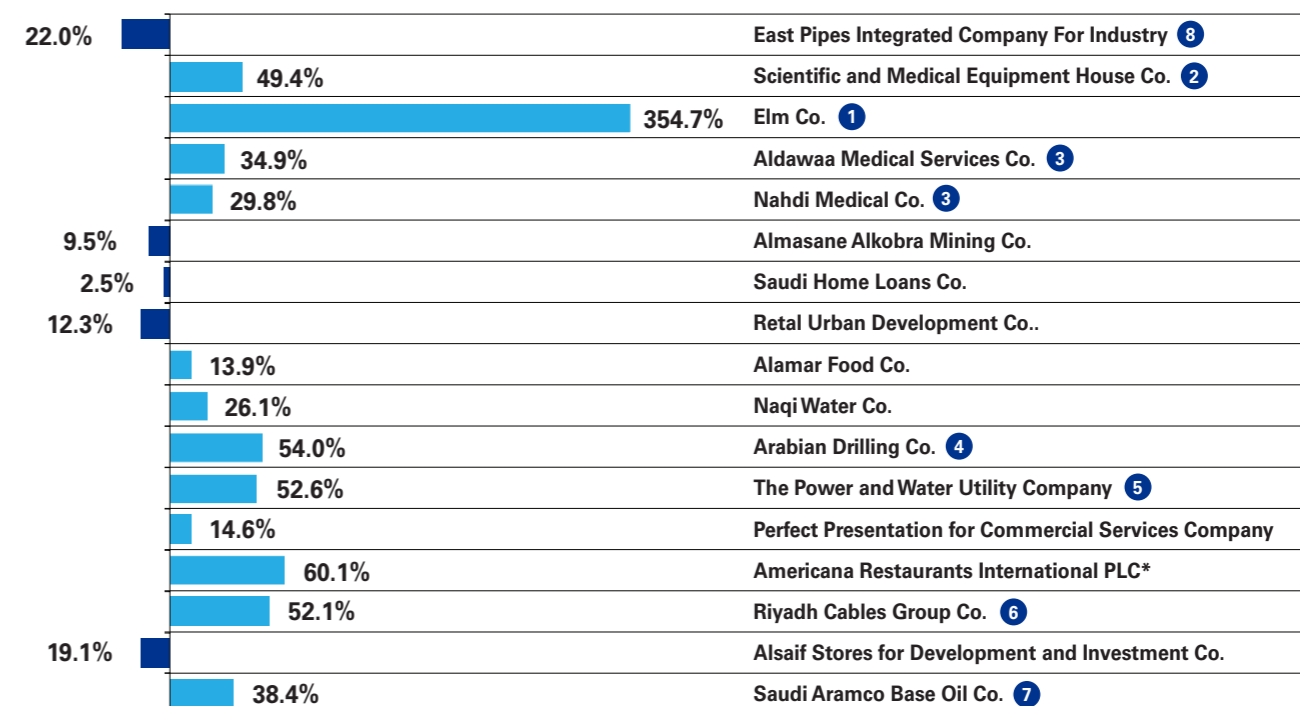
In 1H23, the main market IPO listings included sectors beyond those mentioned previously, such as Pharma, Biotech & Life Science for Jamjoom Pharmaceuticals Factory Co. with a listing value of SAR1.3 billion, and Food & Beverages for First Milling Co. with a value of SAR1.0 billion, among others.

**In more than 80 percent of IPO transactions, proceeds have been utilized to purchase shares from majority shareholders as part of a dilution strategy and to capitalize on favorable valuation and market liquidity while maintaining the entity's control.**

## Entities listed in FY22 largely had positive after-market share price performance

Multiple factors drove the changes in share prices of listed companies in FY22, including company and industry performance, Vision 2030, macroeconomic factors (e.g. SAMA's interest rate spikes) and investor sentiment.

### Share price change (percentage) as of June 2023 for main market listings



Source: Tadawul and KPMG analysis

Note: Share price percentage change = (difference between stock price at period end date and offer price / offer price)

\*Has undergone dual listing on Abu Dhabi Securities Exchange

The positive stock price performance of the mentioned entities is largely driven by:

- 1. Elm Co.** – Growth in the software services industry coupled with confidence in a government-owned entity
- 2. SMEH** – The government's priority is to develop the Kingdom's healthcare sector.
- 3. Aldawaa Medical Services Co. and Nahdi Medical Co.** – A surge in demand for pharmaceutical products after the pandemic, with strong brand positioning in the market.
- 4. Arabian Drilling Co.** – Higher operational efficiencies and strong demand.
- 5. The Power and Water Utility Company** – An entity backed and supported by PIF, Aramco, and SABIC.
- 6. Riyadh Cables Group Co.** – Growth in profitability attributed to giga projects across the country.
- 7. Saudi Aramco Base Oil Co.** – Growth in margins due to stronger demand for base oils.

On the other hand, negative stock price performance for **8. East Pipes Integrated Company for Industry** comes amid higher uncertainty towards the materials sector (excluding oil & gas) witnessed by its 18.6 percent index fall in FY22. Moreover, the lagging impact of supply chain interruptions due to the pandemic still affected the materials sector.

