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FUNDING INVESTMENTS THROUGHOUT THE SAUDI ENERGY VALUE CHAIN

A Sectoral and Regional Perspective

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1 Presentation outline

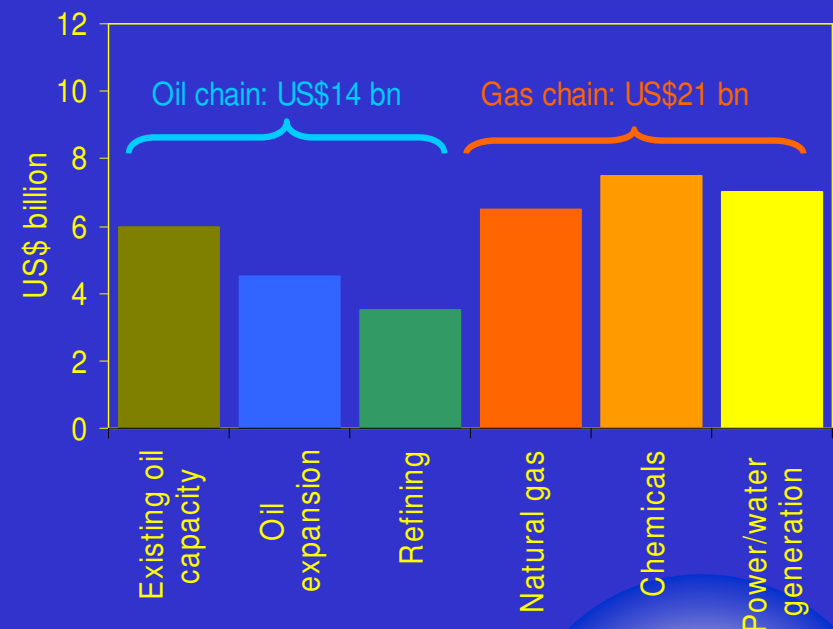
- The Saudi value chain in context
 - Investments pattern
 - Underlying demand outlook
 - Saudi Arabia in a regional context
- Funding options and constraints
 - Local banks & funds
 - Islamic institutions
 - Capital market
- Conclusions



2 Energy investment pattern in Saudi Arabia Gas chain vs. Oil chain

- APICORP estimates that the gas chain (including power generation) will require US\$21 bn capital investments over the next 5 years
- This pattern of growing investment in the gas chain is likely to accelerate beyond 2008 as the gas upstream gains momentum

5-year Structure of Investments

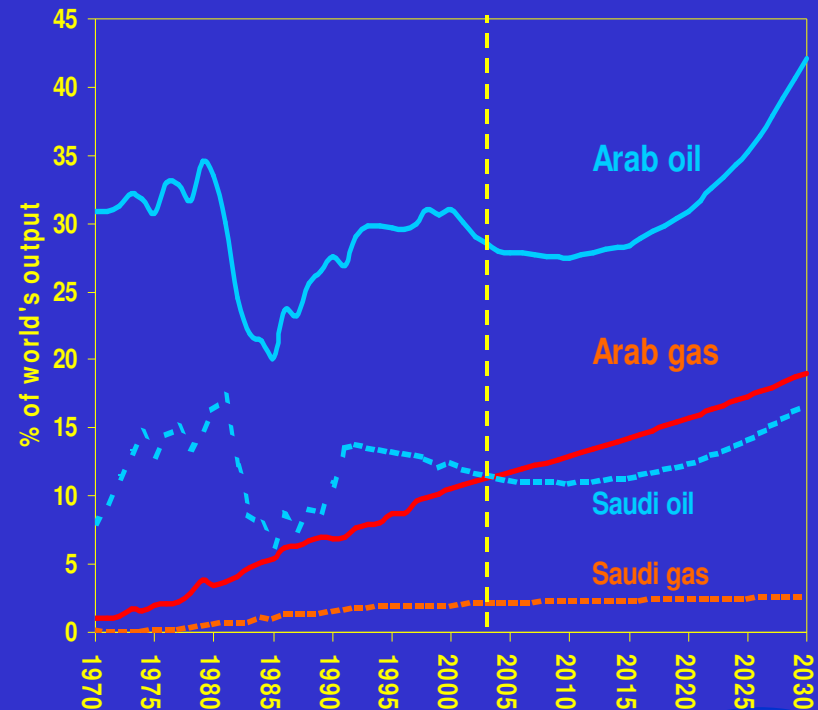


Source: APICORP



3 Underlying demand outlook

- Arab oil is expected to gain a bigger share of world output
- Arab gas will continue to be driven by downstream industries and new export schemes
- Saudi oil and gas production will be a key component of these trends



