

ExportReady **DISCOVER**



SECTORAL
REPORT

Saudi
Arabia

Sector: Food & Drink

September 2021



Exportgate

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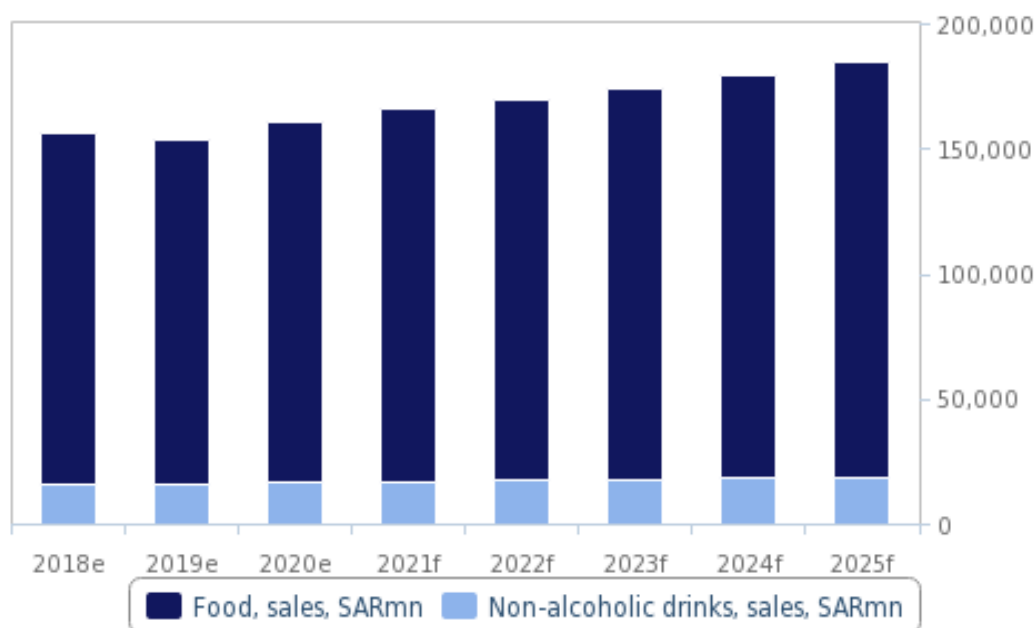


1. Industry Overview

1.1 Key Overview

Saudi's food and non-alcoholic drinks spending growth is forecast to decelerate in 2021 due to the high base effects from 2020 as consumers prioritize their spending towards essentials. Over the medium term (2021-2025), food and non-alcoholic drinks spending growth is forecast to remain positive, supported by increasing economic activity. Saudi consumers have high disposable incomes, and this will present opportunities for food and drink companies offering more premium products. In addition, consumers in the country are becoming increasingly health conscious.

Graph 1: Food And Drink Spending Saudi Arabia (2018-2025)



Source: National statistics, Fitch Solutions

Latest Updates and Industry Developments

- Food spending growth is forecast to decelerate to 3.2% y-o-y in 2021 from 4.4% y-o-y in 2020 due to the high base effects from 2020.
- Over the medium term (2021-2025), food spending growth is forecast to expand at an average annual growth rate of 2.8% y-o-y, which will take spending in nominal terms from SAR149.1bn (USD39.8bn) in 2021 to SAR165.7bn (USD44.2bn) in 2025.
- In 2021, it is projected non-alcoholic drinks spending growth to decelerate to 3.3% y-o-y in 2021 due to the high base effects from 2020.
- Non-alcoholic drinks spending is forecasted to expand by an average annual growth rate of 2.8% y-o-y, taking spending in nominal terms from SAR17.0bn (USD4.5bn) in 2021 to SAR19.0bn (USD5.1bn) in 2025.

- In April 2021, Saudi Arabia announced the suspension of fruit and vegetable imports from Lebanon, stating that shipments were being used for drug smuggling.
- In late 2020, the SFDA proposed a new draft regulation that will make most food products require halal certification to enter the kingdom. The implementation of the draft regulation is expected to start in 2022.

1.2 Food & Drink SWOT Analysis

Strengths

- Saudi Arabia is by far the largest market in the Gulf Cooperation Council region, with a large young adult population (20-39 years old) of 12.2mn in 2021 (34.5% of total population).
- The country has a high urbanization rate, which provides convenient access to large numbers of consumers.
- Like the rest of its Gulf peers, Saudi Arabia is home to a significant expatriate population, providing a market for high-value packaged and processed foods.
- The government maintains wide social benefits and annual allowances for state employees, while also extending cost-of-living allowances for citizens.
- High disposable incomes among a proportion of the population have created an aspirational consumer base interested in premium products.

Weaknesses

- Small grocery stores account for most of the food retail market, creating obstacles for the expansion of mass grocery retail (MGR).
- The constraints on women's public participation inhibit their ability as a demographic to maximize consumer spending power.
- The private sector's dependence on expatriate labour, as well as the government's 'Saudisation' efforts, are a burden for potential investors.
- Food manufacturers are highly dependent on imports for ingredients, owing to the country's severe agricultural shortcomings.
- The introduction of a 'sin tax' on carbonated drinks and tobacco will weigh on the demand for these products over the near term.
- The country's diplomatic spat with Qatar and the resulting trade embargo could affect Saudi food exporters.

Opportunities

- Companies will look to move their regional headquarters to Saudi by 2024 as a result of the Saudi government's policy of no longer signing contracts with foreign companies that do not have a regional headquarter in the kingdom after 2023.
- The demand for processed and packaged goods among Saudi consumers is set to continue increasing as tastes and preferences evolve and lifestyles become busier.
- Rising health consciousness is opening up opportunities for food and drink producers that are able to introduce 'healthy' or 'functional' options.

- Strong growth of both the population and per household income will help the expansion of the MGR sector.
- The economic diversification plan Vision 2030 will support the rapid expansion of the private sector.
- Mass grocery retailers and food producers will benefit from the Covid-19 pandemic, due to increased demand for food and non-alcoholic drinks arising from panic buying and stockpiling.
- Food delivery will see increased demand over the short term, as consumers opt to stay at home, rather going to supermarkets to buy groceries.

