

Could Saudi Aramco Be Worth 20 Times Exxon¹? Potential sale of shares in oil giant raises question of just how valuable company would be

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Abstract

The notion of a public share offering was still under review and would have to be approved by the company's board of directors and its supreme council, which includes oil minister Ali al-Naimi and Mohammad bin Salman Al Saud, Saudi Arabia's powerful deputy crown prince who first revealed the idea in an interview with the Economist.

Full Text

LONDON--Saudi Arabia's potential sale of shares in its state-owned oil giant could lead to a publicly listed company valued in the trillions of dollars, more than 10 times [Apple Inc.](#)'s peak of about \$756 billion.

[Saudi Arabian Oil Co.](#), better known as Saudi Aramco, on Friday held out the prospect of an IPO on the Saudi stock exchange. Aramco said it was considering "the listing in capital markets of an appropriate percentage of the company's shares and/or the listing of a bundle of its downstream subsidiaries."

That potential drew attention because the company produces more than 10% of the world's oil supply every day and controls a large chain of refineries and petrochemical facilities to complement its exploration and production operations. Taken together the business could be valued at more than \$10 trillion by some estimates. [Exxon Mobil Corp.](#), the largest non-state-controlled oil company, has a market value of \$317 billion.

Mohammad al-Sabban, an independent oil analyst and former senior adviser to the Saudi oil ministry, said it was unlikely the Saudi kingdom would list shares in the parent. That could open it up to scrutiny about financial controls and lift a veil on information that the royal family regards as state secrets.

More likely is a Saudi Aramco listing of parts of its refining and chemical operations, Mr. Sabban and others said. That would still be significant given the size of those businesses.

A person familiar with the national oil company said Western banks likely are months away from hearing what the Saudis' decision will be. There hasn't been serious discussions with banks about the particulars of any stock offering, that person added.

One clue to the scale of Aramco's domestic refining operations is its Sadara Chemical Co. complex in the eastern city of Jubail. It will be the largest petrochemicals project ever built at one time when it starts full operations in 2017. Built in partnership with Dow Chemical Co., it has already been earmarked for an IPO this year to raise the funds to pay its \$20 billion price-tag.

If the Sadara complex was floated in the U.S., it would immediately become a Fortune 500 company, the company has said. If added to all of Aramco's other domestic refinery and petrochemical facilities, the resulting company would be one of the largest of its type in the world.

The notion of a public share offering was still under review and would have to be approved by the company's board of directors and its supreme council, which includes oil minister Ali al-Naimi and Mohammad bin Salman Al Saud, Saudi Arabia's powerful deputy crown prince who first revealed the idea in an interview with the Economist. Prince Mohammad said a decision would be made within months.

Floating Saudi Aramco shares on the Saudi Arabian stock exchange, known as the Tadawul, may sound like a radical move by Riyadh, but if it chooses the second option--bundling its refining and processing operations--then there is a precedent.

Saudi Aramco has already held an initial public offering for one of its domestic downstream facilities. The Rabigh Refining and Petrochemical Company, known as PetroRabigh, offered 25% of its shares to investors in 2008. The complex, located north of Jeddah along the Red Sea, is co-owned by Saudi Aramco and Japan's Sumitomo Chemical Co., which each hold a 37.5% share.

Some analysts said it would be strange for Saudi Aramco to list its shares when the oil market is in the midst of a deep price collapse, dropping more than two-thirds over the past 18 months to the lowest levels in more than a decade.

But the sale would help bolster the kingdom's coffers as it copes with a slump in income from oil sales. Saudi Arabia ran a record deficit of nearly \$98 billion last year, and late last month it announced expenditure and subsidy cuts for 2016 to keep its widening deficit in check.

The kingdom's foreign reserves are shrinking--down 15% to \$635.5 billion at the end of November, from a peak of \$746 billion in August last year--limiting the government's ability to continue its massive spending at home, where people are accustomed to state assistance.

Raising a large sum of money would allow the energy giant to weather low crude prices for a few more years, said Chad Mabry, a senior energy analyst at brokerage FBR & Co.

He also said that the longer the Saudi government refrains from production cuts, the longer global prices will remain low. A sizable and successful public offering could have an impact

on U.S. oil competitors now struggling at current prices, he said.

Saudi Aramco has 261 billion barrels of proved crude-oil reserves, according to its 2014 annual report, compared with less than 14 billion barrels of proved liquid reserves, excluding natural gas, reported at the same time by Exxon [1](#).

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Details

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