



A New Paradigm for Economic Diversification

- With its varied geography and young population, Saudi Arabia shows huge potential for tourism and entertainment in the region.
- Vision 2030 emphasized economic diversification, with tourism and entertainment seen to be a vital aspect in achieving that goal.
- Despite high local demand and consumer spending, the sector has not been a strong performer yet, offering sizeable growth opportunities for small and medium enterprises, foreign investments and public-private partnership projects.
- Global tourism accounts for 10 percent of the world's GDP, 7 percent of global trade and one in ten jobs around the world.
- As jobs in tourism are mostly labor-intensive, with high variety in skills and expertise, the sector shows a substantial opportunity in helping reach labor market goals in the Kingdom.
- Millions of religious visitors from around the world visit Makkah and Madinah every year, but the sector still shows a great opportunity for development.
- In 2016, the General Entertainment Authority (GEA) was established in order to secure a considerable share in Saudis' spending on entertainment abroad, which reached \$26 billion in 2016.
- Looking ahead, whilst tourism and entertainment will be challenged with rising costs related to expat levies, higher commercial electricity prices, VAT and rising cost of funding, the sizeable government support to the sector is significant.

For comments and queries please contact:

Fahad Alturki
Chief Economist and Head of Research
falturki@jadwa.com

Nouf N. Alsharif
Economist
nalsharif@jadwa.com

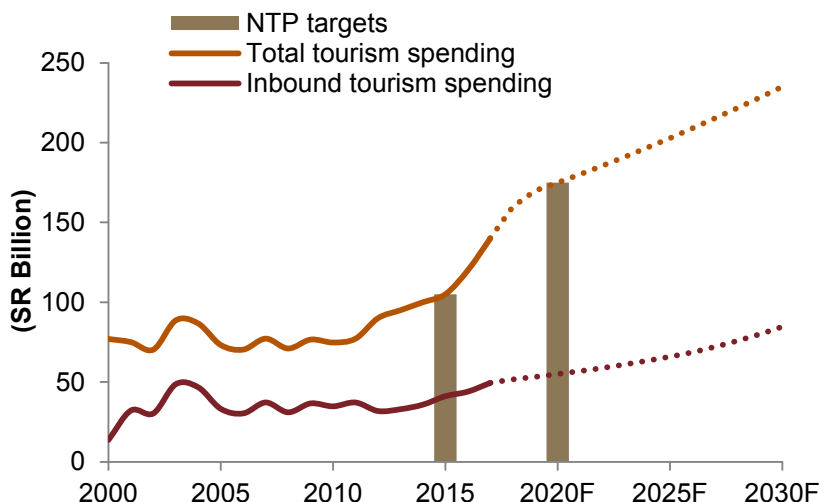
Head office:

Phone +966 11 279-1111
Fax +966 11 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com

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Figure 1: Spending on tourism in Saudi Arabia





Saudi Arabia shows huge potential for tourism and entertainment in the region.

Despite high local demand and levels of consumer spending, the sector has not been a strong performer in the local economy yet.

Tourism has become one of the fastest growing economic sectors in the world...

...currently accounting for 10 percent of the world's GDP, 7 percent of global trade and one in ten jobs around the world.

Overview

With its varied geography and young population, Saudi Arabia shows huge potential for tourism and entertainment in the region. Vision 2030 has emphasized economic diversification, and tourism is seen to be a vital aspect in achieving that goal.

Saudis are estimated to have spent \$26 billion in 2016 in outbound tourism, of which \$8.3 billion on entertainment, and around \$4.8 billion on domestic entertainment and tourism (Figure 2). Moreover, latest official figures show that population growth in the Kingdom is 2.5 percent annually, with 40 percent under the age of 24, indicating larger demand for tourism and entertainment in the future.

However, despite high local demand and levels of consumer spending, the sector has not been a strong performer in the local economy yet, offering sizeable growth opportunities for small and medium enterprises (SMEs), foreign investments and public-private partnership projects.

Why tourism ?

Tourism and GDP

According to the United Nations World Tourism Organization (UNWTO), tourism has become one of the fastest growing economic sectors in the world. In 2016, tourism grew by 3.1 percent, outperforming the global economy's growth of 2.5 percent, and accounting for 18 percent of international export earnings (Figure 3). In 2017, tourist arrivals grew by 7 percent year-on-year to reach 1.3 million trips around the world, UNWTO expects the number to grow by 40 percent, to reach 1.8 million trips in 2030.

Today, tourism has become one of the main players in global trade, and represents one of the major income sources for many developing countries. For example, latest data shows tourism's contribution to Maldives' GDP is 41 percent, 18 percent in Jordan, 10 percent in Turkey, 6 percent in Malaysia, and 5 percent in the UAE. Generally, tourism currently accounts for 10 percent of the world's GDP, 7 percent of global trade and one in ten jobs around the world.

In the Kingdom, latest data provided by the Saudi Commission for Tourism and National Heritage (SCTH) shows that tourism has

Figure 2: World's top tourism spenders, 2016

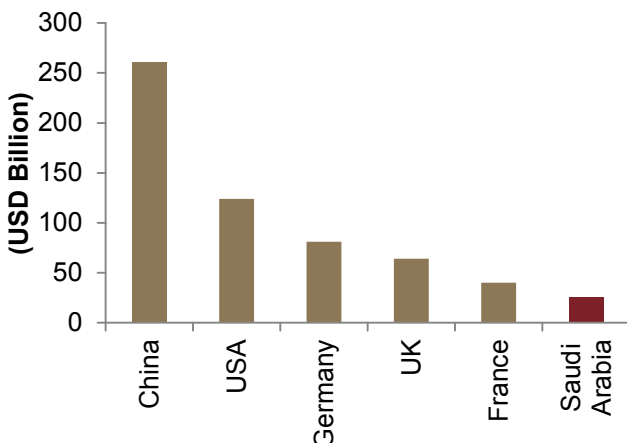
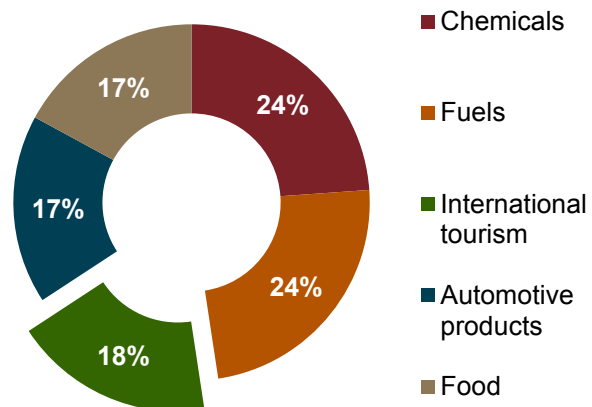


Figure 3: International export earnings by category





After excluding religious tourists, tourism represented about 1.9 percent of nominal GDP in 2016.

