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Abu Dhabi National Oil Company not immune from IPO

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Justin Dargin, Middle East Energy expert. Credit: University of Oxford. Credit:

A Gulf energy expert is predicting that IPOs currently being considered in the United Arab Emirates for assets on the periphery of its state-run oil and gas enterprise, Abu Dhabi National Oil Company, could eventually encompass core holdings in the ADNOC Group.

“Even though ADNOC [has] indicated that there would not be any IPOs launched for its core business structure, I would prophesise that if… peripheral IPOs are successful, then ADNOC would consider minority stakes in its primary business in the long-term,” Justin Dargin, Middle East Energy expert at the University of Oxford, told *Fairplay* in an exclusive interview.

“It is highly unlikely that Abu Dhabi would ever relinquish majority state control over ADNOC. However, as more and more successful IPOs ripple across the region, then the core business holdings would not be immune.”

Shipping and port companies, as assets deriving their attractiveness from the region's formidable state-run oil and gas businesses, are increasingly being considered for IPOs in the Arabian Gulf, as national oil companies ponder the need to drive exploration and production budgets in a sub-USD50/barrel oil environment and attract foreign investment.

Bloomberg reported earlier this month that when the merger of three shipping businesses is complete, likely later this year, an IPO of the merged entity may be considered.

ADNOC announced in October 2016 that it was merging "three of its shipping, marine and services companies to create a single world-class entity." No valuation has yet been placed on the combination of The Abu Dhabi National Tanker Company (Adnatco), Petroleum Services Company (Esnaad), and Abu Dhabi Petroleum Ports Operating Company (Irshad).

But with competition from renewables inexorably increasing, and the oil price showing no signs of moving upwards in the next year or so, state-run national oil companies in the Gulf Cooperation Council (GCC) region are thought to be gipving increasing consideration to the idea of IPOs.

In July, Bloomberg reported that Abu Dhabi Ports Company was considering an IPO. Other reports this year said ADNOC was also considering an IPO for its distribution unit, which includes about 460 petrol stations, with a price tag of about USD14 billion.

ADNOC Group assets include offshore oil and gas exploration unit, Abu Dhabi Marine Operating Company (ADMA OPCO), which has a total production capacity of 650,000 bpd, and operates 218 oil and gas wells and 36 platforms across two major Abu Dhabi fields, oil and gas exploration, development and production company, Zakum Development Company (ZADCO), which operates three major Abu Dhabi fields, including the Upper Zakum field, and National Drilling Company (NDC) which has drilled over 6,200 wells.

While those businesses may be considered core assets, it is unclear whether, in processing and refining, group businesses which also include units like Abu Dhabi Oil Refining Company (Takreer), and petrochemicals concerns Abu Dhabi Polymers Company (Borouge), and Ruwais Fertilizer Industries (Fertil), would be regarded as 'non-core'.

Dargin told *Fairplay* the motivation for ADNOC to consider IPOs for its subsidiaries was part of a broad movement in MENA energy-rich countries to liberalise and privatise portions of their energy sectors, attract foreign investment and to implement a modernisation drive to foster sustainable economic growth.

"However, even though the UAE and other MENA countries are considering IPOs and other efforts to encourage foreign investment, it is telling that at the moment ADNOC desires to take a very cautious approach by creating feasibility studies to gauge investor interest and by limiting the potential IPO to outside of its core business," he said.

"The overall motivation for the IPO is for the UAE to reorganise its energy sector and other state-owned industries to make them less dependent on state financing. And, what is intended with that process is that these organisations will become leaner and more efficient… with corresponding effects percolating throughout the macroeconomy."

The merger of Adnatco, Esnaad, and Irshad appears to be little more than a merging of back-office operations, and there are likely to be few inter-company synergies.

"To a certain degree, that is correct. However, what is important to remember is that this is a major step when compared to just the early 2000s. The fact that the UAE, as well as Oman and Saudi Arabia, would even consider selling holdings in any aspect of their state-owned enterprises is quite a reversal of policies that held sway for decades," Dargin said.

Saudi Aramco's possible IPO of a small minority stake in the company has caused ripples of interest in international equity markets, while Oman Oil Company said in April it could list shares in unit Salalah Methanol Company.

"The key understanding that can be had is that initially ADNOC desires to study fully the impact of the IPO on the periphery and then, at a later date, [such steps] could be perhaps [continued] if the outcome is positive. And, while the potential IPOs are not concerned with its core practices, yet, at the same time, the potential valuation of the IPOs could reach up to the tens of billions of dollars, or even more."

There is likely to be keen international investor demand for stakes in companies that become available in the GCC IPO process.

"I would recommend that investors strongly consider purchasing stakes in some of these companies that are becoming available for private investors. However, at the same time, it does require careful research, as with any other investments. State-owned enterprises the world over have had difficulties in calculating the precise valuation of available assets," Dargin said.

"Additionally, certain issues such as how much state control versus market control would be important to understand. Yet, as has been shown historically, such as in the former communist countries of Eastern Europe, the purchase of shares of state-owned enterprises in dynamic sectors can be immensely profitable and as such, should be granted careful consideration."

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