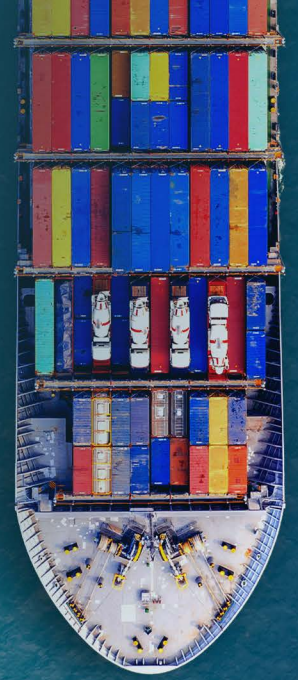


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MENA INTELLIGENCE

Saudi Arabia Logistics Sector: Transiting Through the Fast Lane



October 2024

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Introduction

In today's interconnected world, logistics is the nerve center of modern economies. Saudi Arabia and other GCC countries are looking to leverage their strategic location at the center of important trade routes by developing their logistics sector as part of their broader economic diversification drive.

Globally, in recent years, shortage of shipping containers and logistical bottlenecks amid COVID-19 induced shock, high inflation levels, geopolitical tensions and high interest rates have impacted the logistics industry. Going forward, with long term secular drivers such as e-commerce growth remaining intact, easing of interest rates by the central banks, downtrend in inflation and positive economic outlook are favourable for logistics industry. While geopolitical risks, port congestion, labour strikes etc. present some challenges, trends such as technology and ESG adoption, reshoring etc. are shaping up the industry.

Aligned with the heightened global demand for logistics, Saudi Arabia aims to become a leading industrial powerhouse and global logistics hub. With a GDP of USD 1.1 trillion¹, the sector's contribution to KSA's GDP is expected from 6% to 10% by 2030. There are several factors in support of this growth. Supportive government schemes, policies, and infrastructure spending will bolster supply chains and enhance global competitiveness. Its strategic location connecting three continents: Europe, Asia, and Africa, positions it advantageously. Propelled by supportive government measures, e-commerce, and rising demand for shipping and storage services, the Saudi Arabian logistics market is expected to be at USD 38.8 billion.²

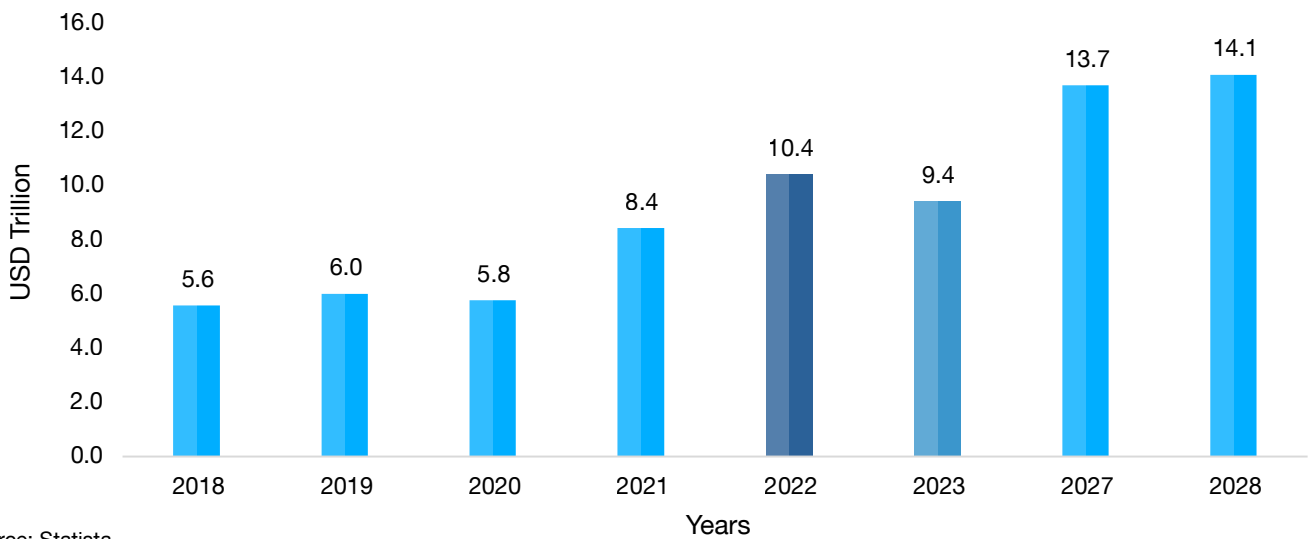
¹ Source: IMF

² Source: Statista

Global Logistics - Navigating Turbulence

The logistics sector is the backbone of global commerce, propelling raw materials, inventory and finished goods across continents, from point of origin to end-users. The global logistics market accounted for USD 9.4 trillion in 2023 and it is expected to be worth around USD 14.1 trillion by 2028.³

Global Logistics Market Size



Source: Statista

Key Trends Driving Logistics



E-commerce

The growth of the e-commerce sector has led to increased demand for better logistics services to ensure delivery efficiency. The sector is expected to be the fastest growing retail channel, in a position to account for approximately 24% of retail sales by 2028.⁴

Reverse logistics

With 8%-10% of all brick-and-mortar sales and 30% of e-commerce sales estimated to have been returned every year, reverse logistics is set to be key driver for logistics.⁵



³ Source: Statista

⁴ Forrester

⁵ CBRE



Reconfiguring supply chains

Manufacturers and sellers are moving to just-in-case approach of holding extra inventory in the backdrop of COVID-19 induced supply chain shocks and evolving customer expectations for speedy delivery.

Reshoring or near-shoring

Amid volatility in shipping rates and geopolitical uncertainty moving manufacturing closer to the home market is seeing traction.



The industry faces significant challenges due to disruptions caused by geopolitical factors such as the Russia-Ukraine War, ongoing Israel – Hamas conflict, sanctions and port congestions.

Geopolitical Factors



Russia-Ukraine War and ongoing Israel-Hamas conflict have impacted logistics in terms of spike in shipping rates, change in shipping routes, affecting delivery time and costs and rewiring of supply chains. For example, since the start of Israel-Hamas conflict, there have been multiple attacks on ships in the Red Sea and Gulf of Aden. This has prompted several shipping companies to either halt operations in the area or reroute via the Cape of Good Hope in South Africa.

