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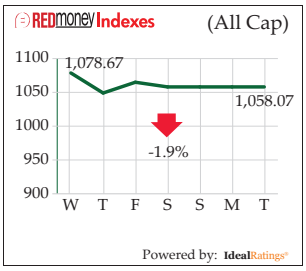

COVER STORY

8th April 2020 (*Volume 17 Issue 14*)

Dubai's loss is Saudi's gain as firms look to move listings

The delisting of DP World back in February lost NASDAQ Dubai its most valuable stock, and came as a serious blow to the emirate's efforts to boost liquidity on its domestic exchanges. But while DP World had sound strategic objectives for its departure, IFN has learned that there could be a groundswell of other firms seeking to switch — and as the largest and most liquid market in the region, Saudi's Tadawul is likely to be the biggest beneficiary. Given Saudi's strict approach to Islam, what, asks LAUREN MCAUGHTRY, would be the implications for these companies when it comes to Shariah compliance?

Playing catch-up

NASDAQ Dubai has always been considerably smaller than its closest regional competitors, Dubai Financial market (DFM) and Abu Dhabi Securities Exchange (ADX). And while it has made an undeniable mark in the Islamic debt markets (with US$49.06 billion currently listed, 96% of Dubai's total issuance and the largest center for Sukuk listings in the world), on the equities side it has been arguably less successful. The exchange currently holds just nine listed stocks, which back in February were valued at around US$117 million, of which DP World represented the lion's share. By comparison, DFM was worth around US$1.1 billion, with 67 companies listed, while ADX came in at US$757 million.

DP World decided to delist due to its long-term strategy, which it said was incompatible with the short-term view of the public market, and its emphasis on shareholder returns. This may be true, although the wisdom of the move has been debated — with the 19.5% of outstanding shares being acquired at almost a 30% premium by its parent and majority owner, the state-owned Port and Free Zone World, the deal will increase the firm's debt by over US$8 billion. It is a risky move, given the central role that DP World played in Dubai's 2009 debt crisis, and both Moody's Investors Service and Fitch Ratings have already placed it on review for downgrade.

But no matter what the future holds for DP World, the departure from NASDAQ Dubai of its biggest and best-traded stock represents an undeniable blow to Dubai's equity game, weakening a market already thin and relatively illiquid, which could have a detrimental impact on its appeal to international investors. And there are some who now question whether the size of the local market really requires three exchanges for similar products, suggesting that NASDAQ Dubai might do better to bow out of the equities game altogether and focus on its more successful segments of Sukuk and futures.

Seeking alternatives

It is not just NASDAQ Dubai, however. There has been, IFN has learned, a growing trend toward companies considering the option of leaving Dubai altogether to move to more liquid, highly traded locations such as London, Singapore — and, of course, Saudi Arabia.

"When DP World announced its plans to delist in February, a handful of other entities scrambled to consider their own options," said Simon Rahimzada, a partner at King & Spalding specializing in cross-border acquisitions and equity capital markets (including IPOs and company listings). "The local markets are sluggish (given the current circumstances), and there is a lack of liquidity

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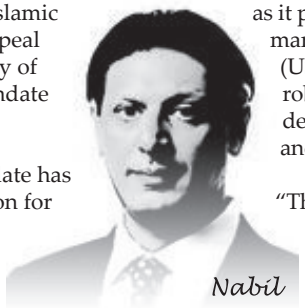
in a lot of places, compared to a boom in other areas, such as Saudi Arabia, which may offer a better value on share prices. We've definitely seen a surge of people looking at this."

This is not necessarily a new trend in the region, despite actions such as the UAE cabinet's decision to raise foreign ownership limits, allowing 100% foreign ownership of companies in select sectors, in a bid to attract IPOs following a lengthy drought over 2018–19. Many UAE-based firms have chosen to list on the London Stock Exchange — from the NMC Health IPO back in 2012 to Dubai's Network International which raised US$1.4 billion in 2019. Other markets in the region have also suffered — according to the Kuwaiti Stock Exchange, some 40 companies delisted between 2012 and 2018.

