

PalArch's Journal of Archaeology of Egypt / Egyptology

WHY PRIVATE FIRMS GO PUBLIC IN SAUDI ARABIA: CASE STUDY OF ALMARAI COMPANY

Afaf Motawkel¹, Shabbir Ahmad²

College Of Business, Effat University, Qasr Khuzam St, Kilo 2, Old Mecca Road P.O.Box
34689, Jeddah 21478, Saudi Arabia

College Of Business, Effat University, Qasr Khuzam St., Kilo 2, Old Mecca Road P.O.Box
34689, Jeddah 21478, Saudi Arabia

Afaf Motawkel, Shabbir Ahmad. Why Private Firms Go Public In Saudi Arabia: Case Study Of Almarai Company--Palarch's Journal Of Archaeology Of Egypt/Egyptology 18(13), 706-714. ISSN 1567-214x

Keywords: Public, Private, Organization, Saudi Arabia

ABSTRACT:

There are many reasons as to why private firms go public. Going public means the companies selling share of the companies for the first time in the share market. The organizations going public can help in benefitting the organization. The causes behind companies conducting Initial Public Offering (IPO) are very variable based on the intentions of the firm itself, their existing circumstances and their future bearings. Additionally, it has become increasingly less complex to accomplish liquidity for a company even while staying private through ancillary purchases and markets. The aim of this research is to understand as to why firms go public in Saudi Arabia through investigation of case study of Almarai Company. This study access the share price graphs of Almarai Company in the stock market of Saudi Arabia. The findings showed us that the Almarai Company received a lot of name in the Saudi and GCC market and earned huge earnings in Saudi Arabia.

INTRODUCTION:

Companies that go public, often also phrased as a company exercising an Initial Public Offering (IPO) can be defined as the first time that a private company has decided to present its stock for availability to the public [1]. When an IPO is conducted, a group explicitly designated for all the activities concerned with accurately implementing the IPO is put up to task. This team can consist of lawyers, underwriters, licensed public accountants and exchange commission experts. Successfully organizing an IPO is a precarious practice and is often a trait that can be observed in companies that are going through an expanding phase. Conducting an IPO consists of several dynamics

at play like the type of security that is being delivered, optimal value being offered, quantity of shares that are to be made accessible to the public, and the time at which they can be presented to the market. Nevertheless, as discussed earlier, there is a huge amount of risk that accompanies it. The company cannot guarantee on the stock's performance on the market on the IPO's starting day. This may consequently impact the firm in reassessing their future values and policies. There are numerous factors behind a company turning public. According to Kim and Weisbach [2] which analysed if companies make an IPO to boost capital, conclusions seemed to show that when a company went public, the consequences were greater reimbursement of debt, maximized cash flow and investments and thus subsequently led to a capital rise. Likewise, according to Brau [3] who established multiple theories and executed studies on why a company does an IPO, his studies show that it is to decrease capital expenses, overcome borrowing limitations or put in his words, for negotiating influence with banks, to "establish a market price for subsequent sell-out", raise internal liquidity, distribute ownership, etc [3].

Nonetheless, in the results of his examinations, he expresses that the causes may be very diverse and can differ by wide gaps based on the size, the owner and the company's goal. From his assessments, the two critical aspects that came as aftermath to firms going public were: developing public shares to utilize in future procurements and to diminish capital costs. Other quite influential factors were the desire to institute a market price for the company and to permit venture entrepreneurs to cash-out. Subsequently, after the above points of discussion for why companies go public, it can be stipulated that the key benefits can be summarized as a rise in capital, desire for the firm's growth and expansion, elevated company worth and permitting the original founders to have an exit tactic [4, 5].

One of the most exceptional instances of a company going successfully public was that in 1995 by Netscape. Jim Clark backed for Netscape to launch an IPO a mere half of a year after it was found. The company was very scarce in assets, had negligible profits and surplus employees. However, the company's CEO Jim Barksdale was not satisfied with Jim Clark's pursuit in wanting to go public. Clark scheduled a conference to debate the IPO. Lawyers and bankers were made particularly aware about the enormous profit they could anticipate from the IPO which actually made them side with Jim Clark's proposition. This was also specifically the time when Barksdale became persuaded concerning the proposal. Consequently, six months later after Netscape's birth, it went public and the first day offerings skyrocketed from \$12 per share to \$48 per share and further shooting \$140 just three months later [3]. Netscape flourished in a time when the world was becoming technologically revolutionized with the World Wide Web and the emergence of web browsers. Regardless, there are still setbacks to leading an IPO as it proffers added trials for the firm. The most noteworthy challenge is of the civic exposé that comes instantly after conducting an IPO. A company can immediately come under public judgment and enquiries. Other drawbacks include restrictions on the administrative system of the company, pressure to quicken

short term evolution and absence of management from the founding members. Additionally, conducting an IPO makes companies become more inventive due to the elevated economic capital they now own which unfortunately occurs at the consequence of ideas being less risky and with fewer ground-breaking ideas that can progress the company [6].

