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KSA LOGISTICS SECTOR OVERVIEW

SEPTEMBER 2024



KINGDOM OF SAUDI ARABIA: LOGISTICS SECTOR OVERVIEW



INTRODUCTION

This KSA logistics and warehousing sector overview (“**Overview**”) has been prepared by Consulting HAUS LLC (“**CH**”) based on information obtained from secondary resources (including the General Authority for Statistics, various research publications, websites, etc.), and information gathered via primary market interviews with a cross-section of market participants in the Kingdom of Saudi Arabia (“**KSA**”).

Based on an assessment of the various data sources, the Overview presents the state of the logistics and warehousing industry in KSA along with the outlook, trends, and market challenges in the sector.

Users of the Overview are encouraged to undertake their independent research before making any business-related decisions based on the content of the Overview.

Should you require a more in-depth analysis of the logistics and warehousing sector in the region, please get in touch with a member of our team or send an inquiry via our website: www.consulting-haus.com

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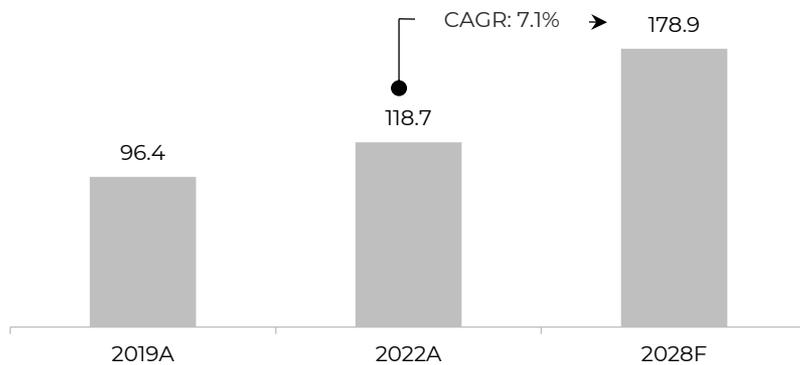


KSA logistics sector overview

LOGISTICS MARKET SIZE IN KSA

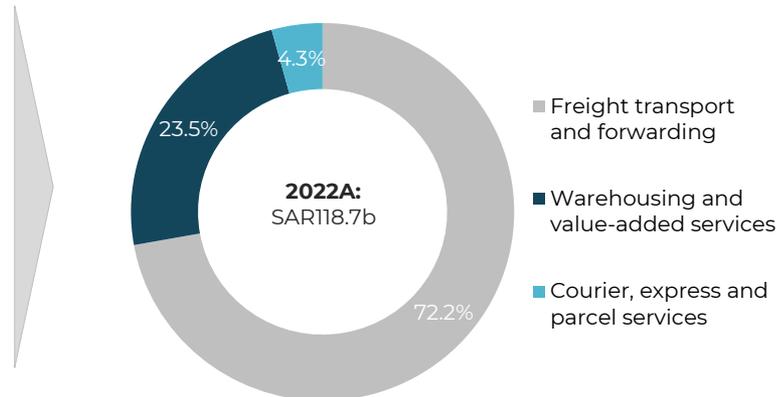
The logistics market in KSA is positioned for substantial growth, with a projected CAGR of 7.1% between 2022A-2030F

MARKET SIZE (SARB) (2019A-2028F)



Source: CH estimations and projections based on secondary and primary research

SEGMENT WISE CONTRIBUTION (%) (2022A)