Impact of Israel-Hamas Conflict on Shipping

51.5%

y/y decline in container ship transiting Suez Canal in July 2024

Rerouting through Cape of Good Hope

has caused additional lead times, blank sailings, and potential port congestion

163%

y/y rise in cost of shipping a container as of September 2024



Port Congestion

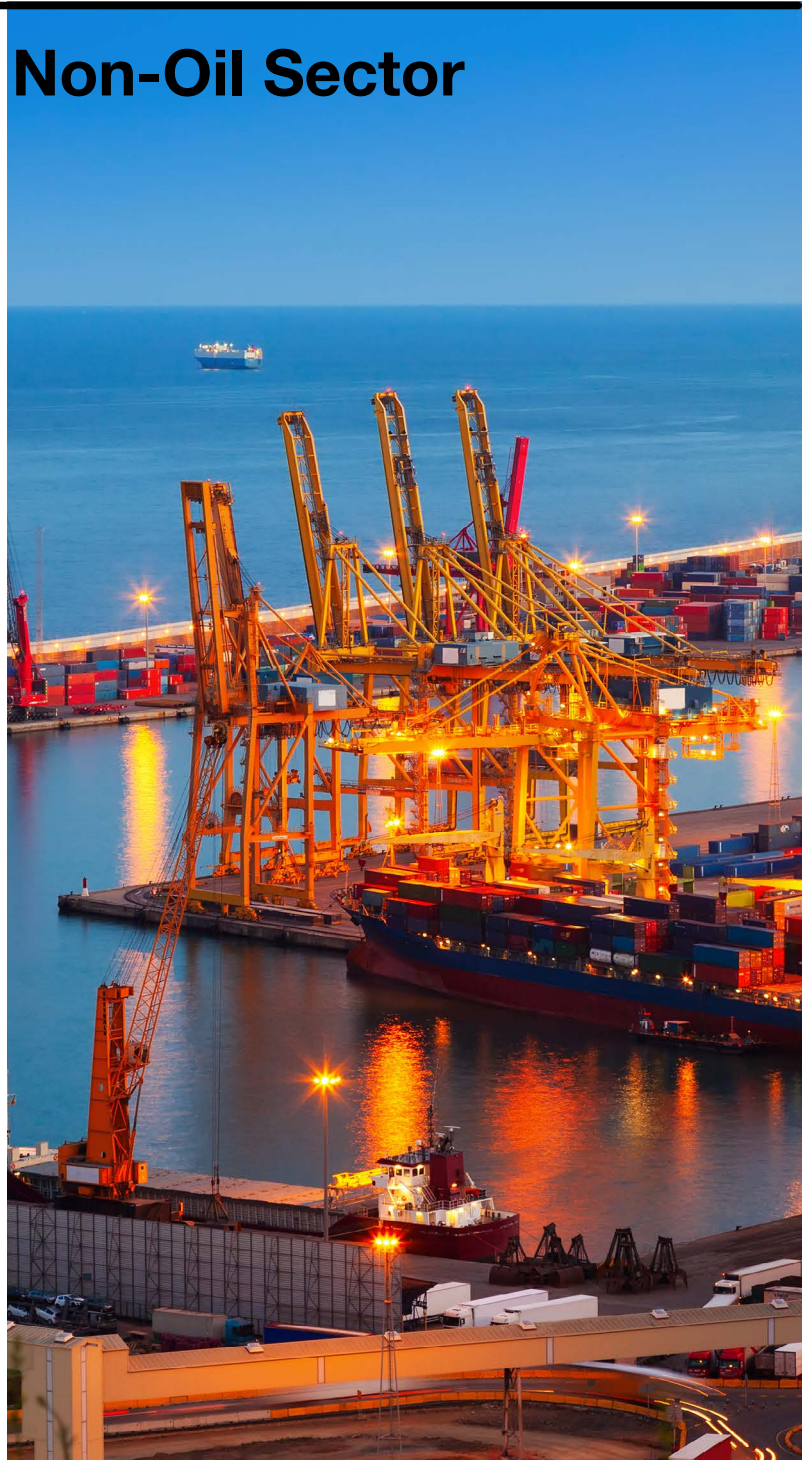
Shortage of labor heightened by potential strikes, lack of capacity on transportation networks, and the high cost of shipping have led to congestion in ports. The problem of port congestion has been further aggravated by the militant attack on a container ship along the Red Sea channel in December 2023.

GCC Logistics – A Key Non-Oil Sector

Traditionally, GCC ports have served as major shipping hubs due to their strategic location along the Asia-Europe trade route. Their proximity to one-third of the world's population within a four-hour flight makes them attractive trading hubs. In this backdrop, GCC countries are looking to leverage logistics as key sector in powering non-oil economic growth.


The countries are taking multiple initiatives such as formulation of logistics specific strategies (Dubai Commercial and Logistics Land Transport Strategy), development of logistics free zones, expansion of logistics infrastructure etc. Supported by such initiatives and increasing government and private investments, the GCC logistics market is expected to grow from USD 57.7 billion in 2022 to USD approximately 70 billion in 2026.⁶

In global logistics competitiveness rankings, GCC countries consistently rank among the top emerging markets.



⁶Source: Statista





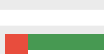
GCC Country Ranking in Agility Emerging Markets Logistics Index (2024)

Country	Overall Ranking
UAE 	3
Saudi Arabia 	6
Qatar 	7
Oman 	15
Bahrain 	16
Kuwait 	21

Source: Agility

GCC nations also have a relatively higher container port performance, partly due to their advantageous location, at the intersection of Asia, Europe, and Africa. Six of the GCC ports feature within the top 50 globally in terms of container port performance.

Ranking of GCC Ports in Container Port Performance Index (2023)

Ports Name	Country	Overall Ranking
Salalah	Oman 	2
Hamad Port	Qatar 	11
Khalifa Port	UAE 	29
King Abdullah Port	Saudi Arabia 	30
Dammam	Saudi Arabia 	35
Jebel Ali	UAE 	49

Source: World Bank

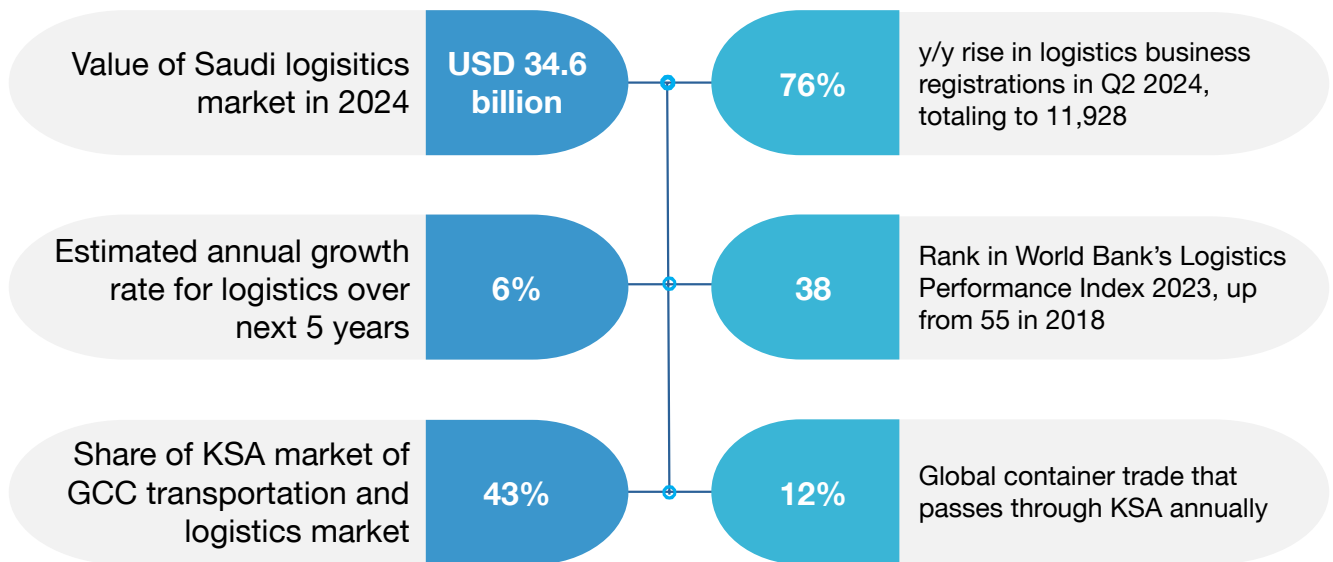
Given their strategic advantage and government initiatives, smoothening some challenges such as variation in customs processes across regions, lack of skilled labour etc. would aid in further growth of the sector.



Logistics in Saudi Arabia – On an Accelerated Growth Path

Saudi Arabia is the largest logistics and transportation market in GCC and the broader MENA region. Located on the Asia-Europe trade route, being the only country to have three major maritime straits, Saudi Arabia's strategic location lays a strong foundation for the country's growing logistics sector.

Well Positioned Logistics Sector



Source: Statista, World Bank, YCP Sollidance, AGBI, Zawya

Infrastructure

Logistics Zones and Parks

Development of logistics zones are an integral part of the country's logistics roadmap as it targets to establish 59 logistics zones spanning 100 million square meters by 2030. The shipping authority (Mawani) is also working with private players on developing logistics parks, with focus on using renewable energy to power these parks.