> ***"The Saudi Tadawul to date has been a popular destination for potential relisting — it is much larger than other markets in the GCC and has demonstrated that it is a liquid market"***

But the ultimate beneficiary, at least regionally, is likely to be Saudi Arabia — and that could lead to a surge in firms seeking to switch their operations (and their financing) to Islamic structures, in order to appeal to the substantial majority of Saudi Investors who mandate Shariah compliance.

"The Saudi Tadawul to date has been a popular destination for potential relisting — it is much larger than other markets in the GCC and has demonstrated that it is a liquid market. Some entities that are themselves Shariah compliant may be looking at whether or not to make a target they want to list, also Shariah compliant. Moreover, investors in Saudi Arabia will often shy away from companies that are not Shariah compliant and so companies will often take the steps to become Shariah compliant prior to contemplating a listing in Saudi Arabia, according to Nabil Issa, a partner at King & Spalding, who splits time between Dubai and their affiliated Riyad office. "There is a definite buzz around the issue."



It has to be said that Tadawul itself does not specifically require listings to be Shariah compliant — in fact, the exchange is surprisingly agnostic. However, the strong preference from Saudi investors makes it highly desirable — and as a result, the vast majority of listed firms make it their business to be compliant. According to Islamicly, an app that identifies and monitors Halal equity investments, as of June 2019 Tadawul held 202 stocks, of which 157 (or 77.72%) were Shariah compliant.

Another trend is for Saudi players to acquire overseas firms and switch their listings back to Saudi Arabia — and in many of these cases, either before or as part of the deal, the purchaser requires the target firm to refinance its debt on a Shariah compliant basis and bring in a Shariah board to review activities, in order to make its acquisition more attractive from the perspective of Saudi investment.

Nabil also commented that parties were initially concerned that the Saudi Aramco IPO had sucked the liquidity out of the market but in fact its fundamentals are looking fairly robust. The latest listing, of a local healthcare firm and hospital operator called the Dr Sulaiman Al Habib Medical Group in February, just made its eponymous founder a billionaire as it priced right at the top of its marketed range, at a rate of SAR50 (US$13.3) per share, marking robust appetite in the market despite the ongoing geopolitical and economic pressures.

"The Sulaiman Habib's IPO was heavily oversubscribed, and that reassured a lot of people," agreed Simon.

There are others on the cards — one of which, IFN understands, could be Egypt's Orascom Construction, currently dual-listed on NASDAQ Dubai and the Egyptian Exchange. With the construction market in the UAE slowing down dramatically, the firm is believed to be considering a move over to the Kingdom to leverage the greater project opportunities it has to offer — and a switch in listing location could also be on the cards, and Saudi continues to ramp up its spending (coronavirus notwithstanding) to diversify its economy, privatize its industries and attract international participation.

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Shariah drivers

"People are assessing where their biggest activities are, in which geography. If their activity in Saudi has increased, that is triggering interest in moving their listing over to Saudi — where the share prices might be higher for them, which suggests a better return for investors," said Simon.

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"Certain entities which are themselves Shariah compliant are seriously looking at what they need to do to change the operations of a target they may want to list, to make them consistent with Shariah."

> ***"It is certain to drive more business toward Islamic finance, and could boost the Sukuk market and sustain loan activity at a time when, struggling to bounce back from the coronavirus chaos, the Islamic banking industry is almost certain to need it"***

Assuming their business activities are not Haram, and they are not too heavily leveraged, the single pivoting factor is therefore likely to be their financing structures — which they will have to restructure Islamically. Whether they do that in their home jurisdictions or with the assistance of Saudi's multitude of Shariah compliant banks, it is certain to drive more business toward Islamic finance, and could boost the Sukuk market and sustain loan activity at a time when, struggling to bounce back from the coronavirus chaos, the Islamic banking industry is almost certain to need it. It may not happen immediately, given current conditions — but when it does, the Saudi stock market will (now more than ever) be the one to watch.