



Saudi Arabia & the United Arab Emirates: shifting sands

Notes from the road

For Professional Investors Only

Veronique Erb
EM Equity Portfolio Manager

RBC Global Asset
Management (UK) Limited

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“The largest country in the Middle East and the fifth largest in Asia by landmass, the kingdom of Saudi Arabia has a newfound popularity amongst not only non-religious tourists but also international investors.”

Saudi Arabia

It's a Saturday night, and we are landing in Riyadh, the capital city of Saudi Arabia, on a direct British Airways flight from London. The largest country in the Middle East and the fifth largest in Asia by landmass, the kingdom of Saudi Arabia has a newfound popularity amongst not only non-religious tourists but also international investors. This is clear from both the number of flights arriving and the long but fast-moving queue of foreigners clearing immigration at King Khalid International airport.

This legendary desert land, also known as the 'desert kingdom' and 'land of the two holy mosques', bears its name from the ruling family, the Al Sauds. Its history is fascinating and steeped in mystique.

In the 18th and 19th centuries, the Arabian Peninsula was one of the most desolate and poorest corners of the world, thinly populated with very few water resources.

The discovery of oil in the late 1920s and early 1930s changed the playing field, creating a powerful and rich nation which had access to the largest and most abundant resource beneath its land, which the industrialised world needed.

Fast forward to today and the kingdom is one of the fastest-modernising countries in the world. Gleaming skyscrapers, luxury developments, and beautiful resorts are being built at a record pace. It has GDP per capita of approximately USD 30,000¹ and so, by this measure, it is by no means an emerging market. However, it has an incredibly young population where over 60% of its 30 million people are under 30 years of age².

¹ [Saudi Arabia GDP per capita 1960-2024 | MacroTrends.](#)

² Kingdom's General Authority for Statistics.

Until its de-facto ruler, Mohammed bin Salman (“MBS”), came to power in 2015, Saudi Arabia was an extremely conservative nation where women did not work nor drive. The local population’s lifestyles were heavily subsidised, thanks to a very wealthy, oil-rich state, and thus expats were the primary workforce.

Since his rise to power, MBS has pushed aside the conservative religious establishment to bring about change and launch a progressive vision – known as Vision 2030 – to bring the kingdom into the modern day and diversify it away from its reliance on oil. Exhibit 1 illustrates some of the opening-up milestones achieved under MBS.

Vision 2030 has many targets, not least the building of various giga and mega projects (Exhibit 2) that are aimed at transforming the country into a technologically-savvy, eco-friendly haven of services and jobs. A key driver of these projects is climate-related considerations.



Giga-project Diriyah’s excavation site, where the Al Saud family stems from.

As MBS said, when discussing Vision 2030, “Why should we sacrifice our nature for the sake of development? Why should 7 million people die every year because of pollution? Therefore, we should transform the idea of a conventional city into a futuristic one.”

Exhibit 1: Notable social reforms under MBS

2016	2017	2018	2019	2022
<ul style="list-style-type: none"> Religious police stripped of many of their powers, including to detain, arrest and interrogate individuals 	<ul style="list-style-type: none"> First public music concert in 25 years Ban on female gyms are lifted End to 35 year prohibition on cinemas. Other forms of public entertainment also legalised e.g. comedy shows, theatre 	<ul style="list-style-type: none"> Ban on women driving officially ends Removal of legal requirement for women to wear a headcover and the black abaya 	<ul style="list-style-type: none"> Decree protecting women from employment discrimination and allowing them to travel independently. ‘Guardianship’ system modified to expand women’s rights End of requirement for restaurants to have separate entrances by gender Marriages banned for people under the age of 18 	<ul style="list-style-type: none"> Legal reforms including a codified Personal Status Law (PSL), to improve ‘legislative environment’. Aims to provide greater legal clarity, speedier access to justice and eliminate inconsistencies in verdicts Ban on midday outdoor work during summer months Insurance to soon be linked to domestic work contracts

Source: Morgan Stanley Research, as at December 2022.

Exhibit 2: Giga and mega projects under Vision 2030

	Neom	ROSHN	Dariya	Riyadh mega projects	Jeddah Central	Red Sea Project	AIUIa	Qiddiya
Vision	Futuristic smart city powered by renewables and serves as a tourist destination	Residential community development in 9 cities across 4 regions	Mixed use urban community and tourism destination	King Salman, park, Sports boulevard, Green Riyadh	Opera house, museum, sports stadium & oceanarium	Luxury and eco resort destination	Living museum for heritage, nature, arts, and culture	Entertainment destination; parks, sports, arts, nature
Size (km ²)	26,500	>200	7	>20	20,000	28,000	28,000	22,500
Estimated cost	USD500bn	USD90bn	USD40bn	USD23bn	USD20bn	USD16bn	USD16bn	USD9bn
Targeted completion	Phase 1: 2030 Sindalah 2024; Trojena 2026, Oxagon 2030	2030	2026	2024-2030	Phase 1: 2027, Phase 2&3: 2030	Phase 1: 2023 Phase 2: 2030	Phase 1: 2023 Phase 2: 2030 Phase 3: 2036	Phase 1: 2023 Phase 2: 2025 Phase 3: 2030
Location	Tabuk	Multiple	Riyadh	Riyadh	Jeddah	Tabuk	Medina	Riyadh

Source: Morgan Stanley Research, as at December 2022.