Threats

- Popular boycotts, particularly of Western brands, can be damaging, as a country's politics can negatively influence consumption in the Middle East.
- The government's plan to ban foreign workers from jobs in grocery stores by 2020 poses a downside risk to investment by grocery retailers, as it will increase operating costs and drive up wage pressures.
- A collapse in oil prices would negatively affect government spending, thus undermining business and consumer confidence.
- Growing price sensitivity among Saudi consumers is projected to put breaks on value growth within the country's food and drink sector.
- Oil prices have fallen dramatically in early 2020, with this likely to put downward pressure on consumer spending as the government may have to implement fiscal consolidation measures.

2. Industry Forecast

2.1 Food Market

Key View: The food spending growth is forecasted to decelerate in 2021 following the strong growth in 2020 as consumers reprioritize their spending towards essentials, particularly grocery products. At the time of writing, non-essentials consumer facing businesses such as restaurants and cafes are permitted to operate and free mass vaccinations have commenced as of December 15 2020. Saudi consumers are expected to remain relatively cautious, maintaining their focus on essentials such as bread, rice and cereals and meat over the remainder of 2021. Over the medium term (2021-2025), it is forecasted food spending growth to be positive, supported by the recovery in economic activity, which will support wage growth.

Latest Updates

- It is forecasted food spending growth to decelerate to 3.2% y-o-y in 2021 from 4.4% y-o-y in 2020 due to the high base effects from 2020.
- Over the medium term (2021-2025), it is forecasted food spending growth to expand at an average annual growth rate of 2.8% y-o-y, which will take spending in nominal terms from SAR149.1bn (USD39.8bn) in 2021 to AR165.7bn (USD44.2bn) in 2025.

- The bread, rice and cereals segment will be the fastest-growing food spending segment over the medium term (2021-2025), according to our forecasts, with spending growth of 3.2% y-o-y.
- Spending on pasta products, and sugar and sugar-related products will underperform over the 2021-2025 period, it is forecasted average annual growth of just 1.3% and 1.5% respectively, caused by growing levels of health awareness.

2.2 Structural Trends

2021 Recovery Outlook: Food spending is expected to grow by 3.2% y-o-y in 2021, decelerating from an estimated 4.4% y-o-y in 2020 due to the high base effects from 2021. Within the food spending segment, bread, rice and cereals are forecasted to be a growth outperformer with spending growing by 3.7% y-o-y in 2021. This will be followed by fish and fish products spending which are forecasted to grow by 3.5% y-o-y in 2021. The pasta products segment is forecast to be the slowest growing food segment in 2021, expanding by 1.6% y-o-y.

Covid-19 Impact Assessment: Saudi Arabia's government implemented a curfew which initially ran from 7pm-6am in March 2020 in response to the spread of Covid-19 in the country. This also resulted in non-essential retail and dine-in services at restaurants being ordered to shutter while mass grocery retailers were permitted to continue operating. While shopping malls in the Kingdom reopened on April 29 2020, it took longer for other consumer-facing segments to restart their operations, with dine-in services only permitted to operate from June 1 2020 and movie theatres from June 21 2020. Consumer purchasing patterns have shifted towards essentials particularly grocery products in 2020 with people stockpiling and cooking at home. Experts estimate for food spending growth in 2020 is 4.4% y-o-y from 2.4% y-o-y pre-Covid-19.

Medium-Term Trends: Due to a large and growing population (forecast to reach 37.2mn by 2025), Saudi Arabia offers the largest food and drink market in the Gulf region, offering investors sustainable growth from the mass market expansion perspective over the medium-to-long term. In addition, Fitch reports note that Saudi Arabia has a large young adult (20-39 years old) consumer base, standing at 34.5% of its total population in 2021, which tend to have different dietary tastes than older generations, and are more likely to consume Western and international food items.

Over the medium term (2021-2025), it is forecasted food spending growth to expand at an average annual growth rate of 2.8% y-o-y which will take spending in nominal terms from SAR149.1bn (USD39.8bn) in 2021 to SAR165.7bn (USD44.2bn) in 2025. As a proportion of total spending, Saudi consumers will allocate the bulk of their food spending to meat and poultry, at 30.7% total food spending in 2021. This is followed by bread, rice and cereals (13.6%), dairy (12.2%) and fresh and preserved fruit (11.8%).

Proportionally, these rankings will stay relatively the same over the 2021-2025 period, with meat and poultry, and bread, rice and cereals seeing their share increase to 31.0% and 13.9% respectively by 2025. Spending on bread, rice and cereals will grow the fastest over the medium term (2021-2025), expanding at an average annual growth rate of 3.2% y-o-y. This will take spending in nominal terms from SAR20.3bn (USD5.4bn) in 2021 to SAR23.0bn (USD6.1bn) in

2025. It is projected spending on pasta products, and sugar and sugar-related products to underperform over the 2021-2025 period with average annual growth rates of just 1.3% and 1.5% respectively, caused by growing levels of health awareness.

Looking beyond the recent slowdown, it is expected sustainable growth in the domestic food industry to spill over into the wider region, with high-performing local companies Almarai and Savola increasingly looking to expand operations throughout the Middle East. With the country's growing infrastructure investment, there is an expectation for improved transport and logistics networks to support regional trade. The government is encouraging private investment in the region in order to enhance its economic ties with key allies.

Table 1: Food Sales (Saudi Arabia 2018-2025)

FOOD SALES (SAUDI ARABIA 2018-2025)								
Indicator	2018e	2019e	2020e	2021f	2022f	2023f	2024f	2025f
Food, sales, SARmn	140,400.1	138,349.4	144,467.9	149,106.6	152,632.1	156,588.7	161,019.2	165,761.3
Food, sales, SARmn, % growth y-o-y	0.1	-1.5	4.4	3.2	2.4	2.6	2.8	2.9
Bread, rice and cereals, sales, SARmn	18,963.3	18,646.1	19,595.5	20,321.2	20,876.0	21,502.0	22,207.2	22,966.7
Bread, rice and cereals, sales, SARmn, % growth y-o-y	0.2	-1.7	5.1	3.7	2.7	3.0	3.3	3.4
Pasta products, sales, SARmn	3,658.0	3,629.7	3,712.2	3,771.1	3,813.8	3,859.6	3,908.3	3,957.4
Pasta products, sales, SARmn, % growth y-o-y	0.1	-0.8	2.3	1.6	1.1	1.2	1.3	1.3
Baked goods, sales, SARmn	1,873.3	1,853.6	1,912.0	1,955.3	1,987.5	2,023.0	2,062.1	2,102.9
Baked goods, sales, SARmn, % growth y-o-y	0.1	-1.1	3.2	2.3	1.6	1.8	1.9	2.0
Meat and Poultry, sales, SARmn	42,967.8	42,296.0	44,303.4	45,831.7	46,996.9	48,308.2	49,781.2	51,363.0
Meat and Poultry, sales, SARmn, % growth y-o-y	0.1	-1.6	4.7	3.4	2.5	2.8	3.0	3.2
Fish and fish products, sales, SARmn	9,455.1	9,307.2	9,749.2	10,085.7	10,342.3	10,631.0	10,955.4	11,303.7

