

Chief Executive Officer's message

THE SPRINGBOARD

The bold steps we took during previous years set the stage for the milestones we achieved in 2018.

It was a remarkable year for Tadawul. Our move to emerging market status was announced. We also made great strides in attracting Qualified Foreign Investors, and aligned our organization structure and internal processes with our new strategies to harness business and growth opportunities. Our market statistics showed a very commendable performance in what was a lacklustre year for most stock markets.

The several initiatives we undertook during previous years propelled us to scale greater heights during 2018.

For example, during 2017 we moved from a T+0 to a T+ 2 payment cycle; launched our parallel market Nomu for the SME sector; made our Securities and Depository Centre (Edaa) into a separate legal entity wholly owned by Tadawul; and closed the year by signing a post-trade technology agreement with NASDAQ.



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CAPITAL INFLOWS BETWEEN USD 40-50 BN ARE EXPECTED IN 2019 CONSEQUENT TO THE UPGRADING TO EMERGING MARKET STATUS AND THE RAPID GROWTH IN QFIs.

Key milestones

The crowning achievement of the year was the announcement of our forthcoming upgrade to emerging market status in three global indices, namely, FTSE Russell, MSCI and S&P DJI. Tadawul was previously granted watch list status in the three indices. The upgrading will become effective in the three indices in 2019. The fact that we have come close to achieving emerging market status in a short period of time augurs well not only for Tadawul but also for the Kingdom as a whole considering our role in supporting the goals of Vision 2030.

The year 2018 also saw the establishment of the Securities Clearing Center Company (Muqassa) as a closed joint stock company fully owned by the Saudi Stock Exchange (Tadawul). Muqassa will be activated in the market once all required regulatory approvals are complete in 2019.

The establishment and operation of Muqassa is considered as an important aspect in developing the market infrastructure in order to enhance market efficiency and expansion to new products and services. In addition, Muqassa will contribute to reducing post-trade risks and the development of clearing services in accordance with international risk management practices.

The Independent Custody Model (ICM), which enables authorized parties to hold shares on behalf of investors was updated during the year. The requirements for Qualified Foreign Investors was also eased, expanding the range of institutional investors who may participate.

While these developments were underpinned by technological and infrastructural changes there were many other issues that had to be ironed out. We engaged with a large number of stakeholders, both internal and external, and reached consensus through numerous discussions and consultations with them.

The people factor

However developed our infrastructure and technology may be, we cannot derive optimal benefits without the appropriate human resources. We are committed to Saudization, one of the goals of Vision 2030; 91.3% of our employees are Saudis. Our intentions are two-fold. One is to fill gaps in the available skills. The other is to train and develop Saudis to be effective in their job roles. Our HR strategies are closely aligned to our organizational strategies. During 2018 an Employee Career Path Programme and a Graduate Development Program were launched. Building and sustaining leadership skills as well as building a winning culture were core HR objectives. Out of total employee hours 2.6% were devoted to training which demonstrates our commitment to staff development; in addition 72% of employees received training.

Market performance

Our market statistics speak for the progress Tadawul made during the year. The Tadawul All Share Index (TASI) reached 7,826.73 as against 7,226.32 at the end of the previous year which was an increase of 8.3%. Our market capitalization, which was SAR 1,689.60 Bn at end 2017, increased by 10.0% to reach SAR 1,858.95 Bn. The value of shares traded was SAR 870.87 Bn during 2018, an increase of 4.1% over the 2017 figure of SAR 836.28 Bn. These achievements are all the more impressive when seen against the backdrop of a year where the emerging market index suffered a sharp decline.

Financial performance

We achieved a commendable financial performance in 2018. The operating revenue increased by 6.9% to SAR 583 Mn in 2018, while the gross profit increased by 13.9% to reach SAR 285 Mn. On the other hand, the operating profit showed an increase of 29.2% to reach SAR 74 Mn. The fact that the operating profit outperformed the operating revenue and gross profit in percentage increase demonstrates the success of our cost containment initiatives.

The road ahead

A development which is on the cards for the second half of 2019 is the launching of the derivatives market; initially the introduction of index futures to be followed by options and other derivatives.

The Post-Trade Technology Agreement with NASDAQ will take Tadawul's technology to the next level by replacing the legacy registry, depository and risk management system. This will enable a new counterparty clearing system, facilitate the introduction of new asset classes, and smoothen the process of offering new services to investors.

A high level of liquidity is one of our strengths. The measures we have taken to promote transparency and efficiency as well as improving our infrastructure should continue to attract more listings and investors, especially foreign investors. We are well on course in our strategy execution and thus continue to support the economic development of the Kingdom and the prosperity of her people.

In conclusion, I wish to thank the Chairperson for her unstinting guidance and support and our employees for their commitment and dedication.

Khalid Abdullah Al Hussan

Chief Executive Officer