Horizons of growth: The UAE's burgeoning IPO ecosystem

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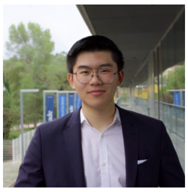

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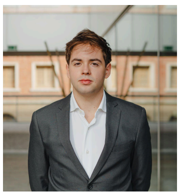

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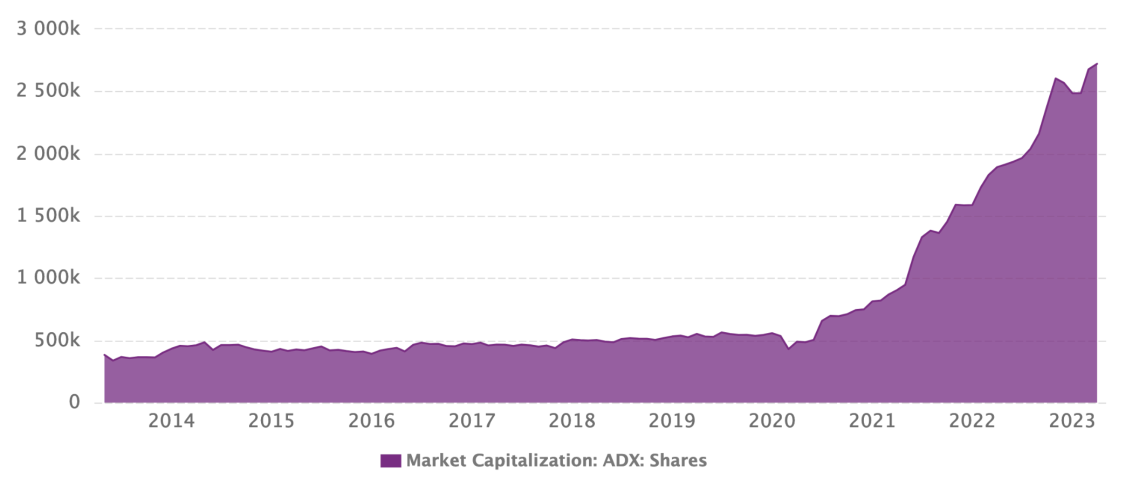
0. Introduction

While thinking about capital markets, the most commonly known are either in the U.S.A. (e.g., NYSE, Nasdaq) or Europe (e.g., FTSE 100, CAC 40). However, as countries have developed, so has their financial system and capital markets. The Middle East has been no exception, with over 16 stock exchanges in the region[1]. The first exchange in the region was the Alexandria Stock Exchange, established in 1883. More recently, countries that experienced economic growth, driven by oil exports, (primarily Gulf Cooperation Council countries) have also created domestic stock exchanges; Kuwait created its stock exchange in 1985, and most recently Saudi Arabia created what is now the Tadawul Stock Exchange in 2007. Similarly nascent, the UAE has two main stock exchanges: the Abu Dhabi Securities Exchange (ADX) and the Dubai Financial Market (DFM).

The ADX was established almost 24 years ago, in November 2000. It is the biggest exchange in the UAE and the second one in the Middle East by market capitalization - its current value as of March 25th, 2024 is 2.895 trillion AED (788 billion $)[2]. In January 2024 there were 82 publicly listed companies, as well as some Debt Instruments, Derivatives, and ETFs among others, taking the exchange to a total of 147 securities[3].

Although the exchange is still relatively small compared to other prominent exchanges such as the New York Stock Exchange (NYSE) or the London Stock Exchange (LSE)[4], it has been gaining importance and recognition. In 2023, the stock exchange had 6 Initial Public Offerings (IPOs) – representing 50% of IPO revenues in the Middle East[5]. Out of those 6 IPOs, half of the capital raised came from ADNOC Gas, which raised $2.5 billion[6].

Figure 1. ADX Market Capitalization between 2014 and 2023 (in AED mn)[7]



[1] *While some countries have more than one stock exchange, they are considered in the previously mentioned list as one.* *Stock exchanges in the Middle East - Wikipedia*
[2] *Abu Dhabi Securities Exchange | ADX Official Website*
[3] *Abu Dhabi Securities Exchange | Wikipedia*
[4] *Leading stock exchange operators by market cap 2023 | Statista*
[5] *ADX leads in Middle East IPO revenues, landmark agreements | Economy Middle East*
[6] *The UAE's 2023 IPO listings | Aurora50*
[7] *United Arab Emirates Market Capitalization: ADX: Shares | CEIC*

In comparison, the DFM was established in March 2000. It has a much smaller market capitalization than the ADX, with a value of 158 billion dollars[8]. The exchange has over 70 listed Equities, ETFs and REITs. In 2022 the exchange had 5 IPOs[7], but in 2023 it had just 2[5], the most well-known of them being the Dubai Taxi Corporation.