Source: National statistics, Fitch Solutions

Table 2: Food Sales (Saudi Arabia 2018-2025)

Indicator	2018e	2019e	2020e	2021f	2022f	2023f	2024f	2025f
Fish and fish products, sales, SARmn, % growth y-o-y	0.1	-1.6	4.7	3.5	2.5	2.8	3.1	3.2
Dairy, sales, SARmn	17,109.8	16,869.6	17,585.4	18,126.7	18,537.2	18,997.2	19,511.2	20,060.2
Dairy, sales, SARmn, % growth y-o-y	0.1	-1.4	4.2	3.1	2.3	2.5	2.7	2.8
Oils and Fats, sales, SARmn	5,386.5	5,307.8	5,542.6	5,720.6	5,855.9	6,007.8	6,177.8	6,359.8
Oils and Fats, sales, SARmn, % growth y-o-y	0.1	-1.5	4.4	3.2	2.4	2.6	2.8	2.9
Fresh and preserved fruit, sales, SARmn	16,568.8	16,314.8	17,073.5	17,650.4	18,089.9	18,584.0	19,138.6	19,733.7
Fresh and preserved fruit, sales, SARmn, % growth y-o-y	0.1	-1.5	4.7	3.4	2.5	2.7	3.0	3.1
Fresh vegetables, sales, SARmn	12,550.9	12,389.1	12,870.3	13,232.0	13,505.1	13,809.8	14,148.8	14,509.1
Fresh vegetables, sales, SARmn, % growth y-o-y	0.1	-1.3	3.9	2.8	2.1	2.3	2.5	2.5
Sugar and sugar products, sales, SARmn	6,314.7	6,258.9	6,422.6	6,541.4	6,628.7	6,723.6	6,826.1	6,931.5
Sugar and sugar products, sales, SARmn, % growth y-o-y	0.1	-0.9	2.6	1.8	1.3	1.4	1.5	1.5
Other food products, sales, SARmn	5,551.9	5,476.5	5,701.1	5,870.5	5,998.9	6,142.4	6,302.6	6,473.3
Other food products, sales, SARmn, % growth y-o-y	0.1	-1.4	4.1	3.0	2.2	2.4	2.6	2.7

Source: National statistics, Fitch Solution

2.3 Drink Market

Key View: Non-alcoholic drinks spending growth is forecasted to decelerate in 2021 following the strong growth in 2020 that has resulted in high base effects. Nevertheless, it is projected non-alcoholic drinks spending growth to continue on a positive trajectory, expanding by an average annual growth rate of 2.8% y-o-y over the medium term (2021-2025). The implementation of sugar taxes by Saudi Arabia's authorities and the growing health consciousness among consumers will result in increased demand for healthier drinks such as bottled water and fruit and vegetable juices.

Latest Updates:

- In 2021, non-alcoholic drinks spending growth is projected to decelerate to 3.3% y-o-y in 2021 due to the high base effects from 2020.
- Hot drinks spending will continue on a positive trajectory over the medium term (2021-2025), expanding by 2.8% y-o-y.
- Bottled water spending is projected to account for the largest proportion soft drink sales term (2021-2025, standing at 55.3% of soft drinks spending in 2021). The bottled water

segment will remain the largest soft drinks category over the medium) with its share of total soft drinks spending increasing to at 58.1% of total soft drinks sales in 2025.

- Mineral water spending growth is forecasted to expand by an average annual growth rate of 4.0% y-o-y over 2021-2025. This will take spending in nominal terms from SAR4.5bn (USD1.2bn) in 2021 to SAR5.3bn (USD1.4bn) in 2025.
- Over the medium term (2021-2025), fruit and vegetable juices spending is forecasted to expand by an average annual growth rate of 3.6% y-o-y, which will take spending in nominal terms from SAR1.5bn (USD401mn) in 2021 to SAR1.7bn (USD458mn) in 2025.

2.4 Structural Trends

Alcoholic Drinks: Saudi Arabia has some of the Gulf region's most severe alcoholic drinks restrictions. Saudi law does not tolerate the consumption or distribution of alcoholic drinks to any extent, meaning that alcoholic drinks are not sold in hotels or restaurants. However, there is demand, particularly from expatriates, and illegal channels do exist. There are also opportunities for producers of non-alcoholic beers and malt-based beverages.

Non-Alcoholic Drinks

Covid-19 Assessment: The non-alcoholic drinks spending segment was mostly shielded from the negative impact of Covid-19 on consumer spending in 2020. Saudi consumers increased their spending on priority purchases, particularly grocery products as they spent more time in their homes due to movement restrictions and out of the fear of contracting the virus even as restrictions were eased. Taking this into account, non-alcoholic drinks spending it is estimated to expand by 4.4% y-o-y in 2020, accelerating from a pre-Covid-19 forecast of 2.4% y-o-y.

Recovery/Growth Outlook

In 2021, spending on non-alcoholic drinks is forecasted to decelerate to 3.3% y-o-y due to the high base effects of 2020. Within the non-alcoholic drinks category, it is projected fruit and vegetable juices and mineral water to be growth outperformers with spending growing by 4.5% y-o-y and 3.8% y-o-y respectively in 2021.

The country's hot and arid climate and the ban on sales of alcoholic drinks have given the soft drinks strong popularity among Saudi consumers. Saudi Arabia's soft drinks industry is easily the region's largest in volume and value terms, which comes as no surprise given the size of the population. Local consumers tend to be both brand loyal and aspirational and are increasingly interested in new and innovative products. Spending on coffee at chains like **Starbucks** will depress sales over 2021, but overall spending will remain strong. It is forecasted spending on coffee to grow by an average of 3.0% over the medium term (2021-2025).

Bottled water spending is projected to account for the largest proportion soft drink sales, standing at 55.3% of soft drinks spending in 2021. Carbonated drinks will account for the second largest proportion for soft drinks spending in 2021, accounting for 26.4% of soft drinks spending followed by fruit and vegetable juices spending accounting for 18.4% of soft drinks spending. Following a wider healthification trend and an unfavourable tax profile, the carbonated drink segment's share of soft drinks spending will decrease to 23.2% in 2025 while the fruit and

vegetable segment's share will increase to 18.7% of total soft drinks spending. The bottled water segment will remain the largest soft drinks category over the medium term (2021-2025) with its share of total soft drinks spending increasing to 58.1% of total soft drinks sales in 2025.