As jobs in tourism are mostly labor-intensive, with high variety in skills and expertise...

...the sector has the possibilities of helping reach labor market goals of the Vision 2030.

Companies in tourism and entertainment sector need to have a relatively low Saudization ratio of 16-24 percent to be in the green segment...

...but will need to pay increasing expat levies starting this year forward.

At the same time, this could also result in remarkable opportunities for Saudis.

contributed SR85.5 billion to local GDP in 2016, accounting for 3.5 percent of nominal GDP in 2016. However, this number also includes tourists visiting Makkah and Madinah, who account for 46 percent of inbound tourists. Accordingly, and after excluding religious tourists, tourism represented about 1.9 percent of nominal GDP in 2016.

Tourism and employment

Under Vision 2030, unemployment is set to decline from the current level of 12.8 to 7 percent by 2030, and female participation in the labor force is expected to increase from the current level of 17.8 percent (Q3 2017-latest) to 30 percent by 2030 (Figure 4). Within tourism, the National Transformation Plan (NTP) aims to increase the number of direct jobs in the sector from 830 thousand in 2015 to 1.2 million by 2020.

As jobs in tourism are mostly labor-intensive, with high variety in skills and expertise, the sector has the possibilities of helping reach these labor market goals in the Kingdom. Latest data provided by the General Authority of Statistics (GaStat) shows that tourism accounts for 4 percent of total employment in the local economy, with an average annual job growth rate of 1.7 percent. However, only 27 percent of tourism jobs were occupied by Saudis in 2016.

Looking at Nitaqat quotas (a policy implemented by the Ministry of Labor and Social Development, whereby Saudi companies are required to hire Saudi nationals up to certain levels in their workforce), companies in tourism and entertainment sector need to have a relatively low Saudization ratio of 16-24 percent to be in the green segment (Figure 5), which comes second after the platinum, in terms of hiring percentages and benefits. The big share of foreigners working in the sector could indicate that these companies will be challenged by the new payments of expat levies starting this year forward. In addition, latest data from the General Organization for Social Insurance (GOSI) shows that a total of 580 thousand foreign worker had left the private sector by the end of 2017. In tandem with the planned annual rise in expat levies, this number is expected to increase in 2018, which would weigh into more pressure on the labor costs of companies working in the tourism and entertainment sector.

At the same time, this could also result in remarkable opportunities for Saudis looking for job opportunities within the services sector, as companies are expected to hire nationals aiming to minimize their labor costs and follow suit with the Nitaqat quotas.

Figure 4: Unemployment rate and female participation rate targets in Vision 2030

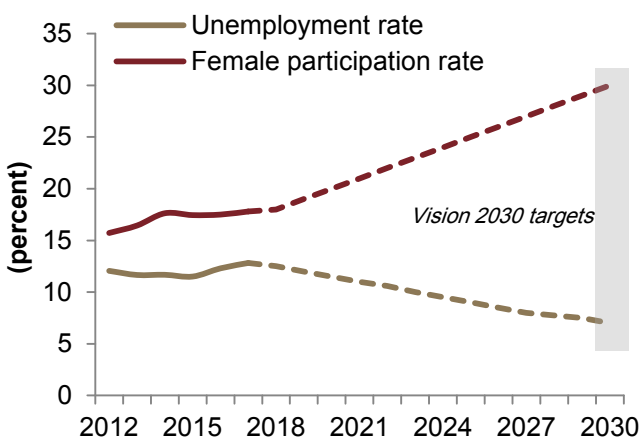
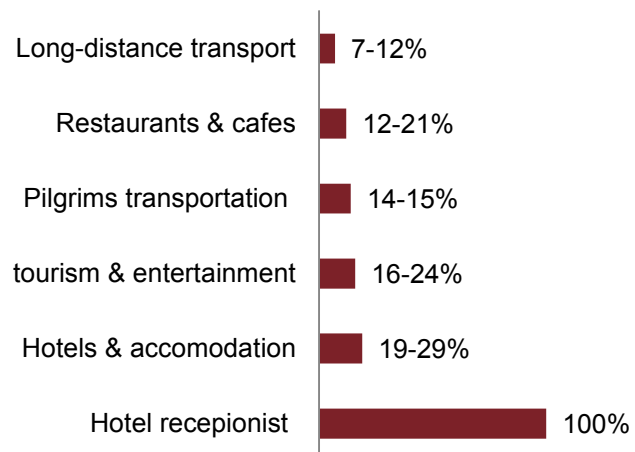


Figure 5: Nitaqat quotas: minimum percentage of Saudis in the green segment in tourism & entertainment and other related sectors





Tourism and entertainment can create a substantial source of employment through three main channels: direct, indirect and dynamic.

Tourism labor force consists of high proportion of youth and females...

...and a big number of job contracts in tourism are temporary...

...these two features could play a vital role in the Saudi labor market.

In general, tourism and entertainment can create a substantial source of employment through three main channels:

- 1) **Direct effects:** in many countries, tourism is an important source of employment in urban and coastal areas with higher population densities, where tourism may offer a formal sector employment options, and requires a minimal amount of skills and expertise.
- 2) **Indirect effects:** which evolves through the tourism value chain. Tourism can have a positive spillover effect into many other sectors, such as the food and beverages, construction and transportation. World Bank studies on developing countries show that this inter-sectorial impact can contribute an extra 60-70 percent on top of the direct effects. As per the NTP, total number of direct jobs in tourism and national heritage sector was 830 thousand in 2015. Therefore, this spillover effect could result in an increase by around 500 thousand jobs within all related sectors in the local economy.
- 3) **Dynamic effects:** tourism development can help developing the business climate for small enterprises, and tends to employ a relatively high proportion of workers in the informal sector in businesses such as food, small crafts and clothing services. As a result, tourism may be able to help small enterprises to develop, by motivating them to register and formalize, and bringing these companies into the formal sector.