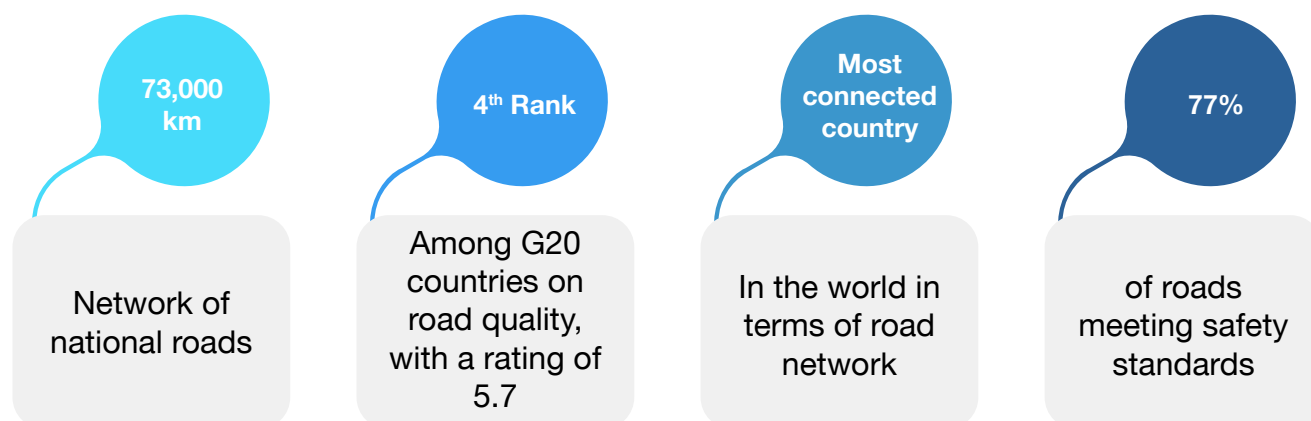
Select Logistics Zones

Logistic Zone	Area ('000 m2)	Investment (USD million)	Salient Features
Riyadh Special Integrated Logistics Zone	3,000	-	Tax relief period, VAT exemptions, one stop shop for licenses, close to King Khalid International Airport
Al Khomra	2,378	5,300	Close to Jeddah Islamic Port and King Abdulaziz International Airport
Jeddah Logistics Park	415	240	Located alongside DP World's South Container Terminal
Maersk Logistics Park	225	250	Located at Jeddah Islamic Port offering multi-modal connectivity, custom bonded setup etc.

Source: Various

Transport Infrastructure – Undergoing Upgrade

1 Roadways

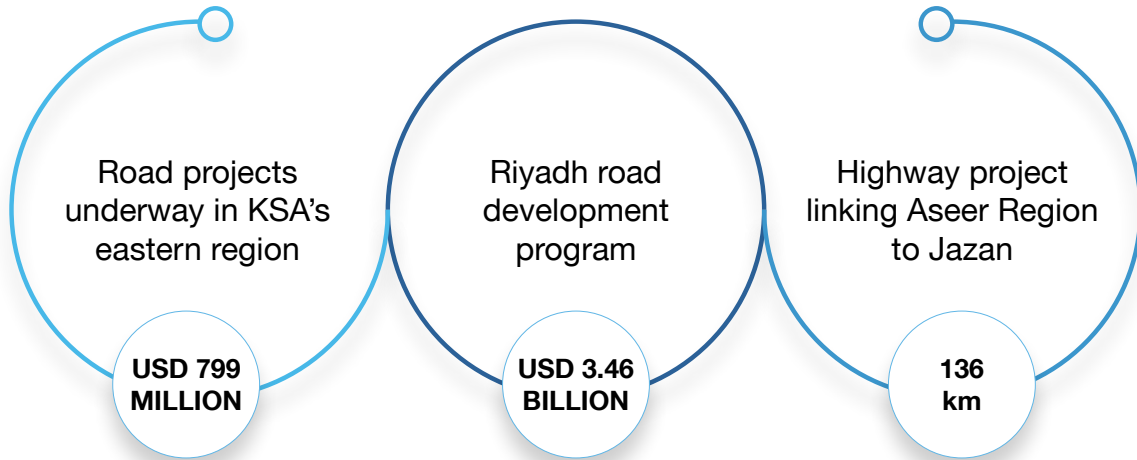


Source: Saudi Gazette, International Trade Administration, USA

Initiatives Supporting Growth

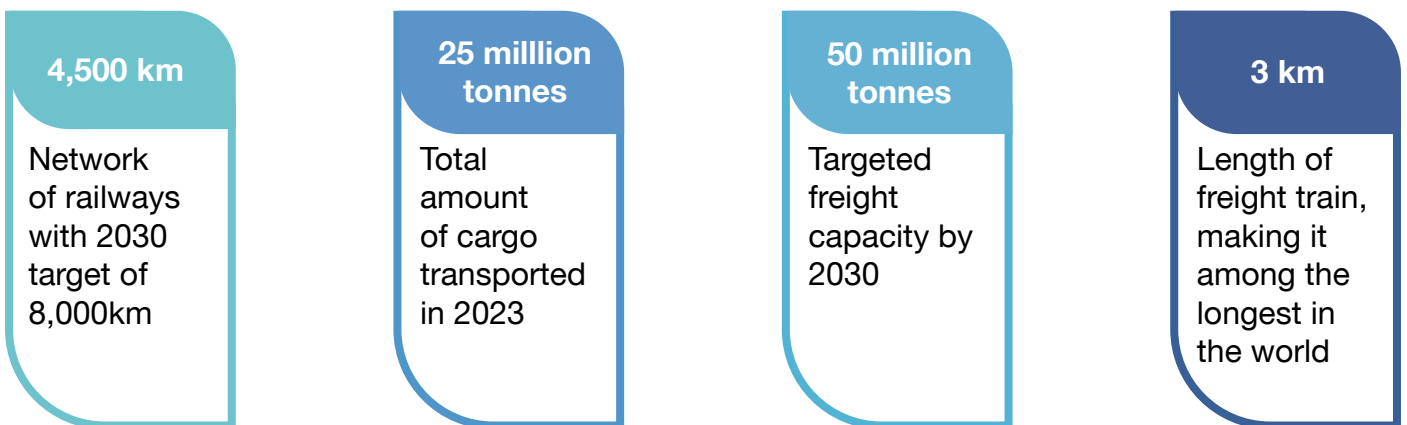
Dedicated authority for roads, Road Sector Strategy and specific targets such as achieving 6th rank globally in terms of road quality etc. augur well for the segment's development. Saudi Cabinet has also approved a land transport law among GCC countries in April 2024, aimed at simplifying and unifying logistical procedures.

Select Projects and Investments



Source: Various

2 Railways



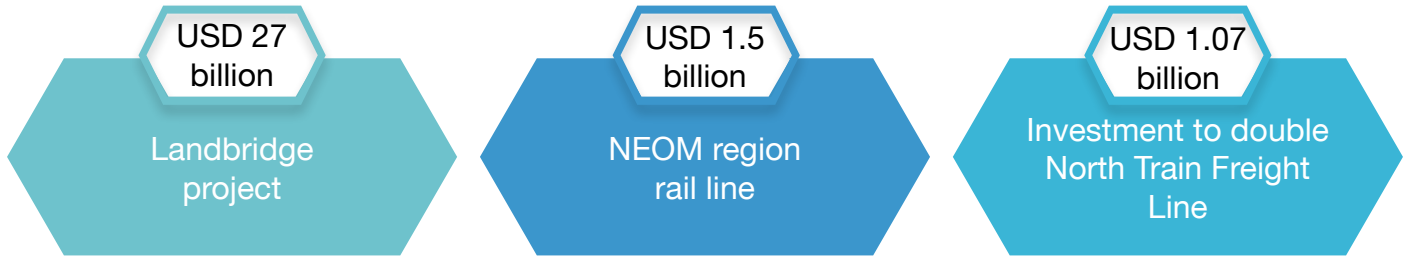
Source: Saudi Gazette, International Trade Administration, USA

Linking ports and industrial zones

▶ As part of the railway strategy, the country plans to link all the ports through railways. In April 2024, the first container shipment, consisting of 78 containers, was transported through railways from Jubail Commercial Port to Riyadh Dry Port.