Source: CH estimations based on secondary and primary research

KEY GROWTH DRIVERS

- **Influx of investments:** A dedicated USD147.0b commitment for logistics infrastructure underscores the sector's growth, with the goal of elevating the logistics GDP contribution from 6.0% to 10.0% by 2030F.
- **Lucrative logistic services zones:** Nineteen planned logistic service zones, presenting opportunities worth SAR27.0b, are anticipated to attract investments. In 2022A, the Ministry of Transport and Logistics Services issued over 1500 permits to both local and foreign logistics firms.
- **Global supply chain integration:** The KSA Government's launch of the Global Supply Chain Resilience Initiative in 2022 aims to secure SAR40.0b in investments for KSA's logistics sector, offering SAR10.0b in incentives to investors.
- **Heightened global competitiveness:** A significant enhancement is observed with a 17-rank rise to 38th on the World Bank's LPI 2023, reflecting improved logistics performance.
- **Port capacity boost:** KSA has fortified its position as a global logistics hub by increasing port capacity to over 40.0m containers annually. Initiatives include the modernization of Jeddah Islamic Port and the introduction of a direct Jebel Ali-Sokhna shipping line.
- **Customs clearance transformation:** Demonstrating a remarkable progress, KSA reduced customs clearance time from 288 hours in 2017 to an impressive 2 hours by the end of 2022. This significant achievement is attributed to streamlining import documents from 12 to 2 and introducing new services and electronic platforms under the Zakat, Tax, and Customs Authority. These initiatives align with KSA's Vision 2030 objective to enhance trade efficiency and customer experience.

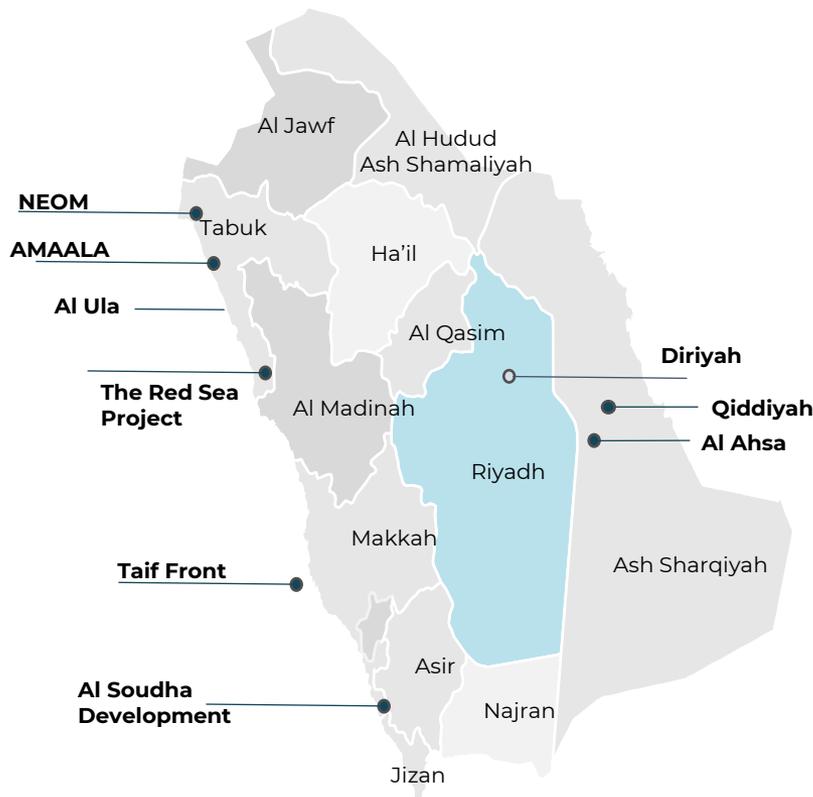


KSA logistics sector overview

MEGA PROJECTS IN KSA

The mega projects initiated by the country are creating a surge demand for logistics services across all sectors of the economy

