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IN THIS EDITION ...

With the kingdom in the midst of a transformative change, and public and private entities investing heavily in innovation, new technologies, and nascent sectors, it is time for some "moonshots".

Moonshots are challenges that are extremely difficult to solve but can be transformative if they are surmounted. According to management consultancy PricewaterhouseCoopers (PwC), Saudi Arabia and other Middle Eastern nations should continue to invest in ambitious projects that can change the region's prospects in a positive way.

Almost on cue, the Saudi government announced its decision to send the kingdom's first female astronaut and a male astronaut to the International Space Station (ISS) during the second quarter of 2023 – a gender balanced astronaut team. Astronaut Rayyanah Barnawi the first female Saudi astronaut to go into space and Ali AlQarni will join the crew of the AX-2 space mission, aimed at training Saudi astronauts and boosting Saudi Space Commission's space exploration ambitions.

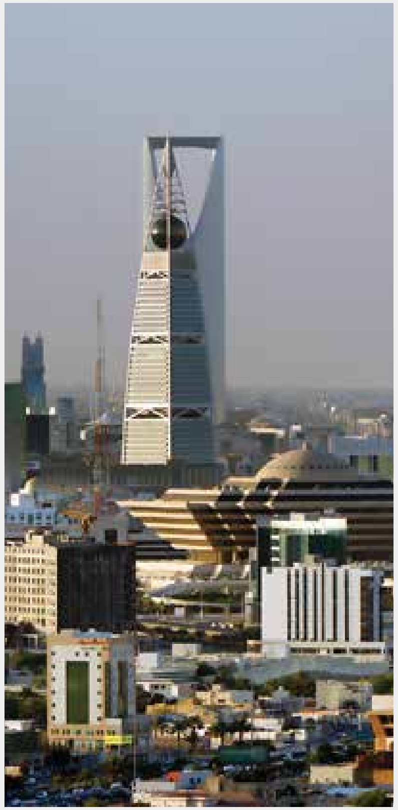
The Saudi government is aiming at moonshots elsewhere in the economy too. PwC identifies Saudi Vision 2030 as an example of bold thinking in pursuit of a technology-fuelled future, one that will transform regional economies into efficient, knowledge-driven engines of prosperity.

But more can be done. The report identifies five major challenges that need to be addressed for the countries in the region to eradicate major growth barriers. These include redefining the economy, reducing social inequalities, building cognitive net-positive cities by 2040, provide adequate nutritional resources for every person in MENA countries, while preserving natural resources, and enabling every person to lead a healthier life and live five years longer.

Each of these challenges can unlock new business and investment opportunities, improve the standard of living of citizens, especially if it is done collaboratively across countries and sectors.

It would represent a new kind of regional governance model — one that deepens and goes beyond existing cross-border collaboration (such as the Arab Space Discovery Program and the Middle East Green Initiative), PwC noted.

"Moving past sectoral and national silos would enable Moonshot MENA to make the most of each country's competitive advantage, create a larger and more diverse resource pool, and pool the risk of moonshot missions. At the same time, collective action toward an audacious goal can contribute to a sense of regional pride and help secure the future of the Middle East."



PETROCHEMICALS

Development of energy-efficient facilities will help major players meet increasing need for petrochemical products worldwide, while minimising the industry's carbon footprint.

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HOUSING PROGRAM

Making homeownership accessible to all its citizens is an important commitment in the government's Vision 2030 plan.

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ECONOMIC TRENDS

Purchasing activity has increased and supply chains continued to show signs of improvement, underlining the non-oil sector's robust performance.

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FOOD SECURITY

Localising food production and processing will solve the country's supply chain needs, allowing it to feed its citizens and residents sustainably.

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SME

Technology-centric small businesses are in vogue, receiving a significant size of fresh investments and helping to position the kingdom as one of the GCC's most sought-after start-up destinations.

