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Aramco versus Tesla
a valuation exercise

Walter J. Zimmermann Jr.
ICAP Technical Analysis

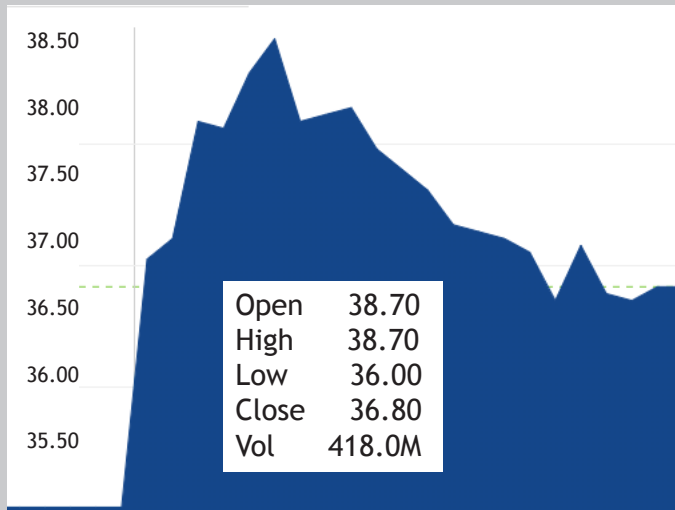


Valuing the Past
A craving for petro based nostalgia?



Valuing the Future
A craving for electric based sci-fi?

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Aramco and the Price of Crude Oil

- At \$36.80 Aramco is priced for \$100 Crude Oil.
- But Brent Crude is presently at \$65
- Forbes pegs the Aramco break even at \$40
- My five year target for Brent is \$20

Retracements from 38.70

- The .236 is **29.56**
- The 50% is **19.35**
- The .618 is **14.78**
- The .7862 is **8.28**

Buying into the Past: Aramco

- A Bernstein survey pegged the average Aramco company valuation at \$1.26 Trillion
- At its IPO Aramco briefly touch a value of \$2 Trillion
- That means it is over-valued by some \$740 Billion.
- How can a market get valuation so wrong?
- We have certainly seen over-valued IPOs before.
- But never by \$740 Billion. How is this even possible?
- Aramcos share price is so inflated that it's dividend yield will be half that of ExxonMobil and Royal Dutch Shell.
- Given all of the above, I cannot think of a single reason to be long Aramco up here. And I think I have a pretty good imagination.
- After all, the Aramco owners launched the IPO so they can run away (in fear) from the oil industry and invest elsewhere.
- So what to buy instead of Aramco?
- What did the Saudis try to buy could not get?
- Tesla.

Tesla - weekly



Buying into the Future: Tesla

- Tesla is clearly looking rather richly priced up here.
- But meanwhile, my best attempt at an Elliott wave analysis pegs the stock price as still headed higher.

Intermediate Reward versus Risk

- Peg pivotal resistance into the 413.00 area.
- From there peg the 270.00 area key support.

OBSERVATIONS

Walter Zimmermann wz@icap-ta.com

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Longer Term Upside Potential?

- If Tesla can decisively clear the 410.00 area then, in Elliott Wave terms, room opens up to the 550.00 area for the A = C target.
- What is the next major hurdle above that?
- The 1.618 x A = C targets the 785.00 area.

Long Term Reward versus Risk

- Peg \$785.00 the most bullish case.
- A full .618 retracement of a rise from \$14.98 to \$785.00 would target the vicinity of \$310.00

Tesla - monthly



How does a \$2 Trillion Aramco mkt cap compare?

- At its IPO the market cap Aramco briefly touch \$2 Trillion
- How close can we get to \$2 Trillion by adding the market cap of the ten largest oil companies?

At last weeks closing prices:

1. ExxonMobil @ \$69.23 per share = \$293 billion market cap
2. Royal Dutch Shell @ \$57.44 = \$226 billion mkt cap
3. Chevron @ \$117.96 = \$223 billion mkt cap
4. Gazprom @ \$7.88 = \$187 billion mkt cap
5. Reliance @ \$44.92 = \$142 billion mkt cap
6. PetroChina @ \$48.41 = \$141 billion mkt cap
7. Total @ \$52.96 = \$141 billion mkt cap
8. BP @ 36.94 = \$125 billion mkt cap
9. Petrobras @ \$15.31 = \$97 billion mky cap
10. Sinopec @ 57.74 = \$82 billion mkt cap

Added the market cap of the ten largest oil and gas companies yields a combined total of 'only' \$1.44 Trillion.

How does a \$65 Billion Tesla mkt cap compare?

At it's Friday close of \$358.39 per share the market cap of Tesla was \$64.6 Billion. How close can we get to \$65 billion by adding the market cap of the largest auto makers?