The UAE dominated the GCC in IPO proceeds, totaling $6.07 billion, from 8 IPOs. The average IPO size stands at $759 million, which is much larger than the other GCC countries, which average $124 million per IPO[9].

Figure 2. DFM General Index from February 2023 to April 2024 (in AED)[10]

The objective of having well-established capital markets is shared by most Gulf countries and helps reduce their dependence on oil and natural gasses. For example, Dubai has the D33, name, the Dubai Economic Agenda. Their notable objectives are to increase foreign trade to AED 25.6 trillion and foreign direct investment (FDI) to AED 650 billion. Therefore, keeping this agenda in mind, through established capital markets, institutions will have a higher desire to operate there, increase trade within the country, and increase foreign investment.

1. Efforts to attract foreign investments

Bankers and financiers are responding positively to the rise of the Dubai stock exchange. The regulatory and geopolitical concerns, which have historically limited investor interest in these markets, are being addressed in a way investors are positively responding. A recent Bloomberg article[11] noted that, despite underwhelming global IPO offerings globally in 2023, public exchanges in the Middle East have been quite exciting, providing an optimistic outlook for global investors. If Saudi Arabia's Vision 2030 plan and the Emirate's D33 agenda are successful in fostering an entrepreneurial environment and attracting foreign investment,

[8] Discover DFM | DFM Official Website
[9] UAE leads GCC with IPO proceeds of $6.07 bn in 2023 | Economy Middle East
[10] Historical Data DFM | DFM Official Website
[11] The Mideast IPO Boom Is Expected to Stretch Into 2024

these exchanges will continue to yield generous IPO valuations and foreign investment. The long-term outlook points toward the emergence of a new global financial center in the Middle East. This would pose a threat to the growth of other regional stock exchanges, as investors will confidently invest in companies listed on these exciting new exchanges. Initially, this should be attractive to investors with a higher tolerance for risk, as the lack of excitement in global IPO markets will present the Middle Eastern exchanges as a strong alternative.

The focus on digital infrastructure development in the Emirates also provides additional incentives for companies and investors to trade on the ADX or DFM. Capital markets infrastructure is going through a transformation globally. Data aggregation, systems automation, and market surveillance are just some of the cutting-edge needs that market participants demand. The Emirates' commitment to the development of and investment in the digital world presents another incentive for its exchanges. The ADX offers data aggregation services and has a streamlined digital investor certification process called E-IPO to make it easy for investors to gain access to the IPOs. The ADX exchange announced a partnership with investment platform *Eureeca* to "offer international investors compliant and user-friendly access to ADX IPOs."[12] The initiative seeks to attract foreign investment into the exchange of IPOs through the use of an internationally used and accepted platform built with digitized infrastructure. These factors combined show the ADX's commitment to being one of the most advanced and accessible exchanges in the world for IPOs. If the country's investment in innovation pays off, the Emirati stock exchanges are poised for growth, especially compared to other markets lacking in this innovation and infrastructure.

2. The role of the Government and Corporations.

Role of the government:

In 2021, the House of Maktoum announced its plan to publicly list 10 government-run agencies in hopes of attracting foreign investment to the Emirate's bourse and strengthening its capital markets. This ties in with the government's newly announced Dubai Economic Agenda D33 which aims to solidify the Dubai Financial Market (DFM) as a top 4 global financial center.[13] Additionally, this project aims to generate approximately 180 billion USD in Foreign Direct Investment in the next decade to support its financial sector aspirations. Ten specific objectives were outlined in D33, one of them being the launch of a "scale-up program for 30 companies to become global unicorns in new economic sectors"[14]. This is a clear attempt by Dubai to position itself as a new financial center, aiming to compete not only with Abu Dhabi and Riyadh but also become a global investor hub, regardless of nationality, where investors can fulfill their financial obligations and aspirations.