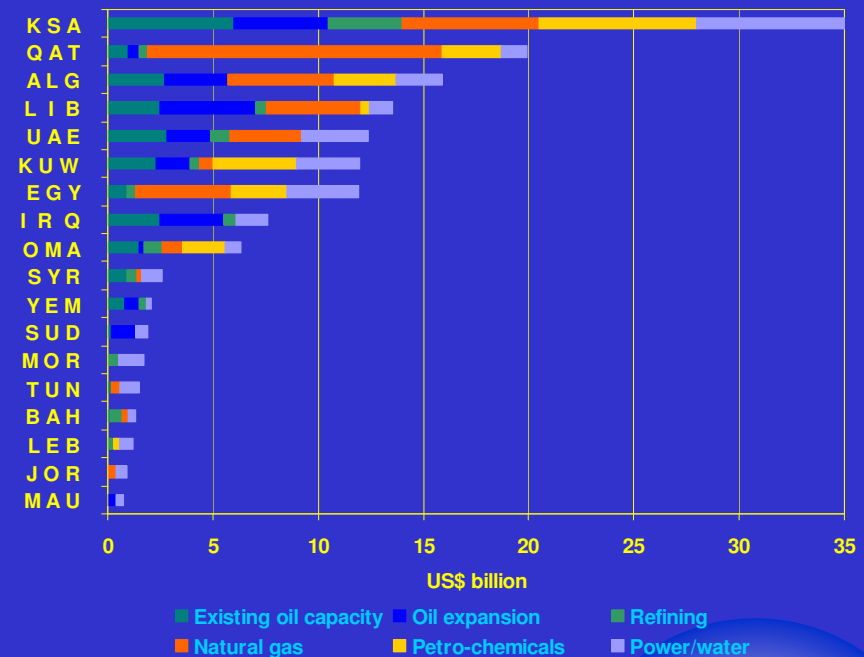
Source: OPEC, IEA, Saudi Aramco



4 Saudi investments in a regional context

- As a whole, the Arab region will require US\$30 bn/year of investments
- With US\$7 bn/year, investments in the KSA are by far the largest

5-year oil, gas petrochemicals and power investments: US\$ 150 bn



Source: APICORP



5 Key funding issues

- Upstream
 - Oil prices/Self-financing capacity
- Midstream
 - Pipeline tariffs/Access regime
- Downstream
 - Refining
 - Refining margins
 - Petrochemicals
 - Quality of sponsors/Level of equity (Newcomers vs. SABIC)
 - Power
 - Longer tenor requests

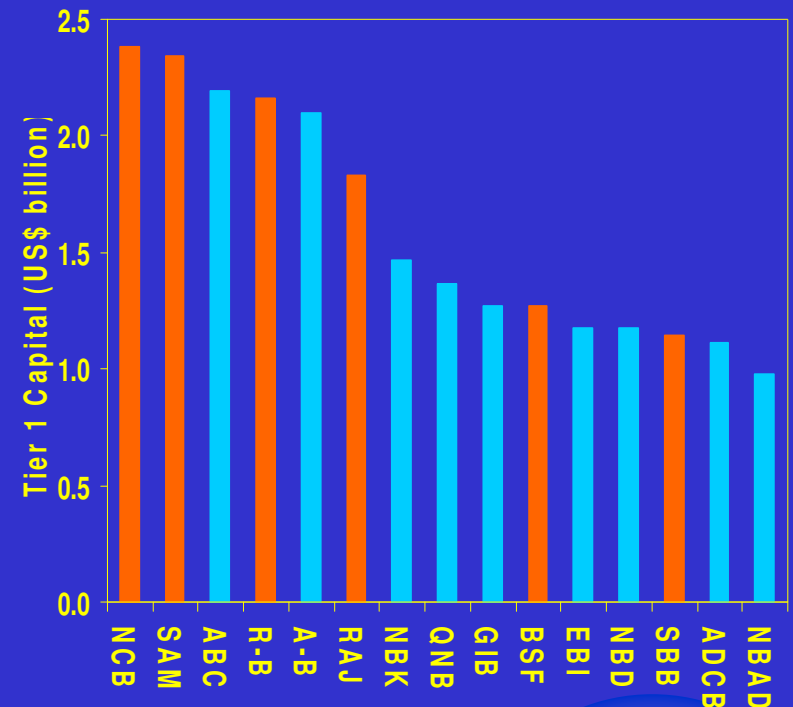


6 Lending potential & limits of Saudi local banks

Six Saudi commercial banks

- Dominate the top 15 Arab banks
- Enjoy a high capital strength
 - Capital: US\$13 bn (out of 23 bn)
 - Assets: US\$100 bn (out of 232 bn)
- Have good knowledge of local markets and sponsors/operators
- Claim high returns on assets
- Loans portfolio skewed towards consumers credits