Above all, employment in the tourism industry has two main features. Firstly, tourism labor force consists of high proportion of youth and females. In the European Union (EU), data from Eurostat shows that in 2016, women occupied 58 percent of jobs in tourism, compared with 36 percent in total non-financial services, and youth occupied 13 percent of tourism jobs in the EU, compared with 9 percent in total non-financial services. Secondly, a big number of job contracts in tourism are temporary, representing 44 percent of tourism jobs in Cyprus, and 21 percent in the EU.

Consequently, these two features could play a vital role in the Saudi labor market, where latest female unemployment rate is 33 percent and youth unemployment rate is 45 percent (Figure 6). According to data from SCTH's NTP targets, total tourism jobs stood at 830 thousand jobs in 2015 for both Saudis and foreigners. Based on this

Figure 6: Youth and female unemployment rates

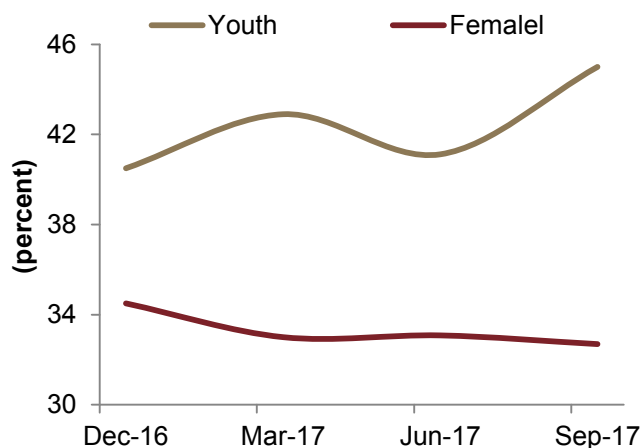
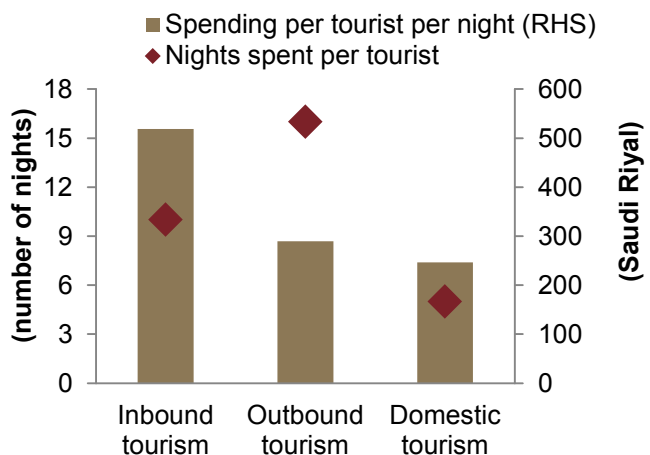


Figure 7: Tourism spending in the Kingdom, 2016





Tourism can create around 75 thousand jobs for females, and 25 thousand jobs for youth within the local economy following the NTP targets.

Most tourist trips to the Kingdom are religious trips to Makkah and Madinah...

...attracting more than 8 million Muslim visitors in 2017.

Vision 2030 aims to increase the number of Umrah visitors from 6.8 million in 2017 to 30 million by 2030.

number and the EU labor percentages, tourism can create around 75 thousand jobs for females, and 25 thousand jobs for youth within the local economy following the NTP targets. However, tourism sector data from GaStat shows that total tourism sector jobs was 559 thousand jobs for the same year, which could result in larger figures than our analysis.

In addition, temporary contracts and high seasonality in the tourism industry could lead to more job openings across different seasons, requiring lower levels of skills and expertise. As a result, temporary contracts could offer a chance for gaining practical experience, and therefore higher likelihood to secure permanent jobs afterwards.

Tourism in the Kingdom

Latest data from the SCTH shows that whilst 46 percent of tourist trips to the Kingdom in 2016 are religious trips to Makkah and Madinah, the remaining trips are family visits and business trips. All together, inbound tourism spending reached SR93 billion in 2016, with an average of SR520 spent per tourist per night, mostly coming from religious tourism (Figure 7).

Religious tourism

In 2017, religious tourism attracted more than 8 million Muslim visitors, with 1.8 million of whom came for Haj. According to the NTP, the Ministry of Haj is tasked with implementing the objective of providing the opportunity for the largest number of Muslims possible to perform Haj and Umrah. This includes raising the number of Umrah pilgrims from abroad to 15 million by 2020 up from 6.8 million in 2017. According to the Vision, this number is to double to 30 million by 2030 (Figure 8).

We believe that this anticipated growth in Haj and Umrah targets would be achievable, due to three main reasons:

1. The high average population growth in the five largest Muslim countries: Bangladesh, India, Indonesia, Nigeria and Pakistan, by 1.6 percent.
2. The rising level of household spending, as the average household expenditure in the five largest Muslim countries has increased by 78 percent in ten years between 2006-2016, raising the possibility of affording more pilgrimage trips

Figure 8: Haj and Umrah visitors from outside the Kingdom (Million)

