**MEMORANDUM**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** : | 02/03/1438(01/12/2016) | **cc**: | A. Al-Lohaidan (Summary) |
|  |  |  | A. Al-Akel (Summary) |
| **From** : | Ibrahim Al-Medaifer |  | A. Al-Ghebewi |
|  |  |  | B. Al-Sultan |
| **To** : | Abdullah Al-Subaie |  | Z. Shaikh |
|  |  |  | TCD/RD |
| **Ref.** : | **Appl -5114 Shwatty Jazan Fty, for Poles, Galvanizing & Metal Fabrication, Jazan (Resubmission)** | |  |
| **Subject:** | **MARKETING REPORT** | |  |

**SUMMARY**

**Proposal**

The project concerns a loan application by Shwaity Jazan Fty, for Poles, Galvanizing & Metal Fabrication for a financial support from SIDF to set up a new factory for the production of Steel Poles (lighting and distribution poles) that are used in many applications mainly in power transmission and street lighting & galvanizing service. The planned installed capacity is 6,200 tons for lighting & distribution poles poles (70% LP, 30% DP) and 31,050 tons for galvanizing services however; TCD has not finalized their capacity calculations. According to the sponsor the estimate time of commercial production is 3rd quarter 2017.

The project is branch of a sole proprietorship called (Sayeed Hussain Al-Mdhesh Establishment) which is owned by Mr. Sayeedd Hussain Abdullah Al-Qahtani (100%).

**Industrial License & Project Cost**

The sponsor has obtained a temporary industrial license from the Ministry of Commerce and Industry No. 39328 dated 20/12/1436 H allowing the production of Galvanized Light Poles, Galvanized Power Poles, Steel Structure, Galvanizing Metals, Metal Fabrication, Metal Bridges, and Tanks.

The total project cost has been estimated by the sponsor at SR 50.42 million, SR 24 million is recuested from SID to be financed.

**Rationale behind Project**

Shwaity Jazan factory’s main justifications for the project are as follows:

* The sponsor is the first and only factory located in the Southern Region (Jazan, Asir, Najran, Albaha and Bishah) where a lot of existing poles are unsteady and made of wood which need to be replaced.
* The location is close to 2 ports in case of exporting their products.
* The sponsor will have an advantage over the competitors on transportation cost in the Southern Region.
* The technology, machinery and raw materials needed for the manufacturing process are accessible at reasonable price.
* The sponsor is willing to capitalize on his experience on trading and installing steel poles.

**Funding Policy**

Loan committee in their meeting # 1110 dated 27/05/1424 has approved the followings for the Steel Poles sector:

* All new applications for steel poles to be considered on their own merits.
* The Industry to be reviewed in four years.

The subject project is considered in line with SIDF policy since he is seeking a loan to set up a new factory in Jazan.

**STEEL POLES SUPPLY & DEMAND**

The following table summarizes all lighting and distribution poles producers’ sales in the local market for the last three years as follow:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Supply** | **Inst. Cap Ton\*** | **2013** | **2014** | **2015** |
| **Total** | **341,010** | **199,728** | **190,072** | **221,931** |
| **Growth** |  | **-** | **-5%** | **17%** |
| **Utilization Rate** |  | **59%** | **56%** | **65%** |

\*The norm of the industry is one extended shift 12 hrs./300 days and some factories work 2 shifts.

As illustrated in the above table, the local production of steel poles showed a decline in 2014 as it decreased by around 5% to reach approximately 190 thousand tons due to the decrease of Saudi Electricity Company’s projects which which offered bids in 2013 for 2 years. In 2015 there was a noticeable growth on sales by 17% to reach total sales of almost 222 thousand tons of steel poles. The dramatically increase was due to the growing demand by Ministry of Municipal and Rural Affairs (MOMRA) and Saudi Electrical company in 2015 as some projects were postponed from the year before.

The following table shows the total historical demand for the subject period:

|  |  |  |  |
| --- | --- | --- | --- |
| **Steel Poles (Ton)** | **2013** | **2014** | **2015** |
| Total Local Production (LP + DP)\* | 188,528 | 179,332 | 209,671 |
| Imports | 14,419 | 21,629 | 19,405 |
| (Less) Exports | 11,200 | 10,740 | 12,260 |
| **Demand** | **191,747** | **190,221** | **216,816** |
| **Growth %** |  | **-1%** | **14%** |

\*LP= Lighting Poles, DP= Distribution Poles.

It can be seen from the above table, the demand slightly decreased by 1% in 2014 to reach 190,221 tons. Despite the decrease in 2014, the local production helped the demand to increase sharply in 2015 by 14% to attain almost 217 thousand tons.

While the cumulative growth for the past three years or even for 2015 is higher, MCD suggests a conservative growth trend of 2% per annum for 2016-2017, given the downturn seen in other construction related industries. From 2018 onwards, the growth rate should improve to 3-4% or better. Demand should therefore rise from around 217 thousand tons in 2015 to almost 259 thousand tons by 2021.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Demand** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** |
| **Ton** | **216,816** | 221,152 | 225,575 | 232,343 | 239,313 | 248,885 | 258,841 |
| **Growth %** | **-** | 2 | 2 | 3 | 3 | 4 | 4 |
| **CAGR %** | **3.2%** | | | | | | |

**GALVANIZING SERVICE SUPPLY & DEMAND**

The historical supply of hot-dip galvanization services in the Western Region between 2013 and 2016 is as follows:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Historical Supply of Hot Dip Galvanization - Western Region** | | | | | | | | | |
| **Tons/Year** |  | **2013** | | **2014** | | **2015** | | **2016 (9 Months)** | |
| **Local Producers** | **Installed Capacity** | **Captive Use** | **Contract Sales** | **Captive Use** | **Contract Sales** | **Captive Use** | **Contract Sales** | **Captive Use** | **Contract Sales** |
| **Total** | **751,000** | **338,100** | **257,600** | **356,700** | **281,500** | **373,750** | **285,350** | **265,550** | **193,600** |
| **Total Demand** |  | **595,700** | | **638,200** | | **659,100** | | **459,150** | |
| **Growth %** |  | **-** | | **7%** | | **3%** | | **-** | |
| **Utilization Rate** |  | **79%** | | **85%** | | **88%** | | **-** | |
| **Historical Supply of Hot Dip Galvanization - Southern Region** | | | | | | | | | |
| **Quantities come from the Western Region** | **-** | **41,700** | | **44,700** | | **46,100** | | **32,150** | |

It can be seen from the above table that the local sales have increased by 7% in 2014 and 3% in 2015 reaching a total of 659,100 ton in 2015 compared to 638,200 ton in 2014. In 2015 the total installed capacity was 751,000 ton with annual utilization rate of 88%. The first 9 months of 2016 factories in the Western Region managed to utilize around 459,150 for both captive use and contract sales.

According to some galvanizing providers in the Western Region; 5-10% from their total sales is the portion of the Southern Region demand. MCD has allocated 7% from the Western Region demand for the Southern Region. In 2014, 44,700 tons were galvanized in the Western Region for orders from the Southern Region comparing to 46,100 tons in 2015.

The Southern Region’s historical demand for galvanizing services for the period 2013-2016 (9 months) is as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Historical Demand of Hot-Dip Galvanization - Southern Region KSA** | | | | |
| **Tons/Year** | **2013** | **2014** | **2015** | **2016 (9 Months)** |
| Local Production | 0 | 0 | 0 | 0 |
| Imports\* | 41,700 | 44,700 | 46,100 |  |
| Exports | 0 | 0 | 0 | 0 |
| **Demand** | **41,700** | **44,700** | **46,100** | **32,150** |
| **Growth %** | **-** | **7%** | **3%** | **-** |
| **CAGR** | **3.4%** | | | |

\* Quantities come from the Western Region

Demand has grown by a 3.4% CAGR over the period, driven principally by the growth in contract galvanizing and captive work. This is to be expected, since the galvanization service comes in last phase of the construction projects, while a reasonable number of projects have not been fully implemented though they were awarded 3-4 years ago.

MCD demand forecast for Hot Dip Steel Galvanization during the period of 2014 to 2019 would be as follow:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Hot Dip Steel Galvanization Demand Forecast - Southern Region KSA** | | | | | | |
| **Tons/Year** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** |
| **Demand** | 45,178 | 45,630 | 46,086 | 47,008 | 48,418 | 49,870 |
| **Growth** | -2% | 1% | 1% | 2% | 3% | 3% |
| **CAGR** | **1.7%** | | | | | |

**Supply/Demand Balance**

The following table shows the supply/ demand balance of steel poles for the next six years:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **M2** | **2015** | **2016** | **2017\*** | **2018** | **2019** | **2020** | **2021** |
| Supply | 341,010 | 341,010 | 375,210 | 375,210 | 375,210 | 375,210 | 375,210 |
| Demand | 216,816 | 221,152 | 225,575 | 232,343 | 239,313 | 248,885 | 258,841 |
| **Balance** | **124,194** | **119,858** | **149,635** | **142,867** | **135,897** | **126,325** | **116,369** |
| **Exports** | **12,260** | **12,505** | **12,755** | **13,134** | **13,532** | **14,073** | **14,636** |
| **Net Balance** | **111,934** | **107,353** | **136,880** | **129,733** | **122,365** | **112,252** | **101,733** |

\*In 2017, USG adds 16,000 tons; Galvanco adds 5,500 tons; Mohammed Hussein Fty adds 1,500 tons; Saudi Company adds 5,000 tons and Sponsor adds around 6,200 tons.