MEGA PROJECTS MAP



Source: CH research, NEOM, AMAALA

KEY OBSERVATIONS

- The expansion of the logistics sector is driven by KSA's recent large-scale projects, complemented by a series of initiatives focused on advancing industrial and logistics sector growth. Mega projects exert a profound influence on KSA's logistics industry, serving as catalysts for its evolution and expansion in the years ahead.
- Aligned with the Vision 2030 initiative, KSA has undertaken an ambitious economic diversification strategy, with mega projects constituting a crucial element of this vision. These projects, spanning from groundbreaking urban developments such as NEOM to extensive industrial zones such as the King Salman Energy Park ("**SPARK**"), play a vital role in generating fresh economic prospects and diminishing the nation's dependence on oil revenue.
- SPARK, strategically situated, offers tenants and investors a conduit to engage with global energy players. Projections indicate that this ambitious endeavor will contribute more than USD6.0b annually to the country's GDP, fostering the creation of up to 100,000 jobs over time. Similarly, the Trojena mega project aspires to generate over 10,000 jobs and contribute SAR3.0b to the country's GDP by 2030F.
- The symbiotic relationship between the logistics industry and these mega projects is evident, necessitating a resilient and efficient transportation and supply chain infrastructure to facilitate their development and operation. The logistics sector assumes a pivotal role in the seamless movement of essential materials, machinery, and personnel to and from these projects, encompassing construction materials, heavy machinery, and even high-end goods and services integral to these advancements.
- In a recent development, NEOM, the ambitious mega city project on KSA's Red Sea coast, has entered into a USD10.0b joint venture with DSV Logistics spanning the next eight years. This collaboration aims to bolster supply chain management, invest in transport and logistics infrastructure, and facilitate the transport and delivery of goods within the city. DSV, a Danish logistics company founded in 1976, operates across more than 80 countries, engaging in diverse transportation activities and providing additional logistics services such as express services, warehousing, fulfillment.



KSA logistics sector overview

MEGA PROJECTS IN KSA

Several mega projects slated for the upcoming decade are poised to fuel the demand for logistics services in the country

UPCOMING MEGA PROJECTS IN KSA

NEOM



- Location: Tabuk
- Area: 26,000 square kilometres
- Expected completion: Phase 1 – 2025, Phase 2- 2030

THE RED SEA



- Location: Umluj
- Area: 28,000 square kilometres
- Expected completion: Phase 1 – 2024, Phase 2- 2030

AMAALA



- Location: Tabuk
- Area: 4,155 square kilometres
- Expected completion: Phase 1 – 2024, Phase 2- 2030

QIDDIYA



- Location: Riyadh
- Area: 376 square kilometres
- Expected completion: 2030

KING SALMAN ENERGY PARK



- Location: Dammam
- Area: 50 square kilometres
- Expected completion: 2035

RIYADH METRO



- Location: Riyadh
- Length: 176 kilometres
- Expected completion: 2024

Source: CH research, company websites

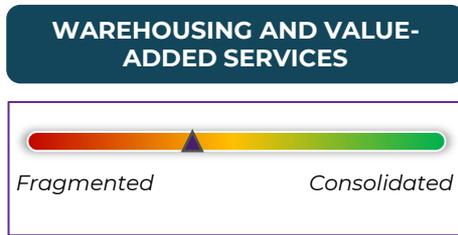
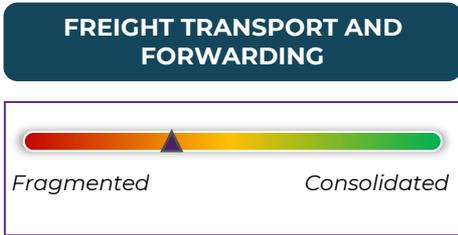


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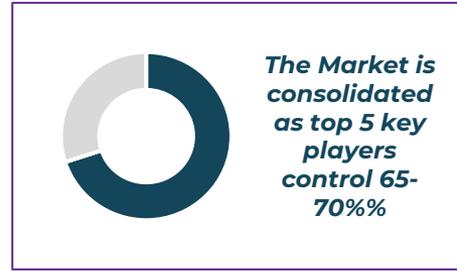
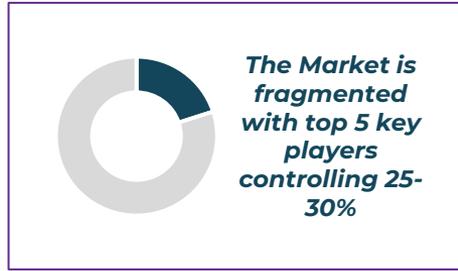
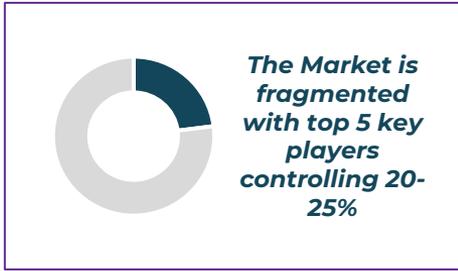
LOGISTICS MARKET ECOSYSTEM AND MARKET STRUCTURE

