Key Themes:

• Religious tourism should flourish as the Kingdom completes expansion of the Holy mosques while the fear from MERS virus is well behind us. Colliers expects visitors to Makkah and Madinah to reach ~25mn by 2025 from just over 17.5mn in 2014. To meet this growing demand, the government is investing considerably in developing the infrastructure, mainly related to transport, such as the High Speed rail and Metro projects in Makkah, as well as the expansion of the Prince Mohammed Bin Abdulaziz Airport in Madinah.

• About 43% of the hotel supply in Makkah and 46% in Madinah is three stars and above, highlighting that there could be oversupply of premium hotels which may explain the growing popularity of branded economy hotels and apartments in both the regions.

• There are 250 tour operators in the kingdom, which cater primarily to religious tourism. We believe this number is expected to grow further given the increasing inflow of tourists along with growing business and leisure tourism. In addition, with bus being the primary mode of transport, the airport expansion and rail transport development is much needed and should draw even more visitors, especially as Saudi Arabia increases capacity of the Masjid Al Haram to accommodate 2.5mn worshippers.

• Business tourism is growing fast on the back of strong economic growth and the government’s focus on developing other pockets of the economy. Currently this is concentrated in the three major cities of Saudi Arabia, which are: Riyadh, Jeddah and Al-Khobar. The government is investing heavily in improving transport infrastructure in these cities to attract more business tourists and increase the flow of domestic tourists.

• Premium hotels dominate the supply in the three cities and given the increasing number of business tourists in the cities, luxury brands should continue to prosper. In addition, there is considerable potential for the economy hotel segment, as the growing Asian travelers are more price-sensitive. Branded residences are also gaining popularity among the wealthier tourists (mainly business travelers).

• Other areas that are gaining traction in the Kingdom are entertainment centers located in the malls or indoors. Given KSA’s young population; theme park hotels also have great potential.
Overview of Hospitality Sector

Hospitality sector has gained importance in GCC countries. Historically, GCC economies have been heavily reliant on oil. However, the region has witnessed several economic changes in the past decade as governments focused on non-oil sectors. Tourism is a primary driver for the hospitality sector. As of 2011, accommodation (33.0% of total spending) formed the largest share of tourist spending.

Of the region’s total accommodation, which stood at 458,045 rooms at the end of 2013, Saudi Arabia (63.6%) accounted for the largest share. Between 2006 and 2013, the kingdom added the highest number of hotel rooms, which stands at 95,627, registering a CAGR of 9.5%.

Religious Tourism – On an upswing

Tourism activities in Saudi Arabia are centered on the holy cities of Makkah and Madinah, the western part of the kingdom. The hospitality market for both cities is closely related as pilgrims perform Hajj or Umrah in Makkah and then travel to Madinah to visit Al Masjid An Nabawi (the Prophet’s Mosque).

Increased number of tourists drives religious tourism

Every year, the number of tourists has increased both in Makkah and Madinah. Generally, tourist arrivals increase in the month of Ramadan, which is held mostly in September-October. Hajj visit, an auspicious, mandatory and once-in-a-lifetime opportunity for any Muslim, has witnessed a surge since 2012, with the number of pilgrims increasing at a CAGR of 5.0% to 3.2mn during 2002–12. In 2013 and 2014, the number of pilgrims fell to about 2.1mn because of visa restrictions (due to expansion of Holy Mosques (Haram and Al Masjid an Nabawi) and the fear of Middle East Respiratory Syndrome (MERS) virus. We expect the number of Hajj tourists to increase in the near future and even surpass the historical levels as the constraints remain short term.

Between 2014 and 2025, the number of annual visitors to Makkah is expected to increase at a CAGR of 4.0% to ~16mn, while that to Madinah will expand at a CAGR of 3.0% to ~9mn.

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1 Hospitality industry can be broadly defined as an industry that includes lodging, food, entertainment and transportation.