With its large sovereign wealth fund, the Public Investment Fund, the kingdom has deep pockets and is spending on creating its vision. Vision 2030 is all encompassing, and while media attention has largely been on its projects, the subtleties of the vision are creating substantial growth across a variety of sectors, including healthcare, tourism, and finance.

Starting our company visits in Riyadh on Sunday (the working week in the kingdom is from Sunday to Thursday), we meet with a variety of companies, ranging from dairy farming to gym and supermarket operators, to banks and the Saudi stock exchange. The message we receive is loud and clear: Saudi Arabia is open for business. The companies that we meet are innovative, with world-class facilities. At one of our company meetings, we are surprised to discover that the world's largest dairy operator by herd size is based in the middle of the desert, with the cows living in air-conditioned facilities and served A-grade alfalfa... the result of which is high yielding cows! The gym operator tells us that its fastest-growing segment is women, but the population has generally lived a largely sedentary, unhealthy lifestyle, given the high temperatures and lifestyle restrictions. Meanwhile, the banks we meet tell us they have seen a mortgage boom in the last five years, given the goal for 70% home ownership.

“Diversification away from oil is underway; the sectors that are important for Vision 2030, such as IT, healthcare, tourism, and infrastructure, have seen the highest growth.”

At a meeting at the stock exchange, it is clear that the IPO pipeline remains very strong. The kingdom has been privatising its government businesses, and many private companies have also listed in recent years. Moreover, diversification away from oil is underway; the sectors that are important for Vision 2030, such as IT, healthcare, tourism, and infrastructure, have seen the highest growth.

While the investment opportunities seem abundant, there are still many hurdles to overcome. The stock exchange acknowledges that it needs to work on market accessibility and improving its ESG disclosure. It tells us that it is developing a taxonomy based on international standards and is establishing an ESG division in the capital markets authority.

Additionally, from a top-down perspective, while MBS is passionate about creating a multi-cultural society based on international norms, the country still ranks poorly in terms of both political and civil rights. Significant progress has been made on the social front in recent years, but we hope to see more.



Gleaming office towers along King Fahd Road, central Riyadh.



Dr. Soliman Fakeeh Hospital, Jeddah.

A domestic flight on Saudia, the national carrier, takes us to Jeddah. We find ourselves surrounded by pilgrims, dressed in white, whose journey will take them from there to Mecca. Jeddah seems to be developing even faster than Riyadh. Not far away from the new mega projects that will be attracting tourists to Red Sea resorts is 'The Line'. This is a giga project in Neom, which is a 170km futuristic city. As a visionary project, it is a USD500 billion 'living laboratory' promoted by MBS to boost smart innovation and the country's soft power³. The region is intended to be a special economic zone that will help Saudi Arabia shift its economy and geopolitical relevance from an 'oil country' to an innovative player in a post-oil era.

In Jeddah, we meet hospital operators, pharmacy chains, food producers and catering companies. Self-sufficiency in food, creating world class brands and providing best-in-class services is the focus. Not only will these services be offered to domestic Saudis, but they are also set to attract foreign workers and tourists to the country.

³ [NEOM: Made to Change.](#)

United Arab Emirates

A visit to the region would not be complete without a stopover in the more developed Emirates of Dubai and Abu Dhabi. Much development is going on here as well. These two states are busy building tourist destinations and have opened their land to workers on 'golden visa' schemes, allowing them to purchase homes and work indefinitely. We find a multi-cultural society comprising many expats, local Emiratis and tourists, all of whom are enjoying high GDP per capita and live peacefully. In fact, Abu Dhabi was voted the world's No. 1 safest city. We are told that if we left our bags in a public area, we would still find them there in a week and nobody would have stolen them.

The heat is different to Saudi, and more humid, making it feel hotter. We are grateful for the cool air conditioning in the hotels and office buildings, but this is also where we learn about 'district cooling', also known as 'DC', which is the more efficient, eco-friendly version of central heating. DC is what cools all newly-created buildings in the region. It operates as a closed loop system where 100% of the water used to cool the buildings is recycled, and where an increasing amount of power used to cool the water is sourced from renewables.

In fact, in Masdar City, Abu Dhabi, we see the first geothermal-powered DC, a vision of the future. DC is estimated to be 50% more efficient in terms of power consumption⁴ and also has economic benefits. A report published by PwC calculates that, over the next 16 years, increased adoption of DC represents over USD1 trillion in cost savings globally, by 2035⁵.

“In Masdar City, Abu Dhabi, we see the first geothermal-powered DC, a vision of the future. DC is estimated to be 50% more efficient in terms of power consumption.”



Beautiful Sheikh Zayed Grand Mosque in Abu Dhabi, where all religions are welcome.

Several companies engaged in this technology tell us that other hot, water-scarce regions in Asia have approached them for their expertise. As we say our goodbyes and tell one CFO that we are returning to cold, autumnal Britain, he winks at us and says, “Not for long! Soon you'll all be asking us for our DC systems, and we will be ready to supply them to you!”

⁴ Empower, Dubai's largest DC supplier.

⁵ PwC, 2019.

Author

Veronique Erb

Portfolio Manager



Veronique is a portfolio manager on the RBC Emerging Markets Equity team at RBC BlueBay (RBC Global Asset Management's business outside North America) and is currently responsible for research in Southeast Asia and Saudi Arabia. Prior to joining the firm in 2015, Veronique was at a large independent brokerage and investment group in Asia, where she was responsible for Asian ex-Japan equities for 15 years. During this time, she developed significant expertise in Asian equities, as well as a deep understanding of the region's corporate culture and economic development. Veronique began her career in the investment industry in 2000.

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