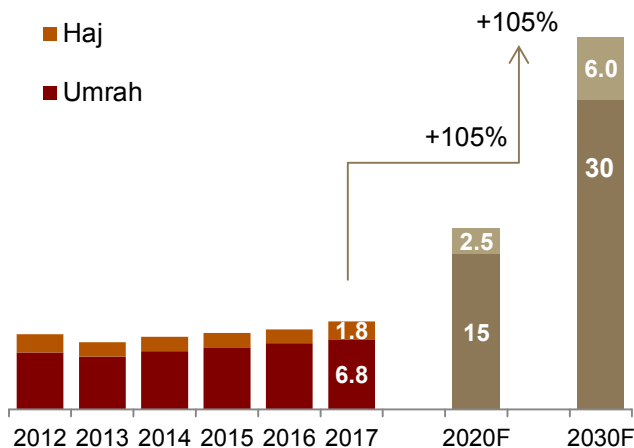
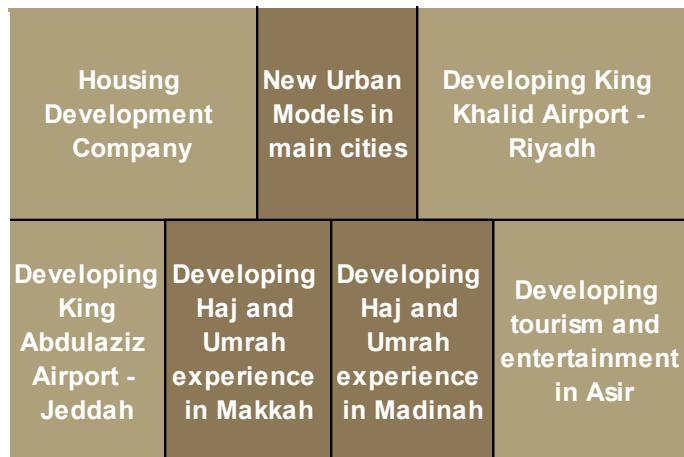


Figure 9: PIF Program: planned initiatives in the local economy between 2018-2020





The real estate, the hospitality industry and transport are key sectors that are likely to be positively affected.

The PIF Program, one of the initiatives of the Vision 2030, announced a number of projects in Makkah and Madinah as part of its plan between 2018-2020.

to the Kingdom, and resulting in higher demand for religious tourism.

3. Despite the growth in religious tourists by more than 70 percent between 2007-2017, the total number of pilgrims in 2017 represented only 1 percent of Muslim population around the world.

Currently, the average number of nights spent in the Kingdom by inbound tourists is 10 nights per visitor, which is mostly spent in Makkah and Madinah. Whilst the average is as high as 18 nights per visitor in the US, visitors spend only 7.6 nights in the UK and 3.6 nights in Dubai.

With rising quotas for Haj and Umrah visitors, and the Public Investment Fund's (PIF) plans to develop Makkah and Madinah as part of its 2018-2020 Program announced last year, the real estate and the hospitality industry are key sectors that are likely to be positively affected. Added to that, a number of transport projects are also seen to facilitate achieving these goals. One notable project coming on-line during the year is the high-speed Haramain train connecting Makkah, Madinah and Jeddah, which will further facilitate transportation in the region. Meanwhile, phase one of Jeddah's King Abdul Aziz International Airport expansion is expected to be completed before the Haj season of 2018, and should push capacity to a maximum of 35 million passengers. The second phase -due for completion in three/four years- will result in capacity rising to 65 million passengers, with the third phase pushing capacity up to 90 million, in 2030. Along with the Haramain train, the expansion in Jeddah's airport capacity is aimed at accommodating a larger number of pilgrim traffic, especially during the peak religious seasons of Ramadan and Haj.

Moreover, the PIF Program, one of the initiatives of the Vision 2030, announced a number of projects in Makkah and Madinah as part of its plan between 2018-2020 (Figure 9). In Makkah, the PIF is investing in two projects: Rou'a Alharam project and Umm Al-Qura development company. Two more projects are planned in Madinah: Rou'a Al Madinah project and Dar Al-Hijrah development company. All projects aim to develop the two cities through many large-scale developments in accommodation, transport, health, retail and infrastructure.

Figure 10: Entertainment and tourism related sectors in the consumer price index (CPI), (year-on-year change)

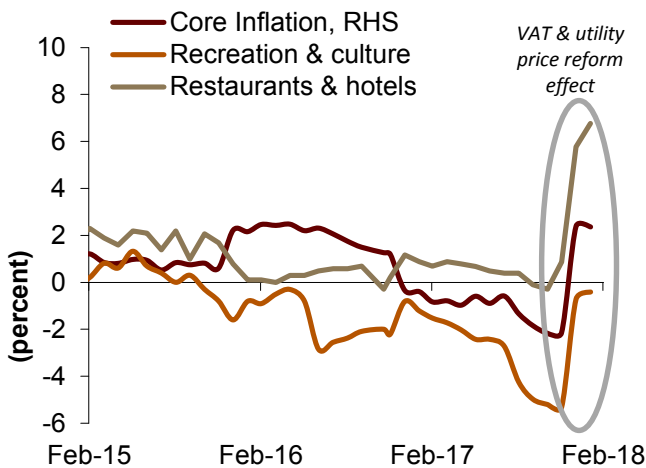
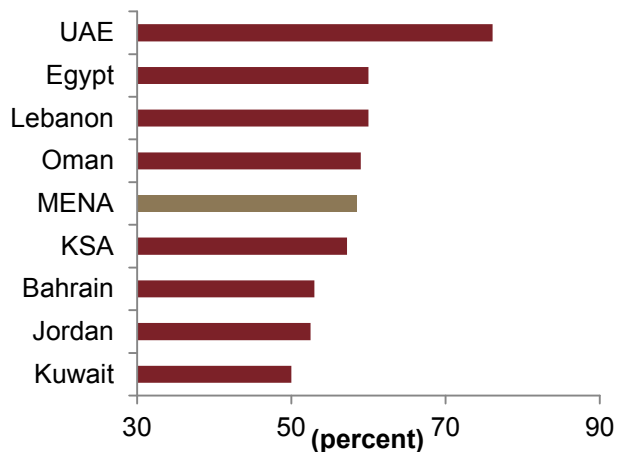


Figure 11: Hotel occupancy rates in the MENA region, 2017





The UNWTO estimates that domestic tourism represents 73 percent of total overnight stays around the world...

...and latest data shows that domestic tourism in the Kingdom represents 72 percent of total overnight stays.

With PIF's recent investments in railroads, the number of domestic tourist trips is expected to increase significantly.

Around 84 new hotels are reported to be launched during 2018, with a total of 27 thousand rooms around the Kingdom...

...however, the sustainability of these new hotels would be at risk if occupancy rates remain at current levels.