Saudi consumers spend a relatively large amount on mineral water. Rising incomes combined with concerns about the safety of tap water and Saudi Arabia's hot climate provide a great environment for the bottled water industry. Also, a big trend over the period was the performance of bulk water, which includes home filtration systems. Mineral water spending growth is projected to expand by an average annual growth rate of 4.0% y-o-y over 2021-2025. This will take spending in nominal terms from SAR4.5bn (USD1.2bn) in 2021 to SAR5.3bn (USD1.4bn) in 2025.

In June 2017, Saudi Arabia introduced a 100% tax on energy drinks and a 50% tax on carbonated drinks. The tax marks a big change in policy for the kingdom, which has traditionally kept taxation minimal, but is now implementing a series of levies, including VAT in January 2018, to close the fiscal deficit that has prevailed for a few years. The regressive nature of the tax means that lower-income consumers will be hardest hit, particularly as these consumers tend to purchase carbonated drinks on a frequent basis, often due to a lack of awareness of health concerns such as obesity.

In December 2019, Saudi Arabia extended its 'sugar tax'. While previously the 50% tax was only levied on carbonated soft drinks, from December 2019 it is imposed on all sugary drinks. Sugared drinks that contain at least 75% milk, as well as drinks that are naturally sweet (no added sugars) such as fruit juices are exempt from the sugar tax extension. The tax will result in a shift in consumer preferences away from energy and sugary soft drinks and towards healthier, functional products, such as fruit and vegetable juices as well as bottled water in 2021. Over the medium term (2021-2025), fruit and vegetable juices spending is forecasted to expand by an average annual growth rate of 3.6% y-o-y which will take spending in nominal terms from SAR1.5bn (USD401mn) in 2021 to SAR1.7bn (USD458mn) in 2025.

Opportunities remain prevalent, particularly in the low calorie/sugar-free segment, largely owing to rising health consciousness and very high rates of obesity and diabetes in the country. The introduction of fiscal measures on sugary beverages will also drive consumer demand for healthier drink categories across the Gulf Cooperation Council region. As a result of taxes on carbonated drinks and rising health consciousness, we project spending to grow by just 0.9% over 2021. Carbonated drinks spending is projected to contract by 0.2% y-o-y over the 2021-2025 period. While a hike in retail prices is set to cause an initial consumer shock, relatively high disposable household incomes in Saudi Arabia will allow consumers to go back to buying sugary soft drinks once they are adapted to the new prices.

Table 3: Non – Alcoholic Drinks Sales (Saudi Arabia 2018-2025)

NON-ALCOHOLIC DRINKS SALES (SAUDI ARABIA 2018-2025)								
Indicator	2018e	2019e	2020e	2021f	2022f	2023f	2024f	2025f
Non-alcoholic drinks, sales, SARmn	16,042.1	15,807.8	16,510.4	17,049.7	17,459.6	17,919.7	18,434.8	18,986.2
Non-alcoholic drinks, sales, SARmn, % growth y-o-y	0.1	-1.5	4.4	3.3	2.4	2.6	2.9	3.0
Coffee, teas and other hot drinks, sales, SARmn	8,254.5	8,176.4	8,570.9	8,859.3	9,053.4	9,275.8	9,541.9	9,830.8
Coffee, teas and other hot drinks, sales, SARmn, % growth y-o-y	-6.3	-0.9	4.8	3.4	2.2	2.5	2.9	3.0
Soft drinks, sales, SARmn	7,787.6	7,631.4	7,939.5	8,190.4	8,406.2	8,643.8	8,892.9	9,155.4
Soft drinks, sales, SARmn, % growth y-o-y	8.0	-2.0	4.0	3.2	2.6	2.8	2.9	3.0
Fruit and vegetable juices, sales, SARmn	1,372.9	1,353.1	1,439.8	1,504.9	1,550.8	1,601.8	1,658.6	1,716.1
Fruit and vegetable juices, sales, SARmn, % growth y-o-y	16.7	-1.4	6.4	4.5	3.0	3.3	3.5	3.5
Mineral or spring waters, sales, SARmn	4,092.7	4,145.4	4,360.5	4,526.4	4,702.4	4,890.7	5,099.1	5,317.6
Mineral or spring waters, sales, SARmn, % growth y-o-y	12.0	1.3	5.2	3.8	3.9	4.0	4.3	4.3
Carbonated drinks, sales, SARmn	2,322.0	2,132.9	2,139.2	2,159.1	2,153.0	2,151.3	2,135.2	2,121.7
Carbonated drinks, sales, SARmn, % growth y-o-y	-2.3	-8.1	0.3	0.9	-0.3	-0.1	-0.8	-0.6

Source: National statistics, Fitch Solutions

3. Food Market

3.1 Market Overview

With only about 2% of the country's land mass being arable, Saudi Arabia remains heavily reliant on food imports. However, the Saudi Arabia General Investment Authority (SAGIA) announced plans to invest USD59bn in its food industry by 2021. The ongoing development of organized retail channels also contributes to food consumption growth.

Recent Developments

- On May 3 2021, **Almarai** announced new investments worth SAR6.6bn (USD1.8bn) to double the production operations in the poultry sector in the kingdom through three phases until 2026. These investments will increase the company's share of chilled chicken, which represents 96% of its total production, along with increasing its production and share of frozen poultry.
- In March 2021, **Almunajem Foods**, one of the largest private food companies in Saudi Arabia, has announced the expansion of its meat processing factory in Jeddah to keep pace with increasing demand for its products and to localise the production of some of

its imported products. The facility's extension is already underway and is due to start production in July 2021.

- In March 15 2021, Saudi food giant Almarai acquired the UAE and Bahrain operations of **Bakemart** in a deal worth SAR95.5mn (USD25.5mn). The acquisition will further expand Almarai's bakery product offering and enhance its contribution to the Saudi's food security in line with Saudi Vision 2030.
- In January 2021, BRF finalized its SAR29.7mn (USD8mn) acquisition of **Joody Al Sharqiya**, a food processing company in Dammam, Saudi Arabia. With the conclusion of the acquisition, BRF will initiate the implementation of a project to expand the plant's processing capacity from 3,600 tonne/year to 18,000 tonne/year, with an estimated additional investment of USD7.2mn.
- In late 2020, the SFDA proposed a new draft regulation that will make most food products require halal certification to enter the kingdom. The implementation of the draft regulation is expected to start in 2022.
- In June 2020, The Saudi Food and Drug Authority announced plans to implement a national programme for food monitoring and control that includes analysing more than 10,000 food samples in order to ensure their safety from pollutants. The Authority is also creating databases on the quality and quantity of food consumed by the Saudi society.