More disadvantages that may happen are also the huge cost alluded to conducting an IPO. There is an enormous measure of equity which is given up when shares are made accessible on the market. Apart from this, it is also demonstrated costly to keep up with all the public reporting and measuring up with the guidelines established by the Securities and Exchange Commission (SEC). Additionally, there can also be friction developing from the stress that comes from being responsible to investors and shareholders especially as firms become susceptible to putting forth instant decisions even if those decisions may not be the most beneficial path for them that have to be taken up in the long term. A broadly publicized modern example in which a counter-productive execution of a company going public happened was the one by Facebook when it undertook an IPO of May, 2012. The starting day bragged an opening share boost from \$38 to \$45 with the market capital accomplishing \$ 104 billion. However, by the time August concluded, this price was reduced to more than double its original price as it shot down to just \$18 [7].

This primarily exhibits that a promising initial day rise may not guarantee a successful IPO at the outset and there are several other determinant factors that must be mindful of before a company decides to conduct an IPO. Private firms going public are always a topic of interest in the study of finance. Firms usually go public in order to attain profit maximization or so that their company is known in the market. This research identify the factors that makes the private firms of Saudi Arabia go public also, the opportunities and challenges faced by these firms.

METHODOLOGY

There are two types of research approach namely qualitative and quantitative. This research specifically focuses on the qualitative method of research in order to identify the factors that cause the firms to go public. This study considered Almarai Company as a target topic to identify the opportunities and challenges faced by this private firm after go public in Saudi Arabia.

Data collection

There are two types of research data namely primary data and secondary data. Since, the research is qualitative which is relying on the secondary data through observational methods and document analysis. This research will analyze the results produced from the literature survey and case study of Almarai Company in Saudi Arabia.

Sampling

The sampling involves taking in Almarai Company as an organization to be studied as a case that went from private to public.

Data Assessment

The data assessed focus on the share price graphs of Almarai Company in the stock market of Saudi Arabia.

Case Study Of Almarai Company

The Almarai Company was founded in 1977 by HH Prince Sultan bin Mohammed bin Saudi Al Kabeer who foresaw the potential to revolutionize Saudi Arabia's conventional dairy farming market to fulfill the requirements of the quickly expanding domestic market. Under his vision and benefaction, abundant agricultural schemes were inaugurated to accomplish the goals he set out for the company. What began as company for fresh milk and buttermilk manufacturing very quickly proceeded to magnify in scale under the numerous initiatives for expansion including modern dairy farming and hi-tech factories [8]. Currently, Almarai claims to be the world's biggest "vertically integrated" dairy industry and the dominating food and beverage producers and distributors present in the GCC region (Table 1). Their strategic business schemes have witnessed the introduction of global joint ventures like the International Dairy Juice (IDJ) joint venture in Egypt and Jordan to support in their geographical growth [9].

Centralization of Almarai at the onset of the 1990s, the Almarai Company underwent a period of reorganizing and reinvestment that shifted it to a centralized structure which was earlier a decentralized one. Their main goal was to position their image as a low-cost manufacturer so that the customers can buy exceptional quality goods at a budget-friendly price. Aligning with this ideal, they substituted five decentralized batch plants with their first centralized processing factory. They also switched to four huge dairy farms in the Al Kharj for the Najd region instead of the original ten smaller decentralized dairy farms. [8, 10]. In 2004, 50% of the company which is owned by the Saudi food giant Savola claims to be the biggest exported for food in KS with 4,000 employees, 45,000 farm animals and a processing caliber of 1.4m liters of milk in a day. In the same year, a confidante for the company claimed that in 2004 before the year of the IPO, they made 372 billion riyals in net profit with a turnover of 2 billion riyals [10]. At the culmination of the year 2005, they appointed a second, bigger centralized factory that also consisted of a sector for cheese based products. In the same year, they further authorized the construction of two new super-farms. It was in this year that the company finally made the decision to go public [10].