Domestic tourism

Recently, many countries have been promoting domestic tourism rather than focusing on inbound tourism, as they are experiencing increasing competition in the inbound tourism market. The UNWTO estimates that domestic tourism represents 73 percent of total overnight stays around the world. Latest data by SCTH shows that residents in Saudi Arabia took around 50 million trips in domestic traveling within the Kingdom in 2016, accounting for 72 percent of total overnight stays. However, for domestic travel, around 93 percent of residents prefer using land transport, such as cars and trains, despite the long distances between different regions in the Kingdom.

With PIF's recent investments in railroads, the number of domestic tourist trips is expected to increase significantly, added to the increasing expected number of religious tourists during the next five years. Latest data shows there are 1.3 million passengers using railroads annually, which is expected to rise if more pilgrims use Haramain train starting next year. During January and February 2018, number of passengers using railroads increased by 20.7 percent over the same period last year, as reported by Saudi Railways Organization (SAR).

In addition to improving railroads and trip facilities, around 84 new hotels are reported to be launched during 2018, with a total of 27 thousand rooms around the Kingdom. This step, taken together with improving roads and transportation infrastructure, should increase the number of domestic and inbound tourism trips.

However, increasing accommodation supply should push prices of hotel and apartment units to decline (Figure 10). At the same time, the sustainability of these new hotels would be at risk if occupancy rates remain at current levels. Figure 11 shows that the hotel occupancy rate in the Kingdom was lower than the MENA average in 2017. More hotel projects might result in lower rates and net profits, if not met by sizable increase in demand by international and domestic tourists as anticipated.

Figure 12: The impact of visa facilitation on G20 economies (increase above baseline):

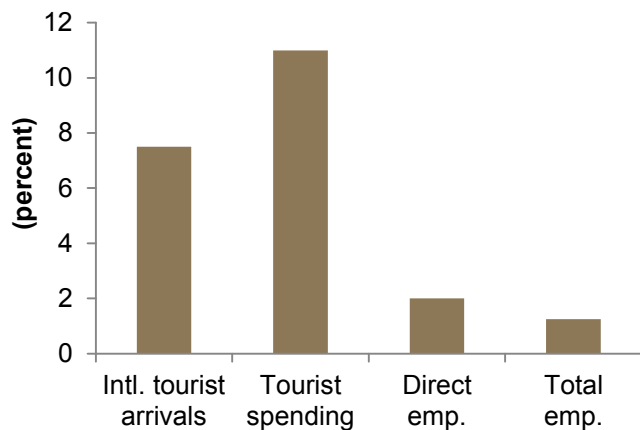
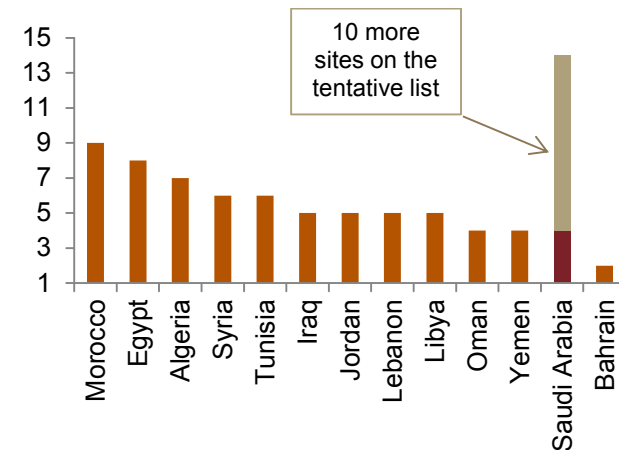


Figure 13: Number of World Heritage registered sites in Arab countries





Inbound Tourism

Tourist visas

Since 2005, the Saudi Commission for Tourism and National Heritage (SCTH) has been working to develop tourist visas.

We expect that higher demand for tourist visa depend on the application cost, the visa process facilitation and the duration of the visit granted to applicants.

The SCTH has also worked on developing the various historical sites in the Kingdom...

...as World Heritage sites can play as a marketing tool that promotes site seeing and tourism in the Kingdom.

The Kingdom has four sites registered with the UNESCO, and ten other sites on the tentative list to be considered for nomination.

Since 2005, SCTH has been working to develop tourist visas that previously had been granted on a limited scale, as part of its national tourism development strategy. Added to that, facilitating tourist visas is also one of the NTP's initiatives.

Empirical studies reveals that visa facilitation has historically increased international tourist arrivals by 5-25 percent following the implementation of certain policy changes such as facilitating the process to obtain visas, instituting eVisa programs, revising the application cost, and establishing visa regional agreements. For example, in November 2008, the US expanded its visa waiver program to include the Czech Republic, Estonia, Hungary and a number of other countries. Collectively, arrivals from these countries grew 46 percent over the following three year period (Figure 12).

Accordingly, we expect that higher demand for tourist visa will depend on the application cost, the visa process facilitation and the duration of the visit granted to applicants.

Historical sites

As part of national tourism development strategy, the SCTH has also worked on developing the various historical sites in the Kingdom, which are expected to attract a considerable pool of international tourists. Since 2008, four major historical sites in Saudi Arabia have been registered with the United Nations Educational, Scientific and Cultural Organization (UNESCO), as part of its list of World Heritage sites list (WH): Madain Saleh in 2008, Historic city of Dir'iya in 2010, Historic Jeddah in 2014, and the Rock Art sites in Hail in 2015.

Empirical studies show that the gain from a higher number of WH sites can be significant. Among other roles, WH sites can play as a marketing tool that promotes site seeing and tourism, especially in countries where promoting tourism is emerging, as it is the case in the Kingdom. At the same time, the registration would require continuous efforts with ongoing costs, starting with the application process. After that, costs cover payments to meet UNESCO requirements such as monitoring, periodic reporting and maintenance of the sites. Finally, there are costs associated with the WH status-related activities. That said, it seems that the Kingdom is bidding on the benefits of the registered sites to promote international tourism, as it already has ten sites on the tentative list to be considered by the UNESCO for nomination. Until now, there are 1073 registered sites in the WH list around the world. Compared to other Arab countries, the Kingdom's four sites registered, in a short time, might increase inbound tourism competition with similar historic sites in the region (Figure 13).

