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AIR HANDLING UNITS (AHU) MANUFACTURING

INVESTMENT OPPORTUNITY SCORECARD

INDUSTRIAL EQUIPMENT

SEPTEMBER 2020

INVEST SAUDI

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High Potential | Moderate Potential | Low Potential

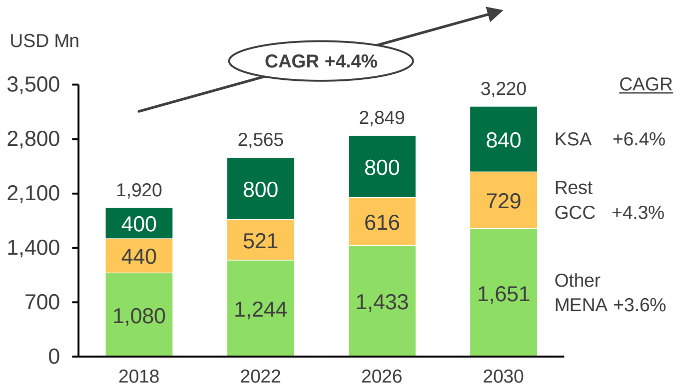
INDUSTRIAL EQUIPMENT

AIR HANDLING UNITS (AHU) MANUFACTURING

OPPORTUNITY DESCRIPTION: Locally manufacture air handling units, a device that is used to regulate and circulate air as part of an HVAC chiller system

DEMAND

MARKET SIZE, USD MN



KEY DEMAND DRIVERS

- Central cooling system demand set to increase with rising urbanization and improved infrastructure quality
- Mega projects (economic cities, industrial zones/clusters and residential complex) planned/initiated in KSA to drive demand for HVAC systems in both commercial and residential segments over next 10 – 15 years
- Large transportation projects (Riyadh, Makkah and Dammam metro, Madinah high speed railway etc.) to further boost demand for HVAC products

INVESTMENT OVERVIEW

INVESTMENT HIGHLIGHTS

- Opportunity to setup Air Handling Units (AHU) manufacturing base in KSA to cater local and regional market
- Capitalize easy access to raw material for manufacturing AHU components such as coil and body
- Investing in standardized production line to produce components such as motors to create additional opportunities due to synergies with other HVAC systems

VALUE PROPOSITION

- Easy access to high growth chiller (hence AHU) market in neighboring countries – GCC projected to grow at 4.3% p.a. and rest Middle East and Africa region at 3.6% p.a. between 2019 – 24
- Leverage higher energy efficient standards recently introduced in KSA that further fuel demand for centralized air conditioning
- AHU identified as one of the industrial products mandated to be procured locally by the government

MARKET OVERVIEW

MARKET READINESS AND COMPETITOR ANALYSIS

- AHU manufacturing in KSA limited to select global and local players creating substantial scope for new market entrant

COMPETITOR ANALYSIS

Zamil Air Conditioners | Carrier | YORK

**Non exhaustive list*

GLOBAL TRENDS

- AHU manufacturing mostly through regional hubs to cater local/regional demand and meet regulatory requirements
- Deployment of smarter technology – a key driving factor for improvements being made in AHU manufacturing
- Focus on automating sales and servicing functions for cost optimization and enhanced after-sales services

Source: MISA documents; World Health Organization

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INDUSTRIAL EQUIPMENT
AIR HANDLING UNITS (AHU) MANUFACTURING

SUPPLY

SCALABILITY AND LOCALIZATION

Grade: Low | Medium | **High**

- AHU manufacturing setup offers highly scalable investment opportunity due to synergies across other sub-sectors of the larger growing HVAC industry and relatively easy access to raw material for majority components

IMPORT DEPENDENCY

- Currently 6,000 units being imported by KSA which represents ~60% of the total demand for AHU
- AHUs (within larger air-conditioning sector) is mostly sourced from USA, China, EU, Malaysia and Thailand

VALUE CHAIN ANALYSIS

COMPONENTS	COIL	BODY	MOTOR	BLOWER, OTHERS	ASSEMBLY
Already localized?	✓	✓	X	X	✓
Localization potential	High	High	Moderate	Low	High
% Total cost	~45%	~25%	~15%	~10%	~5%

KEY STAKEHOLDERS

KAEC مدينة الملك عبدالله الاقتصادية; مدن MODON; وزارة الصناعة والثروة المعدنية Ministry of Industry and Mineral Resources; وزارة الاستثمار Ministry of Investment; المواصفات السعودية Saudi Standards SASO; كفاءة المركز السعودي لكفاءة الطاقة Saudi Energy Efficiency Center; الصندوق الصناعي صندوق التنمية الصناعية السعودي Saudi Industrial Development Fund; هيئة المحتوى المحلي والمشتريات الحكومية Local Content & Government Procurement Authority

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 are 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 (Top 50%)
Productivity adjusted wages	$3.3 /hour (Top 25%)
Logistics Performance Index (1 – 5)	3.2 (Top 50%)
Customs Clearance Index (1 – 5)	2.7 (Top 50%)
Ease of getting credit (0 – 100)	50 (Top 25%)

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

INVEST SAUDI *Source: Machinery and Equipment, National Industrial Development and Logistics Program*

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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