2 Al-Hokair Prospectus
Accommodation segment well established with opportunity in economy hotels

Premium hotels dominate the Holy cities

The hospitality sector in Makkah can be classified into two parts; the high-quality international branded luxury hotel market and unbranded & unfurnished hotels. In Makkah, the total supply of rooms was 107,209 at the end of February 2014, with 13% (five-star), 11% (four-star), and 19% (three-star). About 37% of the total hotels remained unbranded. The properties located near Masjid Al Haram (Central area) are dominated by five-star hotels, with higher average daily rates (ADRs) during the Hajj season, whereas properties outside the central area command lower ADRs. Major five star hotels present in Makkah include Swissotel Makkah, Moevenpick Hotel & Residence Hajar Tower Makkah, Pullman ZamZam Makkah, Royal Dar Al Eiman, Al Marwa Rayhaan, Hilton Makkah Hotel, Al Marwa Rayhaan by Rotana, Hotel Al Shohada, Raffles Makkah Palace, Makarim Umm AlQura Hotel, Elaf Kindah-Makkah, Dar Al Ghufran, Makkah Clock Royal Hotel, and Intercontinental Dar Al Tawhid Makkah. In 2014, Makkah was able to maintain higher levels of Revenue per room (Revpar). At the start of Hajj, Makkah achieved RevPar of about SAR 2,000.

In Madinah, the total supply of rooms was 46,536 at the end of February 2014, with 17% (five-star), 6% (four-star), and 23% (three-star). However, Madinah also has a higher proportion of one - and two - star hotels accounting for 45% of the overall supply. Major local hotel brands such as Al Ansar Hotels Company and Mubarak Group have a strong presence in the region. In 2014, Madinah too maintained higher levels of RevPar, with levels touching SAR 1,100.

Hajj & Eid Makkah & Madinah Daily performance comparison (10th – 19th October 2013 vs. 02nd- 11th October 2014)

Hotels are the predominant form of accommodation in both the cities (96% in Makkah, for e.g.) while furnished apartments are gaining prominence as an alternative.
There is considerable scope for the economy segment

Makkah is estimated to receive around 17mn visitors per annum by 2025. There is a vast potential for the growth of branded economy hotels given their low penetration currently. Ajyad Municipality is an ideal location as it is situated near Haram. Similarly, there is scope for development at Aziziyah District. Moreover, there is scope for development at Zahra District, which, although relatively farther, caters to high flow of pilgrims.

In Madinah, pilgrims are expected to touch around 10mn by 2025. About 25 hotels (over 6,000 rooms) have been demolished for the redevelopment of the Central area. This has created a supply gap, which can be backfilled by constructing economy hotel rooms around Haram. The pilgrim city is under development, with an aim to provide lodging to 0.2mn pilgrims; however, no announcement has been made for economy hotels, which is a big opportunity for new investment. Furthermore, economy hotels utilize less space, making them ideal for Madinah, where developers are keen on maximizing space utilization.

It is estimated that 577 branded economy hotel rooms were available in Makkah at the end of 2013; this number is forecast to rise to 7,848 at the end of 2018. Similarly, branded economy hotels in Madinah are expected to increase to 986 at the end of 2018 from around 80 at the end of 2013.

Business tourism to benefit from the Kingdom’s economic growth

Economic growth and diversification will drive the business tourism

KSA’s economy is one of the strongest across the Middle East driven by oil revenues, strong private sector activity and government spending. The kingdom is the largest oil producer in the OPEC, the second largest globally with a production rate of ~11.5mn bpd (2013). Fiscal buffers are strong, providing macroeconomic policies with scope to respond to shocks. The economy grew 4.0% in 2013, much lower than 5.8% in 2012, but growth rate is expected to hover back to ~4.6% in 2014.

To mitigate the impact of fluctuating oil prices on its fiscal position, the government has been investing in developing the non-oil sector. According to IMF, large scale infrastructure projects and spending on housing will continue to support non-oil sector growth. Moreover, inflation is expected to remain subdued, which will keep a check on the interest rates across the Kingdom and spur investment.
Robust growth in MICE helps boost the tourists across Kingdom

The MICE (Meeting, Incentives, Conferences and Exhibitions) segment in the GCC region has expanded significantly over the past couple of years backed by growing number of MICE facilities and pro-business and tourist-friendly policies. According to the International Congress and Convention Association (ICCA), the number of international association meetings in the Middle East has doubled each decade in the last 50 years, and more than tripled in the last 10 years. The MICE industry in the region is set to expand in the near future, as the region continues to attract high-profile global events and continues to invest in building infrastructure.