Conducting the Initial Public Offering (IPO) for Almarai was of 4,500,000 shares with a stated price of SR 500 for each share all of which was fully paid and represented 30 percent of the permitted share capital of Almarai (Table 2). The IPO was conducted for Saudi nationalities only. The IPO conducted was

started on 4th July, 2005 and was open until 10 days that is including 13th July 2005. Subscribing to the IPO stock could be done through branches of each administrative head and co-supervisors during the IPO period. Each separate subscriber to the IPO shares was permitted to at least 10 shares and at most 5000 shares. The main shareholders details were tabulated in Table 3.

Table 1: Company's profile Source [11]

Company	Almarai Company
Market	Saudi Stock Exchange
Core business	Poultry and dairy products
Company status	Outstanding
Company's Capital	SAR 750 mln

Table 2: IPO details Source [11]

Number of IPO shares	4.5 mln shares
Issuance price	SAR 512 (a nominal value of SAR 50+ a premium of SAR 462)
IPO size	2,304
Subscribers	Saudi citizens
Minimum	10 shares
Maximum	5,000 shares
IPO date	July 4 to July 13, 2005
Allotment date	July 13, 2005
IPO surplus payment	July 18, 2005
Lead manager	SABB
IPO banks	SABB, ANB, Samba, Riyadh, BSF
Financial advisor	HSBC
IPO proceeds use	Goes to selling shareholders

Table 3: Main shareholders Source [11]

Main shareholders	Number of shares (mln)	Percentage (%)
Prince Sultan Bin Saud Al Kabeer	5,580,750	37.2
Savola Group	4,234,650	28.2
Abdulaziz Al Mahana	401,100	2.7
Abdul Rahman Al Mahana	178,500	1.2
Princess Al Jawhara Bint Saad Bin Abdulaziz	105,000	0.7

RESULT AND DISCUSSION

The section will demonstrate the outcome of the offering and the company performed in the public. Above 260,000 Saudis subscribed for shares valued at SR1.6 bn. in the first two days itself of their IPO. Almarai anticipated raising at least SR2.3 bn. By selling 30% of the above mentioned stock. Total worth of the firm at the time of IPO according to their records was at SR7.68 bn. [12]. The Almarai underwriting observed feeble audience of middle-income stock purchasers on the starting day. Reasons for this are that as opposed to the Etisalat and Albilad offerings, which were SR50/share, Almarai shares were priced at SR500/share which a majority of people saw as very expensive thus isolating them from subscribing to the offering [13].

Almarai's IPO was oversubscribed quadruple times attaining SR 9.23bn eventually. Results showed that above 1.6m investors purchased the shares before the IPO concluded [13]. The company's existing shareholding structure is shown in Figure 1.

"Almarai Company listed on TASI in June 2005 through an IPO of 4.5mn shares (30% of then issued shares) at SAR50/share (SAR40 premium)." "The company issued 9mn shares at SAR78/share to complete the acquisition of Western Bakery Co. Ltd and its subsidiary, in 2007." "In 2009, Almarai issued 6mn addition share to complete HADCO acquisition transaction." "Almarai issued 100% bonus shares in 2010, which lifted the company's number of issued shares to 2.3mn." "Recently, in April 2012, the company raised its capital to SAR4bn through the distribution of 1 bonus share for each 1.3529 shares."

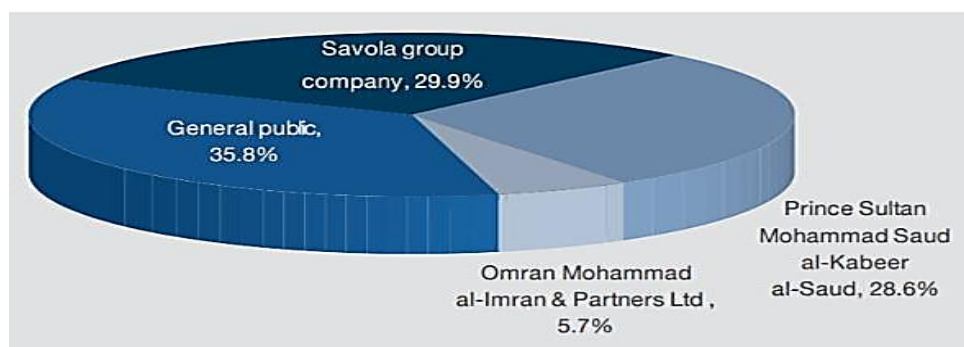


Figure 1: Shareholding Pattern for Almarai & distribution of shares over the years [14]

Figure 2 demonstrates that Almarai now comprises of approximately 50,000 shareholders. At the end of 2016, their market capitalization surpassed SAR23 billion [10]. Almarai's 2006 annual report stated that the immediate year after the IPO in 2005, their net profit increased by 20.5% to SR 465 million, net sales were boosted from 28.5% to SR 2,757 million and net asset amount was calculated at SR 1,894 million. Overall, the company's records following the IPO show very consistent growth in the market revenue [10].