The table above shows a surplus for the next six years due to the new entrants and the expansions by some existing factories. From 2017 to 2021, the surplus will decrease gradually until reach 101,733 tons in 2021. The export represented around 6% of the total production in 2015, and it is expected to maintain the same level at 6% onward.

While the following table shows the supply demand balance of galvanizing services in the Southern Region.:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Supply Demand Balance** | | | | | | |
| **Year / Ton** | **2016** | **2017\*** | **2018** | **2019** | **2020** | **2021** |
| Installed Capacity | 0 | 31,050 | 31,050 | 31,050 | 31,050 | 31,050 |
| Market Demand | 45,178 | 45,630 | 46,086 | 47,008 | 48,418 | 49,870 |
| **Balance** | **-45,178** | **-14,580** | **-15,036** | **-15,958** | **-17,368** | **-18,820** |

\*sponsor will add 31,050 ton in 2017

* It can be noticed from the above table that the Southern Region market witnesses a shortage of Galvanizing service of 45,178 tons in 2016. This shortage condition will decrease in the next five years to reach 18,820 tons in 2021.

**SALES FORECAST**

MCD has revised the sponsor’s sales forecast downward taking into consideration the market situation and sponsor capability divided between the two types of poles (lighting poles & distribution poles) and Galvanizing Service as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **MCD's Sales Forecast (Ton)** | | | | | |
| **Product** | **2017** | **2018** | **2019** | **2020** | **2021** |
| **Lighting Poles** | 1750 | 2240 | 2660 | 3010 | 3024 |
| **Distribution Poles** | 750 | 960 | 1140 | 1290 | 1944 |
| **Total** | **2500** | **3200** | **3800** | **4300** | **4,968** |
| **Market Share** | **1%** | **1%** | **1%** | **1%** | **2%** |
| **MCD's Galvanizing Service Sales Forecast (Ton)** | | | | | |
| **Product** | **2017** | **2018** | **2019** | **2020** | **2021** |
| **Captive Use** | 2500 | 3200 | 3800 | 4300 | 4,968 |
| **Contract Sales** | 6,000 | 8,500 | 10,700 | 12,000 | 13,400 |
| **Total Sales** | **8,500** | **11,700** | **14,500** | **16,300** | **18,368** |
| **Market Demand** | **45,630** | **46,086** | **47,008** | **48,418** | **49,870** |
| **Market Share** | **19%** | **25%** | **31%** | **34%** | **37%** |

MCD has revised the sponsor’s sales forecast taking into consideration the following justification:

* The sponsor has a good experience in the construction sector by owning a contracting establishment (see Sponsor’s Business Activities section).
* The sponsor is planning to target the entire kingdom with priority to the Southern Region as no other existing factories located there which allows the sponsor to get competitive advantage on transportation costs and where the demand represents around 55,482 tons in 2015 (25% of the total local market).
* The marketing situation, some projects are on hold due the government cut of spending. The sector utilization rate is 65% due to the effect of the slowdown which reflected on the government expenditure on steel poles industry.
* In the coming few years, there will be oversupply in the market and expected to increase in 2017 to reach 136,880 due to expansions & new entrants.
* The sponsor’s contracting establishment has done some projects which include supplying and installing steel poles amounting 481 poles between 2008 and 2012.

**PRICE**

The following are the sponsor’s proposed prices and MCD revised ones as the sponsor’s prices for lighting & distribution poles are considered not competitive and higher than all competitors:

|  |  |  |  |
| --- | --- | --- | --- |
| **Pole Type (SAR per Ton)** | **Product Mix** | **Sponsor Prices** | **MCD Suggested prices** |
| **Lighting Pole** | 70% | 6,500 | **4,700** |
| **Distribution Pole** | 30% | 6,500 | **4,500** |

In regards to Galvanizing services, the following table shows the current selling prices by local competitors in Western region, sponsor’s proposed price & MCD recommended price:

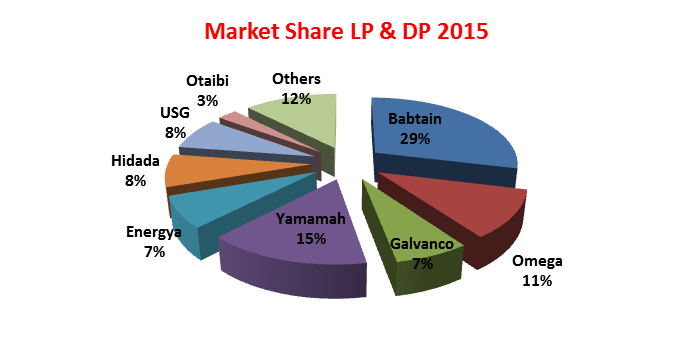
|  |  |
| --- | --- |
| **Average selling Price for Galvanizing services in Western Region SR\ Ton** | |
| Average market price | 1100-1600 |
| Sponsor’s Proposed Prices | 2,100 |
| **MCD recommended price** | **1,300** |

Galvanizing Prices are determined by many factors; however, the main factors are size and thickness of the metal to be galvanized and the level of dirt. The major factor that affects the galvanizing price is zinc price. Galvanizing price for steel (one ton) range from SR1100 to SR1600 and the sponsor’s proposed selling price is SR2100/Ton which is away higher than the average market price. Therefore, MCD has revised sponsor’s price to be in line with the market average prices.

**COMPETITION**

There are seven large manufacturers of poles in Saudi Arabia. Amongst them their total sales production of LP and DP is around 222 thousand tons in 2015. The total installed capacity of the steel pole industry is about 290 thousand tons a year that excludes telecommunication monopoles, transmission monopoles, and other poles.

The DP and LP market is an oligopoly with with similar market volumes in the mid segment. There is one dominant player that is Al-Babtain with manufacturing of poles, towers and steel structure. Al-Babtain has close to 29% market share. At the meantime, Al-Yamamah has market share of close to 15%, Omega comes in the third place with 11% market share from the local market. The other 4 players (Hidada, USG, Energya and Galvenco) evenly have market share of 30% (7-8% for each), while the remaining is divided between others including Al-Otaibi.



The hot dip galvanization market in the Southern Province depends on the supply of Western Province’s galvanizers as there is no active galvanizing service providers located in the Southern Region. The total market size of the Southern Region in 2015 reached around 46,100 tons. The sponsor is going to be the first galvanizer in the region when starting commercial production in 2017.

**SWOT ANALYSIS**

|  |  |
| --- | --- |
| **Strengths**   * The sponsor has already registered as an official supplier of Saudi Electric Company. * Sponsor’s contracting establishment executed several projects since 2006 with total amount of SR 18.3 million. * The sponsor’s contracting establishment has done some projects which include supplying and installing 481 steel poles between 2008 and 2012. * Connections with municipalities and contractors. | **Weaknesses**   * No prior experience of manufacturing. * No professional staff hired yet. |
| **Opportunities**   * Saudi Arabia is the biggest market for construction in the GCC. * Increasing urbanization means more roads and needs for lighting. | **Threats**   * Slowdown in award of government contracts and payments for work done. * High competition from the local existing producers and importers. * Oversupply in the market and expected to increase in 2017 to reach 136,880 due to expansions & new entrants. * This project is tender based business as there is limited customer base. |

**CONCLUSION**

The sponsor is planning to set up a new factory for the production of Steel Poles (lighting and distribution poles) located in Jazan with total capacity of 6,200 tons (TCD has not finalized calculations). He has a good experience in the construction sector by having a contracting establishment executed several projects since 2006 with total amount of SR 18.3 million. The sponsor is planning to target the entire kingdom with priority to the Southern Region as no other existing factories located there which allows the sponsor to get competitive advantage on transportation costs and where the demand represents around 55,482 tons in 2015 (25% of the total local market). However, in the coming few years, there will be oversupply in the market and expected to increase in 2017 to reach 136,880 due to expansions & new entrants. It is also clear that the sponsor does not have experience in the manufacturing investments and has not hired professional staff yet.

**RECOMMENDATION**

This project is recommended from a marketing point of view at the revised sales forecast and recommended selling prices under the following condition:

* To hire a qualified experienced sales manager in regard with selling the proposed products in the Saudi market.

Prepared By: Reviewed By:

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Senior Marketing Analyst Team Leader, MCD 2/c

**1. INTRODUCTION**

The project concerns a loan application by Shwaity Jazan Fty, for Poles, Galvanizing & Metal Fabrication for a financial support from SIDF to set up a new factory for the production of Steel Poles (lighting and distribution poles) that are used in many applications mainly in power transmission and street lighting & galvanizing service. The planned installed capacity is 6,200 tons for lighting & distribution poles poles (70% LP, 30% DP) and 31,050 tons for galvanizing services however; TCD has not finalized their capacity calculations. According to the sponsor the estimate time of commercial production is 3rd quarter 2017.