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SAUDI BUSINESS CONFIDENCE UP AS POST-PANDEMIC RECOVERY GATHERS PACE

Business confidence hits a new two-year high in Saudi Arabia, amid elevated commodity prices, strong domestic growth, and prospects of a 'soft landing' for United States and Chinese economies.

Output and new business growth in the kingdom's non-oil private sector accelerated in January, although job creation slowed from December's near five-year high as firms continued to reduce their backlogs, according to S&P Global's monthly purchasing manager index (PMI) survey. Purchasing activity increased sharply and supply chains showed further signs of improvement, while inflationary pressures on both costs and charges softened from December.

"New order inflows continued to rise at a marked pace in January, as firms typically commented on improving demand conditions and stronger client orders," S&P Global, which tracks PMI across the world, stated in its latest report. The rate of increase was also the second sharpest in 16 months, while demand from foreign clients soared rapidly and to a greater degree than at the end of 2022.

"Subsequently, non-oil activity levels expanded sharply in January, with around a third of all surveyed companies seeing an uplift on the month," the survey noted, adding that businesses provided a stronger projection for activity levels in the upcoming year.

"The degree of positivity picked up to the highest level since January 2021, as panellists (non-oil purchase managers) largely expect demand growth to continue and market conditions to improve."

The rising business sentiment echoes the upbeat mood around international investors.

The latest available foreign direct investment data from Invest Saudi suggests 203 deals were closed by the third quarter of 2022, a rise of 133.3% compared to 87 deals in the same period last year.

The number of investment licenses surged by 527.4%, or 15,000 licenses, during the period compared to the previous year.

"The efforts to improve the investment environment, attract foreign investments and enhance local investments have contributed to achieving the objectives of the National Investment Strategy in 2021, by reaching 112.4% of the total investment target, and 172.3% of the FDI inflows target in 2021," according to the Invest Saudi report.

MACRO INDICATORS

Separately, the Industrial Production Index (IPI) also rose 7.3% in December 2022 compared to the same period in 2021, in a sign of a strong post-pandemic rebound, according to the General Authority for Statistics (GASTAT).

Saudi oil production rose to more than 10 million barrels per day during the period, while mining and quarrying grew by 4.1% compared to the same month in the previous year. In addition, manufacturing activity jumped 18.5% versus December 2021.

Latest trade data from GASTAT also suggest strong uptake on the kingdom's exports. Merchandise exports rose 3.6%, valued at SAR 112.8 billion, in November 2022, up from SAR 108.8 billion in November 2021.

This increase was largely driven by oil exports, which rose by SAR 9.5 billion or 11.8% in the same period, increasing to SAR 90 billion from SAR 80.5 billion in November 2021.

Non-oil exports (including re-exports), however, fell 19.7% to SAR 22.7 billion from SAR 28.3 billion in November 2021.

Merchandise imports increased 26.5% to SAR 62.7 billion during the month, compared to SAR 49.6 billion in the same period of the previous year.

FINANCING PLAN

The upbeat sentiment is driven by strong fiscal buffers that underpin the Saudi economy. Building on that stability, the Ministry of Finance approved the 2023 annual borrowing plan, which aims to outline the sovereign debt developments, debt market initiatives for 2022, the 2023 funding plan and its guidelines, in addition to the domestic Sukuk issuance calendar under the Saudi Arabian Government SAR-denominated Sukuk Program.

The ministry has estimated financing needs of approximately SAR 45 billion, after securing approximately SAR 48 billion of the 2023 total financing needs in 2022 through pre-funding activities.

"Despite the expectation of achieving a budget surplus during the year 2023, the Kingdom aims to continue its funding activities in the domestic and international markets with the objective of repaying debt principal that will mature during the year 2023 and during the medium-term; utilising opportunities based on market conditions to enter into pre-funding and liability management transactions, financing strategic projects; and executing government-alternative funding transactions that will promote economic growth such as capital expenditure and infrastructure financing," according to the ministry.