3.2 Market Drivers and Trends

Food Imports: With only about 2% of the country's land mass being arable, Saudi Arabia remains heavily reliant on food imports, similar to all other Gulf Cooperation Council countries. Total food and drink imports reached USD16.8bn in 2018, a 3.9% increase from the year before. The kingdom's leading trade partners with regards to food are Brazil, India and the UAE, from which it imported 27% of its total food and drink imports. Cereals are Saudi Arabia's leading food import, at 19.1% of total food imports in 2018, followed by dairy and meat, at 11.2% and 11.0% respectively.

Food Processing: As part of Saudi Arabia's Vision 2030 and wider economic diversification efforts, government-endorsed programmes relating to food security - including King Abdulla's Initiative for Saudi Agricultural Investment Abroad - have reinforced Saudi Arabia's commitment to become a manufacturing heavyweight, by enabling domestic food manufactures to compete on an international scale in terms of their product technology, price and quality. The SAGIA announced plans to invest USD59bn in its food industry by 2021. The kingdom is aiming to become a key shrimp producer, with an output of 200,000 metric tonnes by 2025 as part of the state's aquaculture development programme. The Saudi government is investing USD400mn in developing its total aquaculture output over the medium term. Shrimp farming in Saudi Arabia is situated along the southern shores of the Red Sea.

Meat consumption in the country remains high, and it is forecasted meat and poultry sales to experience robust growth throughout our forecast period to 2025. This is largely supported by the country's well-developed poultry segment, which stems from the government's effort to reduce dependence on suppliers.

Brazilian food processor BRF announced in October 2019 that it will invest USD120mn to build its first chicken processing plant in Saudi Arabia. In January 2021, BRF finalized its SAR29.7mn

(USD8mn) acquisition of Joody Al Sharqiya, a food processing company in Dammam, Saudi Arabia. With the conclusion of the acquisition, BRF will initiate the implementation of a project to expand the plant's processing capacity from 3,600 tonne/year to 18,000 tonne/year, with an estimated additional investment of USD7.2mn.

In March 2021, Almunajem Foods, one of the largest private food companies in Saudi Arabia, has announced the expansion of its meat processing factory in Jeddah to keep pace with increasing demand for its products and to localize the production of some of its imported products.

Dairy Processing: Saudi Arabia's bustling dairy industry has been at the forefront of the food industry's expansion and continues to grow rapidly. Higher incomes, the increasing use of white goods, growing consumer interest in healthy eating and the continued emergence of major domestic manufacturers have seen the sector emerge as a major economic contributor over the past decade.

Saudi Arabia's dairy industry is comfortably the Gulf region's most competitive, and the country's main dairy companies have invested heavily in vertically integrating their operations. The industry is led by Almarai, the region's largest dairy company by market value. Almarai's core competitive advantage is its highly developed distribution network. As the largest food producer in the Persian Gulf, Almarai has product lines including dairy, juices, baked goods, poultry and baby food.

In the past, the fresh food industry has suffered due to the inefficient transportation of produce from the point of production, an issue that Almarai has been working to address through greater investments. Through a joint venture with the soft drinks giant PepsiCo, Almarai has been expanding beyond the Gulf region and into the wider Middle East through acquisitions. In addition to Almarai, other prominent players in the dairy industry include al-Safi Danone and Saudia Dairy and Foodstuff Company (SADAFCO).

Improved production practices have been matched by improvements in the standards of imported cattle, is helping to transform Saudi Arabia from a dairy importer to a dairy exporter. While the export market remains an important source of revenue for the industry, domestic demand for dairy remains the primary driver of industry growth. As a result, it is forecasted steady growth for liquid milk consumption in Saudi Arabia over our medium-term forecast to 2025.

On the back of the growing popularity of dairy products among Saudi consumers, it is seen a continuing new product development, with SADAFCO introducing a new milk product, called Milk Calcium, under the Saudia brand. The product is fortified with 60% more calcium than regular milk, tapping into the increasing demand for healthy and fortified products in the kingdom. Furthermore, Arla Foods, the world's largest producer of organic dairy products, has launched its first branded organic milk in Saudi Arabia.

Livestock: New Saudi import regulations pertaining to religious slaughter methods will not be a major disruption to poultry imports, as the country's key trade partners work closely to ensure compliance. Saudi meat consumption growth will rebound out to the end of our forecast period

in 2023. The kingdom traditionally runs a trade deficit in poultry, with poultry imports reaching USD1.2bn in 2018.

The issue has come to a head recently as the Saudi government announced that effective March 1 2018, poultry imports from animals electronically stunned pre-slaughter would be banned. It is possible that this change in regulation is meant to discourage imports (the kingdom also recently raised tariffs on poultry imports from 5% to 20%, the maximum allowable under WTO rules) in an effort to aid its domestic industry. This comes as the kingdom is aiming to reach 60% self-sufficiency by 2022.

Saudi Arabia is also a net importer of beef, with Brazil being its most important trade partner. In November 2019, Brazilian beef exporters have been granted access to Saudi Arabia as eight new establishments were approved by the Saudi Food and Drug Authority (SFDA). It is projected that this will increase meat imports from Brazil throughout 2020.

Halal: The importance of the halal food industry is continuing to grow in the Middle East. The long-term outlook for the halal food industry is captured by the fact that the world's Muslim population represents some 25% of the global population. As investment in the industry increases, competition among producers will intensify, which will lead to a rise in the output of halal products.

While Middle Eastern consumers traditionally prefer fresh meat, health and hygiene scares have been a major driver of changing consumer habits and have ultimately benefited the packaged-meat industry. Meat and halal products are now being imported from many countries, including Australia, New Zealand, Ireland, Brazil, Canada and the US. In fact, most distributors of halal products are not from Muslim countries, with many international producers having recognized the potential in the market.

Although it is Malaysia that has taken the lead in developing and modernising this sector, regional producers have increased production and are slowly reducing the Gulf region's import dependence. In October 2019, Saudi Arabia's government launched a national system for dealing with halal products. The Saudi Standardization, Metrology and Quality Organization will be responsible for acceptance and accreditation of bodies that grant halal certificates, while the Saudi Food and Drug Authority (SFDA) will take measures to establish the Halal Center to be an independent body for granting certificates.