One of the most famous WH sites is Madain Saleh in Al-Ula, which dates back to the first-century Nabataean Kingdom, the same civilization as Petra in Jordan. While Petra receives 600 thousand visitors per year, and enjoys 48 hotels, Madain Saleh has only 2



While Petra in Jordan receives 600 thousand visitors per year, and enjoys 48 hotels, Madain Saleh has only 2 hotels nearby, and only one hotel announced to be under construction.

Tourism and entertainment NTP goals are found within a number of entities.

The NTP acknowledges the importance of the private sector inclusion in the development process.

hotels nearby, and only one hotel announced to be under construction.

In addition to hotels, developing the historical sites needs more attention to transportation. For example, the main project that would facilitate transportation to and from Hail, is the new daily route by the Saudi Railways Organization (SAR) connecting Riyadh, Qassim and Hail, that went fully online during 2017. For the northern region, a new highway has been announced to be under construction connecting Tabuk, Al-Ula and Madinah, which should serve both visitors to Madinah and Madain Saleh, especially the ones coming from Jordan and Egypt.

Added to that, there are a number of ongoing projects around the WH sites, including entertainment activities, museums, shopping malls, bazaars and antique shopping areas.

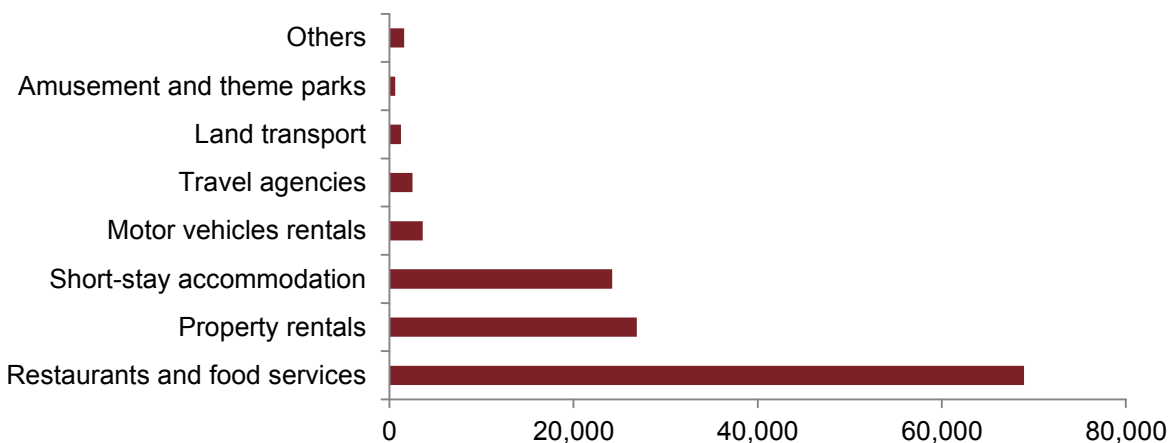
Future plans

The NTP has set goals for most governmental entities up to 2020, as a first stage towards achieving the Vision 2030 goals. Tourism related goals are found within a number of entities; the SCTH, the Ministry of Haj and Umrah (MHU) and the Ministry of Economy and Planning, which later led to initiating a separate entity for entertainment, the General Entertainment Authority (GEA) in 2016. The SCTH has been tasked with developing touristic destinations and events with an increased investment targets, raise awareness of national heritage sites, and develop tourism services.

To achieve these goals, total tourism spending is set to rise as the NTP expects a significant rise in the number of hotels and hotel apartment rooms, from 447 thousand in 2015 to 622 thousand rooms by 2020. Meanwhile, MHU's KPIs include a number of other goals to increase religious tourism, such as increasing total revenue from partnerships with the private sector. MHU is set to increase the number of trained workers in the Haj and Umrah related sectors to be able to accommodate and help the rising target number of pilgrims, from 1.5 to 2.5 million Haj pilgrims, and from 6 to 15 million Umrah visitors by 2020.

That said, the NTP has identified a number of initiatives that will be vital for achieving its goals by 2020, and even for Vision 2030. A

Figure 14: Number of companies within tourism and entertainment in 2016 (latest)





One of the main goals of the Vision 2030, is to increase Saudi household spending on domestic entertainment from 2.9 to 6 percent of total spending.

There seems to be a number of stakeholders working in the entertainment area.

GEA has indicated that the entertainment sector needs SR267 billion of investments up to 2030.

number of historical cities will be developed further to attract local and international tourism, such as Al-Ula, Okaz, Farasan Island, Alrras al'abyad and Uqair. At the same time, the NTP acknowledges the importance of the private sector inclusion in the process, as a number of financing initiatives are also included, such as Kafalah, that aims to finance SMEs, and more recently a new program to finance local projects in tourism was launched between the Ministry of Finance and the SCTH.

The Entertainment Sector

One of the main goals of the Vision 2030, is to increase Saudi household spending on domestic entertainment from 2.9 to 6 percent of total spending, to reach SR36 billion by 2030. According to GaStat's latest household survey in 2013, total Saudi household spending reached SR17.8 billion on recreation and culture, which includes spending on entertainment activities and destinations, among other items.

In 2016, GEA was established in order to secure a considerable share in Saudis' spending on entertainment abroad, which reached \$26 billion in 2016, which will help creating job opportunities across the local economy (Figure 15).

Within the emerging entertainment sector, there seems to be a number of stakeholders working in the field. The list includes GEA, as the entertainment legislative entity, facilitating and licensing entertainment events around the Kingdom. Secondly, SCTH in developing touristic sites and a number of cultural events. Thirdly, the General Culture Authority, established in 2016 to foster cultural activities in the Kingdom. Fourthly, the General Commission for Audiovisual Media (GCAM), which is tasked with licensing the newly reinstated cinema movies. And the final stakeholder is the PIF, recently acting as a major investment hub for entertainment activities in the Kingdom. Going forward, we expect to see the PIF getting into more public-private partnerships, as part of the fund's strategy to develop new sectors in the local economy.

