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INITIAL PUBLIC OFFERINGS (IPOS) IN GULF CO-OPERATION COUNCIL COUNTRIES

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ABSTRACT

Initial Public Offering is the way for privately held and limited liability companies, partnership firm to mobilize huge sum of capital and get the legal status as public limited company. The boom in IPO market is indicated by number of IPOs coming up in that country. The full subscription or oversubscription of such offers indicate investors have got some information about that company and believe that they would get super normal returns by investing. Returns on IPO investment becomes the major contributor of success of and the regulatory framework available in an economy must provide for space abundantly for non-public companies to float IPOs in the market. At the same, the economic conditions prevailing in a country do play a significant role facilitating investors and companies to float IPOs. There are other important contributors for the success of an IPO. The Gulf Cooperation Council Countries (GCC) namely Kingdom of Bahrain, State of Kuwait, State of Qatar, Sultanate of Oman, Kingdom of Saudi Arabia and United Arab Emirates are oil dependent economies and would like to diversity their oil-based economy to industrialized economies. The governments of these countries are moving towards establishing industries in the respective countries to create good employment opportunities and to channelize savings of people into productive investments.

Keywords: Initial Public Offerings, Non-Public Companies, Public Limited Companies, GCC Countries, oil-based economies, Financial Intermediaries, Legal Framework, first day and current day returns.

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1. INTRODUCTION

When companies operate at a smaller level, their financial requirements will be lesser. Companies prefer to arrange for a bank loan and other borrowing ways and means. When businesses grow up and expand for those non-public companies, the need arises for IPO issues. Initial Public Offerings are first offer of shares by a company to establish them as a big corporate house legally bound. Certo et al., (2001) explains that the deciding to go for public issue is one of the hardest and crucial decisions business firms make as it throws several advantages and challenges for them[1]. The GCC countries namely Kingdom of Bahrain, State of Kuwait, State of Qatar, Sultanate of Oman, Kingdom of Saudi Arabia and United Arab Emirates with their overwhelming dependency of oil sector cannot comfort with such lop-sidedness in a world of uncertainty and risk. The oil and gas sector in contributing widely in their respective GDP (nearly 50%,), in the four GCC Countries namely Saudi Arabia, Qatar, Kuwait and United Arab Emirates, whereas in Bahrain and UAE has focused on diversification and getting around 24% and 32% oil and gas contribution respectively[2] (Holland and You, 2017)[2], The GCC countries must diversify their economies with good investments in very many economic sectors that would give a stable economic footing, risk management and also present a façade of diversified economy. In this context, attracting investments from the public, institutions and others supporting venture promoters is crucial. Financial intermediaries have also a significant role in bridging the retail and institutional investors on the one hand and the promoter investors on the other.

2. LITERATURE REVIEW

Rao & Shankaraiah (2003) in their article "Stock Market Efficiency and Strategies for Developing GCC Financial Markets: A Case - study of Bahrain Stock Market" argue that stock markets must be efficient in order to ensure fair returns to the investors. Stock markets need to have informational efficiency so that the markets do offer same returns to all the investors. They argue that stock markets in GCC countries do not exhibit informational efficiency and market tends to work on asymmetric information resulting inefficiency in informational. [3]

Simpson (2004) describes in his article "Stock Market Efficiency and Development in the GCC", that GCC stock markets are not efficient as it has been portrayed by Fama (1970). He recommends that amalgamation of the stock exchanges in GCC to get informational efficiency in the markets. The GCC market is characterized by lower trading volumes, lower market capitalization and the lower informational access. He argues clearly that the market needs to show up tremendous improvements and these stock markets will have to be independent on its own.[4]

Abumustafa (2007) presents in his article "A Review of Regulation, Opportunity and Risk in Gulf Cooperation Council Stock Markets the Case of Kuwait", that GCC countries are showing up tremendous changes and performances in the stock market operations including Kuwait Stock Exchange. The stock market indices of the GCC countries are showing up improvements drastically and also showing up an increase more than 80%, due to higher oil prices, lower interest rates, and general decline in regional uncertainty and improvements in the foreign direct investments. It has been evident from this study that regulatory performances is mandatory for any security market and GCC countries are taking essential steps to ensure fair market trading performance.[5]

