



Asset Management

A deep dive into the Saudi Parallel Market (Nomu)

Analytical View

The Saudi Parallel Market (Nomu)

NOMU is a parallel equity market with lighter listing requirements that serves as an alternative platform for growing companies which do not yet meet the requirements for the Main Market but look to raise capital and have access to the capital markets. Only Qualified Investors are allowed to invest in securities listed on the Parallel Market. This is an important channel that serves to further diversify and deepen the capital markets in Saudi Arabia. NOMU was launched in February 2017.

This report intends to highlight the various opportunities in the NOMU parallel market while providing an overview of the market structure, changes in the regulatory framework, its constituents' performance, and changes in market access. also aims to give a broad overview of the relatively untapped investment opportunity in the small to micro-cap space through NOMU in the region.

Regulatory Snapshot

The Saudi Stock Exchange (Tadawul) announced a series of structural adjustments to NOMU - the Parallel Market, to support the market's growth, development, and sustainability, as well as expanding the number of listed businesses on NOMU and improving market liquidity. The improvements are a part of Tadawul and CMA's strategic goals to expand NOMU and make it a desirable platform for those firms looking to list with greater flexibility.

Benefits of listing on NOMU

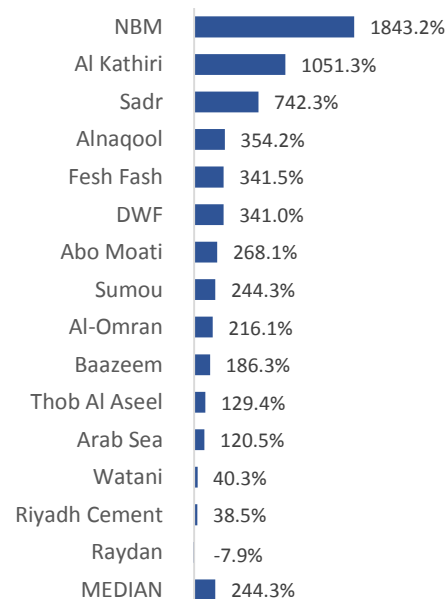
There are significant benefits to being listed and having access to the capital markets. NOMU listed companies have an opportunity to get listed on the main index of Saudi Arabia – Saudi Exchange (TASI) after meeting with the stipulated conditions and getting relevant approvals. Changes to the regulations were introduced in 2019 to make the transition to the main exchange faster and more streamlined. Saudi Arabia has been added to major indexes around the world including FTSE Russell, S&P Dow Jones, MSCI as part of their emerging market indexes. This further enhances the attractiveness of being on the main market due to the potential active and passive fund allocations.

Return Profile

Looking at some of the companies which have listed on NOMU and have moved to the main market; there appears to be an opportunity to generate enhanced returns while remaining invested in these companies. The transition period is usually between 2.3 years and 3.8 years on average. On a total holding period from the first day close on the NOMU exchange to the cutoff date for this report (June 15, 2021), the median holding period return is an astonishing 244.3%.

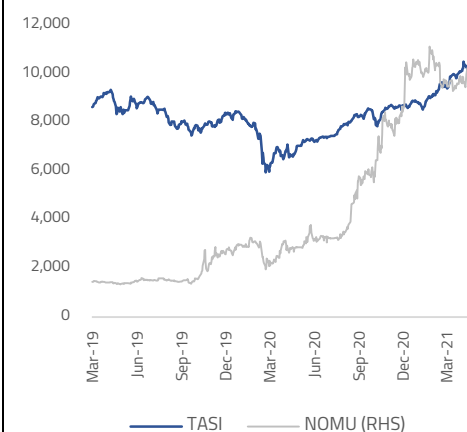
Companies by Sector	Companies
Materials	4
Consumer Staples	1
Real Estate	2
Industrials	3
Consumer Discretionary	5
Total	15

Total Return of NOMU Listed Stocks



The above return is based on the total return from the first day of trading on the NOMU index to YTD June 15, 2021

TASI vs NOMU Index



Introduction

The KSA Initial Public Offering (IPO) space has been one of the fastest-growing segments in the region, with a steady flow of deals seen through the years. The recent government push for IPOs and the stellar performance of recent listings has elevated their attractiveness for all market participants, ranging from Institutional, Discretionary Portfolio Management (DPM) service providers to Retail participation. Additionally, favorable regulatory updates have also contributed towards higher than usual demand for IPO offerings, especially over the past two years.

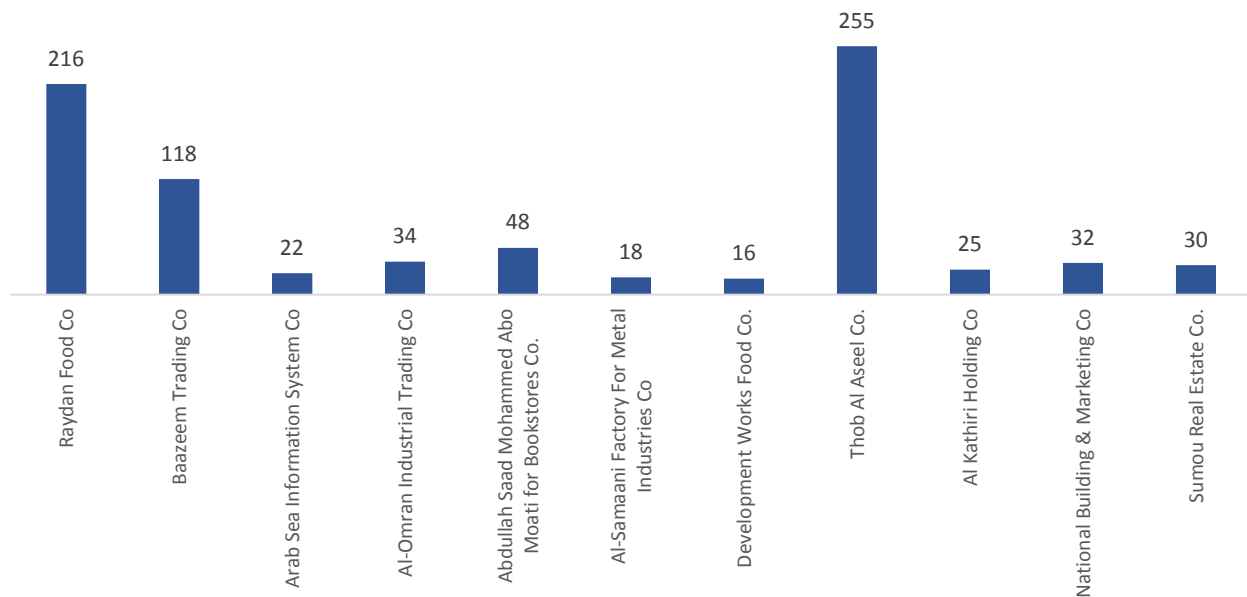
NOMU is a parallel equity market with lighter listing requirements that serves as an alternative platform for growing companies that do not yet meet the requirements for the Main Market but look to raise capital and have access to the capital markets. Only Qualified Investors are allowed to invest in securities listed on the Parallel Market. This is an important channel that serves to further diversify and deepen the capital markets in Saudi Arabia. The main characteristic of NOMU includes its lighter and less stringent listing and ongoing obligations requirements and it, therefore, serves as an important source for capital raising for smaller issuers. Till date, 15 issues have been listed on the NOMU market totaling SAR 815+ Mn through the IPO offering route and few others through the direct listing route.