GEA has indicated that the entertainment sector needs SR267 billion to build the suitable infrastructure for entertainment across the Kingdom, and the amount of expected investments in the

Figure 15: Latest unemployment rates in regions with large entertainment and tourism projects

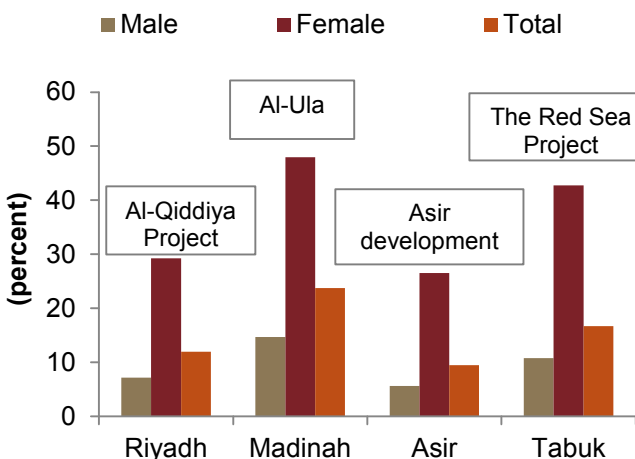
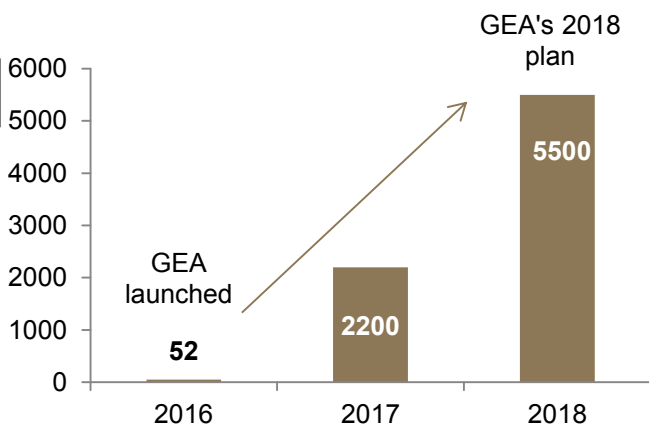


Figure 16: Number of entertainment events by GEA





The PIF has recently announced launching an entertainment company, with an initial capitalization of SR10 billion.

The PIF initiatives include a number of other tourism and entertainment projects around the Kingdom.

With cinemas back in the Kingdom, other sectors are expected to benefit from spillovers effects of the latter development...

...especially advertising and food retail.

entertainment sector could reach SR18 billion annually, between 2017 and 2030 (Figure 16). Recently, the Kingdom has signed several contracts with US entertainment companies such as AMC theatres for cinemas, in addition to Six Flags, National Geographic, Cirque Du Soleil and IMG Artists, to operate amusement parks and live shows in Qiddiya project and other locations in the Kingdom.

Meanwhile, as part of the PIF Program, the fund has recently announced launching the Development and Investment Entertainment Company (DIEC), with an initial capitalization of SR10 billion, which will act as an operational as well as an investor in the Kingdom's entertainment sector. The company, is also responsible of building and operating major entertainment theme parks and entertainment villages, with the first project to be inaugurated next year.

Other PIF initiatives include developing tourism and entertainment in Asir region, southwest Saudi Arabia, and also establishing a Heli-Taxi company for private sightseeing and tourism by using helicopters. According to the 2018 budget statement, the PIF is planning to invest a total of SR42 billion (out of SR83 billion) on 'new' projects in 2018. We expect this to include PIF's giga-project, the Qiddiyah entertainment city, which will move to phase four, from planning to building, during 2018, as the project's cornerstone ceremony is going to take place in April 2018.

Cinemas, back to the Kingdom

With almost 40 percent of population below the age of 24 (Figure 17), the Kingdom's decision to lift the 35-year ban on cinemas last December has opened up opportunities for international and regional companies to help develop the domestic entertainment industry. Globally, the 18-24 age group was the most overrepresented age group in terms of tickets sold in the US and Canada, accounting for 10 percent of population and 16 percent of tickets sold in 2016. Indeed, other sectors are also expected to benefit from spillovers effects of the latter development, especially advertising and food retail.

The PIF has taken the initiative to lead the local cinema industry, by signing a deal to form a joint venture between DIEC and the US cinema chain AMC Entertainment, to open cinemas in the Kingdom,

Figure 17: Total population in the Kingdom, 2017

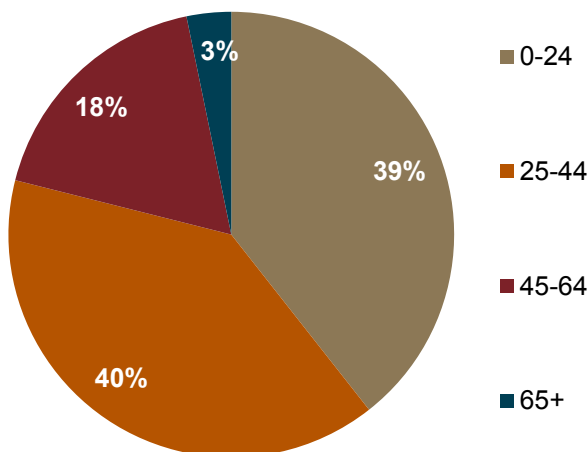
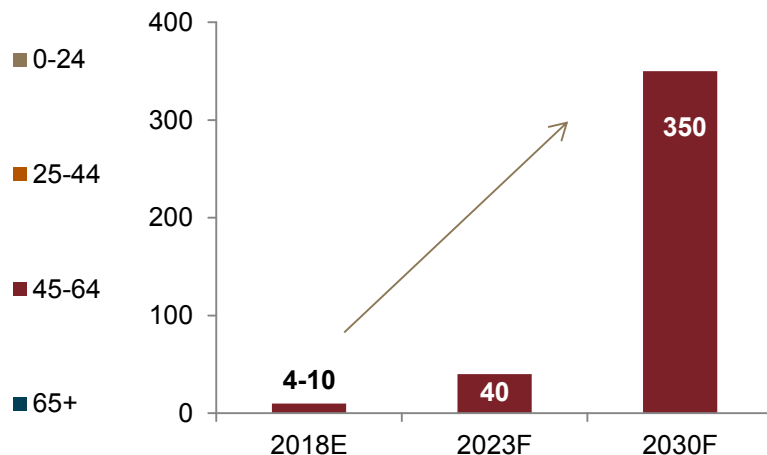


Figure 18: Planned number of cinema theatres in the Kingdom up to 2030





Annually, Saudi cinema visitors are expected to spend \$480 million at cinema theatres, on tickets, food and related retail products.

