



EconoMag
Saudi Aramco©
by Alex Hurst

Welcome to EconoMag from EnglishWaves Radio, where we breakdown what's going on in the global economy every week. Could it be the biggest IPO, or Initial Public Offering, in the world? Saudi Aramco, the national oil giant of Saudi Arabia, is preparing to offer shares for the first time on publicly traded markets, beginning in 2018.

Back in 1938, American prospectors working for the king of Saudi Arabia struck oil. And not just any oil—they had found what was, and remains, the largest source of crude oil in the world. Since then, the presence of oil has marked Saudi Arabia indelibly, making the nation wealthy, powerful, and indispensable to the global economy.

The company, which has been privately controlled by the Saudi state, has never before had to open its financial documents to outside observers; however now, because all of those documents must be made public in order for the company to issue shares on the market, the world is getting one of its first, and most in depth, looks into the world's biggest oil company.

So two questions. The first, is why is Saudi Arabia planning to sell a 5% stake in its oil giant? And two, what will the IPO look like?

In the past two years, oil prices have plummeted, from a high of over \$100 a barrel, to below \$40, and now hover at around \$50. This has meant massive budget deficits for petrol states, which had been used to financing their spending almost solely based on their oil revenues, and whose economies are almost entirely focused on extracting black gold. In Venezuela, that, combined with government missteps, has meant almost total economic collapse. Saudi Arabia, on the other hand, has been forced to dip into its massive currency reserves—near \$750 Billion at their height—spending huge chunks of its savings in order to maintain government spending as revenues have lagged. This year alone, the government faced a deficit of \$100 Billion in its budget, in response to which it has had to cut public sector bonuses and benefits. That has made the government acutely aware of the need to diversify its economy.

So what might happen once Saudi Aramco has its IPO? It could instantly become the most valuable public traded company in the world. For comparison, Apple, currently the world's most valuable company, has a market capitalization of \$600 Billion. Saudi

Aramco could be worth \$2 *Trillion*, in an IPO that alone would be worth \$100 Billion. That's in a year when the largest IPO so far, globally, was for \$3 Billion, which seems like small fries in comparison. Needless to say, a deal that big and the fees that go along with it, has global investment banks licking their lips.

Ultimately we'll have to wait to 2018 to see what happens, but in the meantime, there's a lot of hype and a lot of expectation.

See you next week for EconoMag.