The ministry has already successfully issued a USD 10 billion triple-tranche bond offering, which witnessed an oversubscription of 3.8 times, or USD 38 billion. The value of the first tranche is at USD 3.25 billion for a five-year bond maturing in January 2028; the second tranche totalled USD 3.50 billion for a 10.5-year bond maturing in July 2033, while the third tranche totalled USD 3.25 billion for a 30-year bond maturing in January 2053.

REFINITIV

GLOBAL DEMAND FUELS NEW WAVE OF PETROCHEMICAL PROJECTS

Saudi Arabia's major petrochemical players are pressing ahead with a series of new projects across the world.

In January, SABIC said it was collaborating with Oman's OQ Group and Kuwait Petroleum International (KPI) on a project development agreement for a jointly owned petrochemical complex in the Special Economic Zone at Duqm (SEZAD) in Oman.

The partners plan to develop a petrochemical complex featuring steam cracker and derivatives units, and a natural gas liquid (NGL) extraction facility. The three companies will conduct studies and collaborate to develop the project to make it globally competitive and profitable.

The move comes as demand for petrochemicals is expected to rise amid growing global population and expansion in emerging economies. The project will tap natural gas liquids and other feedstocks from OQ and KPI's joint venture refinery, OQ8 in Duqm, to manufacture petrochemical products targeting growing markets linked to energy

transition, clean technologies, mobility, construction, durable goods, healthcare, and packaging.

"The project intends to deploy state-of-the-art technologies to minimise carbon footprint and incorporate circular economy aspects and commit to high environmental standards," the companies said. "In addition, the project would also benefit from the excellent location of Duqm being close to markets and taking advantage of the infrastructure, which has been developed in the area, as OQ continues in its strategy to help develop SEZAD as a manufacturing and logistics hub in line with Vision 2040."

Lowering carbon footprint is a main focus of Saudi petrochemical players. SABIC, in particular, recently reaffirmed its commitment to accelerate the circular carbon economy by unveiling a target of one million metric tonnes of its proprietary recyclable solutions, known as the Trucircle, by 2030. A cornerstone of SABIC's green efforts include production from its first commercially advanced recycling unit in Geleen, The Netherlands, which is in the final stages of construction with commercial delivery of first circular polymers expected in 2023.

EYE ON CHINA

Aramco, which owns 70% of SABIC's shares (with the remaining 30% publicly traded on the Saudi stock exchange), also made a number of landmark announcements recently.

Saudi Arabia's major integrated energy and chemicals companies is teaming up with China Petroleum and Chemical Corporation and SABIC to explore refining and petrochemical projects in the kingdom and China. Aramco and Sinopec have already signed heads of agreement for a greenfield project in Gulei, Fujian Province, with plans to include a 320,000 barrels-per-day (bpd) refinery and a 1.5 million tonnes-per-year petrochemical cracker complex. It is expected to commence operations by the end of 2025.

In addition, a new memorandum of understanding between the trio aims to study the economic and technical feasibility of developing a new petrochemical complex to be integrated with an existing refinery in Yanbu, Saudi Arabia.

Aramco said the new project will support its role as a reliable energy supplier to China as it seeks to expand its liquids-to-chemicals capacity to up to 4 million bpd by 2030.

"The collaboration also aligns with Sinopec's vision to become a world-leading energy and petrochemical corporation, providing quality products and reliable energy to benefit the lives of people worldwide," Aramco said.

NEW ENERGY INVESTMENT DEAL

In December, Aramco and French energy company TotalEnergies took a final investment decision (FID) to build the Amiral complex, a major petrochemical facility in Saudi Arabia. The project will be owned, operated, and integrated with the existing SATORP refinery located in Jubail on the kingdom's eastern coast. The investment decision is subject to customary closing conditions and approvals.