In addition to around 600 conferences or meetings venues that host approximately 0.1mn meetings per year, Saudi Arabia has begun expansion of Riyadh International Convention & Exhibition Centre. The Saudi Council of Ministers issued a national decree forming the Saudi Exhibition and Convention Bureau (SECB). The SECB is overall governing and developmental organization for MICE for KSA. It has been established to develop the area of exhibitions and conferences in economic, cultural and social sectors that will boost business tourism.

Saudi Arabia’s well-developed air transport system to boost business tourism

Saudi aviation sector is well developed with more than 90% of the country’s domestic market controlled by Saudia (the national carrier), which operates a fleet of 115 aircraft and transports about 70,000 passengers daily (24mn annually on 0.17mn flights). Moreover, the airline has allocated 65% of the flights to meet local demand to bridge the domestic demand and supply gap. In 2011, Saudi Arabia’s General Authority for Civil Aviation (GACA) opened up the domestic aviation sector to foreign airline operators. Consequently, Qatar Airways and Gulf Air have been granted licenses to establish new airlines in Saudi Arabia. Moreover, to cope with the increasing number of visitors, the Saudi government has outlined a plan to invest more than USD 30bn in its airports by 2020.

Even the regional air passenger movement in Saudi Arabia is better (except UAE) than most of the other GCC counterparts. KSA recorded a 16.9% CAGR in its total passengers travelling through air between 2009 and 2012 to 50.3mn. Although, UAE has high absolute volume of passengers, the CAGR (2009-2012) was below Saudi Arabia, indicating that if the Kingdom’s plan to increase the passenger growth materializes, it will be able to match the UAE in the near future.
Passenger Movement for major cities

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>8.7</td>
<td>8.6</td>
<td>7.6</td>
<td>8.5</td>
<td>7.4</td>
<td>-4.0%</td>
</tr>
<tr>
<td>Kuwait</td>
<td>8.1</td>
<td>8.3</td>
<td>8.5</td>
<td>9.0</td>
<td>9.4</td>
<td>3.8%</td>
</tr>
<tr>
<td>Oman*</td>
<td>4.5</td>
<td>5.5</td>
<td>6.5</td>
<td>7.5</td>
<td>8.3</td>
<td>16.5%</td>
</tr>
<tr>
<td>Qatar*</td>
<td>13.3</td>
<td>15.9</td>
<td>18.2</td>
<td>21.2</td>
<td>23.3</td>
<td>15.0%</td>
</tr>
<tr>
<td>Saudi Arabia**</td>
<td>31.5</td>
<td>35.0</td>
<td>41.0</td>
<td>50.3</td>
<td>70.0</td>
<td>22.1%</td>
</tr>
<tr>
<td>UAE*</td>
<td>49.5</td>
<td>57.7</td>
<td>63.4</td>
<td>72.4</td>
<td>83.0</td>
<td>13.8%</td>
</tr>
</tbody>
</table>

Source: HVS; * Passenger movement is only for major cities, ** Forecasted for 2014

Luxury hotels dominate but economy segment becoming popular

Influx of luxury hotels around the business cities

Hotel-Vital Parameters

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ADR (SAR)</td>
<td>939</td>
<td>0.6%</td>
<td>903</td>
<td>6.9%</td>
</tr>
<tr>
<td>RevPar (SAR)</td>
<td>543</td>
<td>-2.7%</td>
<td>703</td>
<td>8.5%</td>
</tr>
<tr>
<td>Occupancy</td>
<td>58%</td>
<td>-3.3%</td>
<td>78%</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

Source: PWC

- **Riyadh**: Riyadh, the capital of KSA, is a prime destination of corporate tourism. The demand generator is the Central Business District (CBD) along King Fahd road, as it is close to headquarters of many financial institutions and ministries. The four and five star hotels constituted ~66% of the total rooms at the end of 2012, indicating that luxury hotels are the first choice of business travelers. The market performance in terms of ADR and RevPar was affected by the global crisis in 2010. However, the demand increased 2011 onwards, when the ADR, RevPar and occupancy increased.