NOMU listed companies covered in this report:

Name	Sector	Listing Date
Raydan Food Co	Consumer Discretionary	26-02-2017
Baazeem Trading Co	Consumer Discretionary	26-02-2017
Arab Sea Information System Co	Information Technology	26-02-2017
Al-Omran Industrial Trading Co	Industrials	26-02-2017
Abo Moati	Consumer Discretionary	26-02-2017
Sadr Logistics	Industrials	26-02-2017
Development Works Food Co.	Consumer Discretionary	26-02-2017
Thob Al Aseel Co.	Consumer Discretionary	15-06-2017
Al Kathiri Holding Co	Materials	09-07-2017
National Building & Marketing Co	Industrials	29-04-2018
Sumou Real Estate Co.	Real Estate	11-05-2020
Riyadh Cement Co	Materials	02-09-2020
Watani Iron Steel Co.	Materials	17-02-2021
Fesh Fash Snack Food Production Co.	Consumer Staples	04-05-2021
Mohammed Alnaqool Sons Co.	Materials	02-06-2021

Source: Refinitiv Eikon, Analysis

Figure 1: NOMU listings through the share offering route (SAR Mn)



Source: Saudi Exchange, Analysis

Recent Changes in Regulations Post-2019

The Saudi Stock Exchange (Tadawul) announced a series of structural adjustments to NOMU - the Parallel Market, to support the market's growth, development, and sustainability, as well as expanding the number of listed businesses on NOMU and improving market liquidity. The improvements are a part of Tadawul and CMA's strategic goals to expand NOMU and make it a desirable platform for those firms looking to list with greater flexibility.

These structural changes were planned to be implemented in two phases, i.e., the first phase was introduced in Q1 2019, and the second phase was functional in Q2 2019.

First Phase

- Direct listings on the NOMU Parallel Market without an IPO (initial public offering), making a listing by skipping the traditional IPO route i.e., offering, which in turn allows the companies to save time, cost and generate efficiency.
- Requirements for issuers to report financial earnings on a semi-annual basis rather than quarterly thereby reducing the reporting burden on smaller enterprises.
- Streamlining the process for issuers to transition from the Parallel Market to the Main Market.
- Creating access mechanisms through the use of a minimum liquidity barrier, lowering the regular trade threshold, and launching the NOMU Capped Index.

Second Phase

- Addition of Closed-Ended Funds and REITs on NOMU Parallel Market
- The introduction of Static Price Fluctuation Limits, which, once the price of a security reaches 10% upwards or downwards, triggers a volatility auction ,to determine a new fixed limit for the securities based on the new reference price resulting from the auction. The volatility auction is activated for five minutes when the price of the security reaches +/-10%, an auction that begins when the price of the security reaches the fixed limit of price fluctuation and can be repeated several times during the trading session, and results in a new reference price on which fixed price limits are built.
- The new regulations help in avoiding significant price fluctuations, induced by errors in order entry/ illiquid market circumstances/extreme news events. Volatility auction allows price discovery and makes the market pricing mechanism more robust by not allowing price determination to be based on a single high volatility order.

Changes to negotiated deals

Effective from 8th November 2020 the minimum size requirement for negotiated deals on NOMU has been changed to SAR 300,000 for all listed securities regardless of the Average Daily Traded Value. Further, companies transitioning from NOMU to the Main Market will be treated as newly listed companies, with a minimum size requirement of SAR 1 million for at least the first six months after transition.

Trading Fluctuation

Effective from 8th November 2020, all the trading limits have been changed for TASI and NOMU. The modifications to the fluctuation limit will only apply to newly listed securities for the first three days of trading on the main market, but they will always apply to all securities listed on NOMU. Daily price fluctuation limits have been extended from +/- 20% to +/- 30%. Effectively, this states that the limits are raised for the main exchange for the initial three days of listings. On the fourth consecutive day the limits will be back to 10% but in the case of NOMU the limits will remain +/- 30% of its trading range.

The recent change in regulations, i.e., introduction of direct listing, less stringent reporting requirements from quarterly to semi-annual, stronger volatility guards are increasing the accessibility and attractiveness of the NOMU markets. We expect more listings due to the favourable changes in the various rules and regulations.

Listing Rules

NOMU Parallel market was introduced with the primary motive of offering flexibility to attract more small and medium-size companies through less strict and simpler criteria for listing. Since its beginning, the NOMU market has undergone improvements and revisions to make it more appealing and user-friendly, in addition to the financial incentives provided by General Authority for Small and Medium Enterprises (Monshaat). Given the present market conditions of strong optimism surrounding Saudi Arabia's diversified economic expansion provides an excellent opportunity for medium-sized family companies to explore listing on the NOMU.

There are several motivations for private enterprises to enter the capital markets such as to be able to divest some part of equity ownership through a direct listing and share offering on NOMU as well as obtaining/raising funds to support expansion and company development, with the possibility of transitioning to the main market after obtaining needed approvals, among others. NOMU Parallel Market not only benefits from the lighter compliance and listing requirements but also provides flexibility in share offerings compared to the stricter compliances required for companies on the main exchange.

Under the current regulations, a company can get listed on the NOMU parallel market either through an offering of shares (IPO) or through a direct listing route. The key requirements for listing on NOMU are as follows:

Share Offering – Key requirements

- The company making an issue on the NOMU market must be a Joint Stock Company
- Minimum market cap of SAR 10 million
- The issuer must float at least 20% of the issued shares at the time of listing, or SAR 30 million worth of shares in the market, whichever is lower
- Minimum 1 year of operational and financial performance
- Appointing a financial advisor is mandatory, the legal advisor is optional
- Annual audited financial statements and Semi-annual reviewed financial statements.
- Disclosure of significant/essential information
- Record of profitability is not required
- Lock-Up Period: 100% of pre-offering investor shares for one year
- At least 50 public shareholders are required at the time of listing

CMA will review the application within 30 days of receiving all required information and documentation. Tadawul will review the application within ten days of receiving all required information and documentation. The book-building process is run by the financial advisor. The price determination and allocation of shares to participating Qualified Investors follows largely the Main Market book-building practice. The IPO shares are placed by the financial advisor on a best-efforts basis during the book-building stage. There is no retail offering in a Parallel Market IPO.

Direct listing, which was implemented on NOMU Parallel Market in February 2019, is one of the most prominent actions and systemic modifications directed at this market to enhance the liquidity and the number of listed firms on NOMU. It allows companies to list their shares directly on NOMU without a public offering. The eligibility criteria, liquidity conditions, approval and listing process, appointment of the financial advisor, and document requirements applicable to a Parallel Market IPO largely apply to a direct listing of shares on the Parallel Market.

Direct Listing

The direct listing mechanism allows a firm to be listed on the financial market without undergoing an offering process thereby allowing the offering companies with greater flexibility in accessing finance. Direct listings are predicted to be less expensive than traditional offers since they expedite the typical IPO procedure.