Tourism enterprises constitute only 12 percent of SMEs in the Kingdom...

...with the proportion of art, entertainment and recreation enterprises only 0.2 percent of total SMEs.

The retail sector in general will be challenged with rising costs.

with the first movie screen opened in Riyadh on the 18th of April 2018, and about 30 movie screens to be opened in 15 cities around the Kingdom within five years. The PIF is expecting to see 300 cinemas with more than 2000 screens around the Kingdom by 2030, and forecasts the sector to be worth of around \$1 billion over the next few years (Figure 18).

The UAE and Saudi Arabia are the two GCC largest markets, together accounting for more than 80 percent of the total GCC retail market. Looking at the UAE as a comparable market, recent data shows that UAE residents go to cinemas 13 times a year on average, which is four times higher than the global average figure. Annually, UAE cinema visitors spend about \$140 million at cinema theatres, on tickets, food and related retail products, accounting for 0.1 percent of total UAE spending in 2017, according to the Dubai Chamber of Commerce and Industry. Locally, this share would be equivalent to \$480 million of potential household spending, or 0.3 percent of current non-oil GDP, once cinemas and related retail product services are efficiently established in the market.

Challenges and opportunities

Whilst tourism enterprises constitute 60 percent of total SMEs in the EU, the share is only 12 percent in the Kingdom (Figure 19). Moreover, within the tourism enterprises, there is a big divergence between the proportion of art, entertainment and recreation enterprises between the EU (47 percent of total SMEs) and Saudi Arabia (0.2 percent of total SMEs), offering a great potential for growth for these SMEs in the local economy, with the anticipated expansion in the sector.

Looking ahead, tourism and entertainment sector as a retail sector in general is expected to face a number of challenges: firstly, companies are expected to deal with financial challenges that include rising labor costs related to expat levies and Saudization, higher commercial electricity prices, VAT and rising cost of funding resulting from higher interest rates. Secondly, inflationary challenges might arise, as local prices can be affected if small local areas are transformed into touristic sites, resulting in higher prices for food and services for local residents. Thirdly, despite the positive spillovers

Figure 19: Share of tourism enterprises in total SMEs, EU and KSA

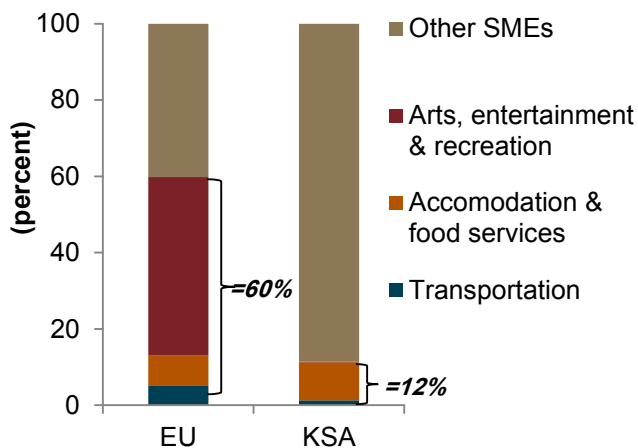
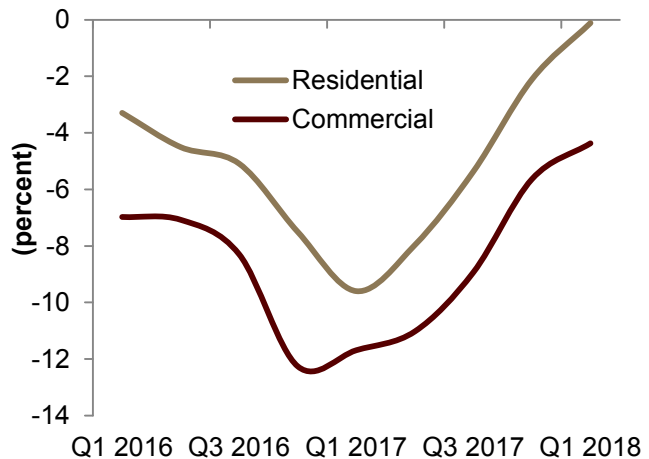


Figure 20: Real estate price index (year-on-year change)





A major development is the strong political will to enable the sector to be a strong performer in the local economy.

Another positive development for the sector is the decline in commercial property prices.

Going forward, more opportunities are likely to arise from building public-private partnerships.

coming from foreign direct investments such as international hotel chains and tourism companies, it could also be seen as a risk factor, if local companies are not sufficiently developed to compete and add to the local economy.

Despite the difficulties facing the sector, there are some notable upsides. A major development is the strong political will to enable the sector with the needed cultural environment, and support it to become a strong performer in the plan of economic diversification, in accordance with Vision 2030. That said, the government has taken the lead in initiating entertainment and touristic projects and investments, with a number of new entities to monitor and enhance the sector's development as needed.

As for the costs side, one positive development that might help mitigating the companies' rising expenses is the decline in commercial property prices, which, according to the latest real estate pricing index published by GaStat, were down by 4.4 percent year-on-year in Q1 2018 (Figure 20). Lower real estate prices will help lower rental costs, which is likely to be a key consideration in the expansion plans of retailers, especially for movie theatre operators. In addition, we expect the commencement of payments under the Citizen's Account to improve the level of disposable income of some lower income households, with this additional income likely to be directed towards consumption of retail goods and services.

Going forward, more opportunities are likely to arise from building public-private partnerships, which provides extensive training and learning by doing. In addition, regional governments can play a vital role in supporting SMEs through initiating partnerships between regional hotels, tour operators, transport providers, vendors, entrepreneurs and government departments to address obstacles and build partnerships on a regional level. Through the adequate government support, the private sector could benefit from the growing tourism and entertainment market and from the economies of scale provided by the emerging tourism and entertainment sector, helping the government to reach the goal of diversifying the local economy away from oil.



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