

Flanges

INVESTMENT OPPORTUNITY

Machinery & Equipment

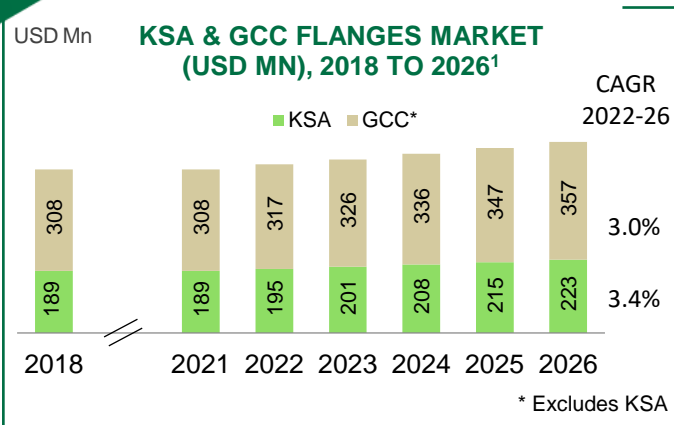


Machinery & Equipment Flanges

OPPORTUNITY DESCRIPTION: Establish a facility to design, manufacture, assemble and test industrial flanges supporting growing demand from the oil & gas and petrochemical segments in the country

DEMAND

MARKET SIZE



INVESTMENT OVERVIEW

INVESTMENT HIGHLIGHTS

- Expected Investment size of USD#: 310 to 315 Mn
- Plant capacity#: 150,000 MT
- Expected IRR#: 13.3%
- Payback period#: 9.04 years
- Job Creation#: 2,800 to 3,000
- GDP Impact#: USD 180 Mn
- (The proposed investment is for an integrated facility that can manufacture seamless pipes, drill pipes, boiler/ HE tubes, butt weld fittings, flanges and ERW pipes in different metal compositions)

VALUE PROPOSITION

- An estimated 88 to 90% of the KSA demand for flanges is met through imports².
- Local manufacturing capabilities are restricted to a single facility that lacks capacities to cater to the local demand
- Export potential** – Setting up in KSA allows access to trade routes that account for 13% of world trade
- Infrastructure** - Special economic zones and Industrial townships provide world class infrastructure and competitive access to utilities

KEY DEMAND DRIVERS

- KSA plans to invest in increasing chemical industry output, targeting a capacity of 147MT by 2027 at 3% CAGR³
- Proposed increase in crude oil refining output by 1Mn bpd by 2027 and plans to increase gas output to 238bcm by 2030⁴ will augment the demand for flanges in the KSA market
- More than 60 water projects, worth SAR35 Bn (USD9.33 Bn) are planned, that will make KSA the largest water desalination market in the world. On completion, these projects will increase desalination capacity to 7.50 Mn cubic metres per day by 2027⁵

RAW MATERIALS

- Carbon steel
- Stainless steel
- Alloy steel

MARKET OVERVIEW

GLOBAL TRENDS

- Globally, the market for flanges is expected to grow between 3.5 to 4.0% CAGR and exceed USD 6 Bn by 2025. More than 35% of the demand is expected to originate from the oil & gas segment.
- Usage of 3D printing for flange manufacturing reflects a potential for decentralized manufacturing
- This has evolved as an emerging trend that flange manufacturers are expected to focus on in the medium to long term - to enable rapid prototyping, lean management and faster time-to-market

Source: ¹ Team Analysis of published strategy documents, reports from SWCC & IKTV publication, independent market reports, UN Comtrade data, General Authority of Statistics data and industry interactions; ²UN Comtrade; ³Gulf Petrochemicals Association Reports (GPCA); ⁴Saudi Aramco, ⁵SWPC Announcement. #Expert interviews (assumptions), financial statements of peer companies, team analysis

Note: CAGR – Compound Annual Growth Rate, MT – Metric Tonne, USD – United States Dollar, SAR – Saudi Riyals, Mn – Million, Bn – Billion, 3D – three dimensional, bpd – barrels per day, bcm – billion cubic meters . Opportunity potential is defined basis current import dependency – High refers to >80%, medium >50 to 80% and low <=50%. *Job Creation covers direct and indirect job



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SUPPLY

SCALABILITY AND LOCALIZATION

Grade: Low Medium High

- The proposed facility could be an extension of a local foundry that has casting & forging capabilities
- Forging, machining and cutting are critical processes for flange manufacturing that could be developed within the foundry or within separate facilities with forging & machining capabilities
- Localization of these processes would also improve local content for valves, pumps etc.