Direct listing can be alternatively done through two methods:

1. **A company can list and float shares with a staged liquidity plan*** that can be executed by a liquidity provider within a period of 12 months from the date of listing. If a firm decides to float with a staged liquidity plan, an independent financial adviser should prepare the prospectus (without the offering parts) to the CMA and works with the issuer to develop a liquidity plan that will be presented as part of the listing application and specified in the listing document.

**Liquidity plan* - Meaning: There must be a sufficiently liquid market for the shares that are the subject of the application for a direct listing on the Parallel Market as follows: 1) there are at least 50 public shareholders at the time of listing; and 2) the issuer must float at least 20% of the issued shares at the time of listing, or SAR 30 million worth of shares in the market, whichever is lower.

2. **Private Placement Transaction** to meet the minimum liquidity requirement for the market, before directly listing their shares.

Figure 2: Direct listing and share offer

Name of the IPO	Offering/ Direct Listing	Established	Offering	Listing Date	Transitioned to Main Exchange
Raydan Food	Offering	2008	30%	26-02-2017	Yes
Baazeem Trading	Offering	1978	30%	26-02-2017	Yes
Arab Sea Information System	Offering	1980	20%	26-02-2017	Yes
Al-Omran Industrial Trading	Offering	2003	20%	26-02-2017	Yes
Abo Moati	Offering	1994	20%	26-02-2017	Yes
Sadr Logistics	Offering	1832	20%	26-02-2017	Yes
Development Works Food	Offering	2010	20%	26-02-2017	
Thob Al Aseel	Offering	1970	20%	15-06-2017	Yes
Al Kathiri Holding	Offering	2008	26%	09-07-2017	Yes
National Building & Marketing	Offering	1990	20%	29-04-2018	
Sumou Real Estate	Offering	2007	30%	11-05-2020	
Riyadh Cement	Direct Listing	1997		02-09-2020	
Watani Iron Steel	Direct Listing	2008		17-02-2021	
Fesh Fash Snack Food Production	Direct Listing	1982		04-05-2021	
Mohammed Alnaqool Sons	Direct Listing	1984		02-06-2021	

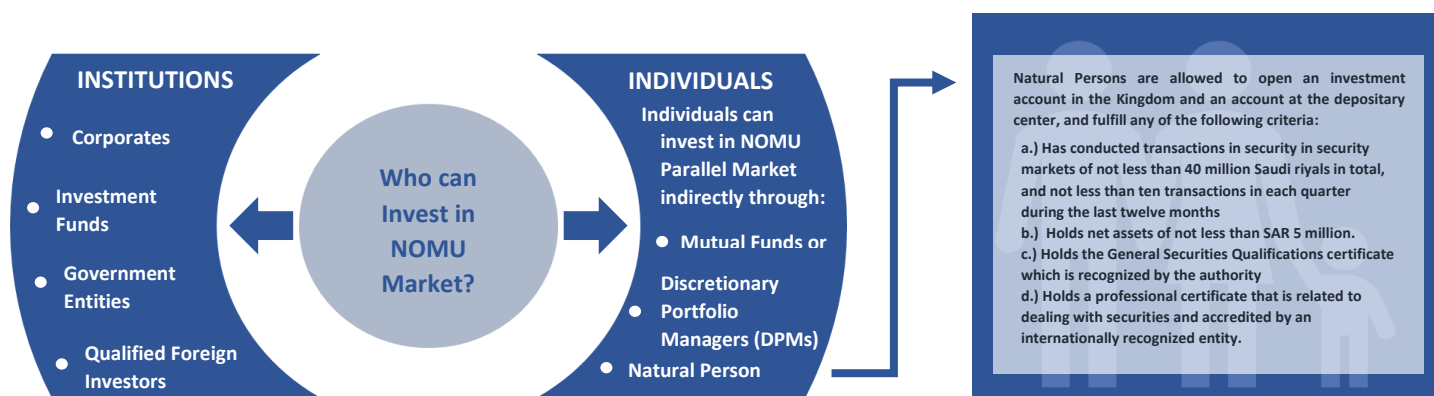
Source: Saudi Exchange, Analysis

Due to the recent introduction of a direct listing, many corporations that made their recent debut on the exchange through a direct listing rather than share offering to save time, cost, and boost efficiency to accelerate growth. The direct listing route was introduced in Feb 2019, since then 4 out of 5 companies on NOMU have opted for the direct listing.

Trading Rules

Figure 3: Investor Categories

Parallel Market is restricted to Qualified Investors, Authorized Persons (APS) which includes:



NOMU vs Main Market Listing Comparison

Figure 4: Requirements Comparisons

Requirements	Main Market	NOMU Market
Minimum market cap	SAR 300 million	SAR 10 million
% Offering size	At least 30%	At least 20% or SAR 30 million whichever is less
Public shareholders	At least 200	At least 50
Continuous obligations	Disclosure of Quarterly financial statements within 30 calendar days and year-end financial statements within 3 months from the end of the period end of the year annual financial statement	Disclosure of Semi-annual financial statement within 45 calendar days and year-end annual financial statement within 3 months from the end of the period
Daily price fluctuation limits	Daily Price Fluctuation Limits is $\pm 30\%$ based on the previous day's closing price or the listing price in the case of the first day of trading after listing. $\pm 30\%$ is applicable only during the first 3 days of trading newly listed Equities, Real Estate Investment Traded Funds, and Closed-ended Investment Traded Funds. On the fourth day of trading:	Daily Price Fluctuation Limits is $\pm 30\%$ based on the previous day's closing price or the listing price in the case of the first day of trading after listing. $\pm 30\%$ Daily Price Fluctuation Limits apply to all listed securities on NOMU.

	The Daily Price Fluctuation Limit will revert to $\pm 10\%$.	
Static Price Fluctuation Limits	<p>Static Price Fluctuation Limits to be set at $\pm 10\%$ for the first three days of trading newly listed Equities, Real Estate Investment Traded Funds and Closed-ended Investment Traded Funds.</p> <p>On the fourth day of trading: No Static Price Fluctuation Limit is applied.</p>	Static Price Fluctuation Limits of $\pm 10\%$ will apply on an ongoing basis for all listed securities on Nomu.

Source: Saudi Exchange, Analysis

Transition to TASI

There are significant benefits to being listed and having access to the capital markets. NOMU listed companies have an opportunity to get listed on the main index of Saudi Arabia – Saudi Exchange (TASI) after meeting with the stipulated conditions and getting relevant approvals. Changes to the regulations were introduced in 2019 to make the transition to the main exchange faster and more streamlined. Saudi Arabia has been added to major indexes around the world including FTSE Russell, S&P Dow Jones, MSCI as part of their emerging market indexes. This further enhances the attractiveness of being on the main market due to the potential active and passive fund allocations.

Key Requirements – Transition from NOMU to TASI

When a company wishes to transition from NOMU to the Main Market, a company must comply with the following requirements:

1. Completing 2 years since listing on NOMU - Parallel Market.
2. Meeting the requirements for listing on the Main Market, except for the market capitalization where the minimum average market cap for the last six months is SAR 200 million.
3. The Issuer must disclose to the public the board of directors' report, which includes all information required under the relevant Implementing Regulations.
4. Approval of the Board of Directors to transfer to the Main Market and disclose it to the public before the start of the trading session after the issuance of approval.
5. Submitting to Tadawul the application to transition to the Main Market and disclosing it to the public.

