



Why Did Saudi Aramco Sell \$12 Billion in Bonds?

Saudi Aramco made global headlines last month when it announced the sale of \$12 billion of bonds. Following a worldwide tour in which representatives from the Saudi government and some of the biggest banks in the world presented the company's bonds to prospective investors, the company found itself so oversubscribed that it was able to borrow at a lower yield than even the Saudi state is capable of.

While it's not hard to see why companies would be falling over themselves to gain access to a piece of the oil tycoon, it's perhaps a little less clear why the state-owned company chose this moment to sell off some of its assets. Given its close ties with the Crown Prince, it's highly likely that the sale was pushed through to free up capital for Mohammed bin Salman to pursue his own agenda of reforming the national economy.

No shortage of suitors

It's the first time that Saudi Aramco have entered the global financial stage and their offering quickly became one of the most over-subscribed in history. The company was recently confirmed as [the most profitable business in the world](#), having posted profits of a whopping \$111.1 billion in 2018. That was almost double its nearest competitor Apple, who recorded gains of \$59.5 billion, and over four times its nearest rival in the world of fossil fuel extraction (Shell with \$23.4 billion).

For that reason, as well as its impeccable track record and high esteem, investors were falling over themselves to take up the offering. At its peak, the bond had fetched in excess of \$100 billion in orders, making it one of the most over-subscribed offerings in history. Moody's have compared Saudi Aramco to an AAA-rated corporation, given its substantial cash flow, uninhibited access to huge reserves of hydrocarbons and relatively low debt.

Looking to the future

Crown Prince Mohammed bin Salman has made no secret of his desire to redress the balance in Saudi Arabia's economy. Given that the country sits on top of approximately 20% of the world's known oil reserves – an asset worth a whopping \$34 trillion – it's no surprise that the fossil fuel makes up more than 90% of its current economy. However, with fears over climate change and air pollution having



precipitated a move away from fossil fuels towards renewable forms of energy generation, it's unsurprising that MBS wishes to reform the country's income stream.

The sale of the Saudi Aramco bonds are just the first step in that plan, as Saudi Energy Minister Khalid Al-Falih (who also serves as the chairman of Saudi Aramco) promised more revelations in the near future. "There will be more," [he revealed](#) at a recent conference in the Saudi capital. "I won't tell you what and when, and it won't be bonds only." Investors are advised to watch this space closely.