

## Optical Fiber Cables (OFC)

INVESTMENT OPPORTUNITY SCORECARD

**MACHINERY & EQUIPMENT**



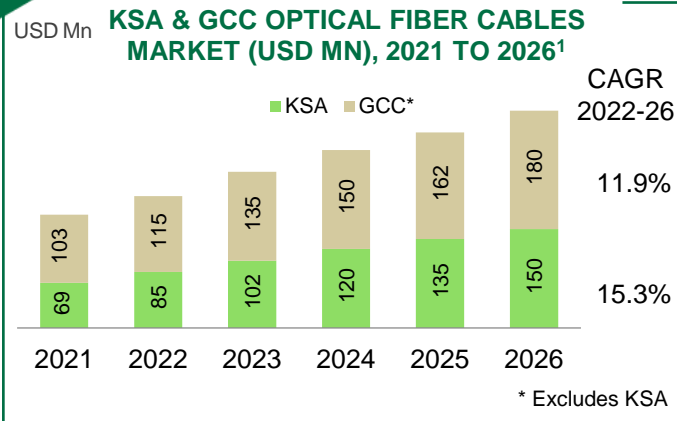
# Machinery & Equipment

## Optical Fiber Cables (OFC)

**OPPORTUNITY DESCRIPTION:** Establishing a facility for local assembly of optical fiber cables that can support growing demand for automation and digitalization in the Kingdom

### DEMAND

#### MARKET SIZE



### INVESTMENT OVERVIEW

#### INVESTMENT HIGHLIGHTS

- Expected Investment size of USD#: 25 to 26 Mn
- Plant capacity#: 2.3 Mn kms of cable
- Expected IRR#: 16.5%
- Payback period#: 7.74 years
- Job Creation#: ~ 240
- GDP Impact#: USD 19 Mn
- (The proposed investment is for a facility that can undertake assembly of single and multi mode OFCs)

#### VALUE PROPOSITION

- High Import Dependency-** Local manufacturing capabilities are restricted to one company that currently undertakes assembly<sup>2</sup>. Majority of the local demand for OFCs is met through imports that offer market participants the opportunity to localize the product and capture a growing market
- Export potential** – Setting up in KSA allows access to trade routes that account for 13% of world trade.
- Infrastructure** - special economic zones, Industrial townships and technically oriented academic institutions provide world class infrastructure and competitive access to utilities and human capital

#### KEY DEMAND DRIVERS

- KSA is supporting a digitally-enabled industrial revolution for projects in mining, industry, logistics, and energy through a \$453Bn fund;
- Vision to increase technical infrastructure readiness in industrial cities from 50% to 100% by 2025; A financing program of ~USD 800Mn to convert 100 factories in phase 1 for industry 4.0 transformation<sup>3</sup> which will push demand for data collection and analysis and OFCs
- \$18 billion worth of investments in localization of cloud services building national network of large-scale data centers<sup>4</sup> will augment demand for OFCs

#### RAW MATERIALS

- Coating: aluminum, kevlar, and polyethylene
- Cladding: Plastic of glass
- Core: Plastic or glass
- Reinforcement for multi-signal cables: steel

### MARKET OVERVIEW

#### GLOBAL TRENDS

- Global demand for OFCs is expected to exceed USD 10.5 Bn by 2025 with the market expected to grow between 9% to 12% CAGR, varying across geographies
- Strong demand is anticipated from Middle East's ongoing digital transformation initiatives, while Africa presents a huge demand potential to be unlocked
- Enhanced manufacturing processes involving laser cutting and refined materials to decrease losses in manufacturing long range cables are some of the innovations that OFC OEMs are focusing on

Source: <sup>1</sup> Team Analysis of published strategy documents, independent market reports, UN Comtrade data, General Authority of Statistics data and industry interactions; <sup>2</sup> Team analysis; <sup>3</sup> Invest Saudi; <sup>4</sup> MCIT announcement. <sup>5</sup> Expert interviews (assumptions), financial statements of peer companies, team analysis. The proposed investment is for an integrated facility that can manufacture optical fibers/ cores as well as optical fiber cables (OFC)

Note: CAGR – Compound Annual Growth Rate, OEM - Original Equipment Manufacturer, USD – United States Dollar, Mn – Million. Bn – Billion, 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 opportunity focuses on local assembly of fiber optic cables which can be achieved either through increasing the capacities and capabilities of existing assemblers or inviting new players to establish assembly facilities in the country
- Localization of the value chain can be further enhanced by establishing a local manufacturing facility for optical fiber cores which are currently imported into KSA