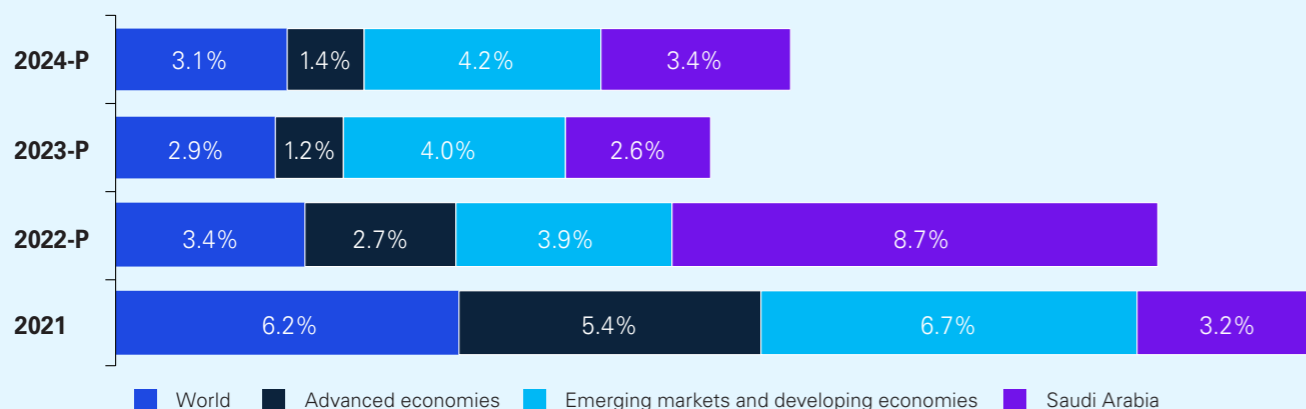
## A firm and high valued pipeline of IPOs expected in second half of 2023 and beyond

- Ades International Holding Company, backed by PIF, is set to be the biggest IPO of 2023, with SAR3.75 billion expected to be raised. Lumi Rental Company has obtained approval from CMA and expects to raise SAR1.0 billion through its listing.
- In 2024, Olam Group, a Singapore-based company, is expected to have its agricultural unit undergo a dual listing in Saudi Arabia and Singapore. Following the successful listing of First Milling Company in 2023, Milling Company 3 in the food and beverage sector is also eyeing to list during 2024.
- In Nomu, the parallel market, three IPOs have taken place after June 2023 with a total of 2.2 million shares listed. These listings represent the transportation, capital goods, and health care equipment and services sectors. Furthermore, there is an ongoing process for one Nomu IPO candidate in the logistics services business, along with several others at different stages of the process.

### The optimism in raising funds through capital markets is driven by the positive outlook of CEOs

- Based on the KPMG CEO Outlook, only one-out-of-five CEOs in the Kingdom foresee a recession in FY23, compared to 86 percent of global CEOs.
- The survey placed organic growth, strategic alliances, and mergers and acquisitions as the most important strategies to achieve growth objectives over the next three years.
- CEOs in Saudi Arabia identify pandemic fatigue and economic uncertainty as the two largest risks to growth, with other risks and challenges primarily oil price volatility, high global inflation, and squeezed liquidity.

### Economic projections – GDP growth in Saudi Arabia vs global



Source: IMF

These economic projections are further supported by insights from Riyadh Capital, which suggest a gradual decline in the inflation rate throughout FY23, from 3.4 percent recorded in January to reach 3.1 percent.\* While FY23 may see contractions, FY24 is projected to show a growth trend.

“ Compared to the exceptional outcomes of 2022, the IPO drive in Saudi Arabia has moderated in 2023 so far, though the pipeline in the coming periods remains firm with some major listings anticipated.

\*Riyadh Capital, Saudi Economic Chartbook First Quarter 2023.

## Navigating an IPO journey with these critical success factors

Drawing from our expertise, it is important to consider the following aspects:

### Economic environment



- Consider the trends in the future oil prices, as they drive the Saudi economy and thus support the overall business activity.
- Macroeconomic factors such as inflation and interest rates will also be determinants for liquidity of the capital markets within Saudi Arabia and beyond.

### Government support – Vision 2030



- Under Vision 2030, the Kingdom has been supporting the development of capital markets through FSDP.
- Apart from direct government support, strategic entities, including PIF and Saudi Aramco, have also been supporting the markets with ongoing inflows.

### IPO timing and readiness



- Knowing what time is best for going public has to undergo careful consideration. The candidate must have an execution plan in place for when an IPO is deemed favorable from a valuation standpoint.
- The company's readiness concerning the overall corporatization drive should also be considered.

### Equity story



- A critical component of IPO readiness is the preparation of the candidate's equity story.
- A compelling equity story must demonstrate a well defined strategy and business plan backed by a promising financial performance.

### Governance, risk, and compliance reporting



- CMA sets forth strict guidelines for applicants seeking to go public.
- Ensuring your company complies with such CMA requirements is crucial for the IPO application process.

### Management team



- Ensuring the candidate has the right management team is one of the most important qualitative factors when it comes to evaluating a new offering.

With 40+ capital market mandates in Saudi Arabia over the past five years, the KPMG Deals team is ready to support your company's IPO journey.

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