

AIR CONDITIONERS

INVESTMENT OPPORTUNITY SCORECARD

INDUSTRIAL EQUIPMENT

SEPTEMBER 2020



INDUSTRIAL EQUIPMENT AIR CONDITIONERS

Public / متاح

High Potential

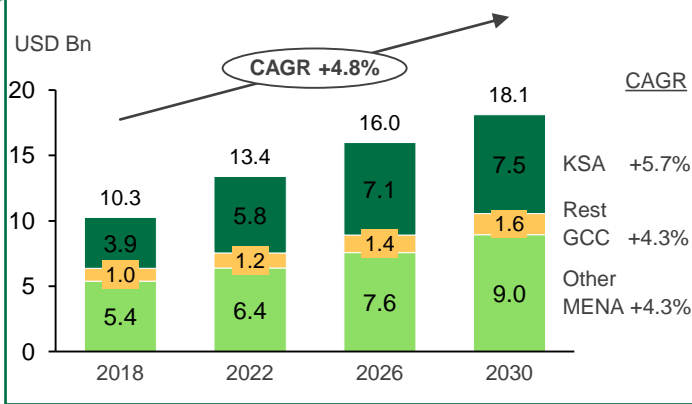
Moderate Potential

Low Potential

OPPORTUNITY DESCRIPTION: Attract leading global players to setup split, window or freestanding air conditioning manufacturing base in KSA

DEMAND

MARKET SIZE, USD BN



INVESTMENT OVERVIEW

INVESTMENT HIGHLIGHTS

- Opportunity to setup air conditioners manufacturing base in KSA to cater local and regional market
- Localizing manufacturing of components such as plastic and metal casing to create additional opportunities due to synergies with refrigerator insulation and body
- Capitalize on easy access to raw material for manufacturing air conditioner components such as heat exchangers

VALUE PROPOSITION

- Easy access to historically high growth air conditioning markets in neighboring countries – Oman at 12.2% p.a., Kuwait at 10.1% p.a. and rest GCC at 4.3% p.a. between 2013 – 18
- Leverage high localization potential of air conditioner manufacturing value chain and existing innovation and advanced technology deployment capabilities
- Air conditioners identified as one of the industrial products mandated to be procured locally by the government

KEY DEMAND DRIVERS

- Rising investments in tourism-specific projects expansion of commercial infrastructure and increasing population, urbanization are driving the growth of AC market in KSA
- Following a continuous effort, KSA's energy efficiency standard reached 11.8 EER (Energy Efficiency Ratio) in 2018 from 7.5 in 2007 leading to high demand due to replacement of existing air conditioners
- SEEC and other KSA entities have pursued awareness campaigns on the short payback period of efficient AC given higher utility prices

MARKET OVERVIEW

MARKET READINESS AND COMPETITOR ANALYSIS

- Existing manufacturing by local players with opportunities on value chain

COMPETITOR ANALYSIS



**Non exhaustive list*

GLOBAL TRENDS

- AC manufacturing mostly through regional hubs to cater local/regional demand and meet regulatory requirements
- Increasing regulatory, legislative policies aimed towards developing energy efficiency and environment friendliness driving manufacturers to invest more in product innovation and R&D



INDUSTRIAL EQUIPMENT AIR CONDITIONERS

SUPPLY

SCALABILITY AND LOCALIZATION

Grade: Low Medium High

- Easy access to raw material and relatively simple technology required for manufacturing majority components of air conditioners creates a highly scalable investment opportunity with potential for localization along the value chain
- Current local manufacturing scope includes assembly, AC body and condenser part of heat exchanger leaving scope for new market entrant for components representing ~50% of the total AC cost

IMPORT DEPENDENCY

- Currently 1.3 Mn units being imported by KSA
- Compressor, motor and controls are fully imported
- Based on UN ComTrade data, total imports by KSA in 2018 for air conditioning products (HS code 8415) was ~USD 927 Mn

VALUE CHAIN ANALYSIS

COMPONENTS	COMPRESSOR	MOTOR	PCB CONTROLS	HEAT EXCHANGER	PLASTICS AND METALS	ASSEMBLY
Already localized?	X	X	X	☑	☑	☑
Localization potential	Low	Moderate	Low	High	High	High
% Total cost	~25%	~10%	~15%	~30%	~15%	~5%

KEY STAKEHOLDERS



ENABLING FACTORS

ENABLERS

- Expat worker levy waived-off for manufacturers until October 2024
- Equity and debt financing as well as tax rebates on exports, raw material imports
- Free trade agreements to export locally manufactured industrial goods
- Manufacturers allowed to import/export without any additional permits

COST OF DOING BUSINESS IN KSA

Factor	Ranking amongst regional peers
Electricity tariffs for industrial players	\$48 /MWh
Productivity adjusted wages	\$3.3 /hour
Logistics Performance Index (1 – 5)	3.2
Customs Clearance Index (1 – 5)	2.7
Ease of getting credit (0 – 100)	50

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	Demand 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	Competitor analysis	List of the local & international players manufacturing the underlying product in Saudi Arabia and their market share
7	Global trends	Latest business developments within the sector/product category
8	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
9	Import dependency	An overview of the countries from which Saudi Arabia is importing the product and their value/volume and share in total imports
10	Value chain analysis	The process or activities that would potentially need to be carried out to deliver the underlying product or service
11	Key stakeholders	Government institutions, organizations, and/or authorities that participate or influence the market for the underlying product/service
12	Enablers	Factors that enable investment in the underlying opportunity
13	Cost of doing business in KSA	Key factors that position KSA as a competitive destination for investment in the region

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