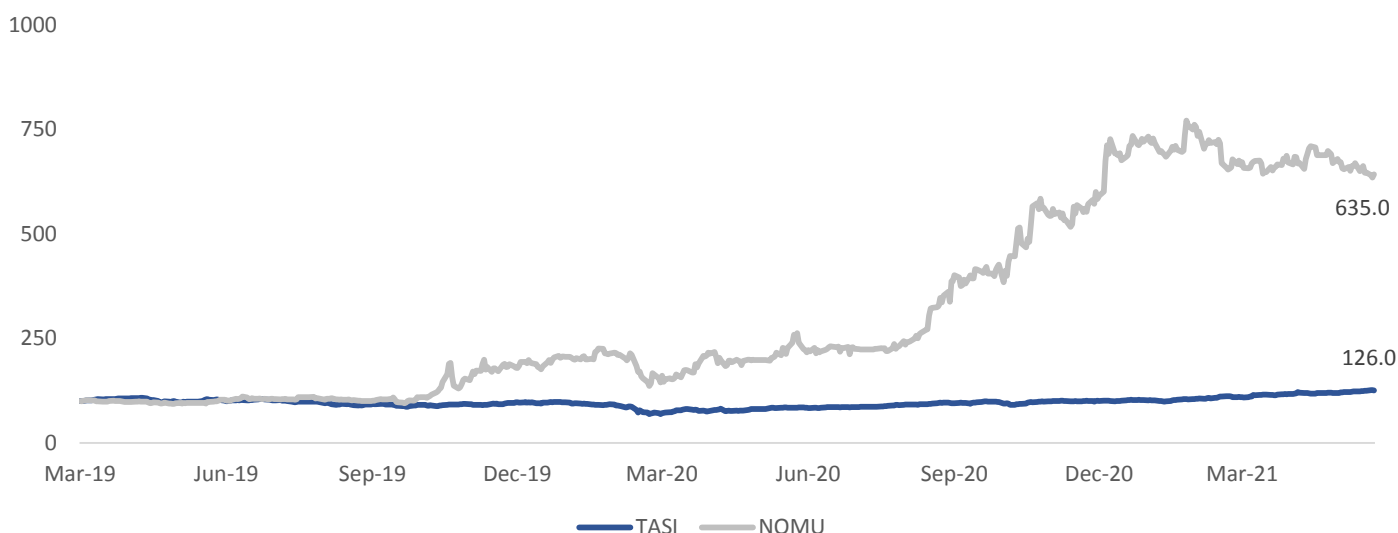
The company's shares shall be suspended for a period not exceeding five trading sessions until the completion of the transfer procedures.

TASI vs NOMU Index Performance Overview

NOMU introduced a capped index in 2019, with a capping threshold of 20%. In 2019, NOMU listed companies posting strong returns. 2021 has been especially strong owing to the three new listings (till date) on the NOMU market. In comparison, TASI

also witnessed a slew of IPO listings right from 2019. However, the broader TASI index also reflected the macro-economic challenges faced during the pandemic. On looking at some of the companies which have listed on NOMU and have moved to the main market, there lies an opportunity to generate enhanced returns between the NOMU and TADAWUL listing.

Figure 5: TASI vs NOMU (Indexed to 100 = 3/24/2019)



Source: Refinitiv Eikon, Analysis

NOMU Constituents Snapshot

The analysis includes all the companies listed on the NOMU exchange since early 2017. The coverage includes 15 companies in total ranging across various sectors. As we can see, the NOMU market has a fairly good coverage across various important sectors such as consumer related, industrials and materials. The current push towards having more SMEs being included in the public markets will add further names to the list over the coming years. The most recent listings on the parallel exchange include Mohammed Alnaqool Sons Co. and Fesh Fash Snack Food Production Co.

Figure 6: TASI vs NOMU (Indexed to 100 = 3/24/2019)

Name	Listing date	GICS Sector
Mohammed Alnaqool Sons Co.	02 June 2021	Materials
Fesh Fash Snack Food Production Co.	04 May 2021	Consumer Staples
Watani Iron Steel Co.	17 Feb 2021	Materials
Riyadh Cement Co	02 Sep 2020	Materials
Sumou Real Estate Co.	11 May 2020	Real Estate
National Building & Marketing Co	29 April 2018	Industrials
Al Kathiri Holding Co	09 July 2017	Materials
Thob Al Aseel Co.	15 June 2017	Consumer Discretionary
Raydan Food Co	26 Feb 2017	Consumer Discretionary
Baazeem Trading Co	26 Feb 2017	Consumer Discretionary
Arab Sea Information System Co	26 Feb 2017	Real Estate

Al-Omran Industrial Trading Co	26 Feb 2017	Industrials
Abdullah Saad Mohammed Abo Moati for Bookstores Co.	26 Feb 2017	Consumer Discretionary
Sadr Logistics Co.	26 Feb 2017	Industrials
Development Works Food Co.	26 Feb 2017	Consumer Discretionary

Source: Refinitiv Eikon, Analysis

Figure 7: Sector Count of NOMU Listings

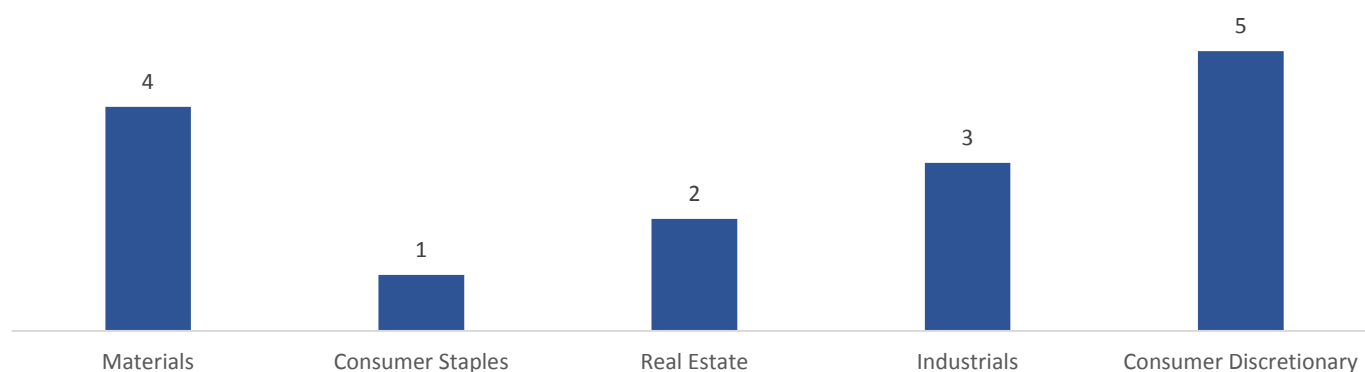
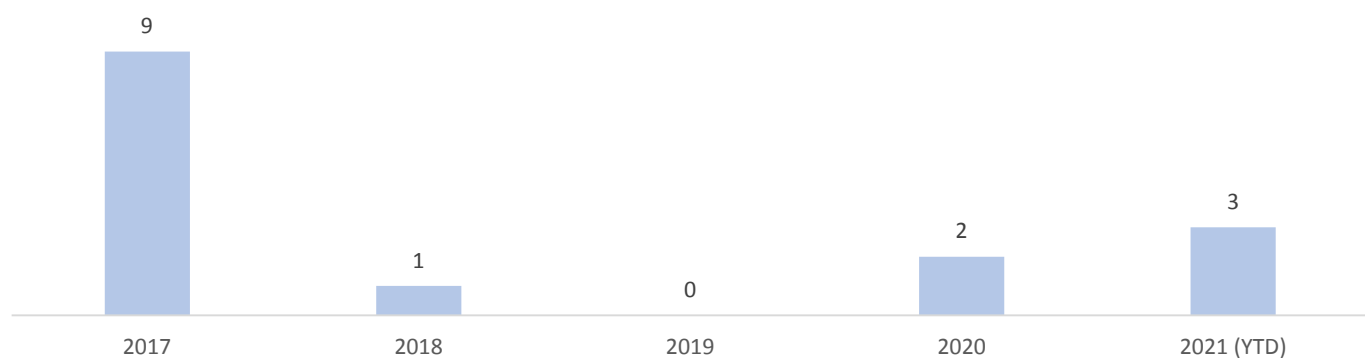