**1.1 The Ownership**

The project is branch of a sole proprietorship called (Sayeed Hussain Al-Mdhesh Establishment) which is owned by Mr. Sayeedd Hussain Abdullah Al-Qahtani (100%).

**1.2 Industrial License**

The sponsor has obtained a temporary industrial license from the Ministry of Commerce and Industry No. 39328 dated 20/12/1436 H allowing the production of Galvanized Light Poles, Galvanized Power Poles, Steel Structure, Galvanizing Metals, Metal Fabrication, Metal Bridges, and Tanks.

**1.3 Project Cost**

The total project cost has been estimated by the sponsor at SR 50.42 million to be financed as follows:

|  |  |  |
| --- | --- | --- |
| **Source** | **Amount (SR)** | **%** |
| Equity | 26,426,055 | 52.4 |
| SIDF Loan | 24,000,000 | 47.6 |
| **Total** | **50,426,055** | **100** |

**1.4** **Rationale behind Project**

Shwaity Jazan factory’s main justifications for the project are as follows:

* The sponsor is the first and only factory located in the Southern Region (Jazan, Asir, Najran, Albaha and Bishah) where a lot of existing poles are unsteady and made of wood which need to be replaced.
* The location is close to 2 ports in case of exporting their products.
* The sponsor will have an advantage over the competitors on transportation cost in the Southern Region.
* The technology, machinery and raw materials needed for the manufacturing process are accessible at reasonable price.
* The company has already registered as an official supplier of Saudi Electric Company.
* The sponsor is willing to capitalize on his experience on trading and installing steel poles.

**1.5 Sponsor’s Business Activities**

The sponsor has a good experience in the construction field as he owns a contracting establishment. The sponsor did not submit the financial performance for the last years; however, MCD was provided with some projects done by the contracting establishment as follows:

|  |  |  |
| --- | --- | --- |
| **Project Name** | **Year** | **SR Value** |
| Establishment of workers housing of Dahran Al-Jnob Hospital | 2006 | 13,825,700 |
| Fencing Mahail Hospital | 2012 | 472,750 |
| \*Contracting Services for Saudi Electric Co. | 2007-2014 | 4,000,000 |
| **Total** | | **18,298,450** |

\*Sponsor provided a lot of documents in regard to provide small contracting services to SEC, so the figure on the table is approximate to all contracts.

The sponsor’s contracting establishment has done some projects which include supplying and installing steel poles, the following table illustrates these projects and the quantity of steel poles supplied:

|  |  |  |
| --- | --- | --- |
| **Project Name** | **Duration** | **Steel Poles Volume** |
| Sabia Road | 2008 | 40 |
| Qouz Al-Gafrah Town | 2012 | 166 |
| Hroub Town | 2011 | 240 |
| Baish Beach | 2010 | 35 |
| **Total** | | **481** |

\*The sponsor did not submit any documents for sales of steel poles after 2012.

It is also worth mentioning that the sponsor was financed by SIDF for Inv.#2543 – Jazan Dessert Factory for Rubber Recycling; however, the factory has not started commercial production and expecting to start the first quarter 2017.

**1.6 Funding Policy**

Loan committee in their meeting # 1110 dated 27/05/1424 has approved the followings for the Steel Poles sector:

* All new applications for steel poles to be considered on their own merits.
* The Industry to be reviewed in four years.

The subject project is considered in line with SIDF policy since he is seeking a loan to set up a new factory in Jazan.

**2. PRODUCT DESCRIPTION**

**2.1 Steel Poles**

The product is fabricated steel pole made out of hot rolled steel coils with multiple uses. The main application of the steel poles is in transmission and distribution of electric power termed as distribution poles (DP) and as lighting poles (LP) used in lighting of streets/roads, parking lots, parks/gardens, ports, stadium, etc. The pole height ranges from 3 meters to 16 meters. The average life of pole is between 25-30 years in dry weather. In case of humid climate it goes down. In areas of high atmospheric moisture the life of the poles can be extended with extra zinc coating. In relation to measurement factor, the install capacity and sales volume usually are measured within the industry by tonnage. The distribution and lighting poles can be described as the following:

* **Distribution Poles**

This is used for the distribution of electricity and the connection of electricity power in the low to medium voltage range primarily for intra-city or inter-city distribution. Mainly used in small towns and villages and newly developed areas where subterranean and underground electrical cabling is not there or for intercity transmission. DP is used mainly in transmission of low and medium voltage power lines for voltage up to 33KV in single and double circuit category. Their length varies from 9 to 15 meters. The DP has mainly octagonal cross section and made from single or double shell. There is a bearing plate at the bottom of the pole. Holes are drilled on the top section of the pole for fixing the cross arms and say wire. DP design is very strong and made of 52 steel grades. Average weight of pole is 300 Kg.



* **Lighting Poles**

This is fabricated steel lighting pole for lighting used on streets/roads, parking lots, parks/gardens, ports, stadium, etc. These are low to medium height with length of 3 meters to 16 meters. LP is mainly used for street and public place lighting. LP thickness is mostly 3 mm to 4 mm and is made in single shell. At the bottom of the pole, a square shape based plate with four holes at the comers is welded for affixing and erecting the pole with four anchor bolts. On the top of the pole, a small spigot is welded directly on the pole if lamp is directly fitted to the pole. Another way is that bracket is fixed on the pole's top with nuts and bolts and the lamp is fixed on the bracket. A cutting/door is made at the bottom of the LP for fixing of electrical and fuse box. The average weight of a LP is 180 to 1,000 Kgs. The standard lighting pole include round or multi-sided tapered steel with lengths up to 16 meter for either single or multiple light fixtures. The lighting poles are of different types based on application such as street lighting, high mast poles, decorative poles, traffic light poles, flag holder poles, camera poles.

The also company manufactures accessories which belong to the pole. This includes base plates, anchor bolts, cross arms, caps, pole bands, light or heavy angles etc.



* 1. **.1 Production Process of DP & LP**

The production processes for the fabrication of distribution and lighting pole consists of several stages of metal cutting, bending, welding and finishing. The production process is sequential with one stage leading to the next as illustrated below:

* **De-Coiling:**

This is the first step in the fabrication of poles, which straighten sheet metal and cut steel coil into sheet to the pre-determined length.

* **Trapezium cutting:**

This is the second operation, where steel sheet is cut to the required shape to produce the developed shape of the pole (trapezium shape).

* **Folding:**

This operation produces the desired cross-sectional shape of the pole that may be circular, round or octagonal. It welds together the two ends of the folded pole longitudinally using submerged arc welding process.

* **Straightening**

This process seeks to remove the slight distortion of the column due to welding heat.

* **Workshop**

The workshop produces the various steel accessories to meet the varied functional requirement of the electrical, transmission and lighting poles/high mast such as door assemblies, ladders, bearing and base plates and power transmission line accessories.

* **Galvanizing plant**

The steel poles consist of number of sections (segments), which they are fitted in each other. The maximum length of each section is 12 meters. After fabrication of steel poles sections, the sections are transferred to the galvanizing plant. The hot galvanizing plant gives excellent corrosion protection to steel. The fabricated sections of poles are first cleaned in warm caustic and acid solutions and after being fluxed to give a good bond, it is dipped in the molten zinc. This method gives two levels of protection. Firstly, there is an alloy layer of iron and zinc and secondly there is an adherent outer layer of zinc metal. The four major electrical and lighting poles have galvanizing zinc baths with length of more than 12 meters, which are suitable for the use of poles. Finally, the galvanized poles are finished to remove any residuals and packed in bundles for storage and delivery.

**2.2 Galvanizing Service**

This service is done by coating customers’ steel materials with zinc through what is called “Hot Dip Galvanizing”. Hot dip galvanizing in terms of importance, process, advantages and usage are discussed in the following subsections:-

**2.2.1 Importance of Galvanization**

Corrosion control and prevention is an essential factor in the economic utilization of iron and steel. Every year rust and corrosion cause several billion US$ in damages to surfaces, buildings, plants and equipment all over the world. Protective paints and coatings provide a certain measure of protection over a limited period, but these usually call for repeated application, resulting in additional costs. When coatings have been broken, corrosion begins at the steel’s exposed area, spreading rapidly beneath the protective coating film.

**2.2.2 Hot Dip Galvanizing Process**

Hot dip galvanizing is a process in which a metal is immersed into molten zinc to form a protective layer which completely covers the steel surface and seals it metallurgically to protect it from the corrosive actions of its environment. This ensures greater resistance to corrosion and rust over a much longer period than any other form of coating.