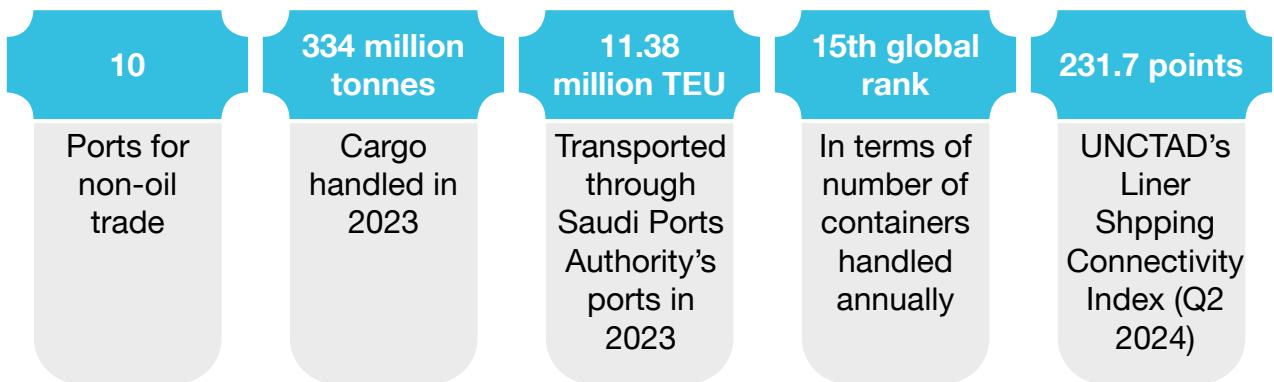
▶ Saudi Arabia Railways (SAR) and the Saudi Authority for Industrial Estates and Technology Zones (MODON) have signed MoUs to connect industrial cities in the Riyadh and Sharqiya regions to the national railway network.

Select Projects and Investments



Source: Zawya

3 Ports



Source: International Trade Administration, USA

Initiatives supporting growth

Saudi Arabia has taken a multi-pronged approach to improving port infrastructure. From investment in port facilities, reengineering transshipment handling process, introduction of Port Community System that would offer 250 e-services at Saudi ports and introduction of new liner services, Saudi Arabia has taken many initiatives to strengthen port infrastructure.

Select Projects and Investments



Source: AGBI, Sea Trade Maritime, Arab News



Storage and Warehousing – Surging Demand

Growing e-commerce and manufacturing sector and execution of giga projects is powering the demand for storage and warehousing facilities in the country, given their need for storage of construction materials, raw materials, finished goods, last-mile logistics centres etc. While primary and Grade A spaces are limited, Grade B spaces are also seeing high occupancy levels.⁷

Storage and Warehousing Market

Riyadh	Jeddah
Leasable Area Warehouse and Logistics Stock 27.5 million sqm	Leasable Area Warehouse and Logistics Stock 19.6 million sqm
Upcoming Supply 820,000 sqm	Upcoming Supply 185,000 sqm
Average lease rates 210 psm	Average lease rates 208 psm
Increase in lease rate 10.4% y/y	Increase in lease rate 1.5% y/y
Occupancy Rate 97%	Occupancy Rate 97%

Source: Knight Frank; Note: Average lease rates for light industrial units and Grade B warehousing facilities

There are upcoming projects such as Jeddah Logistics Park by DP World with warehousing area of 185,000 sq.m., LogiPoint’s Warehousing Village V covering 24,500 sq.m. The Saudi Authority for Industrial Cities and Technology Zones has also expanded its total logistics space in industrial cities to over 4.8 million square meters.

Incorporating technology such as robotics in warehouses is also picking up. Building high-tech warehouses by MODON, which would host companies like Amazon, Starlinks’ use of Geek+ robots in its fulfillment center for picking and order sorting tasks are some examples.

⁷ Knight Frank

Tech Trends

Omni Channel Distribution



- Major retailers such as Alshaya, and Chalhoub Group, have established distribution partnerships with third-party eCommerce service providers while also launching their own brand websites and integrating with other marketplaces.
- Over 70% of customers in Saudi Arabia prefer omnichannel retail, especially for products in segments like Electronics, Fashion, etc.

Telematics



- Allows user to monitor and track various vehicle metrics for an entire fleet of metrics
- Telematics Master and Powerfleet allow users to track vehicle health, optimize route planning and navigation to lower fuel costs.

Blockchain



- Transparent and tamper resistant system that automates custom clearance processes, reduces time and cost of compliance checks and helps track shipments in real-time.
- Saudi Arabia is the first GCC country to adopt Blockchain technology in 2019 and first shipment was made in March from King Abdul Aziz Port in Dammam to Antwerp in Belgium. TradeLens developed by Maersk & IBM is used by Saudi Arabian Customs official and Agility.

Ro-Ro



- Allows product to roll on and off the vessel which saves time and cost in loading and unloading process. Prevents damage and accidents through lesser human intervention.
- King Abdullah Port has a RO/RO terminal at 1.5mm CEUs capacity. Jubail and Yanbu ports have similar terminals.

AI in Logistics



- AI-powered algorithms process huge volumes of data which helps in forecasting data, optimize routes and control inventory levels which allows businesses to anticipate market trends and modify operations.
- Aramex has implemented AI and machine learning to optimize its delivery routes and improve delivery efficiency.

IoT in Logistics



- Provide real-time tracking of goods, monitor environmental conditions and ensures the integrity of shipments which facilitates proactive decision making and enhanced visibility.
- Sadr Logistics has integrated IoT solutions, enabling real-time visibility of its shipments, thereby ensuring timely delivery and reducing the risk of goods getting lost or damaged.

Business Opportunities

1 Government Initiatives

As part of its broader economic diversification drive, Saudi Arabia is leveraging its location to drive growth in logistics sector. Thus, government initiatives have been at the core of the sector's recent transformation.

Vision 2030: Select 2030 Targets for KSA Logistics

10%	Contribution of logistics sector to GDP from 6%
SAR 45 billion	Target annual non-oil revenues from the sector
59	Number of logistics zones
200,000	Jobs in logistics sector
Top 10	Ranks in Logistics Performance Index
USD 133 billion	Investment in multi-modal freight transport and logistics capabilities
40 million TEU	Annual Container Throughput through Saudi Ports
6 million tonnes/ year	Specialised air cargo capacity
30	Number of re-export logistics center
160	Projects slated for launch
45%	Market share of regional transshipment
70%	Port occupancy rate of total capacity

Several significant initiatives have been undertaken by the country to achieve its targets.