- **Jeddah**: Jeddah is an important market for developing business tourism. A large number of hotels in Jeddah were re-categorized in 2009 in line with the SCTA’s efforts to follow global standards. It is notable that four and five-star hotels dominated the market in Jeddah with expected 76.5% of the available supply in 2012. The occupancy rates have historically been higher in Jeddah as compared to Riyadh. Jeddah has seen higher occupancy as it is inundated with domestic tourists.

- **Eastern province**: The Eastern Province is an important hub for the industrial sector in KSA, particularly the oil industry as it captured ~86.0% of the basic industries sector. Dammam and Al Khobar benefit from increased domestic tourism geared towards servicing the oil sector. The occupancy rates have historically been lower in Eastern Province as compared to Riyadh and Jeddah. Moreover, the 2010 global crisis led to occupancy levels going below 50%. However, the market recovered 2011 onwards and showing signs of growth. The four and five-star hotels dominated the market in Eastern Province, with 67.4% of the available supply in 2012.
Development of economy hotels has an investment potential

The economy hotels are in great demand from the price-sensitive tourists across the business cities. In Riyadh, Al Falah/Al Shuhada district (North of Riyadh city) is occupied with low end, unbranded service apartments. Similarly, there is an opportunity for investment in the economy hotels in Al Malaz District, located to the south of Military Air Base. The area benefits from a central location and its ease of access to Riyadh's city centre and train station. In Jeddah, Al Hamra District has high potential for branded economy hotels as it has a high population along with easy access to the city centre, corporate offices, embassies and the Corniche. Similarly, the Jeddah Gate (mixed-use project) offers branded economy hoteliers an opportunity as the place will have 6,000 residential units, 0.23mn sqm of commercial space and 0.075mn sqm of GLA. At the end of 2018, KSA’s hotel market is expected to be supplied with 11,626 economy rooms, out of which Riyadh and Eastern Province will have 1,555 (13% of the total) and 1,237 (11% of the total) rooms, respectively.

Luxurious branded residence has investment prospects

Branded residences are similar to normal residential apartments, but have an affiliation with a hotel brand, and offer services to end users and investors. The branded residences in KSA is at an early stage of development, with high potential being seen at specific locations like Riyadh and Jeddah, where there is large concentration of high net worth individuals. According to Wealth-X and UBS World Ultra Wealth Report 2013, there are 1,360 ultra-high net worth individuals (HNWIs) in KSA with assets worth over USD30mn. Another 110k HNWIs have more than USD1mn. This indicates that branded residence property developers in the Kingdom have sufficient HNWIs to target.

An example of the branded residence is Millennium Hotels & Resorts that are due to bring the first fully branded hotel residences to Jeddah in 2017. It includes a 305 key hotel in the city which will include a mix of hotel rooms, serviced apartments and branded residences.

Scope of development of luxury brands is still positive

Although the business cities are inundated with luxury hotels, there is scope for the development of luxury hotels. For example, Kempinski is expected to open its first hotel in Jeddah (220 rooms) in 2015. Separately, Le Meridien is expected to open a hotel in Riyadh in 2016, offering 230 rooms.
Serviced Apartments too has growth potential

The current demand for serviced apartments (furnished apartments) stems from the Saudi nationals. According to SCTA, 89% of the overall demand in KSA for furnished apartment units originates from the local market. However, with the increase in international visitors, the need for internationally branded service apartments will increase in the near future.

Key Performance Indicators of Service Apartments

<table>
<thead>
<tr>
<th></th>
<th>H1 2013</th>
<th>% change from H1 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Riyadh</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Occupancy</td>
<td>74.6%</td>
<td>-3.4%</td>
</tr>
<tr>
<td>ADR (SAR)</td>
<td>366</td>
<td>-1.5%</td>
</tr>
<tr>
<td>RevPar (SAR)</td>
<td>273</td>
<td>-4.8%</td>
</tr>
<tr>
<td><strong>Jeddah</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Occupancy</td>
<td>70.9%</td>
<td>-2.1%</td>
</tr>
<tr>
<td>ADR (SAR)</td>
<td>379</td>
<td>+11.0%</td>
</tr>
<tr>
<td>RevPar (SAR)</td>
<td>269</td>
<td>+8.7%</td>
</tr>
<tr>
<td><strong>Al Khobar</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Occupancy</td>
<td>68.1%</td>
<td>+4.6%</td>
</tr>
<tr>
<td>ADR (SAR)</td>
<td>386</td>
<td>+2.7%</td>
</tr>
<tr>
<td>RevPar (SAR)</td>
<td>262</td>
<td>+7.5%</td>
</tr>
</tbody>
</table>