[12] *Abu Dhabi Expands Access To Its IPOs*
[13] *Dubai Economic Agenda D33: Inside Sheikh Mohammed's $8.7 trillion economic plan | ArabianBusiness*
[14] *Dubai Economic Agenda D33 | The Official Portal of the UAE Government*

Role of corporations:

The heightened volatility in global markets, driven by factors such as the Russia-Ukraine conflict and escalating interest rates, has significantly hindered capital market transactions in major financial centers like London, New York, and Hong Kong, leading to declines in deal volumes.

In recent years, countries in the Gulf region, particularly Saudi Arabia and the United Arab Emirates (UAE), have experienced a substantial surge in IPOs, raising over $22 billion in 2022 alone[15]. To accommodate this heightened Gulf activity, many banks have expanded their presence and established new offices in the region, aiming to facilitate connections between fund managers and companies aiming to go public. As many firms redirect their focus to the UAE, the country has transitioned from a Friday-Saturday to a Saturday-Sunday weekend format to align its activities with global markets.

Additionally, corporations in the UAE benefit from the region's robust oil and gas prices, which serve to mitigate the impacts of the global macroeconomic downturn. The implementation of favorable tax policies and the existence of economic free zones, such as the Dubai free zone, play a significant role in attracting firms interested in entering the IPO market.

3. Recent IPOs: Dubai Taxi, Dubai Parkin, and DEWA.

Dubai Taxi:

Dubai Taxi Corporation (DTC) has set a new precedent on the DFM through its offering of 624,750,000 shares (representing 24.99% of its share capital), a manifestation of the kingdom's plan to increase private-public listings. This move has resulted in an unprecedented oversubscription level of 165%, the highest ever recorded on the DFM. This intense investor enthusiasm is backed by DTC's impressive performance in 2022, with revenue soaring to approximately AED 1.8 billion, marking a 31% growth year-over-year. Holding a dominant 44% market share in the Dubai Taxi sector, DTC benefits from the city's growing population and tourist influx, solidifying its lead in a market characterized by high barriers to entry and a strict regulatory framework.

Despite the challenges posed by the Covid-19 pandemic, DTC's integrated business model, including a successful partnership with Hala to launch the DTC App and an increase in e-hailing, has ensured strong financial health and robust cash flows, totaling AED 95.4 million in the first half of 2023. The company, which began trading on the DFM on December 7, 2023, has seen its largest revenue stream come from its taxi division, accounting for 88.2% of its total revenue in the first nine months of 2023. With a strategic shift towards a 100% green fleet by the end of 2024 and a recent doubling of its airport taxi fleet, DTC is not only enhancing its profitability but also its commitment to sustainability and innovation in the face of a rapidly evolving market. These strategic business decisions have set DTC on course for sustainable

[15] The Rise of IPOs in the Gulf

long-term financial growth, however, it is state ties that solidify its position in the market. Dubai Taxi's status as a subsidiary of the government's Road and Transport Authority (RTA) aligns it with the kingdom's macroeconomic strategic goals. These revolve around the digitalization of the economy via the implementation of AI and the development of smart city infrastructure and services. Hence, this affiliation reassures investors that the long-term trajectory of DTC is in the hands of the state, the utmost security any investment could ask for. Furthermore, this affiliation solidifies its position in the market as a de-facto monopoly, as they are the only taxis that can be hailed on the street. This "monopoly" characteristic is also displayed by the fact that DTC provides the lowest rates compared to other riding apps such as Uber and Careem[16], perhaps an enticing factor towards the oversubscription of the IPO. Overall, the combination of strong state-backed strategic decision-making with a commitment to digitalization and the use of modern technology puts the UAE IPO market in an attractive position for future startups and overall public listings.

Dubai's Parkin:

As the leading provider of parking amenities and services in Dubai, Parkin operates approximately 197,000 paid public parking spaces, comprising over 90% of both on- and off-street paid parking in the region. Through its 49-year Concession Agreement with the RTA, Parkin secures sole operation rights and coverage for additional maintenance costs, thereby strengthening its dominant position in Dubai's public parking market.

Parkin is the first IPO of 2024, offering a total of 749.70 million shares on the Dubai Financial Market, which represents 24.99% of its share capital. Priced at AED 2.1 per share, the IPO raised $429 million and achieved a market capitalization of AED 6.3 billion ($1.72 billion). The surge in demand from retail investors increased the retail tranche to 12%, totaling 89.96 million shares, while reducing the qualified investor tranches to 659.73 million shares.

