

FEATURE ARTICLE

Unlocking Billions: Saudi Arabia's Capital Markets Transformation

How ambitious reform and rising foreign demand are reshaping the Tadawul — told through the institutions building the market.

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Saudi Arabia's capital market is undergoing rapid transformation, fueled by ambitious reforms and rising demand for foreign investment. In 2021 the country unveiled its National Investment Strategy, aiming to inject \$3.3 trillion into its economy by 2030, with the Saudi Stock Exchange (Tadawul) as a key contributor.

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The government plans to leverage the exchange as a central component of its Financial Sector Development Program, targeting over \$935 billion in banking assets and an 80% increase in Tadawul's market value as a share of GDP by 2030. Goldman Sachs anticipates roughly \$1 trillion of investment could be allocated between 2024 and 2030.

"The positive sentiment around the Saudi economy and the diversification under Vision 2030 contribute to a favorable investment environment," said Salam AlKhunaizi, CEO of BSF Capital. Since 2019 the exchange has advanced from 11th to sixth largest in the MSCI EM Investable Market Index.

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ALI ALMANSOUR · CEO, SAB INVEST

"Recent developments such as the launch of a parallel and derivatives market have further strengthened the capital market," said Abdullah Alshwer, CEO of Riyadh Capital, which managed \$24.8 billion in 2023. In Q2 2024, three of the top five GCC IPOs were on Tadawul.

In August 2024 the Kingdom introduced a New Investment Law replacing foreign-investment licences with a registration system. "Comparative advantages of investing in Saudi equities include an improved regulatory environment and a large number of expected IPOs," said Mazin F. Baghdadi, CEO of Alinma Investment.

According to Goldman Sachs, foreign involvement is expected to rise to 3.4% of GDP by 2025 and 5.7% by 2030.

Unlocking Billions: Saudi Arabia's Capital Markets Transformation

Saudi Arabia's capital market is undergoing rapid transformation, fueled by ambitious reforms and an increasing demand for foreign investment. In 2021, the country unveiled its National Investment Strategy, aiming to inject \$3.3 trillion into its economy by 2030, which includes using the Saudi Stock Exchange (Tadawul) as a key contributor. Muhammad Elkuwaiz, chairman of the Capital Market Authority (CMA), points to the evolution of the Saudi capital market as a linchpin in transforming the country's financial services sector. "Historically, the sector has been profoundly underutilized and underappreciated mainly because it was not viewed as an economic sector but rather as a public utility." The government now plans to leverage the stock exchange as a central component of its Financial Sector Development Program, which aims to reach over \$935 billion in banking assets and achieve an over 80% increase in the market value

of Tadawul as a percentage of the nation's GDP — excluding the impact of Saudi Aramco — by 2030. Investment bank Goldman Sachs anticipates that approximately \$1 trillion of anticipated investments could be allocated between 2024 and 2030 to develop sectors such as clean technology, metals and mining, and transport and logistics. "The positive sentiment around the Saudi economy, government reforms and the diversification of the economy under Vision 2030 along with a focus on sustainable public spending and infrastructure development collectively contribute to a favorable investment environment," said Salam AlKhunaizi, CEO of BSF Capital. "It is possible that these trends will continue for Saudi Arabia in the medium and long term."

Tadawul was established in 2007 as the exclusive entity authorized to function as the securities exchange in Saudi Arabia. This development was part of a broader initiative to modernize the nation's financial sector, which also included the launch of the CMA in 2003 to regulate and oversee the market. The stock exchange has grown significantly since joining



international indices such as the Financial Times Stock Exchange Index and MSCI Emerging Markets Index in 2019, advancing from the 11th to the sixth largest among the 24 nations in the MSCI Emerging Markets Investable Market Index.

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H.E. Dr. Muhammad Elkuwaiz
Chairman, CMA



Salam AlKhunaizi, CEO of BSF Capital, points to technological advances made by the CMA: "The introduction of advanced trading systems and platforms has improved the efficiency and accessibility of the Saudi market and made it easier for investors to trade and manage their portfolios." The CMA is currently working on enhancing the role of the stock market and equity

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Saudi Arabia's Vision 2030 initiative aims to boost annual foreign direct investment inflows to \$100 billion and elevate foreign direct investment to 5.7% of GDP by 2030. A portion of this target is anticipated to be achieved through enhanced international participation in the nation's stock exchange, which has increased more than fourfold since 2018. In Q3 2023, foreign ownership in the local capital market reached \$112 billion, up from \$19.2 billion at the end of 2016. In August 2024, the Kingdom introduced its New Investment Law designed to level the playing field for both Saudi and non-Saudi investors. This new law replaces the existing Foreign Investment Law and includes key changes such as eliminating the requirement for foreign investment licenses in favor of an investment registration system managed by the Ministry of Investment. The legislation also enhances investor rights by providing safeguards against expropriation, protecting intellectual property and facilitating dispute resolution for all investors, regardless of nationality. These changes are set to be implemented in February 2025. "Comparative advantages of investing in Saudi equities include an improved regulatory environment that aims to reach global standards, friendly tax rates, availability of capital, a large number of expected IPOs and privatization of public sectors," said Mazin F. Baghdadi, CEO and managing director of leading asset manager and financial services provider Alinma Investment. SAB Invest's CEO points to key reasons for the attractiveness of Saudi Arabia for foreign investors: "These include growth in spending under the Vision 2030 initiatives, the development of new sectors, new IPO activities, regulatory changes and market openings by the regulator." According to Goldman Sachs, foreign involvement is expected to rise to 3.4% by the Saudi Arabian gross domestic product by 2025 and 5.7% by 2030.

services and enhancing governance and transparency of listed companies. "Recent developments such as the launch of a parallel and derivatives market have further strengthened the capital market," said Abdullah Alshwer, CEO of local investment bank Riyadh Capital, which managed \$24.8 billion in assets in 2023. "These reforms align with Vision 2030's goal to make Saudi Arabia one of the top five capital markets globally."

In the last several years, the Saudi Arabian market has been marked with a significant increase in initial public offerings (IPOs), including the IPO of local energy giant Saudi Aramco in 2019, the world's largest of all time. In 2023, the market saw an increase in IPOs and direct listings, with 43 companies joining the market. In Q2 2024, three out of the top five initial public offerings in the Gulf Cooperation Council region were done on Tadawul, including \$764 million raised by local healthcare services provider Dr. Soliman Abdel Kader Fakeeh Hospital Company and \$224 million raised by insurance and financial services technology entity Rasan Information Technology Company. Ali Almansour, managing director and CEO of the local banking investment powerhouse SAB Invest, sees the privatization of companies and an increase in listings as key in attracting investment. "The opening of the market to more investor segments and the increase in IPOs have

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