Roult & Arouri (2009) argue in their article titled "Oil prices and stock markets: what drives what in the Gulf Corporation Council countries?" they argue that the decision makers on oil prices in GCC countries will have to carefully evaluate the effect of such changes in prices on the stock markets. The study shows that there is a positive correlation between the oil price changes and the stock market prices and the relationship is mostly bi-directional in Saudi Arabia. In other countries the oil prices are creating an impact on the stock markets and the stock prices, but the opposite direction movement is not there.[6]

Sofya et.al (2016) in their article, 'IPO in the countries of the Gulf Cooperation Council", studied the performance of IPO in GCC countries and said that the Arab States of the Gulf Cooperation Council (GCC) host one of the fastest developing regions, yet one of the most closed groups of security markets in the EMEA region. This study provides an analysis of the regional securities market and compares the same with global securities' market trends for the period 2000 to 2014. The study refers to regional IPO activity as a reflection of the level of maturity of the local economy. An IPO Market Ratio is introduced in this study as an instrument for measuring the national economy so as to be able to further compare it to other economies.[7]

Chemmanur and Fulghieri's (1994) in their article, "Investment Bank Reputation, Information Production and Financial Intermediation", present that investment banks with special expertise in evaluating firms, use high standards to determine the value of an issue. Such sponsors develop a high reputation because investors observe ex-post that the firms they take public are, on average good firms whose valuation is confirmed in secondary market prices. A high reputation also increases the issue proceeds of firms they take to market and enables such sponsors to maximize their profits. A high reputation makes it possible for a firm to sell the maximum number of shares to the public as well at the price which is quite higher in the market in order to get the maximum advantage of it.[8]

Zain **&** Grigorievna argue that GCC Countries' economies are witnessing growth in non-hydrocarbon sectors as well. The economic growth rates of these GCC Countries are progressing in the right direction to pose good growth. as well at an average 4 % - 8%) (globaleconomy, 2017). They argue though GCC Countries are oil dependent, the growth in non-hydrocarbon sector would help them a lot for economic development. [9]

3. IPOS IN GCC COUNTRIES

Many researchers suggest that number of IPOs in GCC Countries would see a tremendous growth as the economies are getting diversified and industrialization is on full-swing. The Table given 1.1 shows the number of IPOs got floated and the capital mobilized in total (in billion US $) through IPOs in GCC Countries over 13-year periods (2005 – 2017).

Table 1 IPOs offered & Capital mobilized through IPOs in GCC Countries during 2005 - 2017

Country	No. of IPOs	Capital mobilized (in billion US$)
Bahrain	8	1.77
Kuwait	4	313.83
Oman	19	2.61
Qatar	11	5.66
Saudi Arabia	107	0.04
UAE	28	9.71
Total	177	333.62

Source: Gulf base, 2017 & Computed data

Table 1 illustrates that among six GCC Countries' Kuwait could mobilize around $ 313.83 (billion) through just 4 IPOs. The dominating markets in IPO issues in GCC Countries are Saudi Arabia and United Arab Emirates, since they have floated more number of IPOs in the market. The other markets such as Bahrain, Oman, Qatar. Even though the number of IPOs floated in GCC Countries) (less than 8% of USA 13-year IPOs), is less compared to other developed economies such as USA, where approximately 160 – 175 (Statista, 2017)[10] IPOs floated in year, GCC Countries are slowly showing up interest in public floatation and corporate governance. The number of IPOs reveals that there is a mixed response from investors on the IPOs floated in GCC Countries. With diversification objectives being pursued by these countries, there would be a big jump in the number of IPOs getting floated in the coming years.

4. ROLE OF REGULATORY FRAMEWORK IN PROMOTING IPOS IN GCC COUNTRIES

The regulatory framework prevailing in GCC Countries are corporate friendly. The regulations, rules and documentations to be carried out are spelt out clearly and they are on par with international reporting standards. The regulations to be complied with a non-public company are not that stringent and not posing any big challenge for them to revert their decision of going public.