Wherever there might be minor damages in the sealing coat of zinc, protection of the steel is still maintained by the cathodic or sacrificial action of the surrounding galvanized coating. Hot dip galvanizing is especially useful for metal works and surfaces that are subject to wear and tear, such as used in walkways, ladder rungs, chains, handrails, pipes, lamp poles, etc. In particular it is most useful in enabling structural works to achieve outstanding toughness and resistance to corrosion. The steel galvanizing process is carried out seven main stages starting from degreasing to cooling after galvanization. Hot dip galvanizing process is illustrated in the following diagram:-

Degrease Chemical Rinse Flux Dry Immerse in Water

Cleaning molten zinc cooling

**2.2.3 Advantages of Hot Dip Galvanizing**

* Provides steel with a coating which has a long, predictable and maintenance free life.
* Highly competitive on a first cost basis.
* The most economic way to protect steel over long periods. Galvanizing is low maintenance that affords protection against steel corrosion for forty years or more.
* A sustainable solution – zinc is essential to life.
* Reliability (Galvanizing coating applied according to the international specifications or clients specifications).
* Speed of application (Galvanizing can be applied in minutes).
* Lowest lifetime cost (competitive initial cost and long life make hot dip galvanizing the most versatile, economic method of protecting steel work).
* Long life (Galvanizing coating exceed 40 years in UK, and it is expected to last more than 40 years in Saudi Arabia due to the limited industrial pollution in the Kingdom).
* Ease of Inspection for the galvanizing coating.

**2.2.4 Usage/What Can Be Galvanized**

In general, any type of steel materials (with a thickness of > 1 m) can be galvanized. The following list shows all types of black steel being galvanized in the Saudi market currently:-

|  |  |
| --- | --- |
| **Category** | **Material** |
| Reinforcement Construction Items | Black mesh, Weld Mesh and Reinforcement Bars |
| Electricity Installation and Lighting. | Transmission Towers, Distribution Poles, Street Lighting Poles |
| Highways, Roads and Street | Guard Rail Beams and Posts, Street Sign Posts and Highway Gantries |
| Fencing | Stretcher bars, Truss rods, Fencing Posts/Grills, Steel gates/doors |
| Steel walkways | Gratings, Manholes covers, Frames, Checkered Plates, Steel Platforms |
| Fabricated Steel Structures | Petrochemical, distillation and other chemical plants |
| Un-fabricated Steel | Angles, Beams, channels, Plates and Tubes |
| Air Conditioning | Ducts and Angle Supports |
| Fasteners | Nuts, Bolts, Washers, Screws |

1. **MARKET CHARACTERISTICS**

**3.1 Steel Poles**

* The bargaining power in the pole industry is in favor of the institutional buyers but the suppliers that have huge capacity and modern plants with ability to deliver
* In 2015 there was a noticeable growth on sales by 17% to reach total sales of almost 222 thousand tons of steel poles. the dramatically increase was due to the growing demand by Ministry of Municipal and Rural Affairs (MOMRA) and Saudi Electrical company in 2015 as some projects were postponed from the year before.
* The Saudi Electricity Company purchase distribution poles which deals directly with the steel poles manufacturers (around 90% of DP consumed by SEC). Whereas lighting poles are mostly purchased by contractors who deal with municipalities and Ministry of Transportation (75% of LP consumed by Ministry of Transportation & municipalities).
* The sector utilization rate is 65% due to the effect of the slowdown which reflected on the government expenditure on steel poles industry. On the other hand, Galvenco’s factory manage to reach utilization rate of 99% in 2015 because they maintain reasonable capacity with no further expansions and succeed to market their products.
* The steel poles are traded on bidding basis where each supplier submit price for different bids according to raw material cost, specification, workload, delivery time, installed capacity and other factors.
* The installed capacity in the Kingdom depends on the seven major producers of steel poles. The installed capacity is around 341 thousand tons in 2015 which includes steel lighting and distribution poles.
* The factories that are active in the export market are mainly export to the GCC Countries and other neighboring countries such as Yemen, Lebanon, Jordan, and Sudan. The export sales capture less than 6% of the total sales in 2015 with total amount of 12,260 tons of steel poles.
* According to Raed Al-Aklouk, Local Sales Manager of Al-Babtain factory, the Kingdom’s demand in 2015 for lighting poles was 220,000 tons, while for distribution poles’ demand was 200,000 tons. Additionally, he expected the growth rate to be 5% in lighting poles, while in distribution poles will be 4%.
* Mr. Sahal Al-Thobiti, Business Unit Head of Al-Yamama factory stated that 50% of their total sales are dedicated to Saudi Electric Company (SEC) and the remaining are to contractors. Moreover, he added, there is a high demand this year from SEC in distribution poles. Mr. Sahal, estimated the Kingdom’s demand in 2015 for lighting poles was 127,000 tons, while for distribution poles was 170,000 tons.
* Lighting poles represented around 39% of the local market in 2015, while 61% was the portion of distribution poles.
* According to several sources involved in the industry; the regional demand is distributed as follows: Central Region 25%, Southern Region 25%, Western Region 20%, Eastern & Northern Regions share evenly the rest 30%. However, they state that demand is considered kingdom based where factories can supply and compete in all regions.
* The sponsor is the first and only factory located in the Southern Region (Jazan, Asir, Najran, Albaha and Bishah) where the demand represent around 55,482 tons in 2015 (25% of the total local market).

**3.2 Galvanizing Service**

* In general, any type of steel material (with a thickness of > 1 m) can be galvanized. Galvanizing factories depend heavily on galvanizing the following steel material; structure steel, petrochemical construction factories and lighting poles.
* A medium kettle/bath size of around (12m x 1.2m x 1.6 m) needs at least 150 tons of zinc to start up its galvanizing process. Galvanizing factories with almost the same kettle sizes need to refill the kettles every day after galvanization with an average quantity of 100 tons per months. In general, kettles’ sizes and zinc quantities have a proportional relationship.
* Most of the galvanizing factories in Western Province are sourcing their raw material (Zinc) on three months basis. Some of them have started buying raw material on two months basis in order to avoid fluctuating in zinc prices internationally.
* Due to the nature of the sector which can be considered as a service, supply is regional. The market is segmented into two segments namely in-house galvanization (for internal use) and contract galvanizing (Galvanizing for third party).
* Prices are determined by many factors; however, the main factors are size and thickness of the metal to be galvanized and the level of dirt. Prices charged for low thickness items are higher than the prices charged for high thickness items.
* The number of contract galvanization plants increased in the past few years due to low initial investment, simple technology, attractive galvanizing price charged by the galvanizing plants and no marketing efforts made by the existing galvanizing plants.
* Customers in galvanizing sector care about on time delivery, quality and low prices and marketing in this sector is mainly about maintaining a good relationship between suppliers and customers.
* It should also be noted, due to the nature of the industry and the associated galvanization process, that the installed capacity of galvanization is not a fixed number and may vary depending on the product’s shape, weight, size, number of workers employed and the number of shifts worked.

**4.** **SUPPLY**

**4.1 Steel Poles:**

**4.1.1 Local Producers:**

There are seven major local producers of steel lighting and distribution poles in the local market and one considered as a small factory. There are also several workshops and they’re entitled (others) in the supply table. The following table summarizes all lighting and distribution poles producers’ sales in the local market for the last three years as follow:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Factory** | **Location** | **Product Type** | **\*Installed Capacity (ton)** | **Target Market** | **Historical sales (Ton)** | | | **Utilization Rate %** |
| **2013** | **2014** | **2015** |
| **Al-Babtain** | Riyadh | Lighting poles | 30,000 | Local | 24,000 | 25,000 | 20,000 | 91% |
| Export | 6,000 | 5,000 | 7,000 |
| Distribution Poles | 40,000 | Local | 32,000 | 23,000 | 36,000 |
| Export | 1,000 | 1,000 | 1,000 |
| **Omega** | Riyadh | Lighting poles | 15,000 | Local | 12,000 | 14,000 | 10,000 | 63% |
| Export | 2,000 | 2,000 | 2,000 |
| Distribution Poles | 25,000 | Local | 9,000 | 5,000 | 13,000 |
| Export | - | - | - |
| **Galvanco** | Riyadh | Lighting poles | 3,500 | Local | 1,778 | 2,306 | 2,023 | 99% |
| Export | 1,200 | 1,540 | 1,131 |
| Distribution Poles | 12,000 | Local | 15,804 | 5,840 | 12,341 |
| Export | - | - | - |
| **Al-Yamamah** | Jeddah | Lighting poles | 25,000 | Local | 7,295 | 12,414 | 17,089 | 67% |
| Export | - | - | - |
| Distribution Poles | 25,000 | Local | 17,931 | 19,472 | 16,627 |
| Export | - | - | - |
| **Energya** | Jeddah | Lighting poles | 6,000 | Local | 540 | 3,890 | 770 | 55% |
| Export | - | - | - |
| Distribution Poles | 24,000 | Local | 15,580 | 8,280 | 15,700 |
| Export | - | - | - |
| **\*\*Hidada** | Jeddah | Lighting poles | 10,000 | Local | 24 | 20 | 74 | 33% |
| Export | - | - | 129 |
| Distribution Poles | 45,000 | Local | 29,208 | 1,711 | 17,720 |
| Export | - | - | - |
| **USG Factory** | Dammam | Lighting poles | 12,240 | Local | 2,400 | 8,000 | 9,000 | 55% |
| Export | 1,000 | 1,200 | 1,000 |
| Distribution Poles | 18,820 | Local | 4,000 | 6,000 | 7,000 |
| Export | - | - | - |
| **Al-Otaibi** | Jeddah | Lighting poles | 5,000 | Local | 3,000 | 3,500 | 4,800 | 97% |
| Export | - | - | - |
| Distribution Poles | 1,000 | Local | 500 | 700 | 1,000 |
| Export | - | - | - |
| **M. Hussein** | Kharj | Lighting poles | 1,800 | Local | 720 | 810 | 900 | 50% |
| Export | - | - | - |
| Distribution Poles | 1,200 | Local | 480 | 540 | 600 |
| Export | - | - | - |
| **Others** |  | Lighting poles | 17,150 | Local | 5,100 | 16,449 | 10,250 | 62% |
| Export | - | - | - |
| Distribution Poles | 23,300 | Local | 7,168 | 22,400 | 14,777 |
| Export | - | - | - |
| **Total of Lighting Poles (LP)** | | | **125,690** |  | **67,057** | **96,129** | **86,166** |  |
| **Total of Distribution Poles (DP)** | | | **215,320** |  | **132,671** | **93,943** | **135,765** |  |
| **Grand Total** | | | **341,010** |  | **199,728** | **190,072** | **221,931** | **65%** |
| **Grand Growth Rate %** | | | **-** | **-** | **-** | **-5%** | **17%** | **-** |
| **Local Sales versus Export Sales** | | | | | | | | |
| **Total Local Sales** | | | **-** | **-** | **188,528** | **179,332** | **209,671** | **-** |
| **Sub Growth Rate %** | | | **-** | **-** | **-** | **-5%** | **17%** | **-** |
| **Total Export Sales** | | | **-** | **-** | **11,200** | **10,740** | **12,260** | **-** |
| **Sub Growth Rate %** | | | **-** | **-** | **-** | **-4%** | **14%** | **-** |
| **Grand Total** | | | **341,010** |  | **199,728** | **190,072** | **221,931** | **65%** |

