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Saudi Aramco Launches Long-Awaited IPO

Shares in the oil giant are expected to begin trading on the Saudi stock market in December

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Saudi state oil giant Aramco officially launched its initial public offering on Sunday, setting in motion what is expected to be the world's largest ever share sale, even as questions remain over the company's value.

After nearly four years of delays, Saudi Crown Prince Mohammed bin Salman gave the listing the go-ahead in recent days. The company hopes to first sell shares on the kingdom's domestic exchange in December, or even before, and then attempt an international IPO.

The kingdom's de facto ruler has in part bet his reputation as a reformer on the success of the offering, which is central to his wider social and economic initiatives. He wants to use the proceeds to invest in other industries to diversify the Saudi economy.

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domestic listing also will be a big moment for Saudi Arabia's exchange, known as the Tadawul. The market didn't allow foreign participation until 2015, but has since instituted regulations designed to be more investor-friendly.

Aramco said it would begin investor meetings to gauge international and domestic demand and publish a prospectus on Nov. 9 ahead of a listing soon after. Saudi Arabia's market regulator said Sunday its board had approved the company's application for an offering of a proportion of its shares on the domestic market.

"Today is a profoundly important day for the kingdom of Saudi Arabia," Aramco Chairman Yasir al-Rumayyan said at a press conference in Dhahran, where the company is based.

Aramco's value has become a sticking point with investors and is likely to be watched closely as the company's bankers sign up buyers ahead of a goal to begin trading in early December, according to Saudi officials and Aramco executives close to the process.

Prince Mohammed has pegged the company's value at \$2 trillion, but advisers working on the IPO have indicated that investors won't buy at that level. The energy giant and its bankers are targeting a base valuation for the company of around \$1.7 trillion, or the midpoint between a range of \$1.6 trillion to \$1.8 trillion, according to people familiar with the matter.

That could prove challenging because at least some international investors have put the company's value at around \$1.5 trillion.

The oil giant, officially known as Saudi Arabian Oil Co., didn't disclose Sunday how much of the company it plans to list or at what price. Mr. Rumayyan said those metrics would be determined in the book-building process over the next few weeks.

A person familiar with the matter said that at this early stage Aramco aims to sell 2% to 5% of its shares in the IPO, depending on demand. It hopes about half of the offering will be bought by international investors and the other 50% by local investors, the person said.



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Aramco has chosen nine banks to act as joint financial advisers on its listing:

JPMorgan Chase & Co., Morgan Stanley, Goldman Sachs Group Inc., Bank of America Merrill Lynch, Citigroup Inc., HSBC Holdings PLC, Credit Suisse Group AG and

two domestic investment banks.

Aramco last month delayed the official announcement of its IPO plans until it had released its third-quarter earnings. The company's

executives and its bankers had hoped to use the numbers to assuage investors' concerns about the impact of Sept. 14 attacks on some Aramco facilities.

The company said Sunday it made a \$68 billion profit for the first nine months of the year, with revenue and other income related to sales of \$244 billion. Mr. Rumayyan said the company's sales hadn't been materially affected by the attacks.

It previously announced a full-year net income in 2018 of \$111 billion. That full-year figure was more than Apple Inc. and Exxon Mobil Corp. combined, making Aramco the world's most-profitable company.

In pre-IPO investor meetings, Aramco has faced difficult questions about its listing, including on how it determined its value. Some investors have become frustrated with the Saudi government's approach of setting a target valuation of \$2 trillion and delaying the launch until it is confident investors will buy in at that level.

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"Let the market dynamics and those discussions drive the value and what the pricing should be for that IPO," said one potential investor. "The ego, pride and everything should be secondary."

At a \$1.5 trillion valuation, a 3% listing would raise about \$45 billion, far higher than the \$25 billion Chinese e-commerce giant Alibaba Group Holding Ltd. raised in the biggest IPO to date five years ago.

Aramco has promised to pay a \$75 billion dividend to investors, which at a \$1.5 trillion valuation would generate a dividend yield of 5%.

The \$2 trillion valuation that Prince Mohammed

favors would equate to a 3.75% yield. The lower level would compare less favorably with global majors such as Exxon, which offers a dividend yield of around 5%.

The company has promised that the yearly dividend, which would start next year and run through 2024, would ensure that nongovernment shareholders get preferential treatment over



An oil facility owned by Aramco, the Saudi oil company that is planning the world's largest IPO. PHOTO: MAXIM SHEMETOV/REUTERS

the state, receiving their pro-rata share of the \$75 billion payout even if Aramco's earnings don't cover the government's full share as an investor.

Aramco announced financial changes that could make it more attractive to investors. It reduced the royalty rate from 20% to 15% that it pays the government on sales of crude oil of up to \$70 a barrel. Brent crude closed Friday at \$61.55.

It also agreed with Saudi Arabia's sovereign-wealth fund to more gradually make payments for the \$69 billion acquisition of the kingdom's national petrochemicals company, smoothing out its capital expenditure over a longer period.

—*Avantika Chilkoti in London contributed to this article.*

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