Local players dominate the inland transportation and warehousing segments, whereas multinational players assert their dominance in freight-forwarding and international transportation, encompassing both air and ocean logistics

MARKET STRUCTURE



MARKET CONCENTRATION



KEY PLAYERS

Domestic

Bahri البحرى | **المجدوعي** | **Almajdouie**

binzagr | **MLS** | **MOSANADA LOGISTICS SERVICES**

International

DP WORLD | **DB SCHENKER**

Domestic

HALA | **LogiPoint** | **TAMER** | **WARED LOGISTICS**

International

Agility | **ceva LOGISTICS**

Domestic

NAOEL EXPRESS | **MSA Express**

International

FedEx | **aramex** | **ups** | **DHL**

Source: CH research

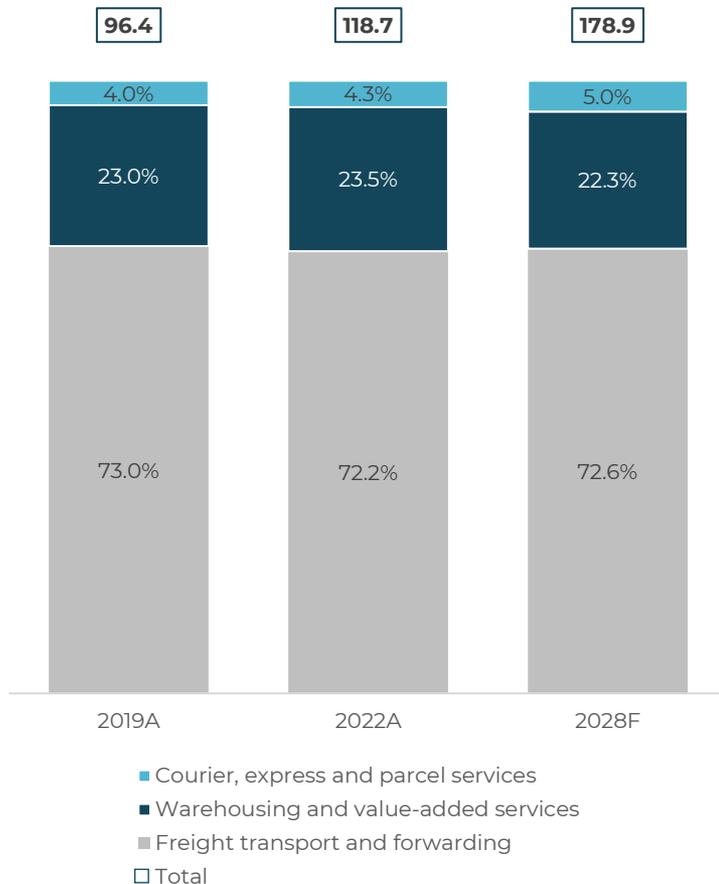


KSA logistics sector overview

LOGISTICS MARKET BY TYPE OF SERVICE

Freight transport and forwarding account for more than 70% of the logistics market, followed by the warehousing segment

MARKET BY SEGMENT/SERVICE (SARB)



CEP (COURIER, EXPRESS, AND PARCEL)

- Handles small-scale deliveries, pivotal in B2B and B2C e-commerce.
- Includes both domestic and international courier and express services.