National Industrial Development and Logistics Program (NIDLDP)

- Launch:2019
- Objective: To develop 11 industries including logistics. Objectives under logistics include increasing performance of the logistical hubs, improving connectivity of transport networks etc.
- Initiatives: Launch of first integrated logistics zone at King Khalid International Airport, opening of Apple distribution center, inauguration of railways linking north and east networks

National Transport and Logistics Strategy (NTLS)

- Launch:2021
- Objective:Strengthen human and technical capabilities in the transport and logistics sector through 92 high-priority initiatives and 378 projects, with an estimated operating cost of SAR 613 billion through 2030
- Initiatives: Key projects include the Riyadh Airport expansion (SAR 60 billion), the new land bridge (SAR 47 billion), and the GCC railway (SAR 27 billion)

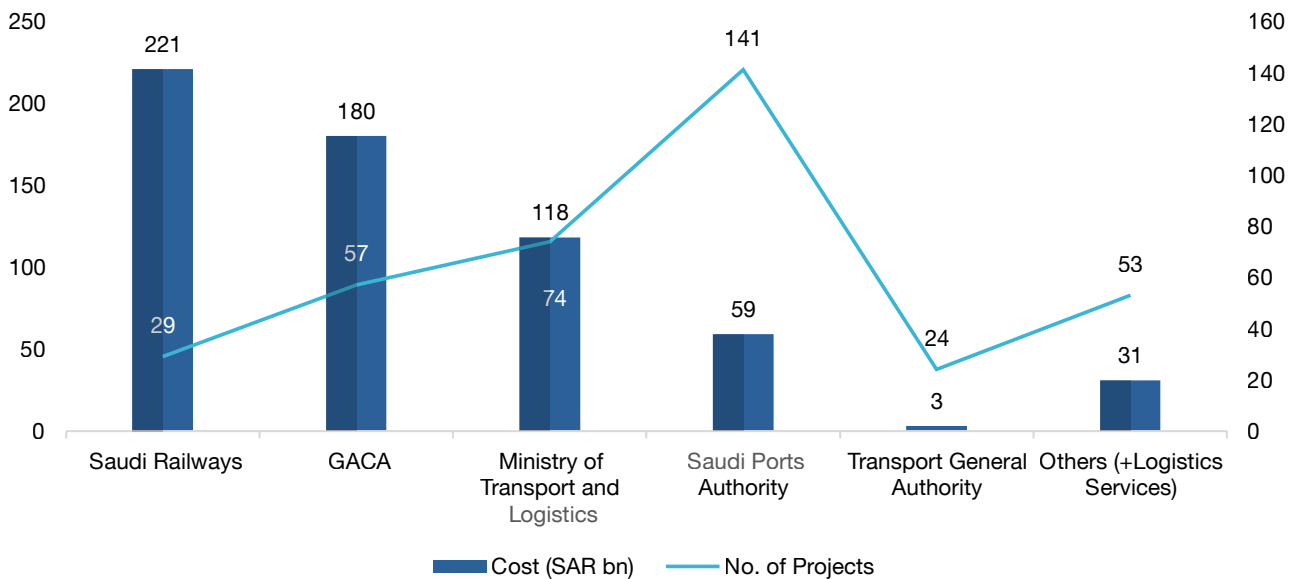
Global Supply Chain Resilience Initiative (GSCRI):

- Launch:2022
- Objective: Entails establishing several special economic zones to provide investors with critical raw materials, robust industrial infrastructure, and competitive production costs.

Master Plan for Logistics Centers

- Launch:2023
- Objective: Aims to develop over 100 million square meters across 59 logistics centers nationwide by 2030
- Initiatives: 21 of the logistics centers are under construction

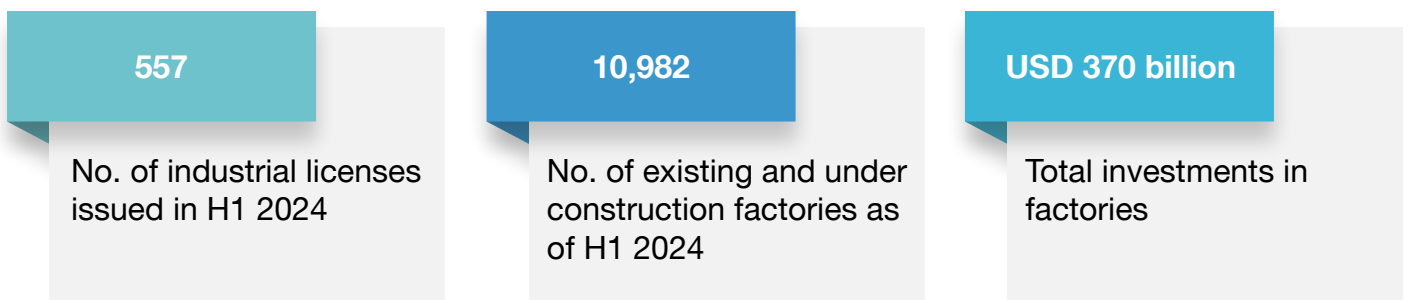
NTLS Initiatives & Projects – Responsible Entities and Planned Spending Through 2030



Source: Argaam; Note: Latest Available Data; GACA – General Authority of Civil Aviation.

2 Growing industrial sector

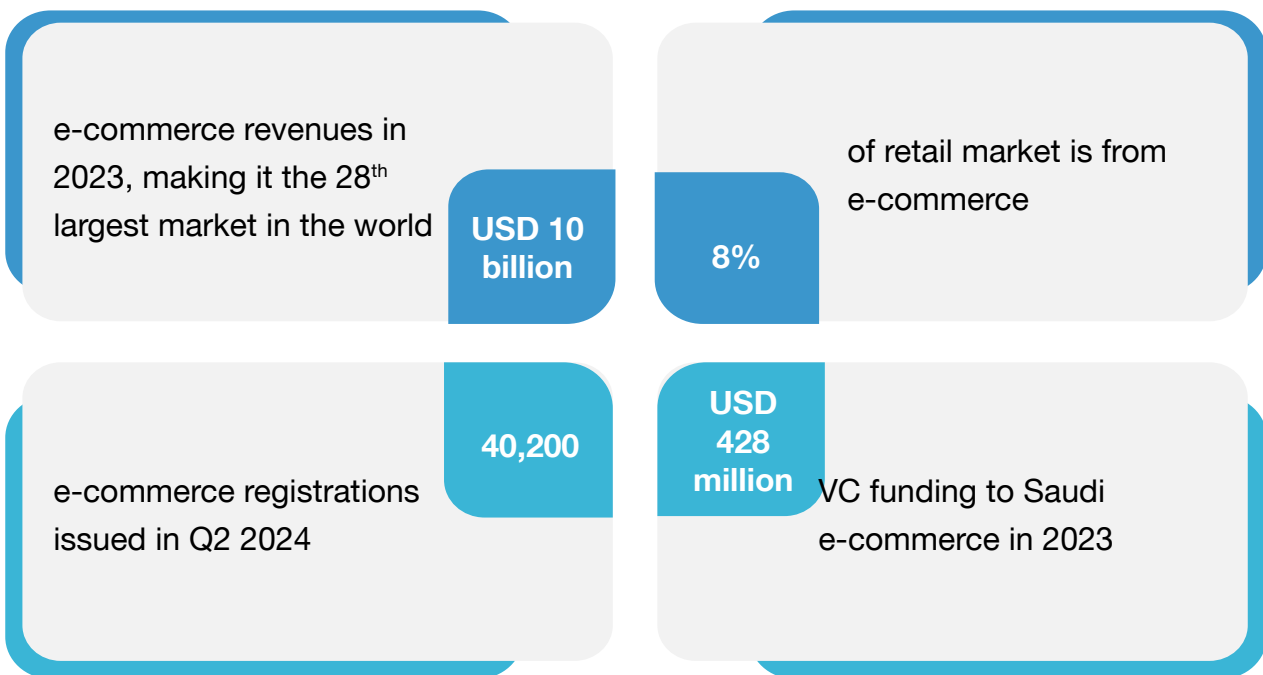
Driven by Saudi Arabia’s aim to bring manufacturing sector’s contribution to GDP to more than USD 238 billion by 2030, the country’s industrial sector is seeing high growth in terms of investments, industrial licenses and development of industrial zones. This in turn would boost the need for logistics and warehousing facilities across the manufacturing value chain, supporting their demand.



