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ABOUT DAMINA

DaMina Advisors is a preeminent Africa-Asia focused independent frontier markets political risk research, due diligence, M&A transactions consulting and strategic geopolitical risks advisory firm.

DaMina Advisors is legally registered and has offices in the US, Canada, The UK and Ghana. DaMina is headquartered in Toronto.

Saudi Aramco IPO – Still Hong Kong Bound

By: Lars Henriksson, Advisory Partner - Southeast Asia & Frontier Asian Economies

The photo ops with Silicon Valley executives, tea with Queen Elizabeth II and a hobnob with ‘Javanka’ notwithstanding, the \$2trillion dollar Saudi Aramco IPO will be listed in Hong Kong, after an initial local debut in Riyadh – but not in New York or London. Both London and New York fail to offer the flexibility Riyadh requires.

The Saudi Crown Prince Mohammed Bin Salman recently concluded visits to the UK and the US, but failed to move the needle in favour of either a London or New York listing.

The final communiqué issued by The UK’s Foreign & Commonwealth Office after the visit states that, “The United Kingdom and Saudi Arabia recognised the importance of a successful listing of Saudi Aramco as part of the Kingdom’s economic reform agenda.” However beyond endorsing London as the premier global financial centre, the Saudi side was only willing to commit to the London Stock Exchange “a programme of capacity-building and training measures to assist in developing the Saudi exchange the [Tadawul].”

The London Stock Exchange has strict corporate governance rules which cannot be watered down just to snag the Aramco IPO. Perhaps equally disappointing, the Saudi delegation signed merely \$2bn worth of commercial deals though the both parties “expected” up to \$100bn over a 10-year period, of which Saudi foreign direct investments would amount to \$30 billion.

US listing remains also distant. Khalid al-Falih, the Saudi energy minister, said: “I would say litigation and liability are a big concern in the US . . . Saudi Aramco is too big and too important to be subjected to that kind of (legal) risk.”

Instead all the roads still lead to Hong Kong, as we first highlighted in the note “China to win Saudi Aramco IPO for Hong Kong Exchange in snub to LSE & NYSE over ‘Jerusalem’/BREXIT” (15 Dec, 2017).

The Hong Kong Stock Exchange issued a consultation paper in February 2018 where it proposed to tweak primary and secondary listing rules by allowing qualified foreign and Chinese companies with weighted voting rights (WVR) – e.g. softening the “one-share, one vote” principle. For example, this was the reason why Alibaba listed in the US instead of Hong Kong/China in 2014

A month earlier, Hang Seng Indexes Company Limited, issued a consultation paper where it proposed to include foreign and WVR shares into the Hang Seng Composite Index (HSCI) which is the index followed by global institutional investors and also open for the so called “Southern Connect” scheme - the channel used for Mainland Chinese institutional investors to access Hong Kong which was launched in December 2016.

To tap into the domestic Chinese investment pool is pivotal, evidenced by the fact that the Chinese banking system holds \$25trn in deposits or twice as much as the \$12trn in the US banking, according to the latest CEIC data.

Moreover, over the last few months Chinese regulators and business executives have called for foreign-listed Chinese companies and unlisted 'New China' (mostly technology/innovation focused) companies to be encouraged and allowed to list in China/Hong Kong. Goldman Sachs they could be worth \$6trn combined.

Taken together these fresh development in Hong Kong and China shows that the Aramco IPO is facing an increasing benevolent regulatory regime, prospects of joining a wave of highly successful listings of Chinese tech giants/New China stocks and opportunity to tap into a new and gargantuan investors' base.

While the international IPO might be delayed into 2019, the case for Hong Kong remains unchanged.

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