

# AUTOMOTIVE COMPRESSOR

## INVESTMENT OPPORTUNITY SCORECARD

### INDUSTRIAL & MANUFACTURING

DECEMBER 2020



# INDUSTRIAL & MANUFACTURING AUTOMOTIVE COMPRESSOR

Public / متاح

High Potential

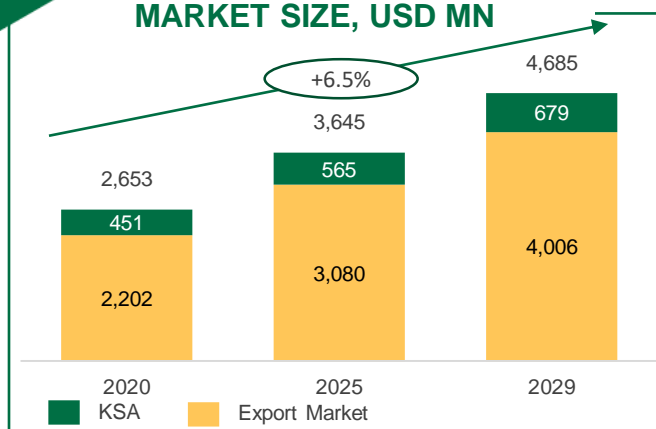
Moderate Potential

Low Potential

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

## DEMAND

### MARKET SIZE, USD MN



### INVESTMENT HIGHLIGHTS

- Expected investment size: USD 15.7 – 16.3 Mn
- Proposed plant capacity: ~100,000 units
- Expected project IRR: 13.0% - 17.3%
- Expected payback period: 7.50 – 9.05 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 automotive compressors
- 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
- Access to local and export market demand covering a car parc of over 72 million vehicles
- The searing temperatures and challenging desert conditions of the country coupled with increasing efforts by OEMs to enhance comfort levels are likely to augment demand for replacement parts for air conditioning

## MARKET OVERVIEW

### MARKET READINESS

- No existing manufacturers for automotive compressors in the Kingdom of Saudi Arabia

### 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 Mn by 2025
- OEMs are striving to reduce the carbon footprint and are taking more steps towards the future of clean mobility
- Globalization has changed automobile manufacturing, forcing the biggest OEMs to collaborate
- Technology advancements from manual air conditioning to automatic air conditioning will result in the growth of the global automotive air conditioning market
- With rising awareness about energy efficiency, manufacturers have been developing green and efficient technologies to reduce running cost of vehicles and increase sustainability



# INDUSTRIAL & MANUFACTURING AUTOMOTIVE COMPRESSOR

Public / متاح

## 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 automotive compressors are currently imported into KSA

Country	% of Saudi imports in 2019
Japan	27.5%
Korea	23.7%
Germany	8.8%
Others	40.0%

Source: UN COMTRADE

## ENABLING FACTORS

### ENABLERS

- 100% foreign direct ownership allowed
- Low-cost industrial lands (MODON: \$0.27-1.07/m<sup>2</sup>, RCJY: \$1.2/ m<sup>2</sup>, KAEC: \$3.7/ m<sup>2</sup>)
- 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

Raw materials	Manufacturing	Assembly	Consumables	End product	
Aluminum alloy ingots	Housing – Front and rear	Assembly kit	Shaft steel press	Washing chemicals	Automotive compressor
Cast iron-plate castings	Cylinder	Shaft	Clutch sub assembly	Heat treatment chemicals	
Steel strip	Piston	Swash plate and Piston sub assembly	Pulley assembly	Welding rod	
Steel rod	Swash plate	Cylinder fixing	Testing	Packing material	
Heat treatment chemicals	Valve plates	Valve plate and rear housing assembly	Cleaning	Sealant/ Shellac	
U assembly plating chemicals	Drive shaft	Bearing and front housing assembly	Packing	Synthetic grease	
Fasteners				Motor oil	
				PTFE coating chemicals	

### KEY STAKEHOLDERS



Sources for Cost of Doing Business: EIU, World Bank  
NOTE: Other child parts include cam rotor, connecting rod, pulley snap rings, suction valve, discharge valve, O-ring, circlip, gascut, bearings, springs, control valve, oil separator, guide rod, dowels, clutch assembly, ECV connector and bolts and seals

### 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

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

# 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

# DISCLAIMER

- This report must be used only to access information, and the information must not be construed, under any circumstances, explicitly or implicitly, as an offer to sell or a solicitation to buy or sell or trade in any opportunity herein mentioned.
- Ministry of Investment (MISA) has no undertaking to update these materials after the date, with the understanding that such information may become outdated or inaccurate.
- Mentioned information in this report is obtained from reliable sources but its accuracy and reliability are in no way guaranteed. No guarantee of any kind is tacit or explicit when projections of future conditions are attempted. MISA has used public/or confidential data and assumptions and has not independently verified the data and assumptions used in the analyses. Changes in underlying data or operating assumptions will clearly impact the analyses and conclusions.
- The financial evaluations, projected market and financial information, and conclusions contained in these materials are based upon standard methodologies, are not definitive projections, and are not guaranteed by MISA
- The content of this report must not be construed as an implied promise or guarantee for profit or limited loss express or implied by or from MISA or any of its officers, directors, employees and affiliates. All mentioned investments in this report are subject to risk, which should be considered prior to making any investment decisions
- MISA shall have no liability whatsoever to any third party, and hereby any third party waives any rights and claims it may have at any time against MISA with regard to this report, any services or other materials, including the accuracy or completeness thereof.

**CONNECT WITH US FOR MORE DETAILS:**

**[Industrial@misa.gov.sa](mailto:Industrial@misa.gov.sa)**

investsaudi.sa



@investsaudi