Figure 3 indicates that Almarai has performed exceptionally well in the share market and due to its performance it has gained name in the market and has become the number 1 dairy company to be opted by all the stakeholders. It has performed well even in times of economic crises and financial instability in the KSA. It is set to perform well in the future as well.

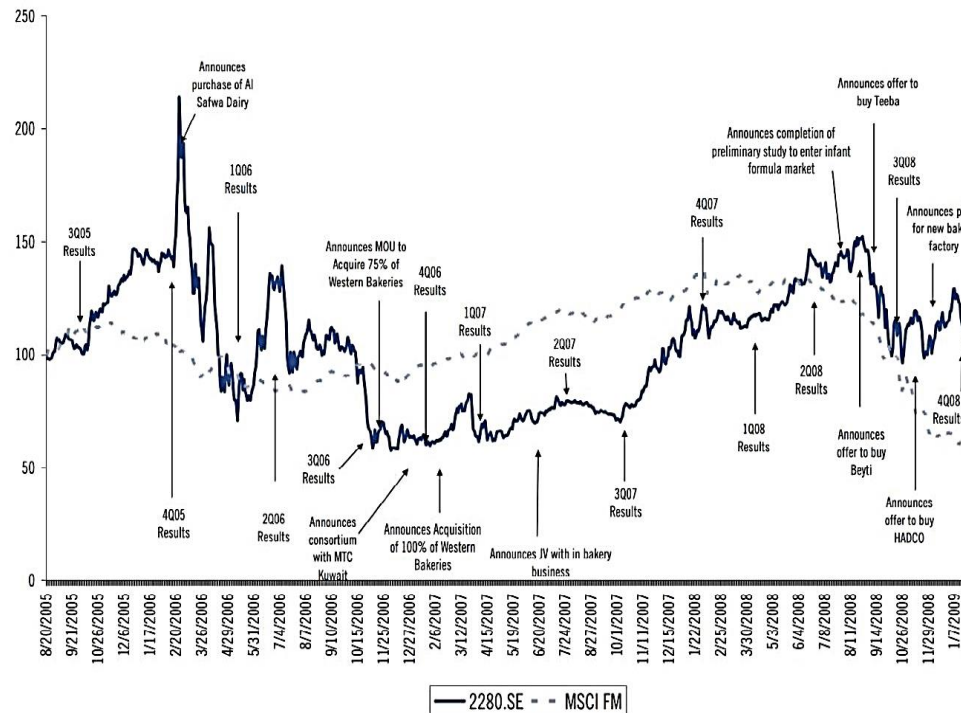


Figure 2: Almarai Share Price Performance (Source: Citi Investment Research and Bloomberg)

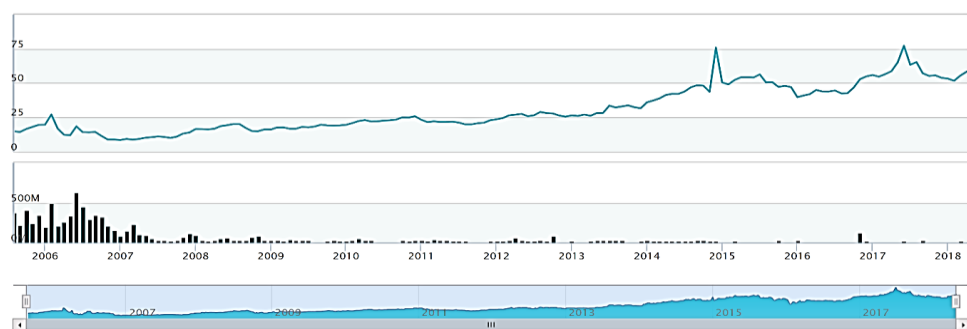


Figure 3: Performance of Almarai since the initiation (Source: Citi Investment Research and Bloomberg)