Source: Argaam

3 E-Commerce

Saudi Arabia’s growing e-commerce sector is a key driver for logistics as it boosts demand for transport systems, warehouses, distributions centers and last mile delivery services. With 91% Saudi nationals shopping online regularly, both customer attitude and government initiatives like Monsha’at e-commerce programs favour growth of e-commerce and in turn sustain demand for logistics services.



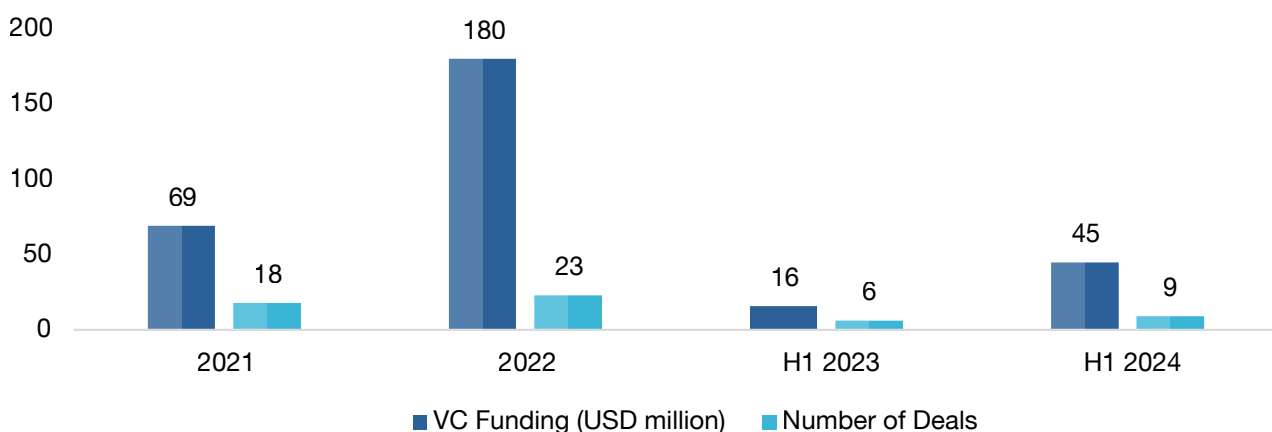
Source: Setup in Saudi, Argaam, Agility

4 Funding in Logistics

Broadly, Saudi logistics is attracting funding from various stakeholders. For example, private sector investments in the logistics zones at Saudi ports amounts to over USD 2.7 billion, spanning six million square meters (sqm).⁸ Bahrain’s Arcapita Capital has also recently closed USD 500 million KSA Logistics Fund III, with participation from an unnamed sovereign wealth fund from the GCC region and other institutional investors.

In terms of venture capital funding, logistics has largely been among the top funded sector in Saudi Arabia. In H1 2024, the sector ranked 3rd most funded sector in terms of value.

Logistics – Among the Top VC Funded Sectors



Source: SVC/Magnitt. Note:2021 and H1 2023 are calculated values based on y/y change reported in the next year.

⁸ Argaam

Funding Details of a Few Logistics Companies

Company	Founded in	Funded In	Stage of Funding	Value (in USD million)
Trukker	2016	Sep 2024	Series C	100.0
MDD	2019	May 2024	Series A	26.6
Salasa	2016	Jun 2021	Series A	8.6
Saeer	2018	Jan 2020	Series A	2.4
Nawel	2022	Jan 2024	Seed	1.0