Figure 8: Number of Listings by Year



Holding Period Returns

Looking at some of the companies which have listed on NOMU and have moved to the main market; there appears to be an opportunity to generate enhanced returns while remaining invested in these companies. The transition period is usually between 2.3 years and 3.8 years on average. On a total holding period from the first day close on the NOMU exchange to the cutoff date for this report (June 15, 2021), the median holding period return is an astonishing 244.3%.

Figure 9: Holding Period Returns Overview

Name	Years Listed on NOMU	Total Return for Years Listed on NOMU	Total Return for Years Listed on TASI	Total Return till June 15, 2021
Raydan Food Co	2.7	-51.0%	88.0%	-7.9%
Al Kathiri Holding Co	2.3	300.6%	187.4%	1,051.3%
Thob Al Aseel Co.	2.4	23.5%	85.7%	129.4%
Baazeem Trading Co	2.8	13.5%	152.4%	186.3%
Arab Sea Information System Co	3.4	185.6%	-22.8%	120.5%
Al-Omran Industrial Trading Co	3.4	139.3%	32.1%	216.1%
Abo Moati	2.7	51.4%	143.1%	268.1%
Sadr Logistics	3.8	487.0%	43.5%	742.3%
Riyadh Cement Co	1.1			38.5%
National Building & Marketing Co	4.3			1,843.2%
Mohammed Alnaqool Sons Co.	0.0			354.2%
Fesh Fash Snack Food Production Co.	0.2			341.5%
Watani Iron Steel Co.	0.4			40.3%
Sumou Real Estate Co.	1.5			244.3%
Development Works Food Co.	5.9			341.0%
MEDIAN	2.7	95.3%	86.9%	244.3%

Source: Refinitiv Eikon, Analysis

Note: The starting date and price is based on the closing price of the first day of trading on the NOMU exchange

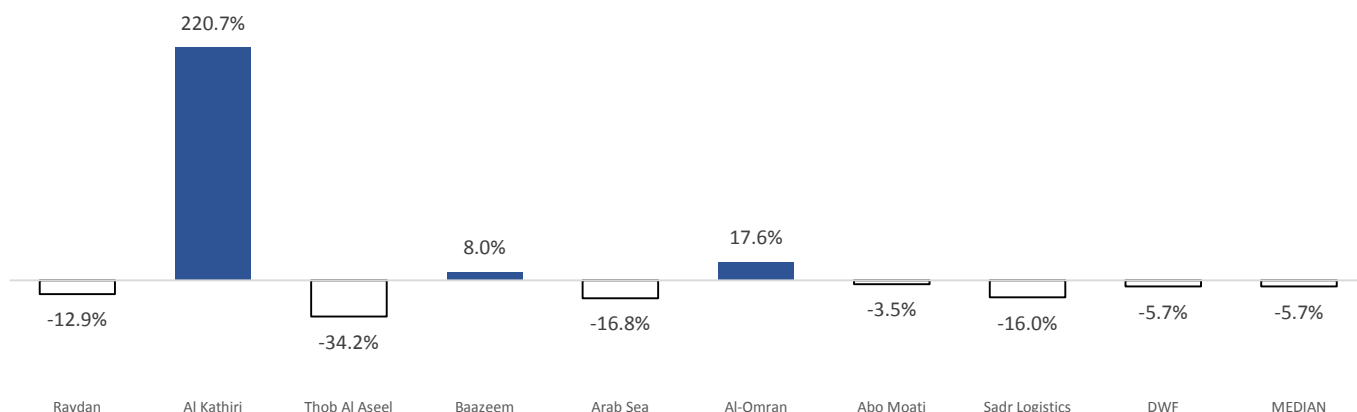
Amongst the early listings on the NOMU exchange, nearly all companies, with the exception of Raydan foods, have seen strong returns across both the time they were on the NOMU exchange as well as after transitioning to TASI. Some of the key catalysts which result in the above return profiles include:

- Rising investor interest for this section of the market
- The ramp up in stock price during the period preceding their actual transition from NOMU to TASI
- Enhanced volume availability from listing on TASI as the investor pool increases many folds following the transition to the main index
- Financial performance of the companies

On looking at return profiles across the years 2018, 2019 and 2020 for these companies, the analysis presents the following:

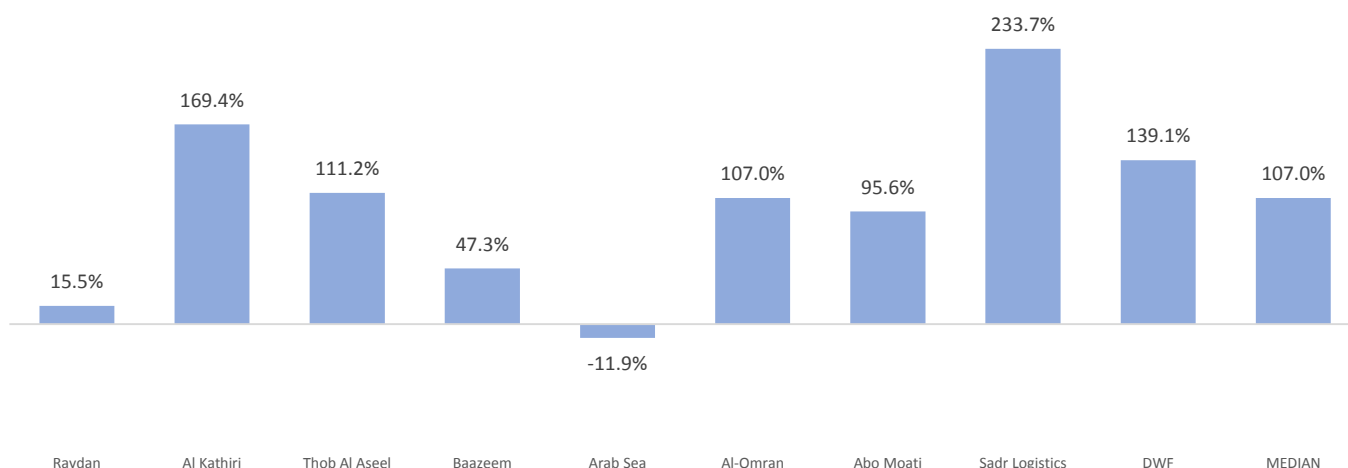
- 2018 saw a few stocks rising sharply, particularly Al Kathiri Holding Co while most other saw low to negative performance. This can be attributed to the marketplace being a relatively new concept within the investment community and limited liquidity.