WAREHOUSING AND VALUE-ADDED SERVICES

- Essential for the efficient handling, storage, and distribution of goods.
- Diverse warehousing solutions categorized as dry, ambient, chilled/frozen and hazardous material storage facilities.
- Value-added services: Enhancements that transcend traditional logistics, offering integrated supply chain solutions.
- Broad spectrum of services, including sorting, packaging, labelling, barcoding, assembling, quality control, and redistribution.



FREIGHT TRANSPORT AND FORWARDING

- Manages the logistics of importing and exporting goods, including customs clearance and distribution.
- Encompasses air, ocean, road, and rail freight, catering to diverse logistical needs.
- Freight forwarding services represent 5% of the overall logistics market.

Source: CH estimations and projections based on secondary and primary research

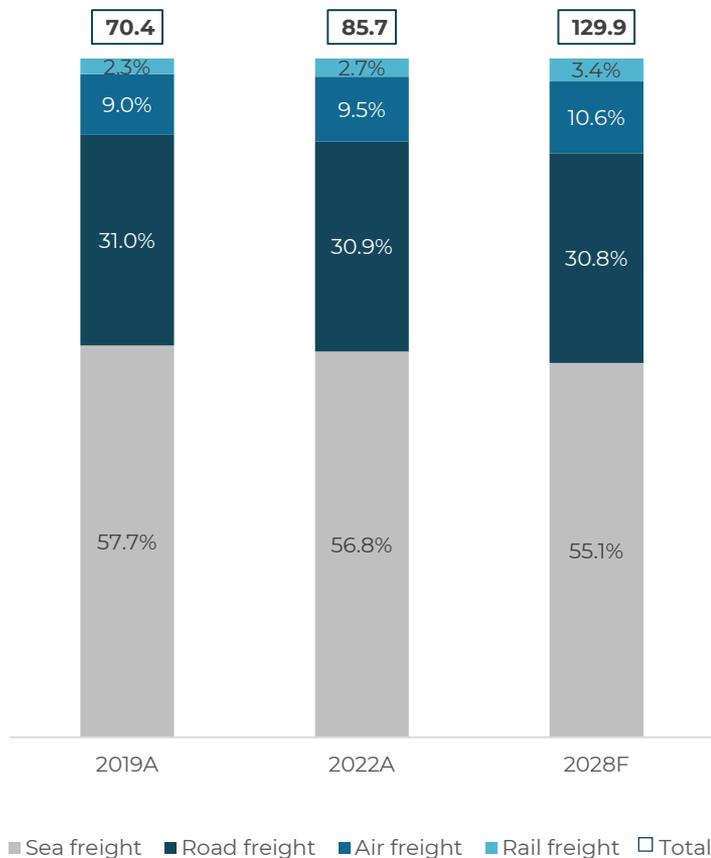


KSA logistics sector overview

LOGISTICS SEGMENT BY MODE OF TRANSPORT

Sea freight emerges as the most dominant mode of transport, constituting more than half of the total freight transportation market. Going forward, air freight transport is likely to witness high growth

FREIGHT TRANSPORT AND FORWARDING MARKET BY MODE OF TRANSPORT (SARB)



RAIL TRANSPORT

- A noteworthy project under consideration is the Saudi Landbridge Project, a strategic railway initiative designed to connect Jeddah on the Red Sea coast with Riyadh, with an emphasis on enhancing freight transport capabilities.



AIR TRANSPORT

- Ideal for high-value, low-volume, and urgent shipments.
- Expansion of air cargo facilities and freight corridors in KSA including new cargo jets, a global carrier based in Riyadh, and enhanced air cargo facilities.



ROAD TRANSPORT

- Dominant mode of freight transport within KSA, heavily reliant on road services.
- Includes both international and domestic companies, with fierce competition and fragmentation.
- E-commerce growth and technological advancements are driving the need for efficient land transportation, especially last-mile logistics.