\*The norm of industry is one extended shift 12 hrs./300 days and some factories work 2 shifts.

\*\* MCD contacted Hidada factory asking for a justification regarding their drop of sales in 2014 and low utilization rate; Mr. Rakan Baishen (assistant manager) claimed that the factory shut down 5 months in 2014 for modernization.

As illustrated in the above table, the local production of steel poles showed a decline in 2014 as it decreased by around 5% to reach approximately 190 thousand tons due to the decrease of Saudi Electricity Company’s projects which offered bids in 2013 for 2 years. In 2015 there was a noticeable growth on sales by 17% to reach total sales of almost 222 thousand tons of steel poles. the dramatically increase was due to the growing demand by Ministry of Municipal and Rural Affairs (MOMRA) and Saudi Electrical company in 2015 as some projects were postponed from the year before. The Saudi Electricity Company purchase distribution poles which deals directly with the steel poles manufacturers (around 90% of DP consumed by SEC). Whereas lighting poles are mostly purchased by contractors who deal with municipalities and Ministry of Transportation (75% of LP consumed by Ministry of Transportation & municipalities).

The table also shows that lighting poles (LP) capture around 40% of the total market in 2015 with total sales of almost 88.2 thousand tons; while 60% is the portion of distribution poles (DP) reaching almost 134 thousand tons.

It should be noted that the installed capacity in the Kingdom depends on the seven major producers of steel poles. The installed capacity is 341,010 tons in 2015 which includes steel lighting and distribution poles reaching the utilization rate of 65%.

It can also be seen above that export sales capture less than 6% in 2015 with total amount of 12,260 tons of steel poles. The factories that are active in the export market are mainly export to the GCC Countries and other neighboring countries such as Yemen, Lebanon, Jordan, and Sudan.

There are seven major steel poles manufacturers, namely Omega Factory for Luminaries, Poles & Galvanizing, Al-Babtain Power and Telecom, National Company for Galvanizing and Steel Poles Ltd. (Galvanco), Al-Yamama Electrical Poles Factory, Hidada Factory, Hesham El Sewedy (Energya) and Tazez Advanced Industrial (USG). However, the largest players in manufacturing steel poles are Al-Babtain, Al-Yamama and Omega. The following is a brief of major players in the steel poles industry:

*Babtain (SIDF Inv. # 639 & 1741)*

Babtain Power and Telecommunication Co. (ABPT) was founded in the year 1955, it is one of the largest enterprises in the sector of engineering and manufacturing. The company is engaged in manufacturing steel, electrical distribution and lighting poles, high masts, stadium masts and monopoles. The company also operates high voltage transmission and communication towers plant, steel structure plant, tower testing station and four galvanizing plants. The company operates in the Saudi Arabia and Egypt. It is headquartered in Riyadh, Saudi Arabia. Al-Babtain Power and Telecommunication is the leading factory in producing steel poles in the local market with the total installed capacity of 70,000 tons. With its production base in Riyadh (KSA) and Cairo (Egypt), Babtain is one of the largest & quality suppliers of galvanized steel poles for various applications. These poles are tapered for optimum material usage and designed to withstand the required loads and the wind. The poles are supplied with different design and dimension such as circular, octagonal or multi-sided cross sections and heights up to 65 meters. It is worth noting that the production unit also manufactures accessories for a complete pole installation – raising and lowering gears, base plates, ladders and platform etc.

*Al-Yamamah Poles Factory (SIDF Inv. # 1955)*

Al Yamamah is considered as a large player in the steel poles industry in the Kingdom. It is established in 1988. It has four business units: lighting and transmission Poles, High Masts, Over Head Transmission Line, Telecom Towers and Space Frames. The company total capacity is 50,000 tons and they managed to utilize 67% from their capacity in 2015 reaching total sales of around 34 thousand tons for both lighting & distribution poles.

Mr. Sahal Al-Thobiti, Business Unit Head of Al-Yamama factory stated that 50% of their total sales are dedicated to Saudi Electric Company (SEC) and the remaining are to contractors. Moreover, he added, there is a high demand this year from SEC in distribution poles.

*Omega (SIDF Inv. # 597)*

Omega Factory established in 1981, it is considered as one of the biggest companies in the field of steel poles used for electrical distribution networks and street lighting. The Factory is also specialized in producing out-door lighting fixtures to high technical standards. The company dedicated around 62% of the total capacity to produce distribution poles to Saudi Electrical Company while other capacity is devoted to lighting and high mast poles.

*Hidada Co. Ltd. (SIDF Inv. # 816 & 1795)*

Hidada was established in 1982, as a subsidiary of Xenel group, a globally renowned industrial group based in Jeddah, Saudi Arabia. It is one of the leaders in steel fabrication and it has a wide range of products such as grating, galvanizing, storage tanks, towers, structural steel, cranes and poles. The galvanizing zinc kettle is capable of galvanizing a maximum of 10 Meter pole Length. Any pole taller than 10 meters is outsourced for galvanization. The company main target market is to supply with distribution poles up to 33KV, lighting poles up to 18 meter and telecommunication monopoles up to 40m. The company mainly focuses on distribution poles which represent around 99% of their 2015 steel poles sales. MCD contacted Hidada factory asking for a justification regarding their drop of sales in 2014 and low utilization rate; Mr. Rakan Baishen (assistant manager) claimed that the factory shut down 5 months in 2014 for modernization. The company also says that they have other significant products that contribute substantially to the company’s profitability. These profitable products include structural steel, communication tower, storage tanks, pressure vessels, seaport cranes, steel grating, large heat exchanger and gas ducts for petrochemical industries.

*Galvenco (SIDF Inv. # 680 & 1434)*

Galvenco was established in 1980 by providing galvanizing services to other fabricator. In 1982, the steel pole operation was established through fabricating transmission, distribution, telecommunication towers, structural steel and steel straps. The company sales is mostly dedicated to Saudi Electrical Company which counts for 77% of the total capacity, while the remaining capacity is devoted to lighting and high mast poles. It is worth noting that the factory is utilizing almost the full capacity of 15,500 tons. The factory has a plan to increase their installed capacity in 2017 to be 5,000 tons for lighting poles, and 16,000 tons for distribution poles.

*Tazez Advanced Industrial (USG)*

Tazez Advanced Industrial (USG) factory is considered the only manufacturer for steel poles in the eastern reign. In 2006, Al-Othman Holding Company decided to expand its core business by establishing a new factory under the name of Tazez Advanced Industrial Co. (USG). The Company manufactures Steel Grating, all types of Lighting Poles, Telecom Poles, Traffic Lighting Poles, Light & Medium Steel Structure, & Hot Dip Galvanization. The company’s installed capacity is 31,060 tons and total sales of 17 thousand tons in 2015.