CONCLUSION

Companies expand and go public by selling shares to the people who want to invest in the company and become a part owner of the company. Firms do this to reduce their debt and for getting in money from the people. They have their name listed in the market and anyone in the world can put money in the company based on its name. The firms going public topic is always in some or the other kind of news and widely discussed but has little content in terms of

literature and research. The shareholder enjoys the name of being an owner of the company. If the individual is able to buy most of the shares of the company, it can become full time owner of the company and make it private and benefit solely from the profits generated from the company's performance. IPO's are a way of investment for most of the companies who have grown from merely thousands to billions after a lot of hard work and dedication. The main feature of the companies going from public to the IPO is their size. They need to know that a company has to be large enough to survive in the market. They need to have a certain amount of money in their assets, capital and little debt to be in the stock market. They went from being private to public to get recognition and get money from investors who want to get a slight share of the company for them to be regarded as owners of the company. There is a probability that the company can succeed or fail based on the nature of the business they are entitled to. The expansion or going bankrupt depends on the fortune and luck of the company. If the company has good name in the market, the business goes well and if it has a bad name, it earns a bad reputation in the market. One should be able to make correct decisions based on the valuation of the company, its historical information, its liabilities towards others, its assets and profitability and performance in the market.

ACKNOWLEDGMENTS

The authors would like to thank the College of Business, Effat University for its unconditional support.

REFERENCES

- What is an IPO? A Guide to Initial Public Offerings. SyndicateRoom. Retrieved September 8, 2019 from <https://www.syndicatoroom.com/investing/ipo>.
- Kim, W. and Weisbach, M. 2005. Do Firms Go Public to Raise Capital? National Bureau of Economic Research. NBER Working Paper No. 11197.
- Brau, J. 2012. Why Do Firms Go Public?. Oxford Handbooks Online. 1- 51.
- Balasubramaniam, K. 2016. What are the advantages and disadvantages for a company going public? Retrieved September 8, 2019 from <http://www.investopedia.com/ask/answers/06/ipoadvantagedisadvantage.asp>
- Borsa Istanbul. Benefits of IPO, Deciding On an IPO and IPO Processes. Retrieved September 8, 2019 from <http://www.borsaistanbul.com/en/companies/public-offering-and-listing-in-borsa-istanbul/equity-market/public-offering/benefits-of-ipo-ipo-preparations-and-ipo-processes>
- Wies, S. and Moorman, C. 2015. Going Public: How Stock Market Listing Changes Firm Innovation Behavior. *Journal of Marketing Research*. 52, 5, 694-709.
- Dillet, R. 2013. Facebook Shares Open At \$38.22, Finally Return To IPO Price After A Year Of Turmoil. Retrieved September 8, 2019 from <https://techcrunch.com/2013/07/31/facebook-shares-return-to-its-ipo-price/>

- Almarai. Company Profile. Retrieved September 8, 2019 from <https://www.almarai.com/en/corporate/almarai/profile/>
- Tadawul. Almarai Co. Profile. Retrieved September 8, 2019 from <https://www.tadawul.com.sa/wps/portal/tadawul/market-participants/issuers/issuers-directory/company-details/>
- Almarai. Share Information. Retrieved September 8, 2019 from <https://www.almarai.com/en/corporate/investors/share-information/>
- ArgaamPlus. 2005. Almarai's IPO details. Retrieved September 8, 2019 from <https://www.argaam.com/en/article/articledetail/id/377371>
- Ahmed, M. 2005. Almarai IPO 70% Subscribed in Two Days. Retrieved September 8, 2019 from <http://www.arabnews.com/node/269627>
- Agence France Presse. 2005. Almarai IPO Oversubscribed Four Times Retrieved September 8, 2019 from <http://www.arabnews.com/node/270100>
- AlJazira Capital. 2012. Almarai Company Initiation of Coverage [PDF]. AlJazira Capital. Retrieved September 8, 2019 from https://www.aljziracapital.com.sa/report_file/company/FUN-140.pdf

***This form below helps us to understand your paper better, so please fill in the information of all authors. The form itself will not be published.**

Authors' background

Position can be chosen from: Prof. / Assoc. Prof. / Asst. Prof. / Lect. / Dr. / Ph. D Candidate / Postgraduate / Ms.				
Paper ID	Position , Full Name, Working unit & nation	Email address	Research Interests	Personal website (if any)
	Assoc. Prof. Dr. Shabbir Ahmad, Effat University, Saudi Arabia	aahmad@effatuniversity.edu.sa		
	Student, Afaf Motawkel, Effat University, Saudi Arabia	anmotawakel@effat.edu.sa		