In late 2020, the SFDA proposed a new draft regulation that will make most food products require halal certification to enter the kingdom. Currently, only meat and meat-based products and ingredients require mandatory halal certificates to enter the Saudi Arabian market, similar to other Gulf Cooperation Council (GCC) countries, including UAE. The implementation of the draft regulation is expected to start in 2022. Under the new regulation, new product categories that would require mandatory halal certification from SFDA-approved halal certification bodies to enter Saudi Arabia include milk and dairy products, oil and fats, confectionery, chilled and frozen food, and products with a long shelf-life at room temperature.

Food Services: The fast-food sector continues to be one of the key channels in the consumer food services industry in Saudi Arabia. There is growth expectation in this channel to remain steady due to increased investment in this area, with new shopping malls and food courts set to

open in the near-to-medium term in Saudi Arabia. In December 2019, Saudi Arabia ended gender segregation in restaurants.

Global fast-food giant **McDonald's** continues to lead the fast-food sector in Saudi Arabia. The firm is represented by Riyadh International Catering Corp and opened its first restaurant in 1993. The chain has outlets all over the country, with 22 restaurants in Riyadh. Other international brands present in the market include **KFC** and **Pizza Hut**. One of the most successful local chains is **Herfy**, which was established in 1981 and offers a menu similar to that of many Western fast-food chains. It has a total of more than 350 restaurants throughout Saudi Arabia. It also has many subsidiaries, including **Herfy Bakery** and a meat processing plant. Another major local brand is **Albaik**, which was founded in 1974. The restaurant primarily sells roasted chicken and shrimp with a variety of sauces. There are a total of 97 branches, with more than 40 branches in Jeddah, where it is headquartered.

Almarai Company announced in February 2019 the signing of an agreement with **Alamar Foods** to acquire a 100% stake in **Premier Foods** at a value of SAR108mn. Premier Foods holds the franchise rights for fast-food outlets **Domino's Pizza** and **Dunkin'**. Riyadh-based Premier Foods also manufactures value-added halal meat and poultry products. Almarai said that the deal will enable them to expand further into food service channels.

In July 2019 Dubai-based **Careem** expanded its Careem NOW food delivery service to the Saudi city of Makkah, giving residents the option to order food from a wide variety of restaurants, including McDonald's, Al Baik, Pizza Hut, **Maestro Pizza** and **Baskin Robbins**. The Careem NOW service has been operating in Jeddah and Riyadh.

4. Drink Market

4.1 Market Overview

Saudi Arabia has a mature soft drinks industry that has become increasingly competitive across all segments. Competition within the carbonated drinks, juices and bottled waters sub-sectors is particularly fierce, leading to frequent new product developments and launches supported by significant marketing and promotional spending.

Recent Developments

- In January 2021, Tim **Hortons** signed a Memorandum of Understanding with Saudi Arabia's Ministry of Investment and the Royal Commission for Riyadh City to establish a new Middle East headquarters in Riyadh, Saudi Arabia. The café chain is also targeting 42 new stores in Saudi Arabia during 2021.
- In late 2020, the Saudi Food and Drug Authority proposed a new draft regulation that will make most food products require halal certification to enter the kingdom. The implementation of the draft regulation is expected to start in 2022.

- Concerns of the impact of the Covid-19 pandemic and the increase in excise taxes in the nation for sweetened beverages are some of the factors estimated to act as a barrier to the growth of the Saudi Arabia soft drinks market.
- In April 2020, **Pepsico** announced that it would pledge USD5.0mn towards Covid-19 relief in the MENA region.
- In October 2019, PepsiCo launched Pepsi Black in Saudi Arabia, aiming to maintain its dominant position over rival Coca-Cola in the country.
- Saudi Arabia introduced an extension of its sugar tax in December 2019. While the previous 50% sugar tax (introduced in June 2017) was only levied on carbonated soft drinks, the new extension of the tax targets all drinks with added sugars, as well as drinks that contain natural and artificial sweeteners. •
- British soft drinks manufacturer **Nichols** expects the extension of the sugar tax to affect its sales in 2020, with Saudi Arabia being one of its key markets due to the popularity of its Vimto cordial during Ramadan.

Alcoholic Drinks: Alcohol is banned in Saudi Arabia under Islamic law, and punishments for drinking alcohol are strictly applied. Despite this, Saudi Arabia's large expatriate community and Western military personnel serving in the country are still able to obtain alcohol that is home-brewed or through various routes operating out of neighbouring Gulf states. This is a point of conflict in the country, with Saudi nationals believing that by encouraging smuggling, Westerners are not showing respect for Saudi lifestyle and Islam.

Soft Drinks: Saudi Arabia's soft drinks industry is increasingly competitive across all segments. Competition within the carbonated drinks, juices and bottled waters sub-sectors is particularly fierce, leading to frequent new product developments and launches supported by significant marketing and promotional spending.

Recent fiscal changes are weighing on Saudi Arabia's soft drinks medium-term outlook. While the previous 50% sugar tax (introduced in June 2017) was only levied on carbonated soft drinks, a new extension of the tax (introduced in December 2019) targets all drinks with added sugars, as well as drinks that contain natural and artificial sweeteners. Sugared drinks that contain at least 75% milk, as well as drinks that are naturally sweet (no added sugars), such as 100% fruit juices, are exempt from the sugar tax extension. As Saudi Arabia's sugar tax extension now also targets sweeteners, it is believed that there is limited possibility for reformulation, as happened in the UK after a sugar tax was introduced in April 2018. British soft drinks manufacturer Nichols expects the extension of the sugar tax to affect its sales in 2020, with Saudi Arabia being one of its key markets due to the popularity of its Vimto cordial during Ramadan.

PepsiCo's core brands (bottled by the **National Bottling Company** in Saudi Arabia) continue to dominate the Saudi carbonated drinks market, accounting for more than 70% of volume sales. The Coca-Cola Company's unfamiliar second-place position in Saudi Arabia, and in much of the Middle East region, has traditionally owed much to regional perceptions and strong geopolitical influences. Although Saudi Arabia is one of the few notable emerging markets in which Coca-Cola is not a leader, it has progressed promisingly over the past two decades, having previously been absent from the market. In January 2021, PepsiCo announced that it

was moving its regional headquarters to the kingdom. Saudi Arabia is the Gulf region's largest bottled water market, with a number of prominent domestic producers accounting for the majority of sales. Leading the domestic contingent is **Makkah Water** - owner of the Safa and Mozn brands. UAE-based **Masafi** is also a major producer of bottled water in the region and has launched a range of premium juices that are being processed and bottled at its plant in the UAE. Leading players in fruit juices include **Almarai**, **The National Fruit Juice Company** and **al-Rabi Saudi Food Company**, as well as dairy companies **al-Safi Danone** and **Saudia Dairy and Foodstuff Company**.

