



PIF's New Strategy- An Overview

The Crown Prince launched PIF's strategy for 2021-2025, which we believe will be a key enabler for Vision 2030. The new strategy plans to create 1.8mn jobs by 2025 by focusing on innovation along with the development and diversification of the Saudi economy. Over the next five years, PIF will annually invest at least SAR150bn (US\$40bn) in 13 sectors such as aerospace, automotive and entertainment. These investments will enable PIF to become the largest SWF in the world with assets increasing from SAR1.5trn (US\$400bn) in 2020 to SAR4.0trn (US\$1.1trn) by 2025 and SAR7.5trn (US\$2.0trn) by 2030.

Developing and unlocking new sectors

- PIF strategic investments in the local economy are well diversified, with a focus on 13 sectors, including aerospace, automotive, logistics, food, real-estate and mining. We believe these investments will diversify the economy, unlock new sectors, build long-term partnerships and will pave the way for further investments by the private sector.
- The industrial sector will be a key beneficiary from the strategic investment in aerospace & defence. For automotive, the fund is in talks with Lucid Motors to build a facility in Saudi which will support growth in several sectors such as petrochemicals and mining. Ma'aden will play a key role in expanding the mining and fertilizers sectors locally, regionally and globally.
- PIF also plans to increase its investments in the transport & logistics sectors, which we believe will create opportunities for listed companies within these sectors. In this regard, Noon will synergize the ecosystems of e-commerce and logistics to become the "Home screen of the Arab world". Moreover, the investment in food & agriculture will "cement Saudi's position as a hub of Halal industry and distribution centre to the world".
- PIF is negotiating with leading global healthcare players to invest in Saudi which is expected to create new opportunities in the sector. The travel and tourism sectors will be key beneficiaries from the increasing investments in entertainment & leisure. The ongoing progress in Giga projects will drive demand in the construction sector in the medium term and further enhance the long-term outlook of the tourism sector.
- The total investments in these sectors are expected to reach SAR1.0trn (US\$267bn) by 2025f with a local content contribution of 60% which is a key driver for companies in the industrial and construction sectors.

PIF Strategic Sectors

Aerospace & Defence	Real Estate
Automotive	Utilities & Renewables
Transport & Logistics	Metals & Mining
Food & Agriculture	Healthcare
Construction & Building	Consumer Goods
Entertainment & Leisure	Telecom, Media and Technology
Financial Services	

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Source: PIF, NCBC Research

Exhibit 1: Selected beneficiaries

PIF Strategic Sectors	Petrochemicals	Mining	Tourism	Transportation	Construction
Aerospace & Defence	💡	💡			
Entertainment			💡	💡	
Automotive	💡	💡			
Real Estate			💡		💡