The USD 11 billion project will be partly funded through a USD 4 billion joint equity partnership by Aramco (62.5%) and TotalEnergies (37.5%). The project's construction will begin in the first quarter of 2023, with commercial operation targeted by 2027.

"The petrochemical facility will enable SATORP to convert internally produced refinery off-gases and naphtha, as well as ethane and natural gasoline supplied by Aramco, into higher value chemicals, helping to advance Aramco's liquids-to-chemicals strategy," the companies said.

Capable of producing 1.65 million tonnes per annum of ethylene, Amiral will be the first in the region to be integrated with a refinery. It will also include two state-of-the-art polyethylene units using the advanced dual loop technology, a butadiene extraction unit, and other associated derivatives units.

The project will create 7,000 direct and indirect jobs, and eventually provide feedstock to other petrochemical and specialty chemical plants located in the Jubail industrial area. The project will also support the establishment of key manufacturing industries such as carbon fibres, lubes, drilling fluids, detergents, food additives, automotive parts, and tires.

HOUSING SCHEME LAYS GROUNDWORK FOR SAUDI PROPERTY BOOM

Saudi Arabia is in the midst of a massive housing construction wave driven by the government's Housing Program.

A key pillar of the Saudi Vision 2030 initiative, the Housing Program under the Vision Realization Program (VRP) is an important measure of citizen sentiment. Like residents across the world, Saudis see their homes as a sanctuary, a place to raise their families, and a way to accumulate wealth.

The programme aims to increase home ownership rate from 47% in 2017 to 70% by 2030 for a growing population with rising affluence. It also aims to reduce waiting periods from 15 years to a much shorter timeframe. In 2017, more than 1.6 million Saudi nationals were on waiting lists for government housing programmes.

Management consultancy PricewaterhouseCoopers estimates the kingdom will need to create approximately 1.2 million new homes to reach a stock of 4.96 million houses by 2030. Housing demand is expected to increase from 99,600 in 2021 to 153,000 by 2030 with an average of 124,000 houses over the period.

"The Kingdom of Saudi Arabia has made remarkable progress in transforming its housing sector in the past decade," PwC said. "It is predicted to achieve its objectives of 70% home ownership, and a housing sector that contributes 8.8% of national GDP, by 2030. The Government's robust policies and initiatives, including the activation of numerous finance products, is propelling the sector forward, addressing the key challenges faced by the housing market, and making home ownership a possibility for new generations of Saudis."

EARLY SUCCESSES

The VRP has already notched up a few wins in its first phase covering 2016 to 2020.

The government established the National Housing Company (NHC) and Real Estate General Authority (REGA) to address gaps in housing supply and regulation, respectively, while a host of supporting entities were formed to tackle a variety of disputes and challenges in the market from licensing bureaucracy and developer financing to the adoption of progressive building technologies. Taken together, this ecosystem is a powerful tool.

As reforms and construction gained momentum, the percentage of Saudis who own a home rose from 47% to 60% by 2020. The government also abolished waiting time for housing through the Sakani platform, which provided housing and financing solutions to 834,00 families, including 310,000 families who now live in their own homes.

The VRP has also provided more than 46,000 houses for families most in need, in partnership with non-profit sector and more than 350 associations.

In addition, the program has collaborated with 14 private sector developers to build new houses, and partnered with banks and financing institutions to provide 424,000 subsidised real estate loans to citizens.

In other reforms, the Ejar platform offers protection and enforces rights of lessors, lessee and real estate brokers in the rental market. This helped the number of documented contracts reach more than 1.4 million.

DELIVERY PLAN

While the first phase helped lay the foundation of the massive strategy, the second phase under the 2021-25 plan aims to take a giant leap to build out housing infrastructure. Strategy 2025 focuses on four key objectives.

The first is housing affordability to ensure Saudis have access to homes that suit their needs. The second is housing market maturity, which aims to ease doing business and lending scale in the market. A third key objective is to provide housing for the vulnerable segment of the population, and the final objective is to ensure a strong family ownership in the kingdom that is comparable to advanced economies.