IMPORT DEPENDENCY

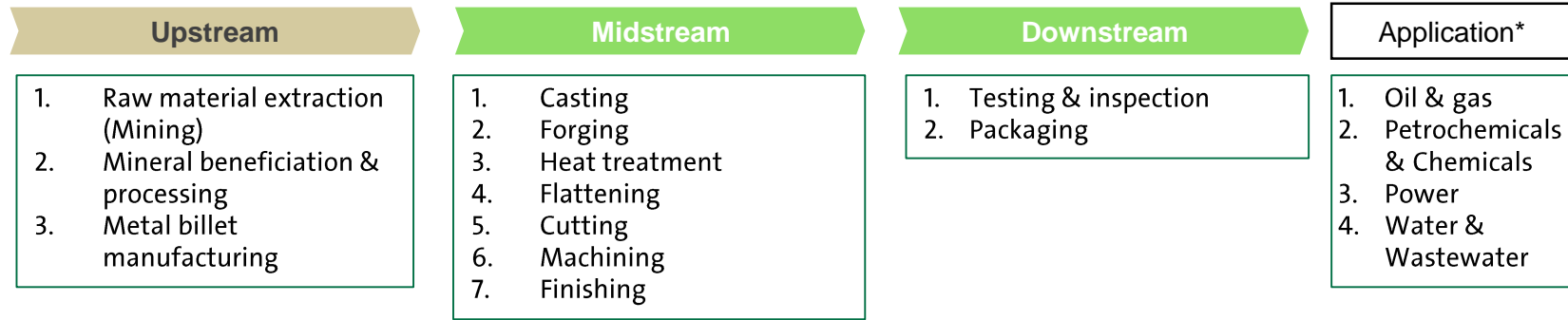
- An estimated 88-90% of the KSA demand for flanges is met through imports of finished products while the remaining 10-12% is catered by a local manufacturer.⁶
- 89-91% of the flanges are imported from HCC⁷ such as Italy, Spain, USA, France and Germany against whom KSA manufacturers can effectively compete for meeting local and regional demand

ENABLING FACTORS

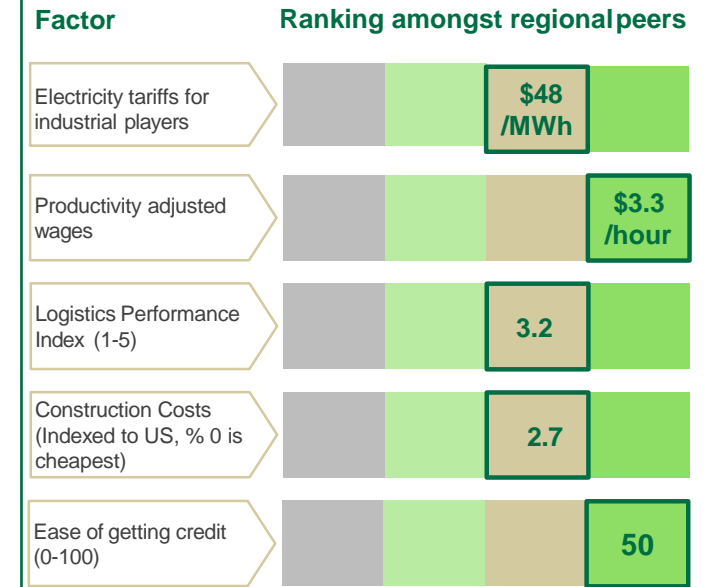
ENABLERS & INCENTIVES

- Customs duties** exemption on imported machinery, equipment, raw materials and spare parts utilized for industrial purpose
- Access to **local content initiatives and programs** at demand centers
- HRDF **covers monthly salaries of up to 30%** for Saudi employees (extra 10% for females) for 2 years
- Expat worker **levy waived off** for industrial manufacturers
- Tax rebates** on exports, raw material imports, and **50% tax credit** on Saudi national worker's payroll & training costs for 10 years
- 2-year **grace period** for the repayment of loans
- Unprecedented access to a **diversified value chain** - especially raw materials (steel and industrial minerals)

VALUE CHAIN



COST OF DOING BUSINESS IN KSA



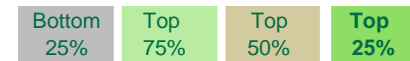
KEY STAKEHOLDERS



Source: ⁶Team Analysis; ⁷UN Comtrade

Note: HRDF - Human Resources Development Fund, Scalability & Localization Grade is defined as

- high – if the set up can support localization of multiple product categories,
- medium – if multiple products within a category can be localized and
- low – if it supports localization of a single product only. *Only key applications are highlighted



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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