Hot Drinks: Saudi Arabia's hot drinks sub-sector is very mature. Major players within the sector include local manufacturers **Tea Factory** and **AMS Baeshen & Co**, and global major Nestlé. The teabag market is dominated by **Unilever's** Lipton Tea brand. Lipton has been available in the Gulf since the 1960s and is particularly popular. Its ability to innovate and cater to developing consumer preferences sets it apart from its competitors. Lipton produces a variety of black and green teas from its regional manufacturing headquarters in Dubai. Its Jebel Ali-based facility is the second largest teabag factory in the world, with a production capacity of around 5bn tea bags per annum. Lipton has also steadily introduced a range of fruit teas across the GCC and has a market share in excess of 70%. A steady rise in health consciousness is set to boost tea sales.

Coffee is also widely enjoyed across the country, with the entrance of chains such as **Starbucks** and **Tim Hortons** pointing to increasing demand for Western-style caffeinated products. Newspaper Al Riyadh estimates that there over 1,000 coffee shops and cafes in the capital alone, indicating a growing coffee culture in the kingdom. In 2018 (latest trade map data) Saudi Arabia's coffee imports reached USD213mn, making it the largest coffee importer in the Middle East. As part of its major expansion plan, Starbucks opened a new branch on Al Khobar Corniche in the Eastern Province. The new outlet has the largest number of Saudi women working in any of its stores in the kingdom, which reflects the country's increasing female participation rate as part of Saudi Vision 2030.

5. Mass Grocery Retail

5.1 Sector Overview

While the mass grocery retail sector is one of the most important sectors within Saudi Arabia's retail market, the rate of penetration continues to lag behind Gulf states such as the UAE, where the size of the market is much smaller and the spending power of most of the population is generally much higher. Saudi Arabia's independent sector still accounts for slightly less than half of total grocery sales, highlighting substantial room for expansion.

Recent Developments

- In April 2021, **Tamimi Markets**, a fast-growing supermarket chain in Saudi Arabia, opened its 78th location in the Malaz neighborhood of Riyadh. The latest branch offers

- a number of features, including Tamimi Markets's e-commerce service, Click and Collect.
- In February 2021, **Majid Al Futtaim**-owned **Carrefour** has joined IBM Food Trust, a blockchain-enabled global ecosystem for the food industry run on IBM Cloud. The initiative currently covers 21 SKUs (a stock-keeping unit or a scannable bar code) of Carrefour's own fresh chicken brand and 17 microgreens harvested from select in-store hydroponic farms, with plans to expand into more product lines.
 - In February 2021, **Majid Al Futtaim** revealed plans to open more than 100 Carrefour stores across the Middle East, Africa and Eastern Europe in 2021. The new store openings would see its total store network rise from 358 stores to 450 stores by the end of 2021.
 - In February 2021, **Lulu Hypermarket** opened its first store fully staffed by women in Jeddah, Saudi Arabia. The 37,000sq ft express shop near King Abdul Aziz University has a staff of 103 Saudi women. It is the 20th branch of Lulu Group in the kingdom, one of over 200 stores the company has set up across the Gulf since 2000.
 - In February 2021, **Savola Group** announced the launch of a new corporate venture capital fund and closed full acquisition of Saudi-based **Panda Retail Company's** e-grocery service, PandaClick.
 - In late 2020, the Saudi Food and Drug Authority proposed a new draft regulation that will make most food products require halal certification to enter the kingdom. The implementation of the draft regulation is expected to start in 2022.
 - In December 2020, **Spar International** opened an express convenience store in Riyadh's Digital City. The latest express store is its 11th branch and comes as a continuation of the company's expansion plans in support of the Kingdom's Vision 2030 for developing the economy and raising the level of services and products provided to citizens and residents.
 - In October 2020, the Saudi Arabian supermarket retailer **Bindawood Holding** completed its IPO, which was initially postponed from July 2020 as a result of the economic disruption caused by the Covid-19 pandemic.

Major Players: There has been considerable investment over recent years, with market leader **Panda** (owned by **Savola**) in particular continuing to pursue significant organic and non-organic expansion. Amid signs of market consolidation, with merger and acquisition options limited, Panda has since focused on organic store growth. Underlining the strength of domestic Saudi players (especially in hypermarkets), the Gulf region's two leading hypermarket retailers Carrefour MAF and EMKE-owned LuLu are still currently placed second to local market leader Panda.

UAE-based **Majid Al Futtaim** is a major hypermarket operator in the country under the Carrefour banner, having acquired the French retailer's 25% stake in their Middle East and North Africa joint venture in 2013. It will retain the banner until 2025, with its impressive buying power likely to allow it to keep prices reasonably low and affordable.

Also based in the UAE, **EMKE** continues to roll out its LuLu hypermarkets in Saudi Arabia. The company said that it will open another 15 hypermarkets in Saudi Arabia by the end of 2020, five of which opened by the end of 2018 (three in Riyadh and one each in Tabuk and Dammam), with the aim of bringing the total to 30 hypermarkets by 2020. EMKE plans to invest SAR1bn (USD270mn) in Saudi Arabia by 2020. This includes a SAR200mn investment in setting up a 1mn sq ft wholesale and logistics centre in King Abdulla Economic City to support its expansion plans.

Other prominent players in organised retail include hypermarket/supermarket-focused **Bin Dawood** and multi-format operator **al-Othaim**. BinDawood Holding operates two retail chains, BinDawood and Danube, together accounting for 74 stores in 15 cities across the kingdom. Meanwhile, al-Othaim is well positioned, given its exposure to a range of formats including supermarkets, convenience stores and hypermarkets. All three segments are expected to grow considerably over the forecast period to 2025, shifting the retail segment away from baqalas - local corner stores that remain prevalent across the kingdom. In October 2020, Bindawood Holding completed its IPO, which was initially postponed from July 2020 as a result of the economic disruption caused by the Covid-19 pandemic.

Upmarket retailer **Spinneys**, which has a presence across the region, recently announced plans to open 10 outlets in the country over the next decade, in cities including Jeddah and Riyadh.