SEA TRANSPORT

- Critical for KSA's trade, with the largest seaport network in the Middle East, handling over 90% of the country's trade.
- The maritime sector has doubled in size over the past decade, with significant developments in the number of marine vessels and cargo handled.

Source: CH estimations and projections based on secondary and primary research



KSA logistics sector overview

DRIVERS AND CHALLENGES FOR TRANSPORT FREIGHT MARKET

The road freight sector in KSA is propelled by ongoing infrastructure enhancements and seamless technological integration. However, it contends with challenges such as workforce shortages and infrastructure gaps

GROWTH DRIVERS



- **Infrastructure Enhancement:** The country has 27 road and bridge projects in the pipeline, with 14 under construction aimed at improving internal road freight.



- **Technological Integration:** Adoption of advanced technologies for fleet management and operations.



- **Intermodal Connectivity:** Investments in logistics parks and ports for seamless freight movement.



- **Cross-Border Trade:** Enhanced road connections with GCC countries are boosting regional trade



- **Air transport infrastructure modernization:** Airports and cargo facilities expansion to boost capacity from 0.8m to 6.0m tons per year by 2030F. Riyadh Air to enhance long-term air freight capacity from 2023 onwards.

CHALLENGES

- **Workforce Issues:** Shortage of truck drivers, with Saudization rates below 20% and a lack of specialized training.



- **Infrastructure Gaps:** Inadequate last-mile connectivity and loading/unloading processes.



- **Regional Challenges:** Inadequate infrastructure outside the metro cities, seasonal variations, and inefficiencies in freight operations.



- **Environmental Regulations:** Pressure to reduce carbon emissions and enhance ESG standards.



- **Operational Efficiency:** Need for improved warehouse capacity and operational infrastructure to manage increased volumes.





KSA logistics sector overview

DRIVERS AND CHALLENGES FOR WAREHOUSING MARKET

The warehousing market, although positioned for growth due to expansion of the e-commerce sector and the implementation of planned mega projects, is witnessing nuanced operating challenges

GROWTH DRIVERS



- **E-commerce Sector Expansion:** KSA's e-commerce grew by 74.0% in early 2020, boosting demand for efficient warehousing. Rising online shopping and evolving consumer behaviors highlight the need for advanced storage and distribution.



- **Manufacturing Sector Development:** The warehousing market benefits from the expanding manufacturing sector, meeting demand for organized storage solutions for products intended for domestic and export markets.



- **Micro-fulfillment Centers:** Are boosting KSA's warehousing industry in tier 2 and tier 3 cities amid rising e-commerce. Firms such as Starlinks deploy advanced robotics in these centers to optimize nationwide online order fulfillment.



- **Infrastructure And Mega Projects:** Investments in mega projects like NEOM and the Red Sea Project are increasing demands for warehousing space. These initiatives are expanding the need for warehouses beyond traditional urban centers.



- **Surge Demand And Low Vacancy:** High warehousing demand has led to low vacancy rates in major cities, with Riyadh and Jeddah seeing rates drop to 3.0%. Warehouse rents in Riyadh rose by 20.0% in the first half of 2023, reflecting a similar trend in Jeddah.

CHALLENGES

- **Modernization Requirement:** Many warehouses in KSA do not meet international standards, especially for cold chain and temperature-controlled storage and transport.



- **High Setup Costs:** The acquisition of land and the construction of warehouses entail considerable costs, presenting substantial barriers to entry into the market.



- **Skilled Labor Shortage:** There is a high demand for skilled workers in warehouse management and logistics technology, but there is a shortage, creating a supply-demand gap.



- **Urban Density And Distribution Efficiency:** The urban density in KSA poses challenges for distribution efficiency, particularly in the context of e-commerce fulfillment.



- **Evolving Fulfillment Center Dynamics:** E-commerce giants like Amazon and Noon are building their own fulfillment centers, reducing the market for independent warehousing service providers.





