SAUDI ARAMCO:
THE GIANT PREPARING FOR ITS IPO
In late March, Saudi Aramco announced a bond issue worth $12 billion. To present this offer, which was entrusted to JPMorgan Chase and Morgan Stanley, the Saudi oil giant organised a promotional tour in eight cities across the US, Europe and Asia. In London, investors were welcomed in upscale meeting rooms in the Corinthia Hotel. In New York, the CEO of JPMorgan Chase Jamie Dimon made an appearance. The finance world didn’t need any persuading: Saudi Aramco bonds attracted bids of $100 billion.

Investors were drawn in by a 469-page prospectus, published before the bond issue. The document provides the first look behind the scenes of the world’s largest oil group. “The group’s oil production is multiple times greater than all of its competitors combined, it has access to immense reserves and its operational costs are much lower than its competition,” says Norman Valentine, research director at energy consulting firm Wood Mackenzie.

The Saudi firm, which produces approximately 10% of the world’s crude oil, generated $360 billion in revenue last year. It has 257 billion barrels in its reserves, and its

### 3 FIGURES

**$111 BN**

Saudi Aramco’s net revenue in 2018 – more than Royal Dutch Shell, ExxonMobil, Chevron, Total and BP combined.

**13.6 M**

The number of barrels that the Saudi firm extracted per day in 2018. As a comparison, ExxonMobil produced 3.8 million barrels per day.

**$1,500 BN**

The current valuation of Saudi Aramco, which is expected to go public in two years, according to Bernstein Research.
enormous Ghawar field is also the world's largest: this field alone generates 3.8 million barrels per day – equivalent to US giant ExxonMobil’s total daily production across all fields. Furthermore, extracting one barrel costs Saudi Aramco only $7.50, compared to around $30 for competitors, which makes it extremely profitable.

"Its very low production costs are the result of Saudi Aramco’s monopoly on Saudi oil," explains Jim Krane, from the Center for Energy Studies at Rice University in Texas.

Saudi Aramco owes its beginnings to US oil companies. In 1933, Standard Oil of California received an oil lease from the Saudi government, 50% of which was transferred to Texaco three years later. In 1938, the two partners – operating under the name California-Arabian Standard Oil – discovered large oil reserves, sounding the starting gun for the Saudi oil industry. In 1944, their joint venture was renamed Arabian American Oil Co. (Aramco). Four years later, Standard Oil of New Jersey (the future Exxon) and Socony Vacuum (the future Mobil) purchased 30% and 10% of Aramco’s shares respectively. In 1950, the firm began to share its profits with the Saudi state, pressured by King Abdullah. Between 1973 and 1976, Aramco was gradually nationalised, with support from the United States and Israel during the Yom Kippur War. True to its American origins, the company has retained its liberal values. Many of its employees live in residential complexes filled with restaurants, cinemas and basketball courts. There are also several women in executive positions.

"The group also enjoys another advantage: crude oil from this region, concentrated near the Gulf, is naturally pushed to the surface by significant underground pressure, and it contains very little water, which makes extraction easier." And since the oil fields are located on land owned by the state, the company doesn’t need to acquire the land or pay commission to its owners.

Too good to be true. And yet, Saudi Aramco’s profitability is not perfect. Each barrel extracted in 2018 only brought in $26, whereas firms such as Shell and Total recorded profits of $38 and $31 per barrel, respectively. "Saudi Aramco’s tax bill is extremely high because the Saudi government depends almost entirely on the company to finance its operations," explains Ayham Kamel, head of Eurasia Group’s Middle East and North Africa research team. Between 2015 and 2017, the oil giant contributed more than 70% of Riyadh’s income, according to figures from Fitch Ratings. Last year, Saudi Aramco paid $102 billion in taxes to the Saudi government, as well as a dividend of $58 billion.

The Saudi firm generated $360 billion in revenue last year.
“The government doesn’t hesitate to pressure the company to generate more money,” adds Kamel. It also sets its production levels based on “energy sovereignty objectives and other considerations”, according to the bond issue prospectus.

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Because of this association, the company could suffer from political instability generated by the current transition to the third generation of the Al Saud dynasty led by Mohammed bin Salman, according to Krane. Indeed, the crown prince hopes to finance his big projects for futuristic cities and luxury tourist complexes along the Red Sea with revenue from Saudi Aramco.

“The government doesn’t hesitate to pressure the company to generate more money,” says Valentine of Wood Mackenzie. In 2016, when prices fell to $32 a barrel, Saudi Aramco made just $13.3 billion in profits – 12% less than it made in 2018. Furthermore, demand for black gold will likely fall over the next decade as governments begin initiatives to fight climate change. “This context will reduce oil prices,” says Kamel.

To mitigate this risk, the Saudi conglomerate is looking to diversify its sources of revenue. “It is seeking to double its gas production over the next 10 years and increase its refining capacity to 10 billion barrels per day, but it is also aiming to process three billion barrels into petrochemical products, such as plastics,” says Alan Gelder, a refining specialist at Wood Mackenzie. Funds generated by its bond issue will help finance the acquisition of 70% of SABIC, a Saudi petrochemical group, for $69 billion.

“Saudi Aramco has recently invested in refineries located in South Korea, Malaysia, China and India – countries where the demand for oil will continue to grow in the coming years,” Gelder adds. Last year, the group acquired a gigantic refinery and petrochemical complex in Johor on the Malaysian peninsula. In February, it signed a $10-billion contract with Chinese arms company Norinco to develop a similar site in Panjin, in north-eastern China. It has also begun exporting its gas in liquid form. “Its first liquefied natural gas (LNG) cargo was sold in late April,” says Gelder.

The next step for the conglomerate will be to go public. Initially announced in 2016, it has been pushed back several times. “The IPO is now planned for 2021,” says Valentine. Only 5% of its shares will be up for sale, for a value of $100 billion – but it will be the largest IPO ever listed. Stock exchanges will be sure to compete fiercely to try to land this big listing. 

ANALYST’S ADVICE

“A PROFIT-MAKING MACHINE”

Even though it hasn’t gone public yet, Saudi Aramco is closely monitored by analysts. “It’s a veritable profit-making machine,” says Rehan Akbar of Moody’s. Indeed, the Saudi firm enjoys a phenomenal cash flow when oil prices are high. “Even when prices are low, the company remains profitable, unlike many of its competitors that are faced with higher costs,” says Akbar. Saudi Aramco also has a very solid balance sheet with low debt: it makes up just 5-15% of its assets, compared to 30% for BP, for example. The company’s main risks are geopolitical, due to its location in Saudi Arabia. “This context is why we have given it an A1 ranking (ed. note: which is a lower ranking than the big Western oil companies),” says Akbar. The analyst believes that oil will continue to generate the majority of the company’s revenue, at least in the near future, although refining, petrochemical products and gas account for a growing percentage of its income.

“The volatility of oil prices is another risk for the company,” says Valentine of Wood Mackenzie. In 2016, when prices fell to $32 a barrel, Saudi Aramco made just $13.3 billion in profits – 12% less than it made in 2018. Furthermore, demand for black gold will likely fall over the next decade as governments begin initiatives to fight climate change. “This context will reduce oil prices,” says Kamel.