Figure 10: 2018 Annual Returns



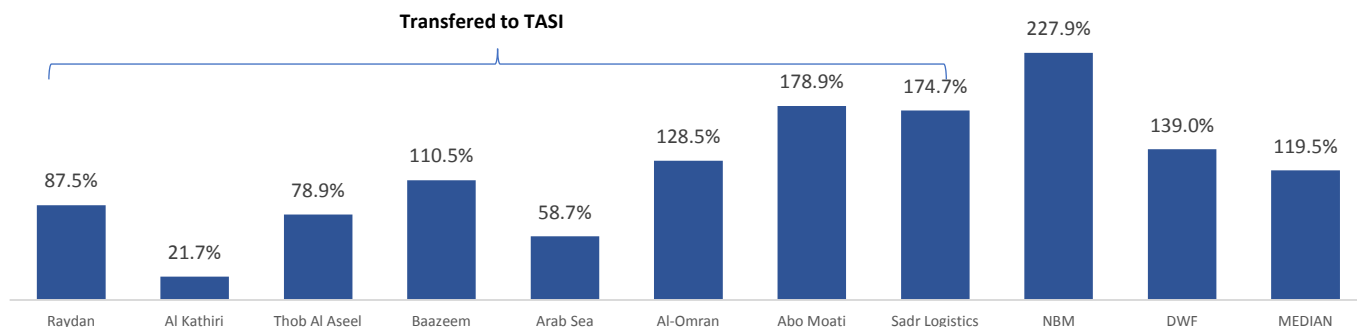
- 2019 saw a higher investor interest as shares climbed steadily over the year, generating a median return of 107% during the year. Along with better visibility of the exchange through the regulatory initiatives to encourage investments in the NOMU market, one of the key aspects driving prices were the planned transitions of some of the companies near the end of 2019. Shares saw steep rises between the periods of board approval for listing on TASI, right up to the approval of the transition request.

Figure 11: 2019 Annual Returns



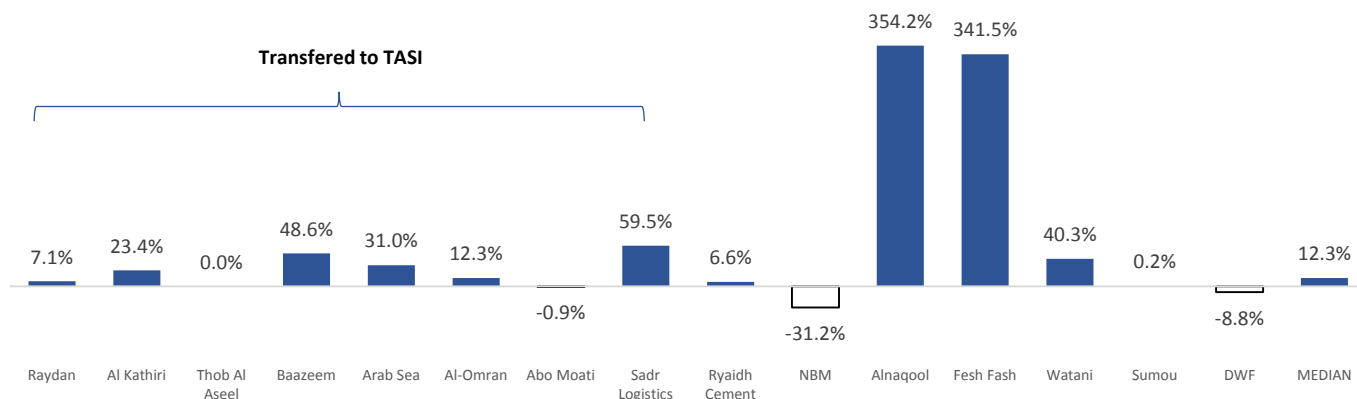
- 2020 added to the initial gains for companies transitioning from NOMU to TASI, with the added liquidity and investor base driving prices higher. This comes on the back of the pandemic led market pressure across most sectors.

Figure 12: 2020 Annual Returns



- 2021 has seen three new NOMU listings, each seeing strong price momentum right off the bat. This could be a new trend being witnessed on the NOMU exchange as this segment of the market is more recognized by the investor community, as compared to the scenario seen in early 2017 and 2018.

Figure 13: 2021 Annual Returns



Volume Profile

Companies on the NOMU exchange have seen lower volumes in early 2017 as the concept was still at its infancy and this segment of the market was at a nascent stage. As the years progressed, and with additional regulatory initiatives to improve investor and company participation on the exchange, volumes started rising over 2019 and 2020.

Companies listed on NOMU experience an increase in volumes in the months leading up to the probable transfer to the Main market (exact date of listing on the Main index has been marked in red). Various regulatory changes brought about over last two years have also contributed to better volumes overall for the market constituents.

We can also see volumes continuing to be higher well after listing on the main exchange, highlighting added investor interest towards the NOMU companies.