The second phase offers these commitments and aims to achieve key targets, such as:

- subsidise 355,000 real estate financing contracts within five years;
- provide 40,000 developmental housing units;
- achieve 80% citizen satisfaction rate with the housing programme in 2025;
- regulate the market by setting regulations, enabling the private sector, and strengthening the housing sector ecosystem;
- cumulatively contribute to the GDP amounting to SAR 157 billion; and
- create more than 38,000 direct jobs for Saudis.

The VRP identifies housing maturity as one of the areas it needs to strengthen during the current phase, noting that the supply-side of the market still has not reached the required maturity level to achieve the programme's ambitions due to lower productivity versus size of demand.

"Addressing these pain points adequately is critical to maturing the supply-side of the market, which will contribute to a more affordable market through lower prices for houses desired by the kingdom's residents. This requires a complete redefinition of the Housing Program's support to the supply-side of the housing market," the VRP noted.

Expect the government to continue to tweak, restructure and review the housing market as it moves forward into the second and third phases of the initiative, which starts in 2026 and as it aims to reach its 2030 targets.

VERTICAL FARMING ATTEMPTS TO TAKE ROOT IN SAUDI

Indoor vertical farms are coming to Saudi Arabia.

Seen as a way to get around the region's arid climate, indoor food producing facilities are seen as a way for the kingdom to achieve food self-sufficiency.

In February, Saudi's sovereign wealth fund The Public Investment Fund (PIF) signed a joint venture deal with US-based AeroFarms, to build and operate indoor vertical farms in Saudi Arabia and the wider Middle East and North Africa (MENA) region in the next few years.

The agreement will optimise the utilisation of natural resources, including water and agricultural lands, through the implementation of indoor vertical farming, with no need for arable land, resulting in significantly higher yields and using up to 95% less water versus traditional field farming, the companies said.

"The partnership is expected to enable sustainable, local sourcing of high-quality crops all year round, grown using AeroFarms' proprietary smart agriculture technology ('AgTech') platform, which helps solve broader supply chain needs in the industry," according to the companies.

The joint venture's first farm will be based in Saudi Arabia, with an annual production capacity of up to 1.1 million kilograms of agricultural crops.

The agreement is part of a strategy to beef up strategic sectors such as food and agriculture, which helps improve the kingdom's trade balance, deepen and boost domestic industries, and diversify the Saudi economy.

PIF is investing to localise new agricultural technologies that can benefit the domestic private sector, and expand its market.

"The agreement with AeroFarms will lead to the establishment of indoor vertical farms in Saudi Arabia and the wider MENA region, increasing regional reliance on locally produced, high-quality crops grown in a sustainable way using the latest technologies," according to Majed AlAssaf, head of consumer goods and retail, MENA Investments Division at PIF.

F&B INVESTMENT

Other international companies are also eyeing the kingdom's burgeoning food and retail sector.

Nestlé said recently it will invest USD 1.86 billion in Saudi Arabia over the next 10 years. The world's largest food and beverages manufacturer, known for a range of consumer staples such as Nescafé, Cheerios, Maggi, Nature's Bounty, and Gerber, will put in an initial investment of SAR 375 million to launch a manufacturing plant set to open in 2025. This will be followed by a regional centre with a research and development programme, and its first business incubator for small and medium-sized companies and start-ups, according to a company statement.

Saudi Arabia is seeking major investments in the sector as it aims to raise food processing localisation target to 85% by 2030. Authorities expect the country's USD 42 billion food and beverages (F&B) market to grow 3% annually over the next five years, according to Invest Saudi.

The kingdom's F&B market is spurred by an affluent growing population, a surge in the number of Hajj and Umrah pilgrims, and a growing focus on national resilience and food security.