Source: Various

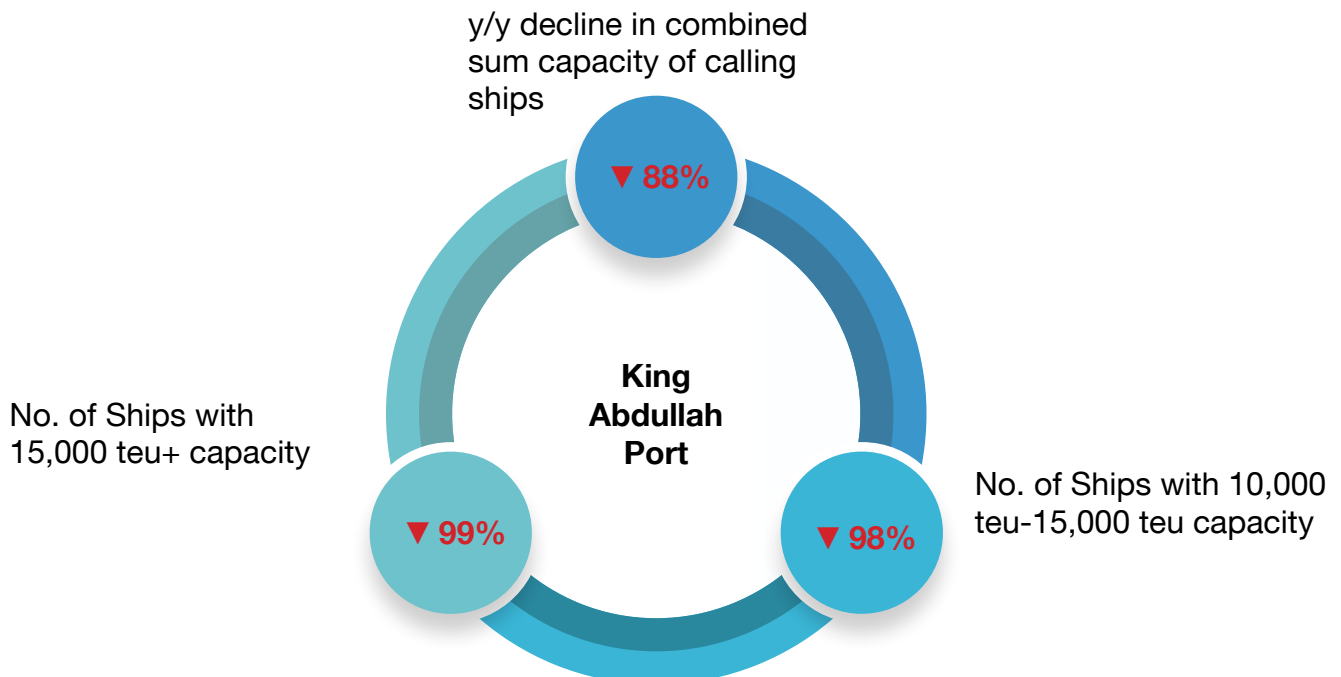
Business Risks

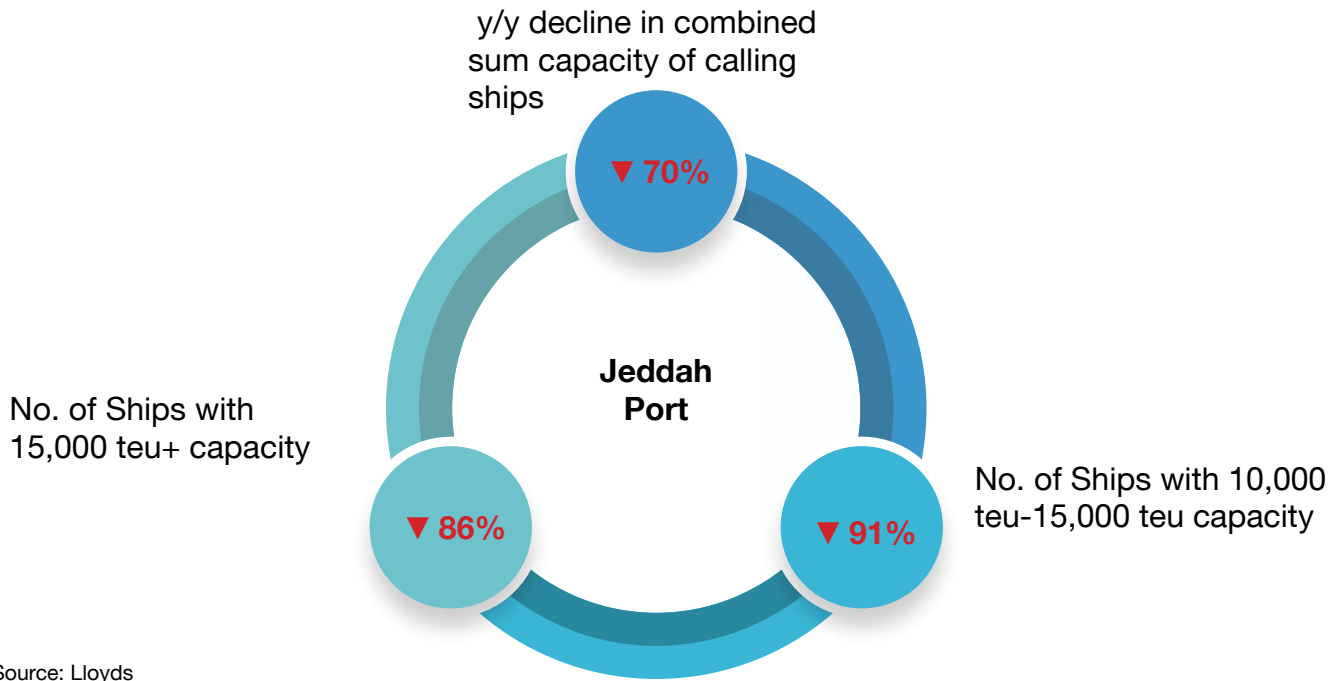
1 Geopolitics

Geopolitics is a key risk to logistics in the region. For example, in the light of Red Sea Crisis that started in late 2023, Saudi ports had seen a decline in number of ships calling on its ports.



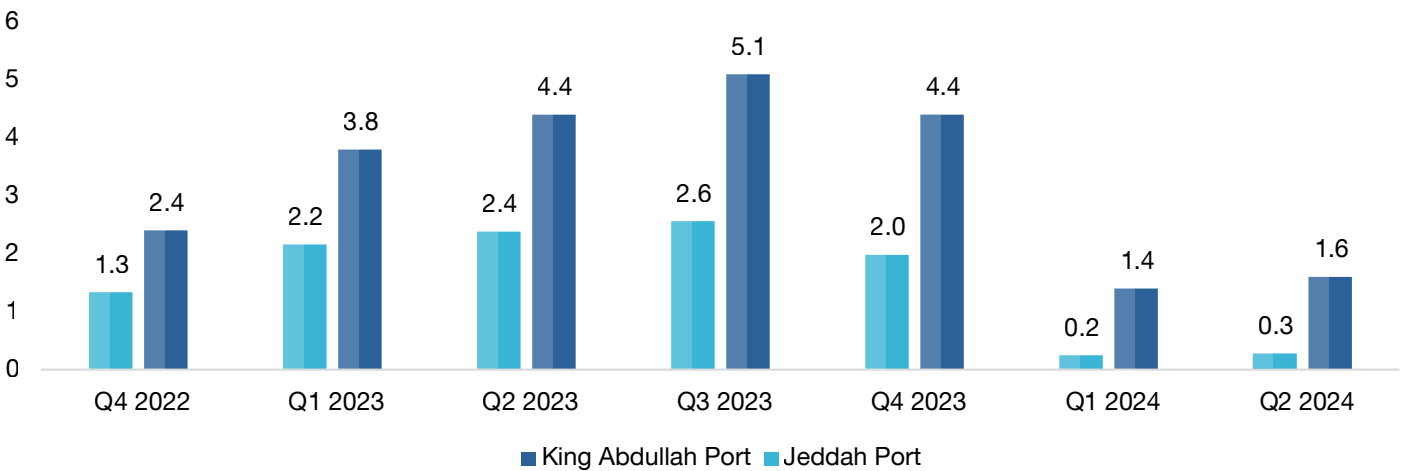
State of Port Calls in Select Saudi Ports As of H1 2024





Source: Lloyds

Containership Calls at Select Saudi Ports By Sum of Ship Capacity (TEU million)



Source: Lloyds

1 Complicated Customs and Regulation

Getting through customs and regulatory framework is reportedly complex, particularly for new entrants and international companies, given the many requirements and need for compliance local, regional levels.

2 Shortage of labor

Logistics industry is among the industries impacted by shortage of skilled labour, across different part of the value chain such as freight forwarders, warehouses and logistics firms etc.

3 Limited Warehousing Facilities

High occupancy and steep rise in rents indicate the limited availability of warehousing facilities.



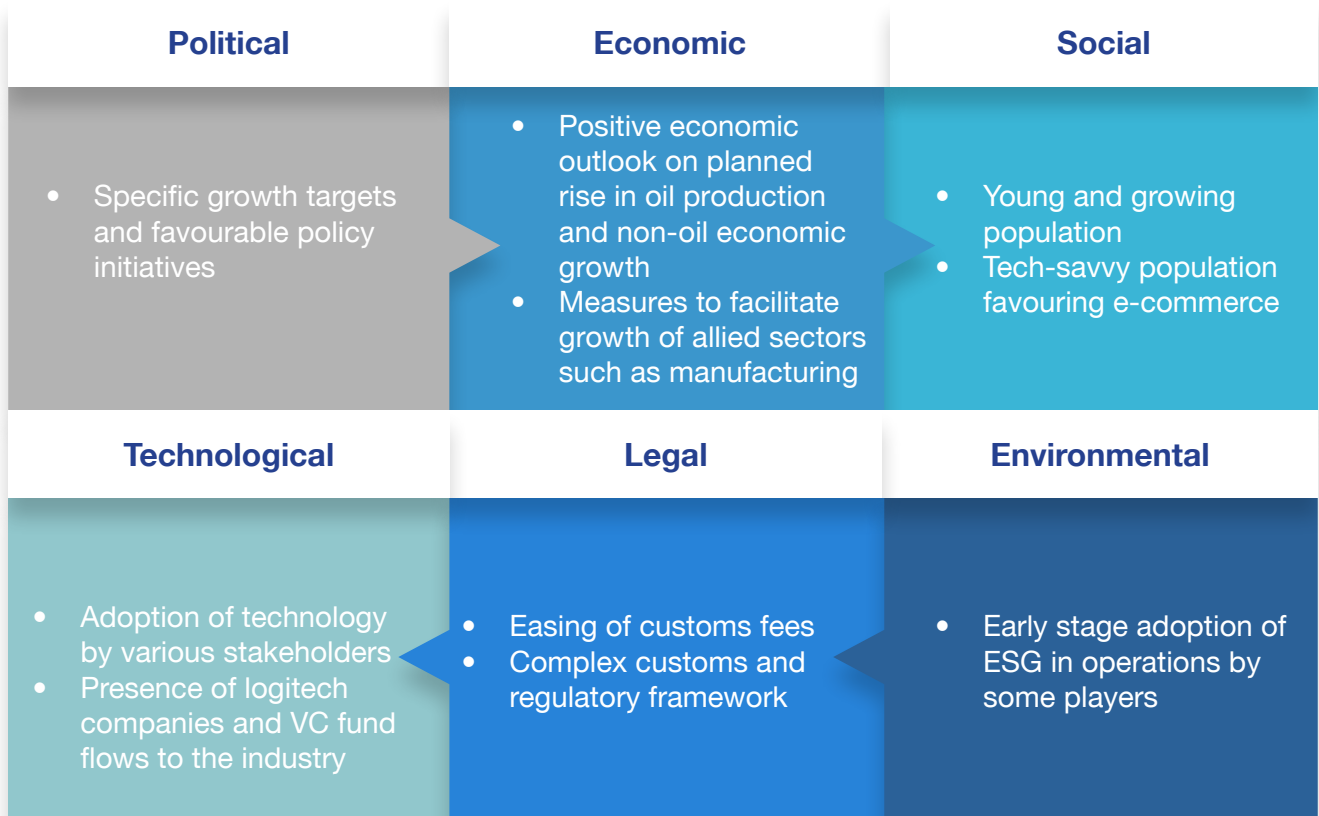
ESG in Logistics

With transportation, one of the largest sources of pollution in its fold, ESG in logistics is increasingly becoming an area of focus.