SPAR International entered the Saudi Arabian retail market in 2017, partnering with well-established Saudi conglomerate the **Al Sadhan Group**. The grocery retailer plans to open 40 stores in Saudi Arabia by 2020. In late January 2018, the company opened three large SPAR supermarkets ranging from 2,900-4,500sq m in Riyadh, the country's capital. The first SPAR store is aimed at the mid-to-premium sector of the retail market, but will provide competitively priced products as the company seeks to cater for all consumer brackets. In December 2020, Spar opened an express convenience store in Riyadh's Digital City. Spar Chairman Muhammad Al-Sadhan said 'the opening of the new Spar Express comes as a continuation of our expansion plans in support of the Kingdom's Vision 2030 for developing the economy, and raising the level of services and products provided to citizens and residents'. The latest express store is its 11th branch.

Nana Direct, a Saudi online grocery delivery platform, raised USD6.6mn in funding in August 2019. Nana serves 13 cities across Saudi Arabia with a core product that connects customer, in-store pickers, supermarkets and delivery services. The company's funding was led by **Middle East Venture Partners** and Riyadh-based **Impact46**, while the other investors include **Watar Partners**, **Saudi Venture Capital** and **Wamda Capital**. The company plans to use the capital to accelerate its growth plans, and develop its team and vendor relations

5.2 Market Drivers and Trends

With real household incomes to come under pressure in 2020, consumers will become less brand loyal and more inclined to opt for lower cost brands, especially for essential food and drink items. This will particularly benefit private label, with all large retailers (including

Carrefour, Panda, and LuLu) offering their own brands within food and drink. It is noted that growing price sensitivity among Saudi consumers offers opportunities for the MGR sector, with large grocery chains being able to engage in deeper price promotions compared to independent grocers.

There is a positive outlook for Saudi Arabia's food retailing sector as the government moves towards more investor-friendly policies. The 2016 decision to allow 100% foreign ownership in the wholesale and retail sector will attract positive investment from international retailers. In our view, this move will be crucial for growth in the MGR sector, particularly at a time when business confidence is on a downward trend.

There is a belief that Saudi Arabia's MGR sector holds strong growth opportunities, driven by a sustainable consumer base. The country holds a favourable consumer demographic, such as a sizeable population forecast to reach 35.3mn in 2021. The country's young and rapidly growing population, combined with high per capita food consumption, bodes well for grocery retailers investing in the Saudi market.

The hypermarket format will continue to dominate the sector, accounting for nearly half of total MGR sales. Ongoing store launches will support the structural transition from informal to formal retailing in Saudi Arabia's MGR sector. However, as consumer preferences start to shift, the prevalence of traditional hypermarket and supermarket formats will begin to face growing competition from the currently underdeveloped convenience and discount formats.

As retailers seek to penetrate residential areas and the demand for proximity rises, convenience stores will become increasingly popular. Another major driving factor will be continued investments in the sector by leading industry players, and domestic retailers are expected to lead the formalization process.

E-commerce is starting to make a mark. In August 2018, **Wadi Grocery**, the grocery app of e-commerce player Wadi.com, reported strong growth in the Saudi market. The app was launched in early 2018 in Riyadh, Jeddah and Dammam and reports more than 2,000 daily orders from more than 20,000 products. The service promises a two-hour delivery slot, making the quick delivery of groceries the first service of its kind in the Middle East, and will be rolled out to other Saudi cities and markets in the region, starting with the UAE in 2019. Wadi.com was acquired by Carrefour MAF in May 2019. Other online grocery platforms in the kingdom are **Nana Direct**, **Danube Online** and **Khodar & more**.

6. Competition

5.1 Competitive Landscape

Table 4: Key Players in Saudi Arabia's Food & Drink Sector

KEY PLAYERS IN SAUDI ARABIA'S FOOD AND DRINK SECTOR			
Company	Country Of Origin	Ownership	Sub-Sector
Savola Group	Saudi Arabia	Private company	Food - edible oil, dairy, sugar, mass grocery retail
Almarai Company	Saudi Arabia	Private company	Food - dairy, fruit juice
Unilever NAME	UK	Parent company: Unilever Group	Food & beverages
Aujan Group Holding	Saudi Arabia		Beverages - soft drinks
Al-Rabie Saudi Foods Co	Saudi Arabia	Private company	Beverages
Al-Safi Dairy	Saudi Arabia	Parent company: Danone	Food - dairy
Saudi Dairy and Foodstuff Company (SADAFCO)	Saudi Arabia		Food & beverages
Hail Agricultural Development Co (HADCO)	Saudi Arabia	Parent company: Almarai	Agribusiness & food
Arab Supply & Trade Corporation	Saudi Arabia		Agribusiness
Arabian Agricultural Services Co (ARASCO)	Saudi Arabia		Agribusiness
Zamzam Group	Saudi Arabia	Parent company: Zamzam (Iraq)	Beverages - carbonated drinks
National Bottling Company (PepsiCo)	Saudi Arabia		Beverages - carbonated drinks
Coca Cola Bottling Company of Saudi Arabia	US	JV - Olayan Group/Coca-Cola Co	Beverages - carbonated drinks
Makkah Water	Saudi Arabia		Beverages - bottled water
Nestlé Middle East	Switzerland	Parent company: Nestle	Food & beverages

Source: Fitch Solutions

Table 5: Key Players in Saudi Arabia's Mass Grocery Retail Sector

KEY PLAYERS IN SAUDI ARABIA'S MASS GROCERY RETAIL SECTOR				
Company	Country Of Origin	Ownership	Fascia	Format
Panda Retail Company	Saudi Arabia	Parent company: Savola Group	Panda	Supermarket
			Hyper Panda	Hypermarket
			Pandati	Convenience store
Carrefour MAF	France/UAE	Parent company: Majid al Futtaim	Carrefour MAF	Hypermarket
				Supermarket
EMKE Group	UAE/India	Private company	Lulu	Hypermarket
Farm Superstores	Saudi Arabia		Farm	Supermarket
			Superstores	
Al-Raya Supermarkets	Saudi Arabia	Private company	Al-Raya	na
BinDawood Stores	Saudi Arabia	Bindawood Holding		Supermarket
Al-Sadhan Trading Co	Saudi Arabia	Private company	Al-Sadhan	Hypermarket

Source: Fitch Solutions

7. Sources

- BMI Research, Fitch Group
- Exportgate, Eurobank
- IMF
- WorldBank

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