

Saudi Aramco's \$111bn profits dwarf those of mega-rivals

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Saudi Aramco



First glimpse of finances puts Apple and Shell in shade but raises issue of company-state inter-reliance

Saudi Aramco has for the first time disclosed the financial performance it has kept secret for three-quarters of a century, revealing that the kingdom's state oil company generated more profits last year than any other company in the world.

The disclosure, made in a prospectus aimed at courting investors ahead of its debut international bond sale, showed the group generated \$111.1bn in net income last year, almost double that of Apple and five times that of rival oil producer

Royal Dutch Shell.

Saudi unease about disclosing the company's corporate make-up and ownership structure was among the reasons Saudi Aramco delayed a much-heralded initial public offering last year. Disagreement over its valuation ultimately forced an indefinite postponement.

But the company decided to tap the public debt markets to raise funds for its recent \$69bn purchase of local petrochemicals company Sabic. The sale, expected to raise \$10bn, will provide a test of fund managers' willingness to back a company whose influence is tied to its historic connection to the development of the Saudi state.

The rare window into the finances of the company, which produces more than 10 per cent of the world's crude, shows the state's reliance on the oil producer means it generates less in post-tax profits per barrel than privately owned competitors.

The government in Riyadh relied on the oil sector for 63 per cent of its total revenue in 2017, according to the prospectus. The tax take from the kingdom meant the oil company made approximately \$26 a barrel last year compared with \$38 a barrel for Royal Dutch Shell and \$31 a barrel for France's Total. In 2018 Saudi Aramco generated \$224bn of earnings before interest, tax, depreciation and amortisation.

Moody's and Fitch assigned the company ratings of A1 and A+, respectively, but said the government's reliance on the oil producer to fund its budget acted as a cap on its creditworthiness. US producer ExxonMobil, for example, is rated AAA by Moody's.

Moody's said Saudi Aramco had many characteristics of a AAA-rated borrower, such as minimal debt relative to cash flows, large-scale production, market leadership and access in Saudi Arabia to one of the world's largest hydrocarbon reserves. But

its final rating was restrained to A1 “because of the close interlinkages between the sovereign and the company”.

Fitch similarly noted the company’s “high production, vast reserves, low production costs and very conservative financial profile” would give it a standalone rating of AA+, but said it would cap its rating at A+ due to the influence the state had on the company through regulating the level of production, taxation and dividends.

JPMorgan Chase and Morgan Stanley are the lead advisers Saudi Aramco has hired to sell the bonds, which could include 30-year debt and come as the oil price has partly recovered from a plunge in the fourth quarter.

The Sabic transaction will see money transferred into Saudi Arabia’s Public Investment Fund, the sovereign wealth fund that Crown Prince Mohammed bin Salman has chosen as a vehicle for carrying out his ambitious plans to overhaul the Saudi economy and diversify it away from oil.

Officials had hoped a stock market listing of Saudi Aramco would have seen \$100bn funnelled into the sovereign wealth fund. Saudi Aramco, which dates back to the 1930s, has issued bonds in local currency before, but the \$10bn international deal is expected to give the company a bigger role in global financial markets.

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