KSA logistics sector overview

MARKET TRENDS

Automation, strategic collaborations, REIT investments, and specialized warehousing stand out as pivotal factors, underscoring a transformative shift towards intelligent, sustainable operations, and diversified growth in the sector



TECHNOLOGICAL ADVANCEMENTS AND AUTOMATION

- **AUTOMATION AND SUSTAINABILITY TRENDS:** Landmark Arabia's Sudair warehouse exemplifies the growing trend in automation since 2019. NEOM's Oxagon project emphasizes sustainability.
- **MODON'S JEDDAH WAREHOUSES:** Equipped with smart systems for smartphone-operated warehouse functions, including smart door locks and a 24/7 customer service system.
- **NOON.COM'S RIYADH WAREHOUSE:** Part of a 270,000sqm network, this 45,000sqm facility showcases advanced logistics capabilities.



STRATEGIC PARTNERSHIPS AND COLLABORATIONS

- **MAERSK AND KING ABDULLAH PORT (2021):** Developing a non-bonded warehouse for petrochemical exporters, targeting 100,000sqm of space and an annual throughput of 1.0m tons.
- **LOGIPOINT AND UNITED WAREHOUSE COMPANY LTD. (2021):** Constructing a 15,000sqm facility, including 12,000sqm of covered warehousing space with multi-temperature zones.
- **LOGIPOINT AND NAQEL'S BONDED EXPRESS FACILITY:** Pioneering e-commerce facility at Jeddah Islamic Port, integrating advanced logistics for efficient operations.



REAL ESTATE INVESTMENT TRUSTS (REITS) AND INVESTOR INTEREST

- **REITS IN LOGISTICS:** Derayah REIT and Al Mashaar REIT's notable acquisitions of logistics complexes signal a rising trend in warehousing investments.
- **INVESTCORP'S DAMMAM ACQUISITION (2023):** Investcorp announced a USD1.0b investment plan in GCC real estate, starting with a 215,000sqft temperature-controlled warehouse in Dammam as part of a broader USD100.0m investment in KSA.
- **DEVELOPER OPPORTUNITIES AND TRENDS:** Developers prioritize quality, internationally specified warehouses, increasingly adopting build-to-suit models based on tenant specifications. This trend is particularly prominent in the e-commerce and FMCG sectors.



SPECIALTY WAREHOUSING (HAZMAT AND MANUFACTURING)

- **HAZMAT WAREHOUSES:** Dominated by select large players dominate due to specialized needs and strict regulations; however, high supplier power and profit margins of 25.0%-35.0% could attract new entrants.
- **INDUSTRIAL CLUSTER PROGRAM:** Targeted investments in industries such as metals, minerals, and automotive are increasing the demand for specialized warehousing.
- **ARAMCO AND DHL SUPPLY CHAIN (2023):** The announced joint venture aims to be operational in 2025, providing reliable end-to-end integrated procurement and supply chain services for companies in the industrial, energy, and petrochemical sectors.