*Hesham El Sewedy Trading Company (Energya)*

Hesham El Sewedy Trading Company is a part of Energya Industries group which was established in early nineties’ with the aim of integrating different industries, products and services in one catalogue through providing complete solution packages for projects in various market segments and sectors. The company entered the steel poles market in 2010. In 2015, the company’s installed capacity is 24,000 tons and total sales of 16,470 tons.

* + 1. **Imports**

There is a limited quantity of distribution poles imported to the Kingdom. Gulf Coat Factory from the UAE is the only supplier of distribution poles to the local market; the factory has won a tender to supply distribution poles to Saudi Electricity Company and they has the advantage of proximity and long relations with some local contractors. On the other hand, the lighting poles are dominated by the local manufacturers. The Harmonized Code of the steel poles is 73269097. The following table is the imports of steel poles in the last three years:

|  |  |  |  |
| --- | --- | --- | --- |
| **Steel Poles** | **2013** | **2014** | **2015** |
| **Volume (Ton)** | 14,419 | 21,629 | 19,405 |
| **Change%** | - | 50% | -10% |
| **Value (SR )** | 82,489,941 | 99,716,984 | 81,975,126 |
| **Change%** | - | 21% | -17% |

As seen in the above table the Kingdom’s imports of steel poles increased in 2014 by 50% where as in 2015 the imports decreased by 10% to reach 19.4 thousand tons and around SR 82 million.

**4.2 Galvanizing Service**

**4.2.1 Local Producers:**

Local services of galvanization are entirely supplied by local regional production as there is no imports of steel products for the purpose of galvanization. Currently, there is no active galvanizing service providers located in the Southern Region. MCD and due to define the Southern Region demand, the Western Region demand has been taken into consideration as the Southern Region demand has been mostly met by suppliers in the Western Region (distante from 300 to 700 km).

The historical supply of hot-dip galvanization services in the Western Region between 2013 and 2016 is as follows:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Historical Supply of Hot Dip Galvanization - Western Region** | | | | | | | | | | |
| **Tons/Year** |  | | **2013** | | **2014** | | **2015** | | **2016 (9 Months)** | |
| **Local Producers** | **Location** | **Installed Capacity** | **Captive Use** | **Contract Sales** | **Captive Use** | **Contract Sales** | **Captive Use** | **Contract Sales** | **Captive Use** | **Contract Sales** |
| Hidada Inv.# 2045 | Jeddah | 150,000 | 100,000 | 25,000 | 105,000 | 27,000 | 115,000 | 30,000 | 80,000 | 19,000 |
| Arabian International Co. (AIC) | Jeddah | 140,000 | 92,000 | 23,000 | 95,000 | 25,000 | 102,000 | 28,500 | 73,500 | 14,500 |
| Binladen Inv.# 1408 | Jeddah | 120,000 | 9,000 | 81,000 | 10,200 | 91,800 | 10,500 | 94,500 | 7,200 | 68,000 |
| Al-Swaidi (Energya) | Jeddah | 110,000 | 44,000 | 36,000 | 48,000 | 37,000 | 49,000 | 36,000 | 34,500 | 25,000 |
| Al-Yamamah | Jeddah | 50,000 | 37,000 | 2,200 | 39,000 | 2,500 | 40,000 | 2,500 | 29,500 | 1,800 |
| Al-Harmain | Jeddah | 30,000 | 2,200 | 19,800 | 2,600 | 23,400 | 2,500 | 22,500 | 1,600 | 14,200 |
| Al Jazira Fty. | Jeddah | 25,000 | 17,500 | 3,000 | 18,400 | 3,300 | 18,000 | 3,100 | 13,000 | 2,350 |
| Others |  | 126,000 | 36,400 | 67,600 | 38,500 | 71,500 | 36,750 | 68,250 | 26,250 | 48,750 |
| **Total** |  | **751,000** | **338,100** | **257,600** | **356,700** | **281,500** | **373,750** | **285,350** | **265,550** | **193,600** |
| **Total Demand** |  | | **595,700** | | **638,200** | | **659,100** | | **459,150** | |
| **Growth %** |  | | **-** | | **7%** | | **3%** | | **-** | |
| **Utilization Rate** |  | | **79%** | | **85%** | | **88%** | | **-** | |
| **Historical Supply of Hot Dip Galvanization - Southern Region** | | | | | | | | | | |
| **Quantities come from the Western Region** | **-** | | **41,700** | | **44,700** | | **46,100** | | **32,150** | |
| **Growth %** | **-** | | **-** | | **7%** | | **3%** | | **-** | |

It can be seen from the above table that the local sales have increased by 7% in 2014 and 3% in 2015 reaching a total of 659,100 ton in 2015 compared to 638,200 ton in 2014. In 2015 the total installed capacity was 751,000 ton with annual utilization rate of 88%. The first 9 months of 2016 factories in the Western Region managed to utilize around 459,150 for both captive use and contract sales.

According to some galvanizing providers in the Western Region; 5-10% from their total sales is the portion of the Southern Region demand. MCD has allocated 7% from the Western Region demand for the Southern Region. In 2014, 44,700 tons were galvanized in the Western Region for orders from the Southern Region comparing to 46,100 tons in 2015.

1. **DEMAND**
   1. **Steel Poles**

**5.1.1 Local demand**

The main customers for DP and LP are institutional buyer from the government, semi-governmental and private sector:

* Saudi Electric Company and its contractors (around 90% of DP consumed by SEC).
* LP is mostly purchased by municipalities, the contractors working municipalities; and related government ministries such as Ministry of Transportation ; Ports/Airport and Railway, Ministry of Education, General Presidency of Sports and Youth either directly or through contractors (around 75% of LP consumed by Ministry of Transportation & municipalities).
* Some private real estate developers whom purchase raw lands and develop it into residential and commercial land.

MCD has calculated the historical demand for steel poles market by applying the following formula; local production plus import minus export for the period between 2013 and 2015. The following table shows the total historical demand for the subject period:

|  |  |  |  |
| --- | --- | --- | --- |
| **Steel Poles (Ton)** | **2013** | **2014** | **2015** |
| Total Local Production (LP + DP)\* | 188,528 | 179,332 | 209,671 |
| Imports | 14,419 | 21,629 | 19,405 |
| (Less) Exports | 11,200 | 10,740 | 12,260 |
| **Demand** | **191,747** | **190,221** | **216,816** |
| **Growth %** |  | **-1%** | **14%** |

\*LP= Lighting Poles, DP= Distribution Poles.

It can be seen from the above table, the demand slightly decreased by 1% in 2014 to reach 190,221 tons. Despite the decrease in 2014, the local production helped the demand to increase sharply in 2015 by 14% to attain almost 217 thousand tons.

**5.1.2 Future Demand**

In terms of future demand of steel poles (LP+DP), MCD has taken some factors into consideration as follows:

* Steel Poles demand growth in Saudi Arabia is expected to slow over the next five years, in line with construction activity in the country. The construction sector is heavily reliant on government contracts rather than a free market driven by the private sector.
* In 2015, the total actual production of local factories is 221,931 tons for steel poles which increased the market demand by 14% in comparison to 2014.
* Energy prices and production costs in the Kingdom have increased due to subsidy cuts by the Government.
* Customers of DP and LP poles those are limited to large organizations such as Saudi Electricity Company (SEC) and Contractors working for SEC, Municipalities and contractors working for them; Real Estate developers and contractors working for them.

***Ministry of Transportation Historical Consumption***

By contacting the Ministry of Transportation, MCD reached their consumption of ligting poles from 2013 to 2015. The following table will show the consumption of lighting poles during 2013-2015:

|  |  |  |
| --- | --- | --- |
| **Type** | **Volume (Unit)** | **Buying Price (SR)** |
| Lighting Street Pole (5m-10m) with outdoor lighting fixtures and base plate | 296 | 2,000 |
| Lighting Street Pole 12m with outdoor lighting fixtures and base plate | 1,957 | 2,500 |
| Lighting Street Pole 14m with outdoor lighting fixtures and base plate | 358 | 3,000 |
| Lighting Street Pole 16m with outdoor lighting fixtures and base plate | 3,180 | 3,500 |
| **Total** | **5,791** |  |

***Saudi Electric Company Historical & Future Consumption***

SEC is considered to be the major client in the kingdom for distribution poles and according to their Five Year Plan Materials of Disruption which is published on their official website; the following is their historical and future DP consumption for the period 2014-2018:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **SEC Distribution Poles Consumption** | | | | | |
| **Measurement** | **2014** | **2015** | **2016** | **2017** | **2018** |
| **Unit** | 257,576 | 275,606 | 297,654 | 327,420 | 356,888 |
| **Ton\*** | 77,273 | 82,682 | 89,296 | 98,226 | 107,066 |
| **Growth Rate** | **-** | **7%** | **8%** | **10%** | **9%** |

\*Units have been converted to tons assuming the unit of DP average average weight is 300 kg.

It can be seen in the above table, that SEC consumption is expected to continue growing for the coming years reaching total demand of around 107 thousand tons in 2018.