The IPO experienced an oversubscription level of 165 times and reached a total investor demand of $71 billion, the highest recorded on the DFM, reflecting strong investor interest in Parkin's unique business model, attractive financial performance, and clear growth potential.

The introduction of the Dubai 2040 Urban Master Plan forecasts a surge in population and tourism. The anticipated 4% annual increase in registered vehicles until 2033, which translates to a 60% expected growth in demand for public parking spaces, positions Parkin for substantial revenue growth. Furthermore, tariff optimization presents a critical opportunity as Parkin plans to rezone 12,000 high-traffic parking spaces, converting them into high-tariff zones with 60% higher prices. Parkin's primary revenue sources include public on-and-off-street parking payments, fines, and seasonal parking subscriptions, each contributing 56%, 23%, and 17%, respectively, to the total revenue mix.

Parkin commenced trading on the DFM on March 21st, 2024, marking it the sixth of ten planned state-run companies to be listed. The market responded positively, with shares surging over 30% within minutes of the opening and peaking at 39% later in the day,

[16] Careem vs Uber vs Taxi - Which one is the most affordable? | Dubizzle

highlighting strong investor demand. Throughout the subsequent weeks, Parkin's shares continued to maintain their value, closing the month of March at the price of AED 2.9. The price surge can be interpreted positively, revealing high investor demand and confidence in the future outlook of Parkin. However, the rapid price increase demonstrates that underwriters may have underpriced the IPO and missed out on potential capital gains. Additionally, it introduces uncertainty regarding the accuracy of the initial pricing and raises concerns about increased vulnerability to future stock volatility.

Dubai Electricity and Water Authority:

A flagship stock offering helping boost the reputation of the UAE equity capital markets was the April 2022 IPO for the Dubai Electricity and Water Authority (DEWA). The company is the largest publicly listed electricity and utility corporation in the Gulf region, providing these services and district cooling to Dubai. Maintaining a world-leading position in terms of sustainability, with projects such as the Al Maktoum Solar Park aiming to be the largest single-site solar park in the world, DEWA also sits at the forefront for innovation promoting electric vehicles and digital services. The firm raised $6.1bn in its stock offering with HSBC acting as joint global coordinator. This was the highest amount of capital raised by an IPO in the Gulf countries since 2019, EMEA's second largest in 2022, and the largest UAE IPO in history.

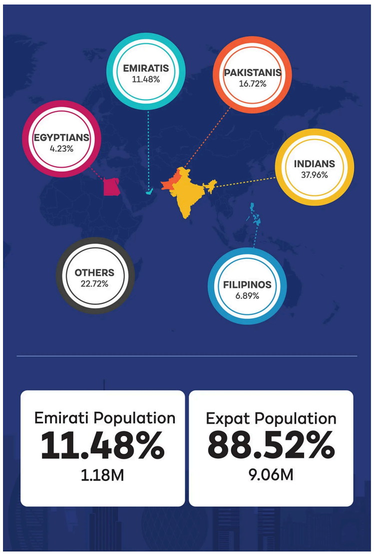
The offering involved the company selling a 6.5% stake of 3.25 billion shares for a total of AED 22.3bn, listing DEWA on the Dubai Financial Market (DFM), giving investors a low-cost entry point to the prospering Middle East market for utility and energy firms. The speculative demand for this security was met by the market, with shares surging 20% on their market debut to AED 2.98 from the initial price of AED 2.48. Total demand for DEWA shares after the IPO reached $85.7b, oversubscribing the order book by 37 times. As a result, the firm was able to achieve its best financial performance and increase dividends by 60% to a total sum of AED 9.9bn ($2.7bn).

This was an extremely impressive achievement during the contextual macroeconomic climate, as HSBC reported a significant decline in global IPOs during 2022, triggered by macro factors including unexpected volatility in equity capital, caused by geopolitical tensions. Being able to perform in this climate is a great testament to the capability of Dubai's financial market, as put by His Highness Sheikh Maktoum, "strong local and international demand on DEWA's IPO reflects the strength and resilience of Dubai's economy and its institutions". The UAE possesses an incredible niche by listing state-governed companies, which in itself acts as a unique selling point for international investors. His Highness also remarks that "[the DFM] is poised to grow buoyed by the high quality of planned IPOs of government entities", reflecting the desire of UAE equity markets to maintain the provision of shares in public sector enterprise.