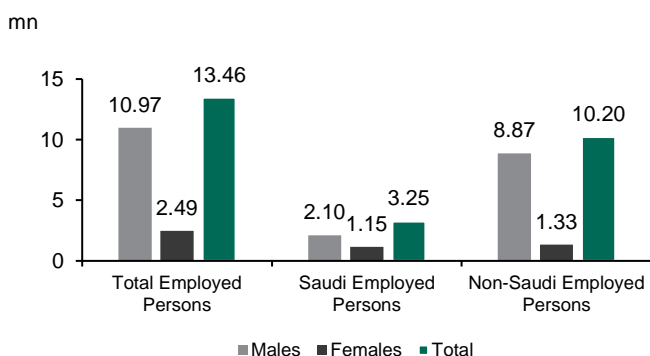
Source: PIF, NCBC Research

Largest SWF by 2030

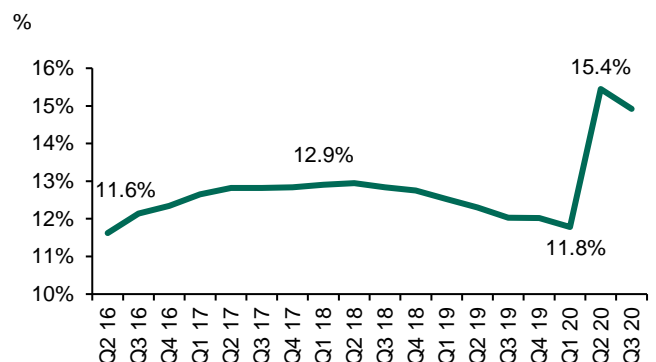
- The size of the fund is expected to reach SAR4.0trn (US\$1.1trn) by 2025f from SAR1.5trn (US\$400bn) in 2020. The growth is expected to be driven by 1) strong performance of the current assets, 2) higher returns of the new investments and 3) restructuring of certain investments (privatization and listing). Moreover, the investment in new and growth sectors will increase its weight to 21% and may reduce international investments weight to 24% from 30% in 2020. We note that PIF is currently invested in 20 companies in TASI (>5%) with a total value of SAR361bn (24.1% of the total fund in size as of 2020).

A major job creator

- PIF initiatives created 331,000 direct and indirect jobs during 2018-2020 and it is targeting to create 1.8mn direct and indirect jobs over the next five years. We believe the fund's new investments will be a major tool to reduce unemployment rates among Saudis and increase Saudis' labor force participation in the economy. In Q3 20, the unemployment rate among Saudis stood at 14.9%, higher than 12% in Q3 19 which is mainly due to the adverse impact of COVID-19.
- The data shows that unemployment among Saudi males stands at 7.9% (5.8% in Q3 19) while Saudi females unemployment rate is 30.2% (30.8% in Q3 19). Total unemployment rate (Saudis and Non-Saudis) increased to 8.5% in Q3 20 from 5.5% in Q3 19 (9% in Q2 20). Labor force participation has increased by 0.9% yoy (0.1% qoq) to 59.5%, which was driven by the increase in Saudi's participation rate to 49.0% up 3.5% yoy (0.2% qoq).

Exhibit 2: Total employed persons

Source: GASTAT
Exclude: employees in the security and military sectors and non-registered in the records of GOSI, MHRSD

Exhibit 3: Saudis unemployment rate

Source: GASTAT; NCBC Research

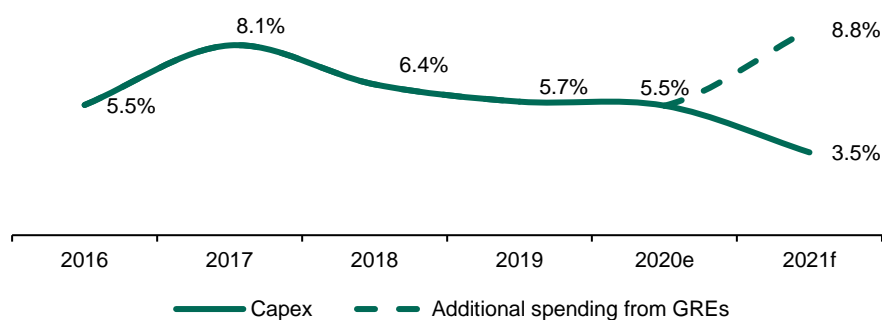
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Annual local investments to complement budget capex

- As discussed before, the PIF is planning to invest SAR1.0trn (US\$267bn) into 13 strategic sectors over the next five years, as it is committed to inject at least SAR150bn (US\$40bn) annually in the local economy. This initiative aims to contribute SAR1.2trn (US\$320bn) to Saudi's non-oil GDP by the end of 2025.
- PIF's investments would complement the budgeted capital expenditure over the next five years. Based on 2021f budget, capital expenditure is projected to be SAR101bn (US\$26.9bn), lower than SAR137bn (US\$36.5bn) in 2020 and SAR170bn (US\$45.3bn) in 2019. Therefore, PIF investments will increase, capital expenditure to GDP (including GREs investment) to 8.8% in 2021f higher than the last 5 years average of 6.2%.

Exhibit 4: PIF investments to complement budget capex

%



Source: MOF; NCBC Research

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