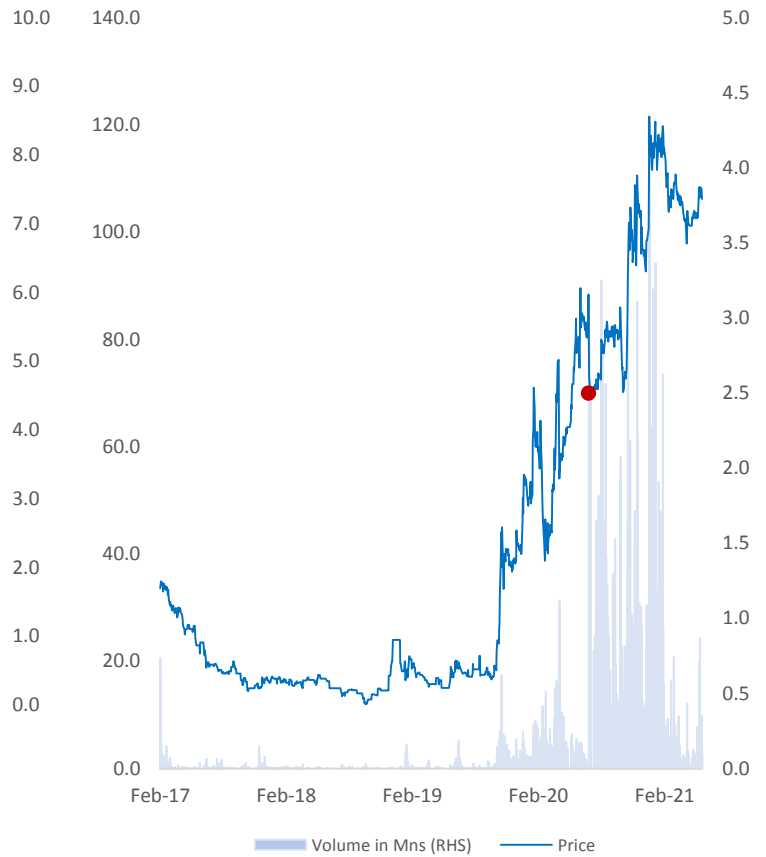
Figure 14: Company wise Performance



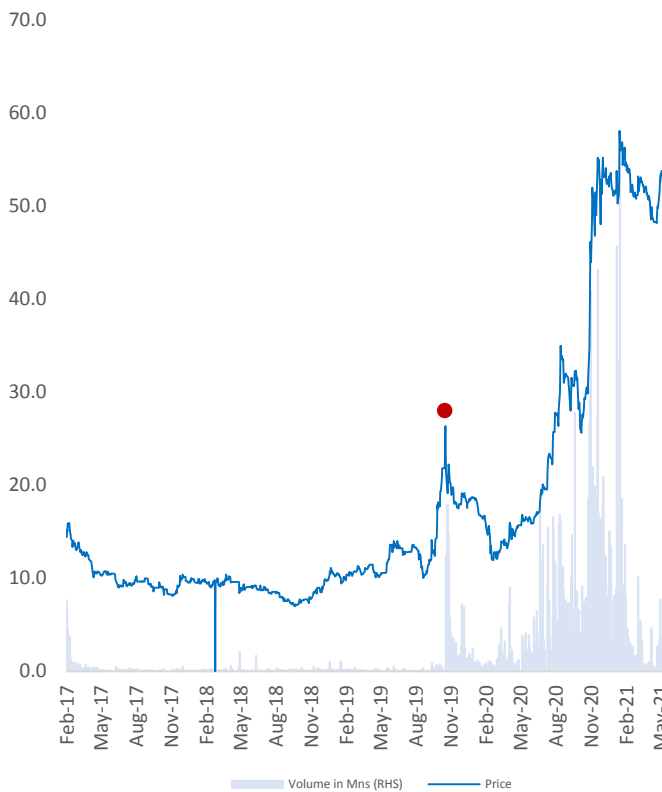
Arab Sea Information System Co.



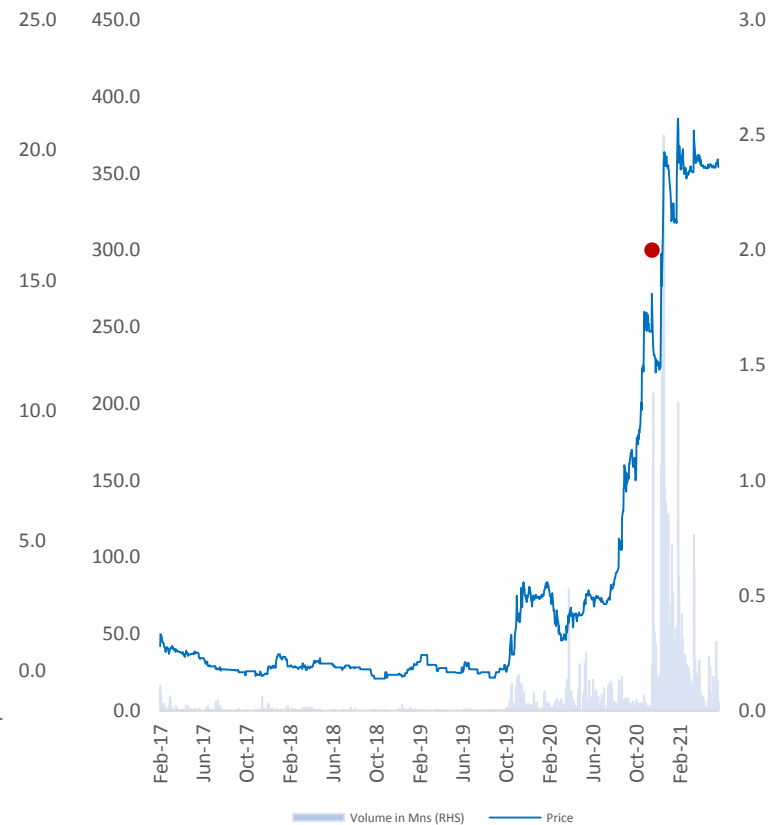
Al-Omran Industrial Trading Co



Abo Moati



Sadr Logistics



Source: Refinitiv Eikon, Analysis

NOMU Companies Operational Performance and Valuations

The companies listed on NOMU have a varied range of fundamental performance, most of which are generating positive return on equity over the periods of 2018 to 2020. The pandemic added earning pressure for certain businesses impacted by the lockdowns during the previous year, leading to RoEs falling below zero. However, as with most other such businesses, there is a fairly positive expectation of recovery over the coming year and beyond, as business situations return to normal through rapid vaccination efforts in the Kingdom. Thus, the return profile on fundamentals is also an attractive aspect of this market.

Figure 15: Return on Equity 2018 – 2020

Return on Equity	2018	2019	2020	Average
Raydan	7.0%	-1.8%	-44.8%	-13.2%
Al Kathiri	16.9%	22.5%	7.7%	15.7%
Thob Al Aseel	11.1%	15.2%	15.2%	13.8%
Baazeem	10.5%	11.4%	13.7%	11.9%
Arab Sea	-12.1%	-12.4%	-35.8%	-20.1%
Al-Omran	3.5%	0.3%	0.8%	1.5%
Abo Moati	8.3%	7.9%	6.3%	7.5%
Sadr	1.3%	-5.8%	7.5%	1.0%
Riyadh Cement	4.0%	10.9%	12.8%	9.2%
NBM	18.9%	4.8%	13.8%	12.5%
Sumou	20.9%	18.5%	17.8%	19.0%
DWF	25.6%	22.2%	-27.3%	6.8%
MEDIAN	9.4%	9.4%	7.6%	8.3%

Source: Refinitiv Eikon, Analysis

On the valuation side however, similar to most growth stocks and small and micro-cap stocks, multiples get fairly expensive due to the dual effect of additional investor interest and higher than usual volatility seen across stocks. We do see that most of the businesses generating positive double-digit RoEs are valued between 2.7x to 6.2x price to book.

An additional factor driving higher valuations are coming from the improvements in trading volume seen due to the move from the NOMU index to the main index.