#### IMPORT DEPENDENCY

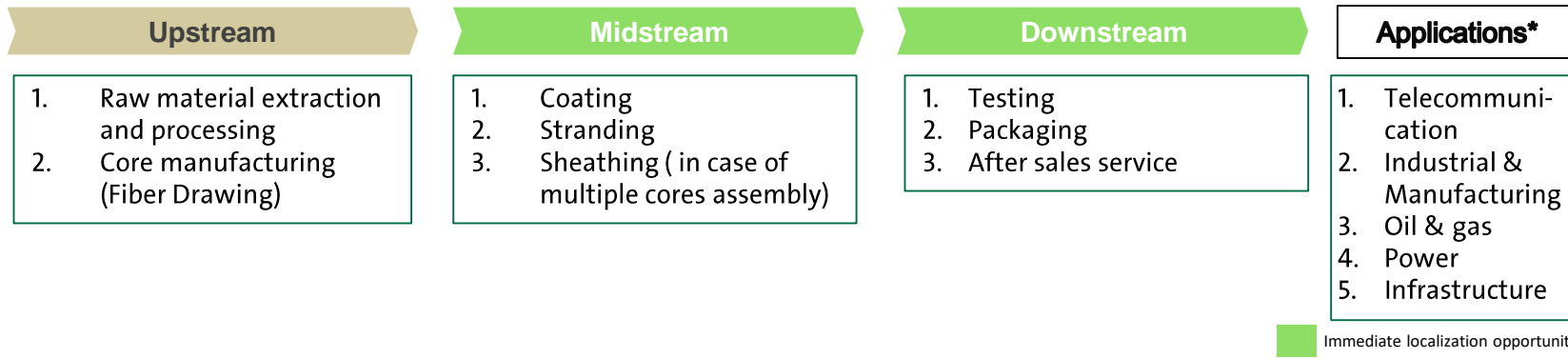
- An estimated 75-78% of the KSA demand for OFCs is met through imports of finished products while the remaining 22-25% is catered by a local manufacturer<sup>5</sup>
- 57% of the imported OFCs originate from HCCs<sup>6</sup> such as USA, Poland, UK and Ireland against whom KSA manufacturers can effectively compete for meeting local and regional demand

### ENABLING FACTORS

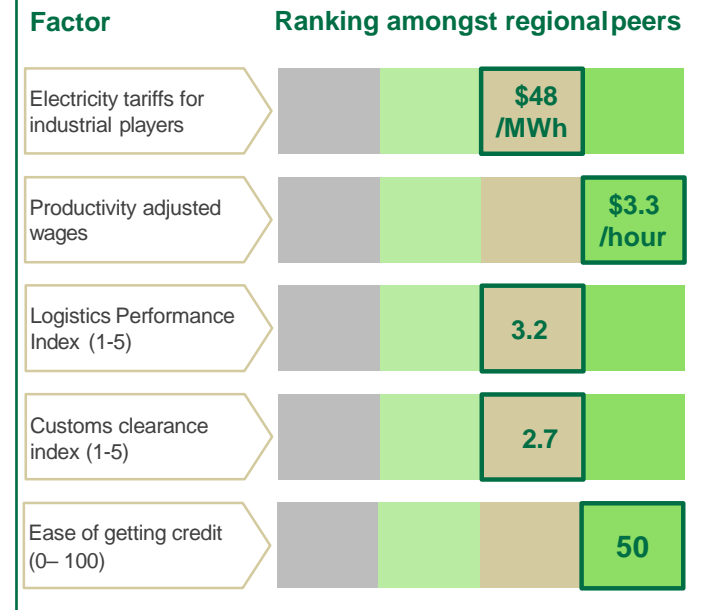
#### ENABLERS & INCENTIVES

- 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, aluminum, polymers, and industrial minerals)

#### VALUE CHAIN



#### COST OF DOING BUSINESS IN KSA



#### KEY STAKEHOLDERS



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

1. high – if the set up can support localization of multiple product categories,  
2. medium – if multiple products within a category can be localized and

3. low – if it supports localization of a single product only. \*Only key applications are highlighted

# DEFINITIONS

#	SCORECARD SECTION	DEFINITIONS
1	<b>Market size</b>	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	<b>Business drivers</b>	A select number of factors that will influence future demand for the related product/service
3	<b>Investment highlights</b>	An overview of key financial metrics summarizing the investment opportunity along with the expected return based on the suggested investment size
4	<b>Value proposition</b>	Summary of key differentiators that position KSA as a strategic choice over other regional/global peers
5	<b>Market readiness</b>	An overview of KSA market structure, market maturity and level of participation by local and global players
6	<b>Global trends</b>	Latest business developments within the sector/product category
7	<b>Scalability and localization</b>	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	<b>Import dependency</b>	An overview of the countries from which Saudi Arabia is importing the product and their value/volume and share in total imports
9	<b>Value chain analysis</b>	The process or activities that would potentially need to be carried out to deliver the underlying product or service
10	<b>Key stakeholders</b>	Government institutions, organizations, and/or authorities that participate or influence the market for the underlying product/service
11	<b>Enablers</b>	Factors that enable investment in the underlying opportunity
12	<b>Cost of doing business in KSA</b>	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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