GCC Countries are expatriates driven countries. The investment norms applicable for investing in IPOs by expatriates and GCC Citizens vary across countries. Some countries permit foreigners to invest and some do not permit. The regulations concerning foreign investors are as follows: Saudi Arabia market is open for investment only for GCC Countries citizens, but foreign investors will have to take a mutual fund route to invest. In Qatar, investors from other countries can invest a maximum of 25% of security. In UAE as well, expatriates will have to take a mutual fund route to invest in shares. Kuwait market is the smallest and it had very limited number of IPOs. The scope for investment does not arise due to very limited number of IPOs getting floated. In Oman, foreign investors can invest. Bahrain market as well is too small market and having very limited number of IPOs, thus the investment options would not have been there for foreigners.

5. ECONOMIC VARIABLES THAT ARE PREDOMINANT IN GCC COUNTRIES EXPECTED TO INFLUENCE IPO MARKETS

An analysis of macro-economic variables of GCC Countries would reveal how far these variables can contribute for increasing the number of IPOs getting floated in these respective GCC Countries. The variables taken for analysis include: GDP, Manufacturing value added, Oil Reserves and Stock Market Return of respective GCC Countries.

5.1. Gross Domestic Product (GDP) (in 2010 constant dollars $)

The growth in real factors would mean growth in an economy in terms of GDP, contribution in manufacturing and service sector. The growth in GDP is possible when there is a growth in industrial and service sector contribution. Growth in GDP reflecting growth in business and in turn number of IPOs. The descriptive statistics of GDP in constant dollars (in 2010 $)

Table 2 Gross Domestic Product (in 2010 constant dollars) of GCC Countries (Bn USD)

Year & Details	Gross Domestic Product, billions of 2010 U.S. dollars						
	Bahrain	**Kuwait**	**Oman**	**Qatar**	**Saudi Arabia**	**UAE**	**Total**
2005	19.6	108.9	44.3	53.4	461.6	257.4	945.2
2006	20.9	117.1	46.7	67.3	474.5	282.7	1009.2
2007	22.6	124.1	48.7	79.4	483.2	291.7	1049.7
2008	24	127.2	52.7	93.5	513.4	301	1111.8
2009	24.6	118.2	56	104.6	502.9	285.2	1091.5
2010	25.7	115.4	58.6	125.1	528.2	289.9	1142.9
2011	26.2	126.5	58	141.9	581	308.3	1241.9
2012	27.2	134.9	63.4	148.5	612.5	324.1	1310.6
2013	28.7	136.5	66.2	155.1	629	342.8	1358.3
2014	29.9	137.1	67.9	161.2	652	354.1	1402.2
2015	30.8	138	71.7	167	678.7	367.6	1453.8
2016	32.18	142.9	66.29	170.7	690.5	378.8	1481.37
Mean	26.03	127.23	58.37	122.31	567.29	315.30	1216.54
Standard Dev	3.59	10.03	9.03	40.26	77.25	33.89	182.65
Minimum value	19.60	108.90	44.30	53.40	461.60	257.40	945.20
Maximum value	32.18	142.90	71.70	170.70	690.50	378.80	1481.37

Source: The World Bank & globaleconomy 2017 and computed.

Table 2 indicates, Kingdom of Saudi Arabia (KSA) is the largest in terms of Gross Domestic Product achieved among the GCC countries' (mean GDP 567.29 billion $) This poses a positive environment for private sector to float more initial public offerings in the economy. The number of IPOs that had come up in 2005 – 2017 in KSA is 107, which is the highest in GCC Countries. The second largest economy in terms of GDP is United Arab Emirates (UAE) (mean GDP is 315.3 billion $). The number of IPOs got floated in UAE market is 28 in 13 years of span of time. The correlation between total number of IPOs floated in GCC countries and the total value of GDP earned in those countries yield a negative correlation (r = - 0.716). It is inferred that number of IPOs getting floated in GCC countries is not having positive relationship with GDP earned in those countries, reflecting inconsistency in the number of IPOs getting floated.

5.2. Manufacturing Value Added (MVA)

Nation master, (2018) says that 'Manufacturing value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs'. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources.'[12] Manufacturing value added signifies value of net output of a sector and signifies growth in manufacturing sector, thus enhances the number of IPOs getting floated.

