

Saudi Arabia in discussions to sell Aramco stake in bid to raise funds for Vision 2030

Saudi Arabia's crown prince Mohammed bin Salman (MBS) on Tuesday evening told Saudi television that the kingdom is in discussions to sell a 1% stake in Saudi Aramco to a "leading global energy company". MBS' comments come only weeks after Aramco sold a 49% stake in its pipeline subsidiary and fits in with the government's aim of raising capital to help diversify the kingdom's oil-dependent economy.

In the interview, MBS reviewed Vision 2030 which was outlined by the government five years ago. Vision 2030 aims to diversify Saudi Arabia's economy away from oil dependence and transform Aramco from an oil producing company to a global industrial conglomerate.

MBS said shares of Aramco will be sold to foreign investors during the next year or two and that discussions are currently underway to sell 1% in the firm to a "leading global energy company", the crown prince was quoted as saying. The foreign investor in talks to buy the 1% stake in Aramco is believed by many to be a Chinese firm, with China the largest importer of Saudi oil.

The proceeds from the sale, expected to be ~USD 19 billion, based on Aramco's current market cap, will likely be used to support the Kingdom's economic transition which also encompasses plans to increase gas production and distribution as well as renewable energy generation.

"The proceeds are expected to be used to fund the country's economic diversification programme outlined in Vision 2030 rather than to reduce the state deficit. It is more about moving closer to the original goal of selling off up to 5% of Saudi Aramco to investors rather than increasing budget revenues," Dmitry Marinchenko, Senior Director at Fitch Ratings told Gas Matters Today.

Despite an uptick in crude prices in recent months, the outlook for oil looks uncertain in the longer term amid enhanced climate ambitions from major economies as reinstated during last week's Leaders Summit on Climate.

Moreover, Saudi Aramco appears more exposed to the energy transition than many of its peers as it is less integrated into gas and has not made significant pledges on renewables. However, it also has plenty of selling points; namely low break-even costs and vast reserves.

"While Saudi Aramco is not immune to the peak demand problem even in the long term it could turn out to be a good bet for investors," said Marinchenko. "It has low production costs, low maintenance capex needs and abundant reserves making it more resilient to shocks in the market. The company's resilience is also demonstrated but its decision to keep dividends stable – while most international peers dramatically cut distributions to shareholders after the Covid-19 outbreak," he said .

Earlier in April, Saudi Aramco agreed to sell a 49% stake in its newly-formed pipeline subsidiary, Aramco Oil Pipelines Company, to a consortium led by US investment fund, EIG Global Energy Partners, in a deal set to see the Saudi firm receive “upfront proceeds” of ~USD 12.4 billion.

In addition, Aramco’s 2019 initial public offering (IPO) – in which it sold around 2% of its stock on the Riyadh exchange – raised almost USD 30 billion.

“The Aramco IPO was supposed to be a major part of Saudi Arabia’s goal of fundamentally reforming the macroeconomy and stimulate interest from foreign investors, which policymakers thought would spillover into other portions of the Saudi economy,” Justin Dargin, a Middle East energy expert at the University of Oxford told Gas Matters Today.

“However, the IPO failed to be as significant as initially thought. Most investors considered that the valuation was too high, and that the Saudi government still had substantial control over the company, which would lead to a conflict in governance issues.”

Dargin added, however, that the latest announcement was meant to draw in a major investor that could trigger other significant investments “once foreign firms witness that the Kingdom is serious about engaging in broad based privatisation.”

And while oil may experience falling demand in the medium to long term, there is still a role for natural gas as a bridge fuel, as well as opportunities in the downstream sector, he said.

“Therefore, many foreign investors would also consider the potential opportunities to assist in the development of Saudi gas reserves and in its sprawling petrochemical sector,” Dargin said.

“Saudi policymakers could also attempt to link its interest sales with forming more robust geopolitical linkages with other countries, perhaps those who are major export destinations,” he added. - AW