Source: Industry reports, news articles based on the views of industry experts

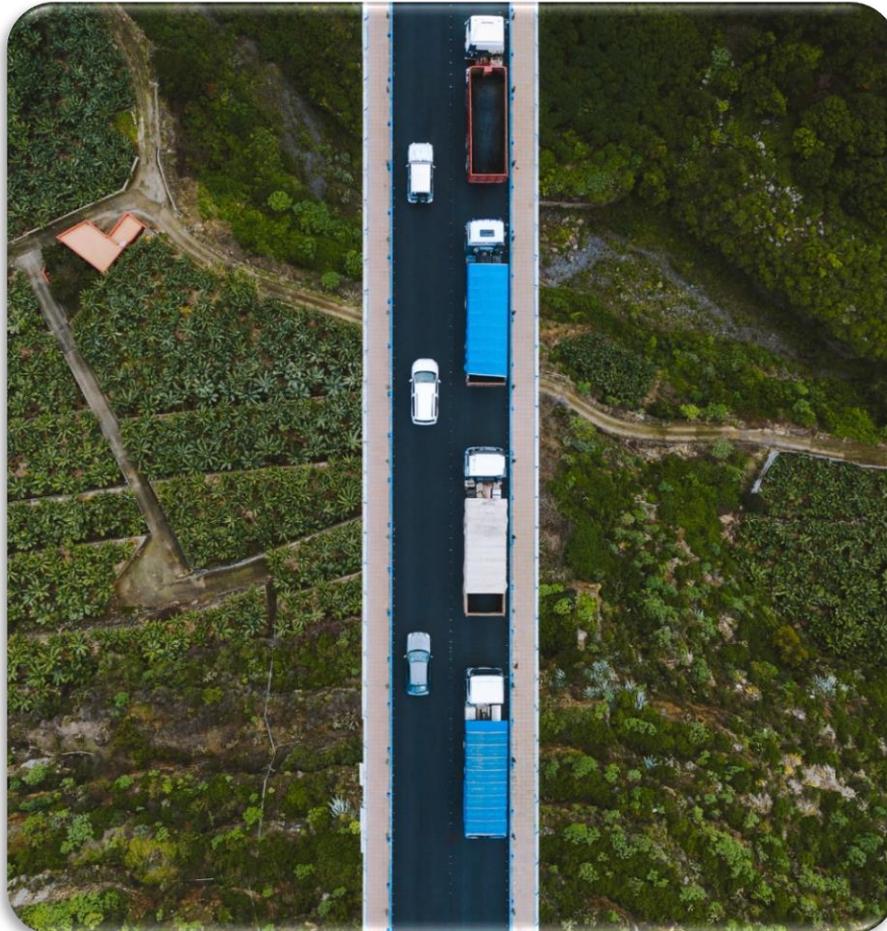


KSA logistics sector overview

FINAL THOUGHTS

The KSA logistics sector is undergoing a rapid transformation, driven by a combination of factors including demand growth, entry of international players, mega projects, e-commerce adoption and technological advancements

FINAL THOUGHTS: LOGISTICS INDUSTRY OUTLOOK IN KSA



- **The CEP market** in KSA is experiencing significant growth driven by the e-commerce boom, which has been a major driver for the segment. However, this growth comes with intense competition and low margins, primarily due to the entry of large Asian players like J&T and iMile. Incumbents such as Aramex and SMSA find it challenging to compete on pricing, affecting their margins. The high bargaining power of major buyers like Noon and Amazon further complicates the landscape, limiting the scope for differentiation among logistics providers. Despite these challenges, there is an emerging opportunity in the luxury e-commerce logistics segment, where specialized services such as on-demand delivery are gaining traction.
- In **the transportation sector**, there are several key shifts. The emergence of trucking aggregators like Trukker and Trukkin is transforming the market by offering flexible and instant trucking solutions. Additionally, there is a growing focus on sustainability, with logistics companies increasingly adopting green practices, such as electric vehicles and eco-friendly warehouses. Mega projects under the Vision 2030 initiative are also driving demand for project logistics, with logistics providers forming strategic partnerships to support these large-scale developments. Enhancements in port activities and air connectivity are further boosting the efficiency and capacity of domestic transportation.
- **The warehousing sector** in KSA is evolving, with a shift from traditional to advanced logistics solutions. Existing warehouses are being retrofitted to meet modern standards, and there is a growing demand for temperature-controlled storage driven by regulatory changes and the expansion of the manufacturing sector. The rise of e-commerce is also increasing the importance of urban and rural micro-fulfillment centers. For companies who are in logistics space or planning to venture into the space, these trends highlight the need to adapt to the evolving e-commerce logistics landscape, invest in sustainable practices, and form strategic partnerships to enhance their capabilities in project logistics and infrastructure development.

A photograph of two people shaking hands in an office setting. The image is overlaid with a large, white-outlined geometric shape consisting of several interconnected polygons. The text 'CONSULTING HAUS' is centered within one of the polygons. The background is a blurred office desk with papers, pens, and a smartphone.

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