Table 3 Manufacturing Value Added (in 2010 constant dollars) of GCC (Bn USD)

Year	**Manufacturing Value Added (in 2010 constant dollars) of GCC (Bn USD)**						
	Bahrain	**Kuwait**	**Oman**	**Qatar**	**Saudi Arabia**	**UAE**	**Total**
2005	--	--	2.68	8.82	31.35	19.16	62.01
2006	--	--	4.19	9.23	36.17	21.45	71.04
2007	--	--	4.53	9.86	41.35	23.28	79.02
2008	--	--	6.39	11.72	46.69	27.13	91.93
2009	--	--	5.6	13.33	46.56	23.31	88.8
2010	3.72	6.9	6.2	15.68	58.18	23.09	113.77
2011	4.33	8.65	7.75	15.88	67.2	27.07	130.88
2012	4.57	10.38	8.18	19.66	72.05	28.72	143.56
2013	4.82	10.24	8.53	20.28	74.15	29.43	147.45
2014	4.98	9.01	7.83	20.92	81.65	31.5	155.89
2015	5.4	7.99	6.78	15.95	80.83	32.12	149.07
2016	5.84	8.06	5.62	13.79	83.19	33.01	149.51
Mean	4.81	8.75	6.19	14.59	59.95	26.61	115.24
Standard Deviation	0.58	1.33	1.85	4.44	18.29	4.24	34.90
Minimum value	3.72	6.90	2.68	8.82	31.35	19.16	62.01
Maximum value	5.84	10.38	8.53	20.92	83.19	33.01	155.89
Max value	5.84	10.38	8.53	20.92	83.19	33.01	83.19
Mean based % of MVA to GDP	18.88	6.88	10.74	11.93	10.57	8.44	9.95

Source: The World Bank & globaleconomy 2017 and computed.

The data in Table 3 reveal the contribution of manufacturing sector in GDP of GCC countries. It is found that Saudi Arabia (KSA) and United Arab Emirates are the two biggest economies contributing at a larger extent to achieve a certain amount of GDP in the respective countries. This makes it clear that economies like KSA and UAE are the largest economies in terms of manufacturing value added in GDP (mean $ 59.95 and $ 26.61 billion respectively) and they have also achieved a maximum value (81.66 and 31.5 billion $) during the study period (2005 - 2017). This makes it clear that apart from oil production, economies of KSA and UAE include manufacturing value added as one of the major elements of country's GDP. The statistical relationship between total manufacturing value added and the total number of IPOs floated in GCC countries assume a negative correlation (r = - 0.734). Reduced MVA as % to GDP is a factor for concern, because a higher share would mean higher need for industries in diversified sectors leading to new undertakings and hence IPOs from those undertakings.

5.3. Oil Reserves

Oil reserves are one of the most important and vital indicators of GCC economies since they are oil dependent economies. Alfawzan (2017) argues that economic growth in the GCC countries is greatly depending on oil production and at the same time, the oil market is highly volatile market.[13] The amount of oil reserves is their export earnings, through which they fund industrialization. The amount of oil reserves GCC countries have is one of the real performance indicators since these economies are highly oil dependents. The amount of oil reserves and the price at which it is sold in the international market are the major indicators for GCC economies as these two determine the growth of GCC economies. The table 4 makes it clear that Saudi Arabia (KSA) and State of Kuwait assume the largest producer of oil and possess rich amount of oil reserves (mean 266.91 and 103.82 billion US $). United Arab Emirates as well comes very close to State of Kuwait in terms of average oil reserves they keep (mean 98 billion US $) and their minimum and maximum values are (98 billion US $). Thus, the oil reserves correspond to the number of IPOs GCC economies KSA and UAE had. Kuwait is an exception to it. The correlation between number of IPOs floated and the oil reserves GCC countries have is positive (r=-0.736) exhibiting negative correlation.

