

BRAKE SHOE

INVESTMENT OPPORTUNITY SCORECARD

INDUSTRIAL & MANUFACTURING

DECEMBER 2020



INDUSTRIAL & MANUFACTURING BRAKE SHOE

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High Potential

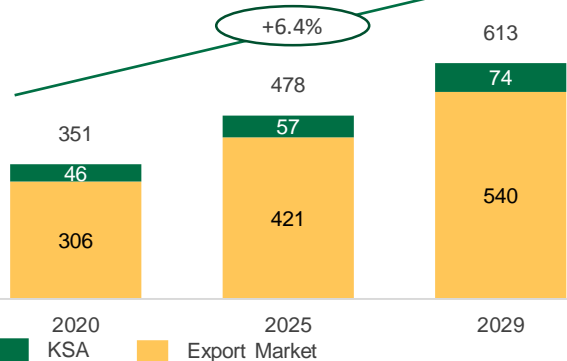
Moderate Potential

Low Potential

OPPORTUNITY'S DESCRIPTION: Setting up a manufacturing and assembly plant for brake shoes in Kingdom of Saudi Arabia (KSA)

DEMAND

MARKET SIZE, USD MN



INVESTMENT HIGHLIGHTS

- Expected investment size: USD 5.8 – 7.5 Mn
- Proposed plant capacity: ~250,000 units
- Expected project IRR: 11.4% - 16.8%
- Expected payback period: 7.61 – 9.13 years

INVESTMENT OVERVIEW

VALUE PROPOSITION

- KSA is considered one of the largest automotive markets in the Middle East region
- KSA can leverage its strategic location and strong logistics infrastructure to enhance export capability
- KSA has favourable trade agreements. It is a member of GAFTA and therefore goods produced in KSA and exchanged between member states of GAFTA are exempted from all customs duties
- Opportunity for first mover advantage due to non-existent local production of brake shoes
- Automotive has been identified as one of the core sectors to support the Vision 2030 initiative of development of a sustainable manufacturing-based economy, for diversifying away from the oil sector

KEY DEMAND DRIVERS

- Market for new passenger and commercial vehicles is expected to grow at a CAGR of 2.9% and 4.6% respectively from 2020 - 2024 owing to pent up demand
- Car penetration ratio is expected to grow from 181 cars per 1000 people in 2019 to 206 per 1000 people in 2024
- Increase in daily commute distances due to expanding cities, allowing driving permits for women and lack of viable public transportation options will continue to favor usage of personal car as the preferred mode of transport
- Increase in awareness regarding vehicle safety will lead to higher demand for brake shoes
- Access to local and export market demand covering a car parc of over 72 million vehicles

MARKET OVERVIEW

MARKET READINESS

- No existing manufacturers for brake shoes in the Kingdom of Saudi Arabia
- However, these products are supplied by OEMs through their dealerships

GLOBAL TRENDS

- The global automotive market is projected to grow at a CAGR of 4.8% during the next five years to reach USD 25,719 million by 2025
- OEMs are striving to reduce the carbon footprint and are taking more steps towards the future of clean mobility
- Globalization has changed the face of automobile manufacturing, forcing the biggest OEMs to collaborate. Automakers are now building vehicles based on modular architectures which means that similar parts from various manufacturers can be applied in the same vehicle
- Digitization has forced the parts manufacturers to change their approach moving away from conventional technologies



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SUPPLY

SCALABILITY AND LOCALIZATION

Grade: Low Medium High

- Easy availability of raw materials and key automotive grades in Saudi Arabia
- 10 training institutes with capacity to produce 9,100 graduates every year set to significantly boost availability of skilled automotive labor force in KSA
- Capabilities exist in KSA for some of the key manufacturing processes for other industries. These can be suitably adapted for the automotive parts sector

IMPORT DEPENDENCY

- 100% of brake shoes are currently imported into KSA

Country	% of Saudi imports in 2019
Japan	31.4%
Thailand	14.3%
China	9.1%
Others	45.2%

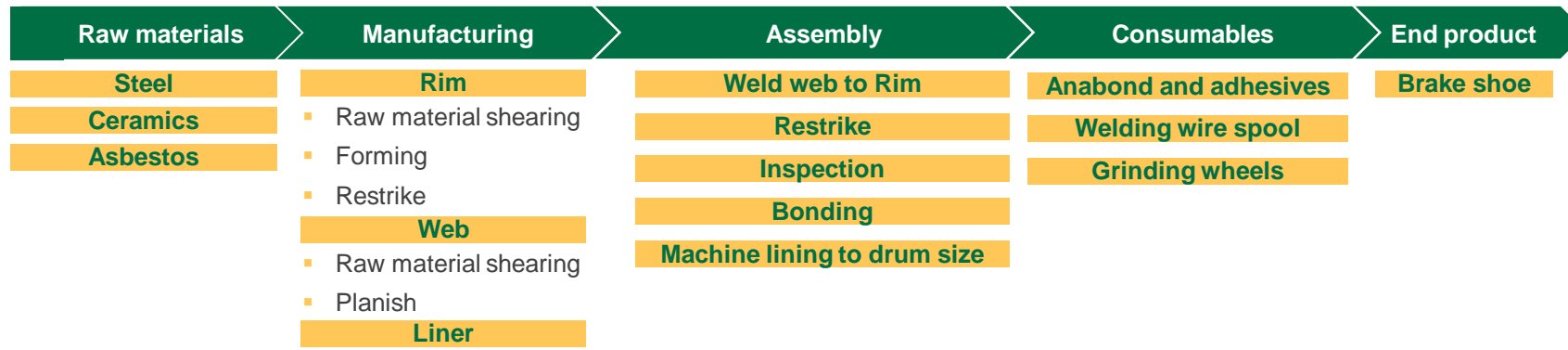
Source: UN COMTRADE

ENABLING FACTORS

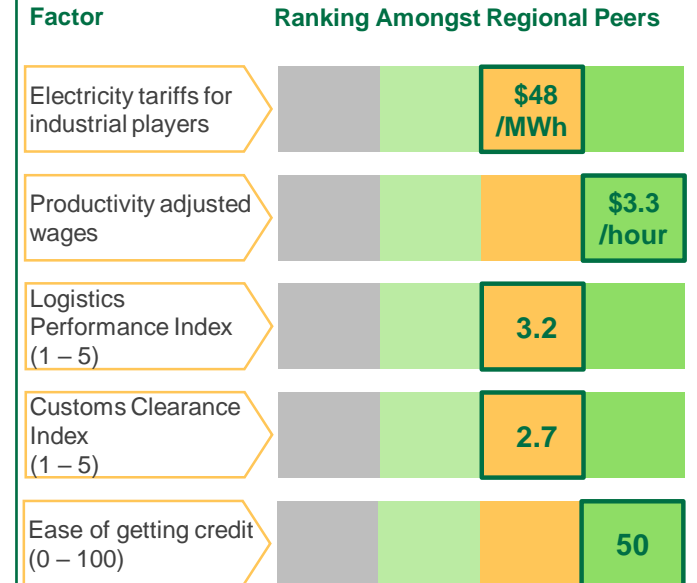
ENABLERS

- 100% foreign direct ownership allowed
- Low-cost industrial lands (MODON: \$0.27-1.07/m², RCJY: \$1.2/ m², KAEC: \$3.7/ m²)
- Low-cost industrial loans up to 50% of capital for up to 15 year provided by SIDF
- Low corporate income tax (20%) on profits only

PRODUCTION VALUE CHAIN ANALYSIS



COST OF DOING BUSINESS IN KSA



KEY STAKEHOLDERS



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. 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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