In line with Saudi Arabia's NDC to achieve net-zero emission by 2060, many players are incorporating ESG in their logistics operations. Some examples are,

- ▶ ASMO, a joint venture from Aramco and DHL, to provides sustainable supply chain solutions
- ▶ Tachyon, a B2B digital logistics platform, takes measures such as designing warehouses that minimize carbon footprint, reducing empty miles etc.
- ▶ Logistics parks are incorporating renewable energy to power operations
- ▶ ADNOC Logistics and Services uses teleoperated vessels and biofuels as part of its sustainability initiatives.

PESTLE Analysis



Conclusion

On the global front, while positive economic outlook amid interest rate cuts and downtrend in inflation are supportive factors, geopolitical risks, inward looking industrial policies are some turbulences that logistics would have to maneuver along the way. Through all this, players are likely to heavily utilize technology to improve efficiency and profitability of their operations.

In Saudi Arabia, logistics is set to play a key role in Saudi Arabia's realization of Vision 2030. It is witnessing a range of initiatives and significant developments aimed at achieving a substantial leap in sectoral growth and expanding its economic and developmental contributions. In addition, growing industrial sector, e-commerce and investor interest are positively aligned for the sector. While some challenges on regulatory complexity persist, measures to lower custom fees, decrease time taken for clearance etc. are positive for the sector. In the face of geopolitical tensions such as Red Sea crisis, companies are also looking for alternative routes. Measures such as broader adoption of technology and development of warehouses, easing of regulatory requirements would aid in the growth of the sector.



Appendix

Global Players and top players in GCC

The top 10 players of the logistics sector in the world, in terms of market capitalization, are as follows:

Sno.	Company Name	Headquarters	Market Cap (Sep 2024, USD billion)	Revenue (FY 2023, USD billion)	Revenue (H1 2024, USD billion)
1	Union Pacific Corp	U.S	150.2	24.1	12.0
2	United Parcel Service Inc	U.S	116.8	91.0	43.5
3	Canadian Pacific Kansas City Ltd	Canada	79.8	9.4	5.2
4	Canadian National Railway Co	Canada	73.7	12.6	6.3
5	CSX Corp	U.S	66.9	14.7	7.4
6	FedEx Corp	U.S	66.9	66.9	43.8
7	Norfolk Southern Corp	U.S	56.2	12.2	6.0
8	Deutsche Post AG	Germany	53.5	88.7	44.0
9	DSV A/S	Denmark	44.2	21.9	11.5
10	Old Dominion Freight Line Inc	U.S	42.6	5.9	3.0

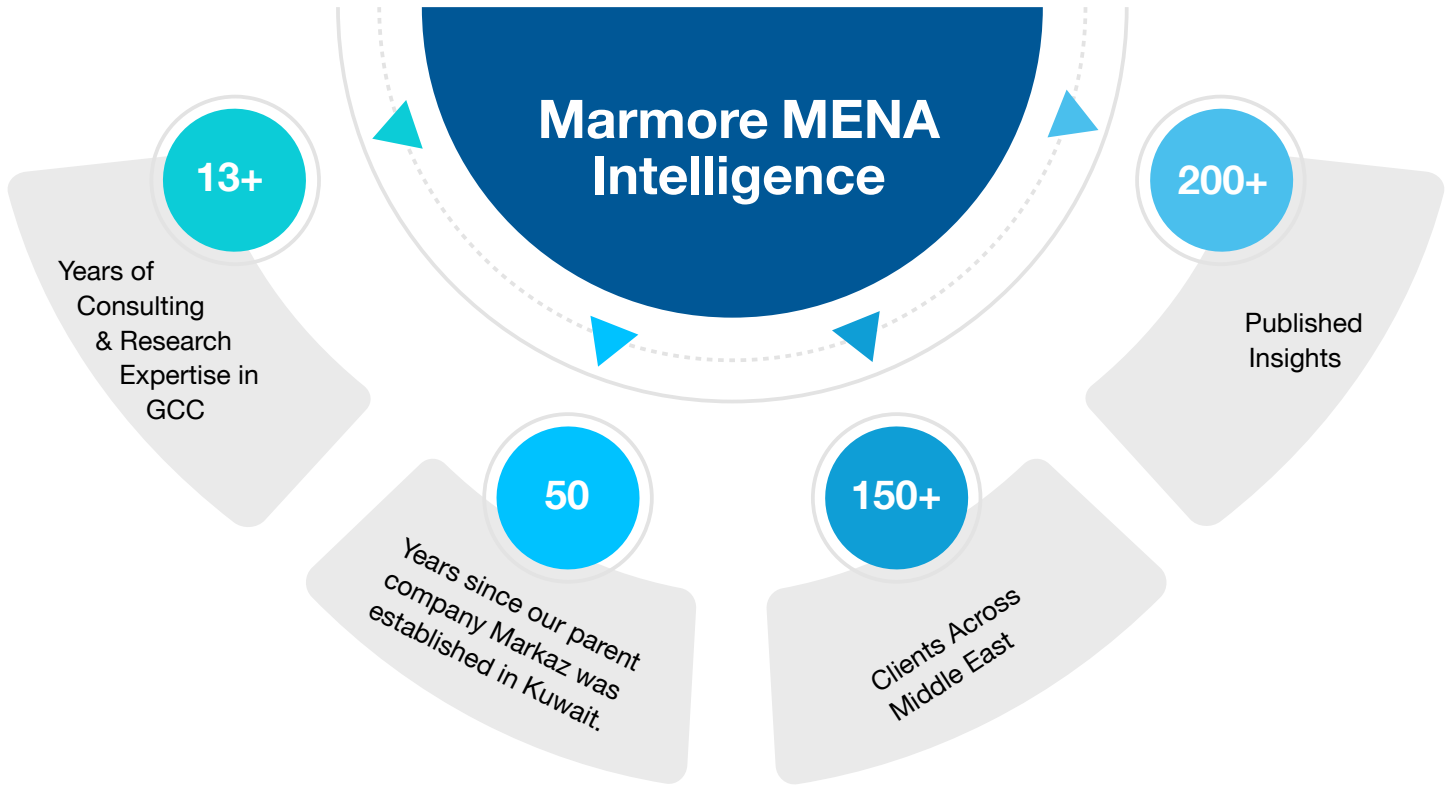
Source: Refinitiv

The top players in the logistics sector in the GCC region, in terms of market capitalization are as below:

Sno.	Company Name	Headquarters	Market Cap (Sep 2024, USD billion)	Revenue (FY 2023, USD billion)	Revenue (FY 2023, USD billion)
1	ADNOC Logistics & Services PLC	UAE	10.8	2.8	1.7
2	SAL Saudi Logistics Services Company SJSC	Saudi Arabia	6.2	0.4	0.2
3	Qatar Navigation QPSC	Qatar	3.5	0.8	0.4
4	Agility Global PLC	UAE	3.5	1.9	2.1
5	Agility Public Warehousing Company KSCP	Kuwait	1.9	4.4	2.3

Source: Refinitiv

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