Table 4 Amount of Oil Reserves of GCC Countries' (Billion Barrels)

Year & Details	**Oil Reserves of GCC Countries' (Billion Barrels)**						
	Bahrain	**Kuwait**	**Oman**	**Qatar**	**Saudi Arabia**	**UAE**	**Total**
2005	0.1	102	5.5	15	262	98	380.5
2006	0.1	104	5.5	15	267	98	385.5
2007	0.1	104	5.5	15	267	98	385.5
2008	0.1	104	5.5	15	267	98	385.5
2009	0.1	104	5.5	15	267	98	385.5
2010	0.1	104	5.5	25	267	98	395.5
2011	0.1	104	5.5	25	267	98	395.5
2012	0.1	104	5.5	25	267	98	395.5
2013	0.1	104	5.5	25	268	98	396.5
2014	0.1	104	5	25	268	98	396
2015	0.1	104	5	25	268	98	396
2016	0.1	104	5.3	25	269	98	397.3
Mean	0.10	103.83	5.40	20.83	267.00	98.00	391.23
Standard Dev	0.00	0.60	0.20	5.22	1.66	0.00	6.11
Minimum value	0.10	102.00	5.00	15.00	262.00	98.00	380.50
Maximum value	0.10	104.00	5.50	25.00	269.00	98.00	397.30

Source: The World Bank & globaleconomy 2017, and computed.

Zein & Grigorievna (2016) state that "Kuwait hosts the oldest stock exchange within the GCC region – the Kuwait Stock Exchange (KSE)[14]. Historically, speculative trade practices and a failure to follow the stock market's own regulations for companies that went public, made a negative impact on the KSE's image causing market crashes in 1976 and 1982 (Chalhoub 2010)[15]". Despite, good oil reserves, IPOs are not up in Kuwait market due to earlier crashes.

5.4. Stock Market Return (Annualized Return) in GCC Countries

Stock market return is the biggest motivator for the investors to decide to invest in capital market securities including IPOs. Gunawardhana et. al (2005) presents that IPO investment is an alternative for a short-term investment and its return is one of the most attractive investments in every stock market.[16] The annualized stock market return provided by GCC markets has been presented here

Table 5 Stock Market Returns (%) (Annualized) in GCC countries (In %)

Year & Details	Stock Market Returns (%) (Annualized) in GCC countries (In %)						
	Bahrain	**Kuwait**	**Oman**	**Qatar**	**Saudi Arabia**	**UAE**	**Total**
2005	26.83	60.7	45.31	NA	111.88	133.73	Not Applicable
2006	1.76	13.92	10.62	NA	2.22	-24.98	Not Applicable
2007	10.88	13.77	27.27	NA	-38.39	-7.33	Not Applicable
2008	10.25	13.59	44.5	46.65	4.97	24.51	Not Applicable
2009	-40.39	-44.15	-40.6	-31	-33.68	-38.25	Not Applicable
2010	-6.73	-5.7	14.55	26.59	14.37	-0.11	Not Applicable
2011	-10.22	-10.92	-6.88	24.42	-0.27	-3.11	Not Applicable
2012	-15.47	-3.74	-6.38	9.4	9.19	-2.39	Not Applicable
2013	4.22	24.57	12.82	15.98	9.99	37.77	Not Applicable
2014	22.29	-1.64	9.15	37.25	25.58	39.32	Not Applicable
2015	-4.79	-15.93	-11.44	-3.22	-11.59	-7.33	Not Applicable
Mean	-0.12	4.04	8.99	15.76	8.57	13.80	Not Applicable
Standard Dev	18.72	26.55	25.15	24.48	39.40	46.44	Not Applicable
Minimum value	-40.39	-44.15	-40.60	-31.00	-38.39	-38.25	Not Applicable
Maximum value	26.83	60.70	45.31	46.65	111.88	133.73	Not Applicable

Source: The World Bank & globaleconomy 2017 and computed.

The table 5 presents the market return earned by respective GCC stock market investors. Qatar market, though, it is being small, has provided good amount of returns to the investors (mean 15.76% with SD 25.11%). This table also makes it clear that the bigger economies Saudi Arabia (KSA) and UAE (mean 8.57% and 13.800%, with SD 39.40% and 46.44% respectively) have provided the good amount of returns to the investors compared to other GCC markets. The standard deviation is very high too indicating the fluctuating market returns, keeping investors tied to fixed income investments or realty sector exposures. KSA and UAE are the dominating markets in GCC countries that provide a reasonable return to the investors.