"The average household is reported to spend 18% of total expenditure on F&B, which is a domestic demand that amounts to 60% of the total consumption in the GCC," according to Invest Saudi, which notes that high food imports has compelled Saudi-based F&B producers to serve the untapped local demand for dairy, meat and fruit products.

FISHING FOR GROWTH

Another area of investment and trade growth is the country's fishing sector.

Seas around Saudi Arabia are endowed with a fish capacity of 5 million tonnes. Given that the kingdom is an approved supplier of seafood to the European Union, there are opportunities to build and expand capacities and capitalise on the export market's insatiable demand, especially for shrimps, mackerels, and crabs.

"Domestic consumption of fish is expected to grow by 5% per annum until 2030, which translates to a significant increase from 310 tonnes to 865 tonnes. This is driven by rapid growth of the kingdom's population per capita consumption," Invest Saudi noted. "Ambitious aquaculture targets have been set to increase the production of fish to 530,000 tonnes by 2030."

The kingdom's food and retail sector is also growing in another area: digital sales of grocery, restaurants and retail outlets. A report by Ken Research suggests "quick commerce" market in the kingdom will reach 4 billion orders annually as new start-ups, increased digitisation and work-from-home trends take root.

"High Internet penetration rate, quick access to smartphones, are some of the prime factors responsible for growth of quick commerce market," according to Ken Research. "COVID-19 has accelerated the growth of non-cash payments, especially in the consumer retail space."

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VC FUND FLOW DEMONSTRATES STRONG APPETITE FOR SAUDI START-UPS

The value of deals in the kingdom involving start-ups reached a record SAR 3.7 billion in 2022, according to a new report.

The 71% year-on-year surge in deal value highlights the huge interest in SMEs in general, and tech-savvy small businesses in particular, all of which are looking to get a foothold in their respective markets.

The number of deals in 2022 reached 144, slightly lower than the record 149 deals that received funding in 2021, according to the Saudi Arabia Venture Capital Report 2022, by Magnitt.

The number of investors eyeing deals in the technology SME space had also jumped four times to 104 at the end of 2022 compared to 26 in 2018. All in, there are 31 funds hunting for deals in the space, with 16 institutional investors, five angel groups, and five angel investors as co-investors in start-ups.

Due to the steady increase in venture capital investment, Saudi Arabia maintained its regional rank as the second most funded market in 2022, behind the UAE.