Top 15 Arab Banks (Capital > US\$1 bn)



Source: *The Banker*



7 Involvement of specialized credit institutions

- Public Investment Fund (PIF) & Saudi Industrial Development Fund (SIDF) are unique in the region
- Both offer soft financing to small- and medium-sized industrial projects
- SIDF's focus: Private sector/Petrochemical projects
- Outstanding loans
 - PIF's US\$7.0 billion *
 - SIDF's US\$2.5 billion

* Excluding electricity loans administered by PIF of about US\$10 billion (source: SAMA)



8 Islamic institutions financing

- Vast resources still to be more effectively harnessed
- When offered such funds have been mostly directed towards trade using the *murabaha* structure
- More suited profit-and-loss-sharing financing modes such as *istisna* and *musharaka* should be used more significantly

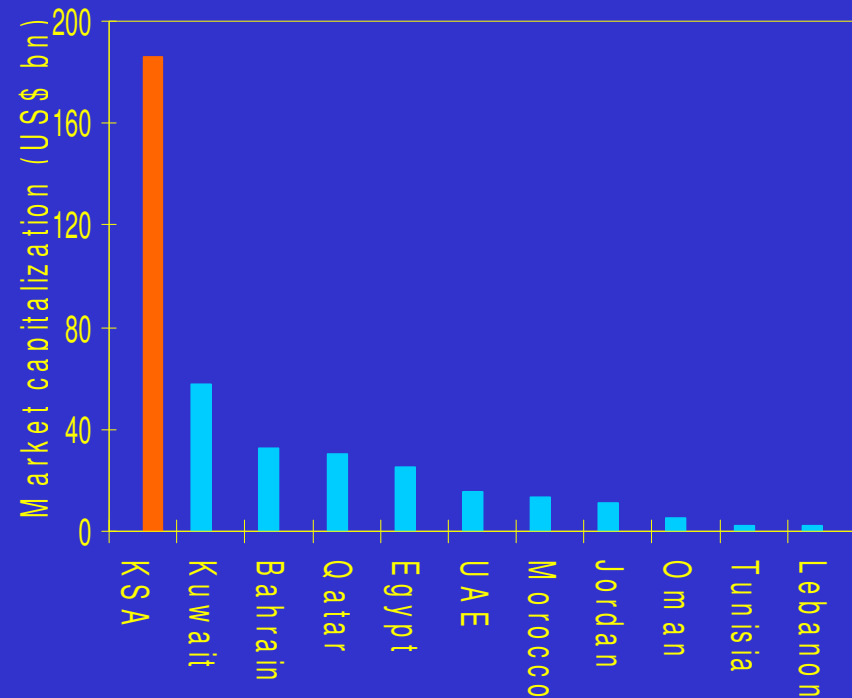


9 Role of the Saudi stock market

- *Tadawul* the largest market in the region
 - US\$186 bn capitalization*
 - 90% of GDP
- So far operated on an inter-bank basis
- Key legislation/regulations being implemented
 - New Capital Markets Law
 - Securities & Exchange Commission
 - Stock Exchange taking over Tadawul

* As of end of April 2004

Most Active Stock Markets in the Arab World



Sources: Zawya.com (April 2004)



10 Bond issuance & rating

- Saudi government sole issuer of domestic bonds for budget deficits
- So far corporations lacked the framework and incentives to do so
- The new Capital Markets Law is expected to encourage issuance
- Henceforth corporations and projects should get own ratings
- This means
 - Improving corporate transparency and governance
 - Overcoming inhibition to external scrutiny

Selected Arab Country Sovereign Rating Ceilings

	Moody's	S&P	Fitch
Bahrain	Baa1	A-	A-
Egypt	Ba1	BB+	BB+
Jordan	Ba2	BB	n.a.
Kuwait	A2	A+	AA-
Lebanon	B2	B-	B-
Morocco	Ba1	BB	n.a.
Oman	Baa2	BBB-	n.a.
Qatar	A3	A-	n.a.
KSA	Baa2	A	n.a.
Tunisia	Baa2	BBB	BBB
UAE	A2	n.a.	n.a.

■ Investment grade

Source: CRAs, April 2004



11 Conclusions

- Capital requirements along the Saudi hydrocarbon value chain will be massive
- Gas chain investments larger than oil
- Provided oil prices are high enough financing constraints mostly downstream
- Borrowing requirements will be a major challenge for local banks
- Additional sources will be required from:
 - Regional and international banks
 - Islamic financing institutions
 - Emerging Saudi capital markets

