Agri-food investment opportunities

INVESTMENT OPPORTUNITY

Investment opportunity deck - Chocolate spreads manufacturing

استثمر في السعودية
INVEST SAUDI

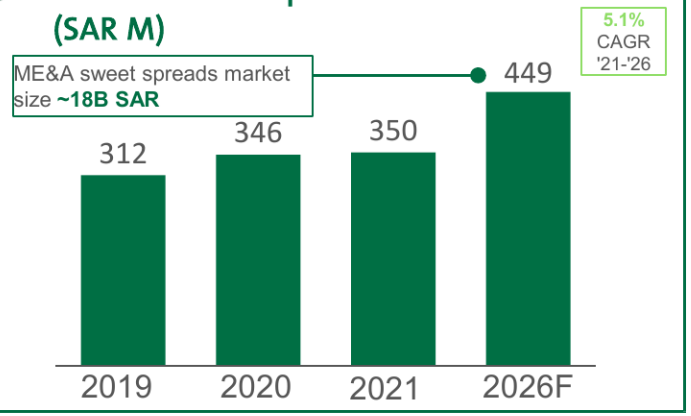
High Potential | Moderate Potential | Low Potential

Investment Opportunity: Chocolate spreads manufacturing

OPPORTUNITY DESCRIPTION: Establishing a facility to manufacture chocolate spreads

DEMAND

KSA chocolate spreads market (SAR M)



INVESTMENT OVERVIEW

INVESTMENT HIGHLIGHTS

- **Plant capacity**: 400 tons per month
- **Expected IRR**: 15-20%
- **Investment Period**: 10 years
- **Job Creation**: Total effect of ~80 new direct, indirect and induced jobs
- **GDP impact SAR (10 years)**: ~ 0.6 B
- **Location (Examples)**: Jeddah, Dammam, KAEC
- **Investment size**: ~ 52.5M SAR
- **Investment size per SQM**: 3,500 SAR

VALUE PROPOSITION

KSA strengths:

- SEZs development, food clusters, and economic incentives
- Largest chocolate spread market in MEA with promising growth
- Cheap utilities and strong infrastructure to support producers

Key success factors:

- Access to cost-effective materials, as most inputs must be imported but strong global sourcing chains have been built
- Strong spreads talent ecosystem but limited experience in chocolate spreads itself
- Access to reliable, subsidized utilities and infrastructure, with strong outbound distribution networks

MARKET OVERVIEW

KEY DEMAND DRIVERS

- Growing and highly urbanized population with increased levels of snacking preferences
- A significantly larger market compared to peanut butter and fruit-based jams
- Higher margins compared to other spread with strong levels of brand loyalty, as customers are much more loyal and willing to pay higher brand premiums in this segment
- Chocolate spreads take the leadership position in the KSA market

RAW MATERIALS, INPUTS AND EQUIPMENT

- Raw materials and inputs: Cocoa beans, hazelnut, refined sugar, palm oil
- Equipment: Furnishments, supporting utilities and machinery

GLOBAL TRENDS

- Global chocolate spread consumption is forecasted to grow driven by population growth and increased per-capita demand as the economy reopens
- Rise in snacking behaviors (spreads are popular with toast as an afternoon snack)
- Higher consumption is due to rise in premiumization and demand for more "luxurious" snacking products such as chocolate spreads
- The global market is heavily dominated by Nutella, with local brands and private label capturing only a minority of sales
- Investments into sweet spreads firms in 2021 reached USD 1.4 B

Investment Opportunity: Chocolate spreads manufacturing

SUPPLY

SCALABILITY AND LOCALIZATION

Grade: Low | Medium | **High**

KSA strengths:

- Largest chocolate spreads market in MENA, with a market size of SAR 350 M in 2021
- Facilitation of access to raw materials, e.g., through the NIS and Jeddah food processing clusters' exemptions from tariffs on basic raw materials
- Strong local outbound distributors who can assist international producers with swift product distribution and promotion via big supermarkets and small-store retail networks
- Strong capabilities in spreads with infrastructure and talent to support the development of chocolate spreads production

IMPORT DEPENDENCY

- Import reliance is high - Ferrero controls 86% of the KSA chocolate spreads market and does not currently produce any chocolate spreads in KSA or GCC
- Key current source for imports: Italy
- Most inputs must be imported but strong global sourcing chains have been built

VALUE CHAIN

Product R&D	Sourcing	Manufacturing	Distribution	Consumer
▪ Spread development ▪ Packaging design	▪ Cocoa beans ▪ Hazelnuts ▪ Refined sugar ▪ Palm oil ▪ Flavors, colors ▪ and fragrances ▪ Milk powder ▪ Inclusions	▪ Grind cocoa bean ▪ Squeeze out cocoa butter and powder ▪ Chop, clean and roast hazelnuts ▪ Mix cocoa powder with hazelnuts ▪ Add sugar, milk powder, flavors, palm oil and whey ▪ Package	▪ Supermarkets ▪ Convenience stores ▪ Online stores ▪ Cafes & restaurants ▪ Hotels	

KEY STAKEHOLDERS

Saudi Food & Drug Authority | وزارة الصناعة والثروة المعدنية | Economic Cities and Special Zones Authority | المركز الصناعي Industrial Center | الصندوق الصناعي SIDF | هيئة الزكاة والضريبة والجمارك Zakat, Tax and Customs Authority

ENABLING FACTORS

POTENTIAL INCENTIVES & ENABLERS (SEZ)

- Investigate the potential positive effects in reducing Saudization rate rule for the first years
- Accelerate immigration process, company licensing and set-up process
- Further reduce CIT, VAT, WHT, custom duties and levies for expatriates
- Partially cover salaries for specialized foreign talent to ensure knowledge transfer to local manpower
- Subsidize infrastructure and services

COST OF DOING BUSINESS IN KSA

Factor	Ranking amongst regional peers
Electricity tariffs for industrial players ((in USD cents/KWh)	$0.05
Average manufacturing salary (in $/month)	1 729
Natural gas prices (in $/KWh)	0.004
Cost to export (in $/15 metric tons)	319
Cost to import (in $/15 metric tons)	464

Bottom 25% | Top 75% | Top 50% | **Top 25%**

Definitions

#	SCORECARD SECTION	DEFINITIONS
1	Market size	Size of market in value/volume in KSA and/or Region (MENA/GCC) covering future projections based on available estimates from published /government sources
2	Business drivers	A select number of factors that will influence future demand for the related product/service
3	Investment highlights	An overview of key financial metrics summarizing the investment opportunity along with the expected return based on the suggested investment size
4	Value proposition	Summary of key differentiators that position KSA as a strategic choice over other regional/global peers
5	Market readiness	An overview of KSA market structure, market maturity and level of participation by local and global players
6	Global trends	Latest business developments within the sector/product category
7	Scalability and localization	Ease of scaling the business across the value chain or into new adjacent products or geographies that would maximize the opportunity's investment returns and the ability and potential to locally manufacture the product and its components
8	Import dependency	An overview of the countries from which Saudi Arabia is importing the product and their value/volume and share in total imports
9	Value chain analysis	The process or activities that would potentially need to be carried out to deliver the underlying product or service
10	Key stakeholders	Government institutions, organizations, and/or authorities that participate or influence the market for the underlying product/service
11	Enablers	Factors that enable investment in the underlying opportunity
12	Cost of doing business in KSA	Key factors that position KSA as a competitive destination for investment in the region. Productivity adjusted wages do not include cost of $1.23/hour towards annual recurring charges including work permit, resident identity (iqama) and health insurance

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