Figure 16: Price to Book Value 2018 – 2020

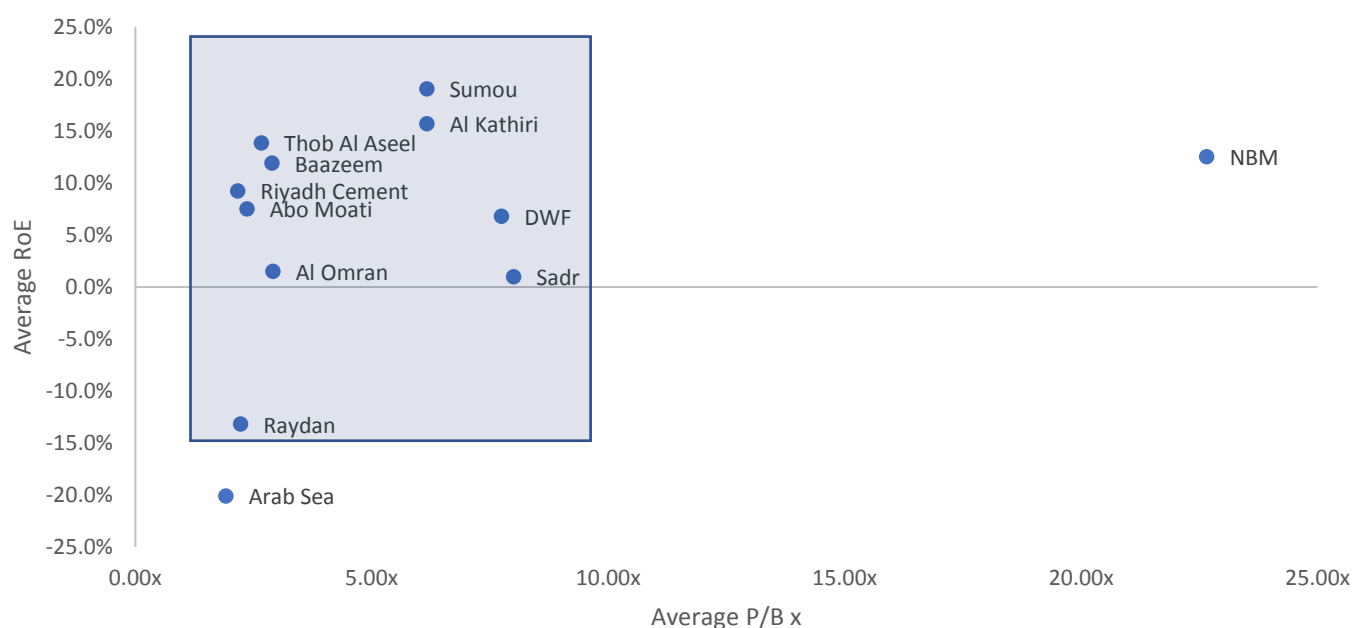
Price to Book Value	2018	2019	2020	Average
Raydan	1.24x	1.46x	3.99x	2.23x
Al Kathiri	4.01x	8.38x	6.12x	6.17x
Thob Al Aseel	1.22x	2.47x	4.31x	2.67x
Baazeem	1.52x	2.40x	4.78x	2.90x
Arab Sea	1.34x	1.39x	3.02x	1.92x

Al-Omran	1.13x	2.31x	5.30x	2.91x
Abo Moati	0.89x	1.66x	4.54x	2.37x
Sadr	1.66x	6.18x	16.17x	8.00x
Riyadh Cement			2.17x	2.17x
NBM		12.94x	32.39x	22.66x
Sumou			6.17x	6.17x
DWF	2.72x	5.07x	15.45x	7.75x
MEDIAN	1.34x	2.43x	5.04x	2.91x

Source: Refinitiv Eikon, Analysis

A comparison of companies from a RoE and PB multiple point of view has been included below. For this we have taken the average RoE and PB multiples across 2018-2020. We have not included the most recent listings given their limited tenure of listing to date.

Figure 17: Average Return on Equity vs Price to Book Value Position



Risks and Considerations for the NOMU Market

Though the NOMU listed companies have seen tremendous gains over their listing period, there are a few considerations to look for which entail a level of risk towards investments in this market. They broadly include:

- Operational Performance**– Operational performance of NOMU listed companies has been a mixed bag, with a few companies posting steadily declining performance, some have recovered after a bad year or two, while some companies are at the other end of the spectrum with consistently improving return metrics. Medium and small cap companies are known to be more exposed to the volatility in the macro-economic environment due to their lack of economies of scale. Therefore, it is important for the investors to conduct their diligence while considering an investment in NOMU listed companies.

- **Higher than usual volatility across stocks** – NOMU daily price fluctuation limits have been extended from +/- 20% to +/- 30% compared to +/-10% for the Main market. The fluctuation limits therefore naturally allow for more headroom for daily fluctuations. The higher return profiles of NOMU companies also comes in conjunction with higher volatility.
- **Limited liquidity**- As previously noted, volumes for the stocks on NOMU are lower compared to the Main market due to lack to access to Retail Investors in addition to limited number of investible stocks. Volumes usually see an improvement during run up towards listing on the Main market. Minimum size requirements have been introduced (SAR 300,000) for negotiated deals. However, positive changes towards improving the depth of the market are seen to yield results with the recent listings on the NOMU market showcasing better volumes on the back of imposing minimum liquidity requirements for share offering as well as direct listing.
- **External events impacting the move from NOMU to TADAWUL** – Prices of stocks usually run up on days leading towards listing on the main market. However, in cases where the listing on main market gets denied, the negative impact on the stock prices is equally observed. However, such an event has only been observed in case of one company (DWF) where the stock fell 24% on the next trading after news on rejection of request for transition to the main market was announced. The stock has fallen 22% till date since the time of announcement of rejection of request by the CMA / Saudi Exchange. Investors should, therefore, be open to the possibility of denial of approval from CMA while assessing a NOMU stocks' upside potential.

Snapshot on secondary/ parallel markets from around the globe

We were trying to find comparable secondary/ parallel markets from around the globe. However, we believe these markets aren't truly comparable to Saudi NOMU Market for several reasons listed below.

- **China - STAR market:** is for the promising tech companies. Given its sector centricity, we believe it might be unfit for comparison to NOMU which is sector agnostic.
- **USA – Pink Sheets:** As per our findings, pink sheet are OTC stocks which are in place to circumvent heavier listing regulations and greater cost of listings. These stocks usually trade for less than \$5 (i.e. penny stocks). Additionally, due to low liquidity it operates on broker-dealer mechanism and sometimes fails to derive the accurate price. Given the OTC nature + penny stocks nature of the market, it might not be the best fit for the purposes of our analysis.
- **UK - AIM market:** is for growing companies on London Stock exchange launched in 1995, currently the total market cap of AIM is £1,45,527 mn (\$1,76,291 mn) with 822 listings till date from inception. In comparison, NOMU only has 15 listing till date.

Secondly, there is no minimum cap for AIM but all the listings fall within market cap of £25 mn to £500 mn (\$30 mn to \$606 mn) compared to NOMU's minimum market cap of SAR 10 mn (\$2.67 mn). Therefore with respect to market depth, liquidity and listings (it consists of UK and international companies), it might not be a good comparison for our purposes.

Conclusion

NOMU Parallel Market was created by the Saudi Stock Exchange to provide relatively smaller companies (including SMEs) greater opportunities in the capital markets. Tadawul intends to further expand the capital market following the Vision 2030 goals, which emphasize the need of developing a more contemporary capital market that is open to the rest of the world, allowing for more funding choices and supporting economic progress. The Saudi Exchange, in conjunction with the Capital Market Authority, is continually working to improve access to credit for small businesses. Since 2017, 15 businesses have launched on the NOMU market, totalling SAR 815+ million in share offers and direct listings. Eight of the 15 firms have already moved from the NOMU market to the main Saudi Exchange. Increased market depth, direct listings, and investor involvement in NOMU seem to have had a substantial influence on capital market performance.

Although investors need to take cognizance of the various risks of investing in the NOMU market due to its speculative nature and the high level of volatility to which the investor is exposed. There are also organizational efforts to reduce volatility and speculation in Nomu market, in addition to the conditions that must be met to invest in the parallel market. These risks can be reduced by taking financial advice or investing through professionally managed funds. However, we expect to see promising improvements in the Nomu market that aim to reduce the level of risk and increase the investment feasibility over time , such as the gradually improvement of liquidity in the NOMU market , robust best practices like the introduction of volatility guards, introduction of fluctuation limits, minimum liquidity requirements for negotiated deals etc.