6. IPO RETURNS

One of the motivators for investment in IPO is the return earned on such investment. Investors prefer IPO investment since there is a tendency of getting very high returns on day one of trading.

Table 6 First Day Return and Current Day Returns (%) of IPOs in GCC Countries

	Bahrain		**Kuwait**		**Oman**		**Qatar**		**KSA**		**UAE**	
Measure of Return	Day 1	Current Day Returns	Day 1	Current Day Returns	Day 1	Current Day Returns	Day 1	Current Day Returns	Day 1	Current Day Returns	Day 1	Current Day Returns
Mean Returns	8.69	-51.46	255.51	171.84	22.83	-20.34	79.82	187.10	237.75	79.29	139.81	-11.32
Standard Deviation of Returns	30.16	67.20	240.95	350.46	40.58	77.50	106.30	362.06	350.32	177.75	157.90	77.39
Coefficient of Variation of Returns	3.47	-1.31	0.94	2.04	1.99	-3.81	1.33	1.94	1.47	2.24	1.13	-6.83

Table 6 shows the IPOs Day 1 return and the return earned on current date (i.e. 30th April 2018). The mean returns (-51.46%) earned by IPO as on current da inn Bahrain market reveals heavy push for the sale of securities, and reluctant buying interest from buyers in the market. The mean returns earned on IPOs offered in Kuwait market on the current day i.e. 30th April 2018 is 171.8444% which is lower than the returns on day 1 return (255.51%). Secondly, the standard deviation and coefficient of variation have shown up an upward movement reflecting higher risks. Kuwait market goes with the argument IPOs are initially better in offering returns, but in long run they are not fetching returns as expected. Qatar market is showing a better picture since the current day returns (187.1%) and which is higher than the first day return (79.82%) with risk level of (106.3 and 362.06 respectively).

The risk-return analysis for the IPOs of the Saudi Arabia Market reveals a simple mean return of 237.75% with a Standard Deviation of 350.32 is economically a stellar scenario. The Coefficient of Variation of 1.47 times is very much on the low side of risk confirming the super high IPO market of Saudi Arabia. That is extraordinarily high returns at so low risks had happened over in Saudi Arabia's IPO market. For UAE, the simple mean return of 139% with a Standard Deviation of 157.9 is economically a great scenario. The Coefficient of Variation of 1.13 times is very much on the low side of risk confirming the superior IPO market of UAE,

7. DISCUSSION & CONCLUSION

The GCC market portrays a mixed scenario for IPOs. The countries have been progressing towards intensive diversification of oil dependency; the privatization of industries is getting intensified. At the same time, the investors of GCC Countries are basically risk averse and always on the lookout for information for making investment decisions. The regulatory framework provides a good scope for non-public companies in GCC Countries to think seriously about floating IPOs. At the same time, due to the investor risk averse characteristics and progressing stock markets slightly pushing down the number of IPOs getting floated.

The economic conditions of GCC Countries have been progressing well. Though the GDP is highly contributed by oil export revenues, industrial sector and service sector and non-hydrocarbon sector are posing a growth which is desirable for them. The risk to cover oil price downfall must be planned and implemented well by these economies in order to avoid facing the downward trend in economy due to fall of oil price factors. If oil price starts to increase, then GCC Countries flourish with good amount of surplus reserves which they utilize for developing infrastructure and manpower. Thus, with good oil prices, GCC Countries could progress well with sizable number of IPOs getting floated. Manufacturing and service sectors have now been contributing well in their respective country's GDP, which would push the market to see more IPOs.

Moreover, the return earned on IPOs is the biggest motivator for the GCC investors. All markets pose a good first day returns on IPOs floated, but this trend gets reversed once the shares started trading at secondary markets. The investors do not want to keep up the shares for long-run and would like to earn short term profits mostly. The demand and supply of shares getting widely fluctuating due to short-run profit motives predominantly prevailing among investors. GCCs have good potential to attract many IPOs in their respective markets, provided investment awareness, investor support mechanisms, investor grievance procedures are implemented well in those countries. It is expected that GCC markets to have sizable number of IPOs getting floated from 2018 onwards, since the economies are moving toward intensive diversification and industrialization.

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