1. Toyota @ \$142.10 per share = \$230 billion market cap
 2. Volkswagen @ \$19.94 = \$101 billion mkt cap
 3. Tesla @ \$358.39 = \$65 billion mkt cap
 4. Daimler @ \$14.02 = \$60 billion mkt cap
 5. BMW @ \$28.13 = \$54 billion mkt cap
 6. Honda @ \$29.22 = \$53 billion mkt cap
 7. Nissan @ 12.36 = \$52 billion mkt cap
 8. GM @ \$35.65 = \$51 billion mkt cap
 9. Ford @ \$9.23 = \$37 billion mkt cap
 10. FCA @ 14.84 = \$29 billion mkt cap
- Tesla is 'only' the third largest auto maker by market cap.
 - Aramco is in a different class of over-valued entirely.
 - Aramco makes Tesla look dirt cheap.
 - Aramco makes everything else look dirt cheap.

The Why of the \$700 Billion Over-Valuation

- The Saudis spent \$2 billion to ensure a successful IPO.
- They created a \$26 billion fund to buy Aramco shares.
- At its IPO Aramco briefly touch a value of \$2 Trillion
- Why \$2 Trillion? This is an easy question to answer.
- That is the valuation that MBS wanted.
- And in a brutal dictatorship that has no qualms about jailing, torturing, or murdering it's critics, MBS is in the habit of getting what he wants.
- In the typical IPO in a free market, capitalist democracy one launches an IPO and then awaits the markets decision on what the company is actually worth.
- In a medieval dictatorship one arranges things so the market's valuation at the IPO is the correct answer for the dictator and the ruling elite.
- The \$700 Billion over-valuation of Aramco has nothing to do with principles of behavioral economics, or herding behavior, or Saudi patriotism, or an over confidence in the future of crude oil prices.
- This over-valuation is a display of tyranny at work.

The How of the \$700 Billion Over-Valuation

- The Saudis still own 98.5% of Aramco
- All MBS needed to do was over-value the 1.5% of the company in the IPO to get a titanic scale valuation for the entire company.
- The real devious genius of this ruse was the how.
- Where did MBS get the money to do this manipulation?

How Saudi Arabia Works

- Those who sit on the throne in Saudi Arabia are tip of an iceberg of a gigantic royal family.
- A great deal of the income from the flow of oil is paid out as bribes to ensure that those not in power are content to remain off the throne.
- In terms of dollar volumes Saudi Arabia is arguably the most corrupt regime on the planet.
- Much of the wealth paid out to the royal family and the business elite was forcibly recycled to buy enough Aramco shares to reach the MBS goal of a \$2 Trillion market cap.
- Nobody in Saudi Arabia says no to MBS.
- And evidently, ditto for many western leaders.

Saudi Royal Family

Size of the Royal Family

- Over 15,000 Princes and Princesses in the Saudi the royal family
- Over 2,000 elite members of the royal family

History of the Royal Family

- Ibn Saud, founder of modern Saudi Arabia had a total of 22 wives (only 4 at a time), 115 children, 45 sons, 1,000 grandsons

Mohammed bin Salman (aka MbS)

- Reportedly worth \$17 billion *before* seizing power.
- In 2016, while cutting Saudi Arabia's capital spending by 71% he bought a 440 ft yacht from Yuri Shefler for \$548 million

Royal Family Wealth Distribution: Income Inequality Saudi Style

Government Stipends (from leaked American diplomatic cables)

- \$800 per month for the lowliest family members
- \$8,000 per month for great-great-grandsons
- \$13,000 per month for great grandchildren
- \$27,000 per month for grandchildren
- \$200,000 to \$270,000 per month for elite princes and princesses
- Bonuses of \$1 to \$3 million for wedding gifts and building palaces
- Meanwhile foreign workers go six months without being paid
- This is income inequality Saudi style.
- The nearest to any claim to power by blood are paid more to remain uninterested in taking power.

Sources of Royal Family Income

- Of roughly \$40 billion annual SA budget \$2.7 billion per year is allocated to government stipends for the royal family (2016)
- Plus an unknown amount is from taken from Saudi Aramco profits.
- We can fully expect that this not a nominal amount.
- Plus royals skimming from \$10 billion in annual off-budget spending controlled by a few key princes.
- Plus massive borrowing from Saudi commercial banks - loans that are never repaid.
- Plus royals expropriating land from commoners. The land is then resold at huge mark-ups for government projects.
- This includes tracts as large as 30 square miles.
- Plus payments from residency permits. Each prince typically sponsors 100 or more foreigners.
- Those doing all this skimming get free cell phones and usage, free hotel suites, and unlimited travel on Saudi Airlines.
- Plus unpaid overseas shopping sprees. In one infamous case a Princess rang up \$20 million in a 2009 unpaid spree in Paris.
- Plus one time special payments. Like \$130 billion during the Arab spring and \$32 billion from MBS in 2015

Comparison to Cost of British Royal Family

- \$368 million per year from Crown Estate income, of which only \$48 million comes from the British government.