4. Limitations of the UAE capital markets

The UAE market, distinguished for its recent economic affluence and strategic positioning, is not devoid of drawbacks and constraints. Presently, the expatriate community in the UAE stands at a formidable 9.06 million, significantly surpassing the native Emirati populace, which tallies at 1.18 million. Expat residents encompass approximately 88.52% of the demographic makeup, while Emiratis constitute a modest 11.48%.[17] In spite of its robust expatriate presence pivotal to economic vitality, the emiratization program of the UAE enables a prosperous workforce within the nation.

Figure 3. UAE population: Emirati vs Expatriates (2024)[18]



Despite the nation benefiting from a substantial expatriate contingent, pivotal for its economic dynamism, apprehensions persist regarding labor rights and the treatment of migrant workers. Achieving an equilibrium between economic advancement and safeguarding the welfare of migrant laborers remains an enduring challenge for the UAE.[19]

While expatriate laborers make noteworthy contributions to the nation's progress and advancement, the substantial dependence on international talent raises apprehensions about potential job displacement for Emirati citizens and exacerbates social disparities; in turn, the UAE employed a Emiratisation law, wherein private-sector employees must achieve a minimum of 2% year-on-year growth in their Emirati workforce for skilled position, aiming to create over 12,000 annual job opportunities for citizens across all sectors[26]. Nonetheless, the UAE has the highest percentage of its national workforce employed in the public sector of all GCC countries (Fasano & Goyal, 2004).

[17] United Arab Emirates (UAE) Population Statistics 2024 | GMI
[18] UAE population statistics 2024 | Global Media Insight
[19] Questions and Answers: Migrant Worker Abuses in the UAE and COP28 | Human Rights Watch
[26] Emiratisation UAE: New Law and Rules for the Private Sector

Balancing the utilization of expatriates' skills and knowledge with nurturing domestic talent represents a nuanced challenge for UAE policymakers. The substantial expatriate presence can engender social and cultural complexities, encompassing linguistic barriers, cultural friction, and integration-related issues[21]. Given such circumstances, the new law and order aims to strengthen Emirati identity and cultural preservation through involving citizens in the nation's development, therefore, promoting stability within the workforce and preserving the cultural identity showcased in the country.

The UAE's IPO market is intricately tied to its heavy dependence on a foreign labor force, with economic stability largely contingent on the contributions of expatriate workers, as with any other sector in the UAE. Any disruptions in the availability or status of this workforce could potentially ripple through the market, undermining investor confidence and weakening IPO activity. Changes in labor regulations or costs, both domestically and abroad, could have direct implications for company profitability and, consequently, their attractiveness for public offerings, especially in sectors such as construction and hospitality, being particularly vulnerable to changes as more than 80% of the sectors' workforce is foreign. Tensions arising from disparities between expatriate workers and UAE nationals could strain investor sentiment, adding another layer of complexity to IPO considerations. This forces companies to exercise due diligence and scrutinize the nuances of the UAE IPO market meticulously before making any decisions, a process that often leads to hesitation when contemplating entry.

The oversight of IPO regulations in the UAE is managed jointly by the Securities and Commodities Authority (SCA) and the Dubai Financial Services Authority (DFSA). While the SCA governs public securities offerings across the UAE, the DFSA supervises offerings within the Dubai International Financial Centre (DIFC). The UAE has been working to enhance its regulatory environment to attract more IPO activity in recent years, however, despite these efforts, regulatory complexities and inconsistencies still exist, making it challenging for companies to navigate the IPO process smoothly. These complexities include compliance requirements, disclosure regulations, and listing criteria, which can vary across different emirates and regulatory bodies.

Moreover, the UAE's regulatory environment, while relatively favorable compared to many other countries, still faces challenges in areas such as dealing with construction permits, enforcing contracts, and resolving insolvency all especially prone to legal compliance issues and major delays.[20] The frequent changes in these regulations have increased uncertainty and risk perception for companies. Compounding these challenges are tensions with the UAE's main competitor and regional powerhouse, Saudi Arabia. Both nations vie for supremacy in various sectors, from finance to tourism, leading to occasional friction and geopolitical rivalries. As the global interest in both countries is on the rise, every change makes a difference, constantly undercutting each other in regulations, and changing terms and government support to gain an edge. Such tensions have the potential to disrupt market dynamics and undermine investor confidence, necessitating careful diplomacy and strategic engagement to maintain stability and foster collaboration.

