



Saudi Arabia: A Place of Potential

A Commentary by Waha Capital

As a relatively closed economy, assessing Saudi Arabia can be difficult for investors, especially during a particularly eventful period for the country. Over just the past couple of years headlines have shifted from the government's ambitious economic transformation plan, Vision 2030; to a high-profile anti-corruption drive; to plans for what could be the world's largest-ever public offering, the listing of state oil giant Saudi Aramco.

Amid the day-to-day developments, we believe it's important to take a step back and focus on some of the broader forces and fundamentals that will shape Saudi Arabia's future. And from that perspective it's clear that the country is set to be a significant source of investment opportunity.

First, Saudi Arabia's near-term economic outlook is improving. While the economy remains tied to the fortunes of a still-volatile energy market, the IMF recently raised its national growth forecast for 2018.¹ Private consumption is expected to grow 2.5 percent this year, versus 1.5 percent in 2017.²

After a period of austerity the government has announced a \$19 billion stimulus package that contains highly targeted initiatives to spur activity in the private sector. These include funding (and fee relief) for smaller companies, and investments in advanced construction and the enhancement of telecommunications infrastructure.³ Policymakers have also introduced reforms, such as a new value-added tax and the phasing out of energy subsidies, that will involve a degree of short-term pain for some segments of society, but should also put the economy on sounder long-term footing.

REFORMS TAKING ROOT

These changes should be viewed within the wider context of the government's economic transformation drive, which aims to raise the private sector's role in the economy from 40 to 60 percent of GDP, and to further unleash the spending power of the country's consumers.

The sheer scope of Vision 2030 – it covers everything from foreign investment to logistics and household savings rates – makes it easy to misunderstand or dismiss. And indeed there are indications that achieving the plan's economic diversification targets will not be easy.⁴ However these targets represent a clear statement of intent. Already through recent initiatives such as the lifting of the driving ban for women and the launching of the Neom mega-city project, the government has demonstrated the determination to effect real change.

Attracting more foreign investment is a key pillar of the Vision 2030 strategy and authorities are already taking concrete steps in this direction, by for example extending the validity period of foreign investment licenses.⁵ Foreign investors have been granted more direct access to the country's stock markets, including initial public offerings and an exchange for small and mid-sized enterprises.⁶

Importantly, the Saudi cabinet recently approved a bankruptcy law, in a first for the country. Though its full details have yet to be released the law is expected to regulate procedures such as settlement, liquidation and debt restructuring for both local and foreign-invested firms, creating some much-needed clarity on an issue of significant importance to current and potential investors.⁷

FUTURE GROWTH ENGINES

Encouragingly, many of Saudi Arabia's efforts to enhance openness and the ease of doing business are concentrated on sectors that are especially compelling from the investment perspective. Healthcare, where the government is facing a shortage of adequate facilities and aims to boost private sector participation from 25 to 35 percent by 2020,⁸ is a good example.

Authorities have announced plans to allow full foreign ownership of companies in the healthcare industry, unlocking a potential \$180 billion in investment opportunities.⁹ A rising elderly population and high rates of chronic disease are expected to fuel rising demand for healthcare services in Saudi Arabia in the future.¹⁰ Research has highlighted the ability of the sector, particularly healthcare-linked real estate, to deliver stable returns regardless of the broader economic backdrop.¹¹

Education is another promising field. The government's substantial budget allocation to the sector in a period of relative austerity has sent a strong signal on national priorities,¹² and again foreign participation in the industry's development is being encouraged. With around half the national population under 25 years of age, student enrollments and the industry as a whole are expected to see robust growth in the years ahead.¹³ Other high-growth areas identified in the Vision 2030 platform include information technology and tourism.

INVESTORS TAKE NOTE

These shifts have not gone unnoticed by global investors. A high-profile investment conference staged by the government late last year was attended by over 3,500 people from 88 countries, and attracted luminaries such as the head of the IMF.¹⁴ Foreign companies are already busily acquiring assets and expanding in the local market. London-listed NMC Healthcare, for example, recently bought two multi-specialist hospital facilities in Saudi Arabia for a combined \$40 million and has plans to build two more.¹⁵

The positive signs that have emerged shouldn't obscure the fact that the economy will continue to face challenges, or that more will need to be done to pave the way for ongoing investment and growth. Saudi Arabia's unique (and rapidly evolving) market conditions also mean any investment decisions should be supported by meticulous research and deep local expertise, with an eye to long-term sustainability rather than quick gains. Yet strategies towards the country should acknowledge its gravitation towards greater diversification and openness, and the new ideas that are in the process of becoming realities.

¹ <https://www.bloomberg.com/news/articles/2018-01-22/saudi-2018-growth-forecast-revised-up-by-imf-as-oil-prices-rise>

² <https://www.thenational.ae/business/saudi-arabia-consumer-spending-to-pick-up-as-economy-improves-171417>

³ <https://www.reuters.com/article/us-saudi-stimulus/saudi-king-approves-19-billion-of-economic-stimulus-steps-idUSKBN1E8050>

⁴ <https://www.thenational.ae/business/economy/s-p-saudi-arabia-s-economic-improvements-driven-by-oil-not-diversification-1.664943>

⁵ <http://saudigazette.com.sa/article/529293/BUSINESS/Foreign-investment-license-period-extended-up-to-5-years-renewable>

⁶ <https://www.cbc.com/2017/10/26/saudi-arabia-is-opening-up-its-stock-market-to-foreign-investors.html>

⁷ <https://www.reuters.com/article/us-saudi-bankruptcy/in-boost-to-reform-saudi-arabias-cabinet-approves-bankruptcy-law-idUSKCN1G20P>

⁸ <http://saudigazette.com.sa/article/525152/SAUDI-ARABIA/New-medical-cities-proposed-to-solve-bed-shortage-in-hospitals>

⁹ <https://www.reuters.com/article/us-saudi-privatisation/saudi-to-open-health-education-sectors-to-full-foreign-ownership-idUSKCN1B411Z>

¹⁰ <http://www.healthdata.org/news-release/saudi-health-interview-survey-finds-high-rates-chronic-diseases-kingdom-saudi-arabia>

¹¹ <https://www.theinvestorjll.com/news/middle-east/alternatives/menas-future-health-care-demand-means-private-sector-investors/>

¹² <http://saudigazette.com.sa/article/524722/SAUDI-ARABIA/Education-remains-a-top-priority-for-Kingdom>

¹³ <https://www.strategyand.pwc.com/reports/investment-opportunities-gcc-education>

¹⁴ <https://www.reuters.com/article/us-saudi-economy-investment/saudi-investment-ambitions-impress-but-foreign-money-may-be-slow-to-come-idUSKBN1CV1XW>

¹⁵ <https://www.thenational.ae/business/economy/nmc-healthcare-snaps-up-two-saudi-hospitals-for-40m-1.661453>