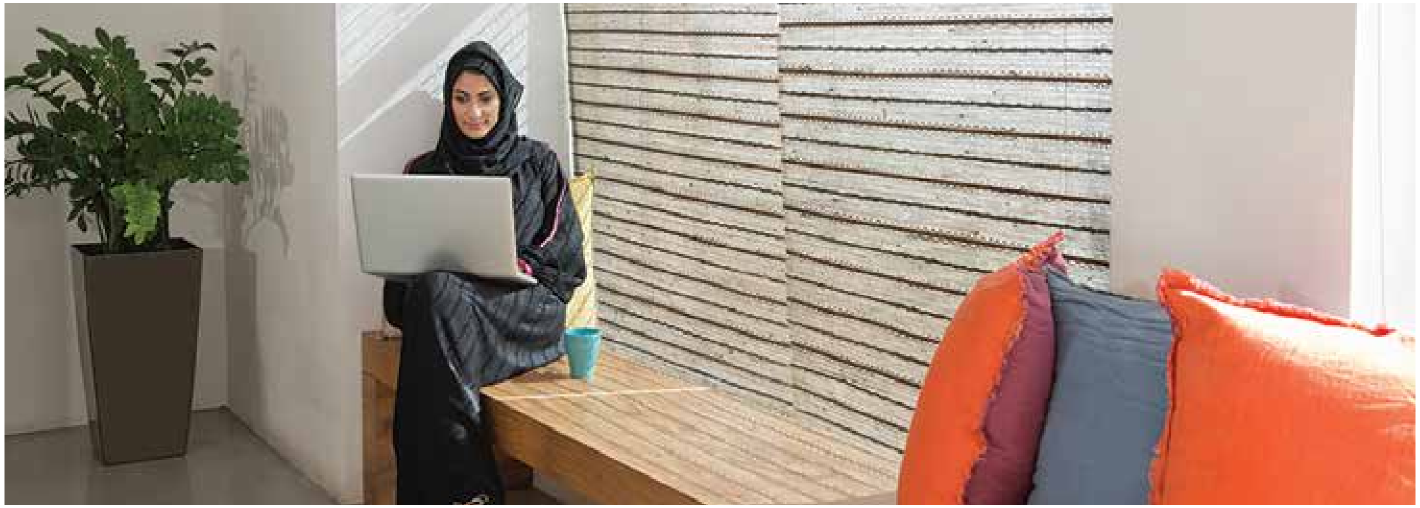
INVESTING IN HOME-GROWN START-UPS

Saudi Venture Capital (SVC), a subsidiary of the Small and Medium Enterprise Bank (which is affiliated with the National Development Fund), has also played a critical role in nurturing the SME environment in the kingdom.

The SVC Impact Report revealed that the total committed investments of SVC amounted to USD 560 million since its inception, while the total committed investments including partners are estimated at USD 3.9 billion. SVC invested in 35 funds, which have invested in 525 start-ups through 904 deals so far, including several vital sectors such as e-commerce, fintech, information and communications technology, education, delivery, and transportation. Funding deployed into Saudi Arabian start-ups grew 17 times to a record-high close of USD 1 billion in 2022 versus USD 59 million in 2018 when SVC started operation.

The impact report showed that SVC's strategy contributed over the past four years in increasing the number of investors, encouraging existing and new financial companies to establish VC and PE funds, and motivating regional and global funds to invest in Saudi start-ups and SMEs.

Beyond start-ups, other entities are supporting new SME initiatives in the kingdom. In a bid to boost Arabic content, the Cultural Development Fund (CDF) signed a partnership agreement with King Abdulaziz Center for World Culture (Ithra) to support content creation, enhance co-operation in developing culture projects, spread knowledge, and encourage national talents locally and globally.



"CDF provides SAR 15 million in support targeting SMEs that desire to produce Arabic content with world class quality and standards," according to the institution. "CDF also sponsored the Red Sea International Film Festival, where it has received a large number of positive interactions from the audience, who expressed interest in learning more about the film sector financing programme, which the fund intends to launch in early 2023."

LEAP23

Meanwhile, LEAP23, the kingdom's major tech event reportedly set new records with 172,000 delegates in attendance.

"Momentum continues to go into orbit. In its first edition, LEAP22 enjoyed the largest debut of any technology event in history. In its second year, LEAP23 has rewritten the rule book once more to become the world's largest technology sector event by attendance," said Michael Champion, who heads Tahaluf, organisers of LEAP.

Deals during the event reached USD 9 billion as investors eyed investments in future technology, tech start-ups and ecommerce in the kingdom, which are vital for the growth of digitally focused SMEs.

The deals included USD 2.1 billion committed by tech giant Microsoft in a global super-scaler cloud in Saudi, business software company Oracle investing USD 1.5 billion to expand its MENA business by launching new cloud areas in the country, Huawei's USD 400 million investment in cloud infrastructure for its services in the kingdom. Other deals included USD 4.5 billion across global and local assets in multiple sectors, according to the organiser of the LEAP event.

Building on the tech wave, The Social Development Bank (SDB) signed a deal with the National Technology Development Program to finance the technology sector through Lendtech initiative, which supports micro, small and medium technology companies by providing soft loans for Saudi entrepreneurs wishing to invest in technology.

"In 2022, the number of SDB beneficiaries exceeded 150,000 individuals, with financing value over SAR 13 billion, and 8,600 enterprises with a financing value over SAR 5 billion," according to the SDB.

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