[20] *Challenges Facing the UAE Construction Industry in 2024 and How to Address Them*

5. Geopolitical implications

The recent development of financial institutions inside the UAE is indicative of changing geopolitical dynamics applying both specifically to the UAE but also to the Middle East as a region. There has been increased trade volume between the Gulf Cooperation Council (GCC) and far East Asian countries, rivaling that of trade between the GCC and developed Western economies. Within the Middle East, the emergence of financial markets in Saudi Arabia and the UAE has led to competition between the two nations – with the two governments diverging in terms of governance ideology.

Since 2010, trade between GCC countries and Emerging Asia[21] has more than doubled, and is expected to overtake trade between GCC countries and Advanced Economies[22]. This is largely driven by deepening trade with China, where joint action in developing renewable energy industries such as hydrogen fuel and electric vehicles is commencing. Whilst nations such as Saudi Arabia and the UAE have developed diplomatic relations with the West, increased trade with China in the near future could result in a shift away from Western political influence in the region, potentially leading to rivalries regarding political alignment. It is clear that 2024 is an important election year worldwide, and most importantly in the US, setting the stage for a potential political paradigm shift in the Middle East and North Africa (MENA) region in the upcoming years. A new Cold War-esque bloc alignment system could be formed if the likes of BRICS increase their attempts to form a true economic bloc and monetary union that transacts financially independent of the US and its dollar denomination as US hegemony declines. At the beginning of this year, the UAE officially joined BRICS, signifying a significant increase in the bloc's leverage and material capabilities due to its strong energy and infrastructure industries. Materialization of the BRICS alliance's partnership in economic activities can be seen through the increased trade of commodities in non-dollar currencies. First seen last year, the UAE settled an LNG trade with China using the yuan[23] and has committed to trading gold with India, which accounts for 10% of UAE gold exports, in rupee[24]. Even though these are not linked directly to IPOs, this is the beginning of a shift in relations between the newly developed economic giants and the UAE, setting the stage for further financial cooperation.

In the midst of the sudden rise in size of financial markets across the Middle East, there has been somewhat of a power struggle between the two most prominent players – the UAE and Saudi Arabia. With the two countries hosting the two largest stock exchanges in the region, there is stiff competition between the two countries for attracting international investment, and for being the chosen location for headquarters in the Middle East. Dubai is currently the top choice for approximately 70% of major multinational companies operating in the region[25], although both Riyadh and Abu Dhabi are hosts to many international corporations themselves. However, in recent years, Saudi Arabia has enacted policies to attract more firms to be headquartered in Riyadh; the Saudi government recently announced a 30-year corporate tax exemption for foreign companies building their Middle Eastern regional headquarters in Saudi

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[21] World Economic Outlook Country Groups | IMF
[22] Middle East and Emerging Asia Trade Relations | Asia House
[23] https://thecradle.co/articles-id/793
[24] https://www.kitco.com/news/article/2024-01-16/india-now-paying-gold-imports-uae-using-rupees
[25] Regional Rivalries between Saudi Arabia and the UAE | Foreign Policy

Arabia. Controversially, the government also announced a restriction on multinational corporations from doing business with Saudi-government-owned entities unless the multinational corporation had offices in Saudi Arabia. In the coming years, there is likely to be similar levels of, if not more, competition between the UAE and Saudi Arabia, with both governments wishing to establish themselves as the regional leader for foreign investment and being internationally connected.

6. Conclusion

In conclusion, the transformative growth of the UAE's capital markets – demonstrated by robust performances from the ADX and DFM – reflects shifting global financial and geopolitical landscapes. The success of IPOs for state-controlled entities such as the Dubai Taxi Corporation, and the Dubai Electricity and Water Authority highlight the UAE's ability to attract significant foreign capital investments in a wide variety of sectors, reaffirming the market's confidence in the economic vision of the UAE and their business-friendly environment.

As the UAE aims to continue reducing its economic dependence on oil, the growth of its capital markets is essential to achieve this goal. For investors, the Middle Eastern exchanges represent new opportunities with an attractive mix of traditional industry strengths and a forward-looking vision.

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