***Ministry of Municipal and Rural Affairs Historical Consumption***

The Ministry of Municipal and Rural Affairs (MOMRA) is one of the major end users for lighting poles in Saudi Arabia The following table shows the numbers of lighting poles for municipalities in the Kingdom of Saudi Arabia (1434H-1436H):

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Region** | **Type** | **1434H (Units)** | **1435H (Units)** | **1436H (Units)** |
| **Riyadh** | Existing Roads | 247,339 | 258,029 | 277,665 |
| Roads Under Construction | 45,830 | 56,283 | 60,633 |
| Proposed Roads | 73,021 | 85,753 | 91,657 |
| **Makkah** | Existing Roads | 351,637 | 352,583 | 357,953 |
| Roads Under Construction | 12,575 | 14,400 | 24,277 |
| Proposed Roads | 19,745 | 23,591 | 34,163 |
| **Madinah** | Existing Roads | 75,863 | 76,976 | 90,986 |
| Roads Under Construction | 2,998 | 3,568 | 5,880 |
| Proposed Roads | 4,450 | 6,203 | 7,794 |
| **Eastern Province** | Existing Roads | 115,915 | 222,655 | 229,332 |
| Roads Under Construction | 11,234 | 9,525 | 10,674 |
| Proposed Roads | 18,114 | 17,983 | 18,374 |
| **Qassim** | Existing Roads | 207,820 | 125,128 | 131,080 |
| Roads Under Construction | 8,932 | 12,515 | 13,482 |
| Proposed Roads | 20,095 | 27,074 | 25,367 |
| **Asir** | Existing Roads | 115,560 | 127,598 | 138,113 |
| Roads Under Construction | 22,317 | 21,227 | 39,264 |
| Proposed Roads | 49,845 | 81,846 | 67,068 |
| **Tabuk** | Existing Roads | 53,873 | 57,521 | 61,481 |
| Roads Under Construction | 11,245 | 9,624 | 9,874 |
| Proposed Roads | 38,959 | 39,490 | 41,817 |
| **Hail** | Existing Roads | 55,972 | 57,692 | 66,445 |
| Roads Under Construction | 4,858 | 5,542 | 5,550 |
| Proposed Roads | 30,754 | 30,990 | 40,243 |
| **Northern Borders** | Existing Roads | 25,382 | 27,551 | 30,258 |
| Roads Under Construction | 2,663 | 2,355 | 2,566 |
| Proposed Roads | 3,615 | 3,770 | 2,955 |
| **Jizan** | Existing Roads | 50361 | 53,998 | 59,315 |
| Roads Under Construction | 13538 | 13,514 | 17,430 |
| Proposed Roads | 56,460 | 60,736 | 57,611 |
| **Najran** | Existing Roads | 44,504 | 46,782 | 51,086 |
| Roads Under Construction | 4,103 | 4,857 | 4,803 |
| Proposed Roads | 10,079 | 6,542 | 6,690 |
| **Bahah** | Existing Roads | 54,004 | 63,684 | 66,711 |
| Roads Under Construction | 13,512 | 12,497 | 14,493 |
| Proposed Roads | 29,065 | 30,754 | 33,260 |
| **Jawf** | Existing Roads | 29,065 | 30,754 | 33,260 |
| Roads Under Construction | 7,062 | 6,360 | 5,570 |
| Proposed Roads | 3,552 | 6,890 | 4,771 |
| **Sub Totals** | **Existing Roads** | **1,427,295** | **1,500,951** | **1,593,685** |
| **Roads Under Construction** | **160,867** | **172,267** | **215,496** |
| **Proposed Roads** | **344,884** | **406,215** | **413,858** |
| **Grand Total** | | **1,933,046** | **2,079,433** | **2,223,039** |
| **Growth Rate** | | **-** | **8%** | **7%** |

It can be seen from the above table that MOMRA’s lighting poles consumption continued to growth from 1434H to 1435H by 8%, and in 1436H the growth rate was 7% to reach total consumption of around 2.2 million units of lighting poles.

While the cumulative growth for the past three years or even for 2015 is higher, MCD suggests a conservative growth trend of 2% per annum for 2016-2017, given the downturn seen in other construction related industries. From 2018 onwards, the growth rate should improve to 3-4% or better. Demand should therefore rise from around 217 thousand tons in 2015 to almost 259 thousand tons by 2021.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Demand** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** |
| **Ton** | **216,816** | 221,152 | 225,575 | 232,343 | 239,313 | 248,885 | 258,841 |
| **Growth %** | **-** | 2 | 2 | 3 | 3 | 4 | 4 |
| **CAGR %** | **3.2%** | | | | | | |

**5.2. Galvanizing Service**

**5.2.1 Historical Demand**

The demand for galvanizing services in Saudi Arabia is derived from the demand for galvanizing steel products manufactured by local steel fabricators. The most common steel products that require galvanization in Saudi Arabia are communication and electrical towers, grating, light poles, irrigation pipes and cable trays.

The Southern Region’s historical demand for galvanizing services for the period 2013-2016 (9 months) is as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Historical Demand of Hot-Dip Galvanization - Southern Region KSA** | | | | |
| **Tons/Year** | **2013** | **2014** | **2015** | **2016 (9 Months)** |
| Local Production | 0 | 0 | 0 | 0 |
| Imports\* | 41,700 | 44,700 | 46,100 |  |
| Exports | 0 | 0 | 0 | 0 |
| **Demand** | **41,700** | **44,700** | **46,100** | **32,150** |
| **Growth %** | **-** | **7%** | **3%** | **-** |
| **CAGR** | **3.4%** | | | |

\* Quantities come from the Western Region

Demand has grown by a 3.4% CAGR over the period, driven principally by the growth in contract galvanizing and captive work. This is to be expected, since the galvanization service comes in last phase of the construction projects, while a reasonable number of projects have not been fully implemented though they were awarded 3-4 years ago.

**5.2.2 Future demand**

The future demand of galvanization services is derived from the demand for galvanizing steel products mainly used in construction. There are several factors affecting the volume of demand of galvanized products such as:-

* The industrial progress and recovery in the Kingdom.
* Population growth which paralleled to industrial growth that may result to construction of new building, houses, bridges, schools etc.
* Maintenance of old factories and petrochemical plant. Most of the structures used for the old factories were used to be painted. However, major companies such as Saudi ARAMCO and SABIC is switching to hot-dip galvanized coating of their old structure due to its maintenance free characteristics.
* Manufacturing sector in the Kingdom is a growing sector. Most of the manufacturing plants such as petrochemical plants adopt the hot-dip galvanized coating in all steel structure needed in building plants.

MCD demand forecast for Hot Dip Steel Galvanization during the period of 2014 to 2019 would be as follow:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Hot Dip Steel Galvanization Demand Forecast - Southern Region KSA** | | | | | | |
| **Tons/Year** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** |
| **Demand** | 45,178 | 45,630 | 46,086 | 47,008 | 48,418 | 49,870 |
| **Growth** | -2% | 1% | 1% | 2% | 3% | 3% |
| **CAGR** | **1.7%** | | | | | |

MCD suggests a conservative growth trend of 1% per annum for 2017-2018, given the downturn seen in other construction related industries. From 2019 onwards, the growth rate should improve to 2-3% or better.

1. **SUPPLY/ DEMAND BALANCE**

**6.1 Steel Poles**

**6.1.1 New Entrants**

|  |  |
| --- | --- |
| **Steel poles Project Details (LP+DP)** | **Installed Capacity (Ton)** |
| **2017** | |
| Saudi Company Appl.# 5057 | 5,000 |
| Mohammed Hussein Fty. P.S. #3939 | 1,500 |
| Galvenco Inv. # 680 & 1434 | 5,500 |
| Tazez Advanced Industrial (USG) factory | 16,000 |
| Shwatty Jazan App. #5114 (Subject Project) | 6,200 |
| **Future Installed Capacity (2017)** | **34,200** |
| **Existing Installed Capacity** | **341,010** |
| **Total Installed Capacity to 2017** | **375,210** |

* + 1. **Supply/Demand Balance**

The following table shows the supply/ demand balance of steel poles for the next six years:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **M2** | **2015** | **2016** | **2017\*** | **2018** | **2019** | **2020** | **2021** |
| Supply | 341,010 | 341,010 | 375,210 | 375,210 | 375,210 | 375,210 | 375,210 |
| Demand | 216,816 | 221,152 | 225,575 | 232,343 | 239,313 | 248,885 | 258,841 |
| **Balance** | **124,194** | **119,858** | **149,635** | **142,867** | **135,897** | **126,325** | **116,369** |
| **Exports** | **12,260** | **12,505** | **12,755** | **13,134** | **13,532** | **14,073** | **14,636** |
| **Net Balance** | **111,934** | **107,353** | **136,880** | **129,733** | **122,365** | **112,252** | **101,733** |

\*In 2017, USG adds 16,000 tons; Galvanco adds 5,500 tons; Mohammed Hussein Fty adds 1,500 tons; Saudi Company adds 5,000 tons and Sponsor adds around 6,200 tons.