Source: Colliers International 2013

Leisure Tourism – Untapped market

The leisure tourism vastly remains untapped and an area of huge investment potential. As of 2011, 54mn visitors visited KSA, home to 245 entertainment centers (registered at SCTA), including FECs, outdoor parks, water parks, and zoos. There are many unregistered entertainment centers in the country. Most parks are indoors due to hot weather conditions in the country.

The young population of KSA (69% of its inhabitants under the age of 35) and higher disposable income has led to the increased demand for entertainment offerings. The nominal spending on the entertainment increased 37% between 2005 and 2010 to SAR 40bn.

Riyadh is home to a large number of entertainment centers, with most of the centers being indoors, i.e., within malls. There are around 50 public parks in Riyadh. The number of visits to entertainment centers in Riyadh increased from 10.5mn in 2009 to 11.3mn in 2012, with average spending on games, toys, and food per customer rising from SAR 60.8 in 2009 to SAR 65.7 in 2012. Moreover, Riyadh boasts of historical places such as the beautiful 19th century Masmak Castle and in addition, Al Faisaliyah Center, the first skyscraper and the second tallest building in Saudi Arabia.

Jeddah is home to Corniche, and promenades by the Red Sea, interspersed with fountains, parks, lakes, and kiosks. The coastal location makes it a popular destination for water sports such as diving, surfing, and sailing. Jeddah witnesses the highest number of visitors to entertainment centers in the country, with 11.6mn visits in 2012, with average expenditure on games, toys, and food per customer being SAR 114.7.

Al-Khobar offers a balance of indoor and outdoor activities. Indoor entertainment includes many modern malls, restaurants, and boulevards with various shops operated by international franchises. Outdoor activities include amusement parks (Castle Park) and zoos.
Non-Accommodation hospitality to witness strong growth

Theme park hotel has great potential in Saudi Arabia

The theme park hotel is primarily a concept that has great application in the western countries, primarily US. They can be broadly classified into two parts: inner-circle hotels, located within the theme park and outer-circle hotels situated on the periphery and are usually non-themed or only lightly themed. Inner-circle theme parks are often found to have consumer and international brands such as ‘Disney Hotels’ and ‘Hard Rock Hotels’. Moreover, around certain theme parks, locally/regionally branded hotels and unbranded hotels target budget-conscious families by providing a lightly themed experience. An investor can tap into this segment, which largely remains untapped. Moreover, there should be a strategy to target customers who attend meetings and conferences (For e.g. business travelers in MICE segment) that would soften the impact of seasonality.

Development of niche sports is an opportunity

Saudi Arabia can attract more tourists by hosting international games like F1 race or soccer World Cup. For example, GCC countries like Bahrain and UAE hosted F1 race, while Qatar is due to host the FIFA World Cup in 2022. Apart from attracting global tourists, such events post high revenues and profitability to the investors.

Fast growing casual dining restaurants have an investment potential

Casual dining restaurants are increasing in Saudi Arabia, with international brands like Applebee's, Outback Steak House, Chilis and TGI Fridays have marked their presence. According to SCTA, the number of restaurants in KSA was estimated at 26,166, while the number of cafés was estimated at 2,244 in 2010. The value of food purchased by these restaurants and cafes to produced meals was estimated at USD 4.2bn. Further, it is expected that there would be 17,000 casual dining restaurants at the end of 2014, while the total industry would be worth SAR 28.9bn. A new investor still has vast potential to enter this space as it is positively influenced by three major factors — higher disposable income, global exposure and limited sources of entertainment — together with the ever increasing number of malls in the country.

One day excursions can be explored commercially

One-day excursions are popular among the local population, but often do not have a high economic value, because they are organized as picnics with food and beverages brought from home without consuming anything at the destination. In order to open the market for excursionists, places of interest need to be developed into sightseeing sites with attractive facilities, for which an entry fee can be charged.
Government supporting growth by way of building transport infrastructure

To meet the requirements of the growing inflow of religious tourists, the Kingdom is making considerable investments for building up its infrastructure.

### Major non-hotel infrastructure projects in the holy cities

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Primary Sector</th>
<th>City</th>
<th>Project value (USD bn)</th>
<th>Phase</th>
<th>Completion date</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRO - Haramain High-Speed Rail (HHR)</td>
<td>Infrastructure</td>
<td>Makkah</td>
<td>29.1</td>
<td>DB - Execution</td>
<td>Q2 2016</td>
</tr>
<tr>
<td>Holy Makkah Municipality - Makkah Metro</td>
<td>Infrastructure</td>
<td>Makkah</td>
<td>16.5</td>
<td>DB - Tendering &amp; Bidding</td>
<td>2024</td>
</tr>
<tr>
<td>GACA - Prince Mohammed Bin Abdulaziz Airport Expansion</td>
<td>Infrastructure</td>
<td>Madinah</td>
<td>2.4</td>
<td>DB - Execution</td>
<td>2020</td>
</tr>
</tbody>
</table>

Source: Colliers International 2013

### Availability of cheap transport facilitates tourists movements

Various modes of transport (road or air) are available to complete the pilgrimage to Makkah and Madinah. The commonly available public transport is bus, provided by Saudi Arabia Public Transport Company (SAPTCO). In addition, the Saudi government plans to run a high-speed Haramain train line with a capacity of seven trains between Makkah and Jeddah; the train will complete the journey in one hour. The Haramain train will link the holy cities of Makkah and Madinah via Jeddah and Rabigh. There will be two trains between Makkah and Madinah and four trains between Makkah and Rabigh in a day with a capacity of 19,600 passengers in an hour.

### Expansion of Al Haram to benefit tourism sector

The Masjid Al Haram (Central area) currently has a total area of 0.4mn sqm and a capacity of 0.7mn worshippers. After expansion (expected completion by 2020), the total area will increase to 0.8mn sqm would accommodate 2.5mn worshippers. The expansion will include three parts: construction of a new building; expansion and development of courtyards around the mosque, including walkways, tunnels, and toilets; and development of service facilities for air-conditioning, electricity, and drinking water.

The business tourism is vastly dependent on the economic activities being carried out in three cities: Riyadh, Jeddah and Al-Khobar. These cities constitute over a third of the overall population.

### List of major non-hotel infrastructure projects in the business cities

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Primary Sector</th>
<th>City</th>
<th>Project value (USD bn)</th>
<th>Phase</th>
<th>Completion date</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADA - Riyadh Metro</td>
<td>Infrastructure</td>
<td>Riyadh</td>
<td>22.5</td>
<td>DB - Execution</td>
<td>Q2 2018</td>
</tr>
<tr>
<td>Metro Jeddah Company - Jeddah Metro</td>
<td>Infrastructure</td>
<td>Jeddah</td>
<td>12.0</td>
<td>Consultant - Bid Evaluation</td>
<td>2022</td>
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<tr>
<td>PIF - Saudi Landbridge</td>
<td>Infrastructure</td>
<td>Jeddah</td>
<td>10.0</td>
<td>Consultant - Pre qualification</td>
<td>2018</td>
</tr>
<tr>
<td>GACA - King Abdulaziz International Airport Development Project - Phase 1</td>
<td>Infrastructure</td>
<td>Jeddah</td>
<td>7.3</td>
<td>Construction - Execution</td>
<td>2015</td>
</tr>
<tr>
<td>SRO - Railway Expansion Program</td>
<td>Infrastructure</td>
<td>Riyadh</td>
<td>7.0</td>
<td>Design - Execution</td>
<td>2017</td>
</tr>
<tr>
<td>Saudi Arabia MOT - Jeddah Monorail</td>
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<td>3.7</td>
<td>Construction - Tendering &amp; Bidding</td>
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<td>SAR - North-South Railway</td>
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<td>3.6</td>
<td>Construction - Execution</td>
<td>NA</td>
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<tr>
<td>GACA- King Khaled International Airport Expansion</td>
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<td>Riyadh</td>
<td>1.5</td>
<td>Construction - Bid Evaluation</td>
<td>2016</td>
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<td>KFCA - King Hamad Causeway</td>
<td>Infrastructure</td>
<td>Al Khobar</td>
<td>1.3</td>
<td>Study - Execution</td>
<td>2024</td>
</tr>
</tbody>
</table>

Source: Colliers International 2013
Huge potential also for support services and training

Ancillary/support services to be a great investment potential

There are lack of schools that provide courses in the fields of housekeeping, laundering and hospitality ethics. Moreover, the tourists, especially in Makkah and Madinah that performs Haj always complain of inadequate services in many KSA hotels as compared to global peers. Hotel schools can be developed that provide trained manpower to the hotel industry.

Training institutes for women is an added opportunity for investment

Hospitality sector in KSA is expected to provide about 0.3mn jobs to the youth. In KSA, the Human Resource Development Fund (Hadaf) offers material support to youth seeking jobs in the sector. Moreover, the average employment of women in the sector stood at 2%; women are considered to have high expertise in marketing products on social media websites. Thus, there is potential for establishing a training institute only for women, wherein courses in administration, sales and reception jobs would be conducted. Such jobs are rewarding as the salaries could be in the range of SAR 5,000 to SAR 25,000 per month.

Wide options available from local tour operators for the pilgrimage

In Saudi Arabia, tour operators offer different packages to help complete the pilgrimage. For example, in Riyadh, there are nearly 250 Umrah travel operators offering annual Umrah packages. Apart from Makkah and Madinah, the tour operators arrange city tours to historical sites such as Quba Mosque (first mosque built by the Prophet), Qiblatain Mosque, and the graveyard on the foothills of Mount Uhud where the Prophet's companions were martyred.

But there are obstacles that hinder optimal growth potential

- **Legal Issues**: The Saudi Arabian General Investment Authority (SAGIA) oversees investment affairs, including foreign investment, in the kingdom. Although SAGIA and other agencies have made efforts to ease the entry of businesses into the country, coordination between state bodies is poor and often plagued with bureaucracy. KSA's ranking in ease of doing business fell from 12 to 26 over the last five years, while UAE and Oman improved upon their respective rankings.

- **Nitaqat law**: Smaller foreign firms find employing Saudi nationals expensive and less productive compared to expats. Thus, the Nitaqat law, which aims to gradually replace existing expatriate workers with Saudi workers through processes involving quotas and threats of punishment, has adversely affected the hotel industry. Besides cost synergies of hiring non-Saudi workers, many local people are reluctant to pursue certain kinds of jobs such as those in restaurants or hotels which involve direct services to customers.

- **Tourist Visa Restrictions**: Saudi Arabia does not issue tourist visas at the moment. However, some news report indicated that a new regulation could be in effect within the next six months to allow for the issuance of tourist visas with some restrictions. The new development will help in developing the tourism business in the kingdom; although its effects will not be significant in the short-to-medium term.

In addition, Limited number of visas is granted for the Hajj period and is for a short period, less than a month. Hence, tourists are unable to visit neighboring regions for leisure, limiting business in regions such as Jeddah. The government is planning for an extended Umrah Tourism Program to issue visas to people from 65 countries for a period of 30 days.

- **Quality of services has scope for improvement**: The improvement in services is of utmost importance in attracting tourists to the Kingdom. The basic services like hospitality ethics, housekeeping and hygiene can be developed as per global standards.

- **Outbound tourism is rising while domestic tourism is declining**: Domestic tourists declined at a CAGR of 7.4% between 2004 and 2012 to 19.0mn. In contrast, outbound tourists grew at a CAGR of 22.0% between 2004 and 2012, indicating the preference of locals to foreign destinations as compared to local region.
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1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated “Overweight” will typically provide an upside potential of over 10% from the current price levels over next twelve months.

2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated “Underweight” would typically decline by over 10% from the current price levels over next twelve months.

3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated “Neutral” is expected to stagnate within +/- 10% range from the current price levels over next twelve months.

4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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