The table above shows a surplus for the next six years due to the new entrants and the expansions by some existing factories. From 2017 to 2021, the surplus will decrease gradually until reach 101,733 tons in 2021. The export represented around 6% of the total production in 2015, and it is expected to maintain the same level at 6% onward.

**6.2. Galvanizing Service**

**6.2.1 Supply/Demand Balance**

The following table shows the supply demand balance for:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Supply Demand Balance** | | | | | | |
| **Year / Ton** | **2016** | **2017\*** | **2018** | **2019** | **2020** | **2021** |
| Installed Capacity | 0 | 31,050 | 31,050 | 31,050 | 31,050 | 31,050 |
| Market Demand | 45,178 | 45,630 | 46,086 | 47,008 | 48,418 | 49,870 |
| **Balance** | **-45,178** | **-14,580** | **-15,036** | **-15,958** | **-17,368** | **-18,820** |

\*sponsor will add 31,050 ton in 2017

* It can be noticed from the above table that the Southern Region market witnesses a shortage of Galvanizing service of 45,178 tons in 2016. This shortage condition will decrease in the next five years to reach 18,820 tons in 2021.

1. **SALES FORECAST** 
   1. **Steel Poles**

**7.1.1 The Sponsor’s Sales Forecast**

The following table shows the sales forecast for lighting and distribution poles provided by the sponsor from 2016 to 2020 in tons:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Sponsor's Sales Forecast (Ton)** | | | | | |
| **Product** | **2016** | **2017** | **2018** | **2019** | **2020** |
| **Steel Poles** | 4,725 | 7,088 | 9,450 | 9,450 | 9,450 |

* + 1. **MCD’s Sales Forecast**

MCD has revised the sponsor’s sales forecast downward taking into consideration the market situation and sponsor capability divided between the two types of poles (lighting poles & distribution poles) as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **MCD's Sales Forecast (Ton)** | | | | | |
| **Product** | **2017** | **2018** | **2019** | **2020** | **2021** |
| **Lighting Poles** | 1750 | 2240 | 2660 | 3010 | 3024 |
| **Distribution Poles** | 750 | 960 | 1140 | 1290 | 1944 |
| **Total** | **2500** | **3200** | **3800** | **4300** | **4,968** |
| **Market Share** | **1%** | **1%** | **1%** | **1%** | **2%** |

MCD has revised the sponsor’s sales forecast taking into consideration the following justification:

* The sponsor has a good experience in the construction sector by owning a contracting establishment (see Sponsor’s Business Activities section).
* The sponsor is planning to target the entire kingdom with priority to the Southern Region as no other existing factories located there which allows the sponsor to get competitive advantage on transportation costs and where the demand represents around 55,482 tons in 2015 (25% of the total local market).
* The marketing situation, some projects are on hold due the government cut of spending. The sector utilization rate is 65% due to the effect of the slowdown which reflected on the government expenditure on steel poles industry.
* In the coming few years, there will be oversupply in the market and expected to increase in 2017 to reach 136,880 due to expansions & new entrants.
* The sponsor’s contracting establishment has done some projects which include supplying and installing steel poles amounting 481 poles between 2008 and 2012.

**7.2 Galvanizing Service**

**7.2.1 Sponsor’s Letters of Intent**

The sponsor provided us with letters of intent from several steel fabricators and contractors in the Southern Region along with their consumption:

|  |  |
| --- | --- |
| **Name** | **Galvanizing Consumption in Tons per Year\*** |
| Bin Hamran Contracting Est. | 7,500 |
| Al-Hadi Group | 9,000 |
| Al-Ghamdi Lathes | 1,800 |
| Saft Steel & Wood | undefined |
| Asir Factory | 3,000 |
| Metal smelting experts Fty. | 2,600 |
| **Total** | **23,900** |

\*This covers around 53% of the Southern Region total demand in 2016.

* + 1. **The Sponsor’s Sales Forecast**

The following table shows the sales forecast for galvanizing service provided by the sponsor from 2016 to 2020 in tons:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Sponsor's Sales Forecast (Ton)** | | | | | |
| **Product** | **2017** | **2018** | **2019** | **2020** | **2021** |
| **Sales Ton /year** | 7,000 | 10,000 | 15,000 | 18,000 | 21,600 |

* + 1. **MCD’s Sales Forecast**

MCD has revised the sponsor’s sales forecast downward taking into consideration the market situation and sponsor capability as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **MCD's Sales Forecast (Ton)** | | | | | |
| **Product** | **2017** | **2018** | **2019** | **2020** | **2021** |
| **Captive Use** | 2500 | 3200 | 3800 | 4300 | 4,968 |
| **Contract Sales** | 6,000 | 8,500 | 10,700 | 12,000 | 13,400 |
| **Total Sales** | **8,500** | **11,700** | **14,500** | **16,300** | **18,368** |
| **Market Demand** | **45,630** | **46,086** | **47,008** | **48,418** | **49,870** |
| **Market Share** | **19%** | **25%** | **31%** | **34%** | **37%** |

MCD took into account the following factors when projecting the subject project sales:

* The Southern Region market witnesses a shortage of Galvanizing service of 45,178 tons in 2016. This shortage condition will decrease in the next five years to reach 18,820 tons in 2021.
* The sponsor has a good experience in the construction sector by owning a contracting establishment.
* The sponsor will be producing steel poles which mean the galvanizing line will be used for both captive use and contract sales.
* MCD follows a conservative approach as the sponsor has no experience in galvanizing.

1. **PRICE**

**8.1 Steel Poles**

Since there is no such thing as a standard steel pole, it is quite difficult to compare product prices with any accuracy. However, MCD has tried to get insight information from local manufacturers in the way of which suppliers calculate their prices.

The main raw material for steel poles is Hot Rolled Steel Coil. In addition to this some consumables like welding wire and flux for the submerged-arc welding, base plate, nuts, bolts etc. The formula used to calculate the price is as follows: Raw Material (55%) + Overhead Cost (25%) + Profit Margin (20%). The pricing of DP and LP is very competitive and varies based on quality and the type of poles.

It is of importance to understand that identifying product mix is very difficult as the product design philosophy is very open and steel poles are traded on bidding basis where customer coordinate with supplier the design and specification requirement prior to price quotation submission. In the meantime, there are seven important design parameters that determine the specification of the poles, price and size. From manufacturing and marketing point of view these parameters are as follows:

* The width of street, load of the pole (double circuit, double fixture).
* The defection rate.
* The speed of the wind and humidity rate.
* Base plate with anchor bolt.
* Lowering and raising system.
* The number of arms and angles.
* Conical or octagonal dimensions.

The prices of poles are a function of main two factors namely steel and Zinc prices and pole specification (e.g. length, thickness, dimension, design, accessories and other factories). Prices of steel poles have decreased in the last 2 years due to the decline of steel prices in the local & international markets. The following table illustrates the current market prices:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Average Ex-Factory Prices of Distribution and Lighting Poles in Local Market (SR/Ton)** | | | | | | | | |
| **Product Type** | **Omega** | **Babtain** | **Galvanco** | **Al-Yamamah** | **Energya** | **Hidada** | **Al-Otaibi** | **USG** |
| **Lighting Poles** | 5,500 | 5,000 | 5,500 | 5,000 | 4800 | 5,000 | 4,700 | 4,000 |
| **Distribution Poles** | 5,000 | 4,800 | 5,500 | 4,750 | 4300 | 4,500 | 4,500 | 4,300 |

It can be seen from the table above, the average price of distribution poles is approximately SR 4,700 per ton and that of lighting pole is SR 4,950 per ton. The lighting poles come in various lengths between 3 to 16 meters and 3-5 millimeter thickness. In contrast, distribution poles between 9 to 16 meters and 4-7 millimeter thickness. The following are the sponsor’s proposed prices and MCD revised ones as the sponsor’s prices for lighting & distribution poles are considered not competitive and higher than all competitors:

|  |  |  |  |
| --- | --- | --- | --- |
| **Pole Type (SAR per Ton)** | **Product Mix** | **Sponsor Prices** | **MCD Suggested prices** |
| **Lighting Pole** | 70% | 6,500 | **4,700** |
| **Distribution Pole** | 30% | 6,500 | **4,500** |

**8.2 Galvanizing Service**

Local galvanizing factories buy their zinc (raw material) every three months based on international zinc prices which are handled by London Metal Exchange (The World Center for Non-Ferrous Metal Trading) through using its website [www.lme.co.uk/zinc](http://www.lme.co.uk/zinc) . Price of zinc has increased in last a few months from around $/Ton 2,300 at the beginning of 2013 to almost $/Ton 2,900 at the end of November of 2016.

The following table shows the current selling prices by local competitors in Western region, sponsor’s proposed price & MCD recommended price:

|  |  |
| --- | --- |
| **Average selling Price for Galvanizing services in Western Region SR\ Ton** | |
| Average market price | 1100-1600 |
| Sponsor’s Proposed Prices | 2,100 |
| **MCD recommended price** | **1,300** |

Galvanizing Prices are determined by many factors; however, the main factors are size and thickness of the metal to be galvanized and the level of dirt. The major factor that affects the galvanizing price is zinc price.

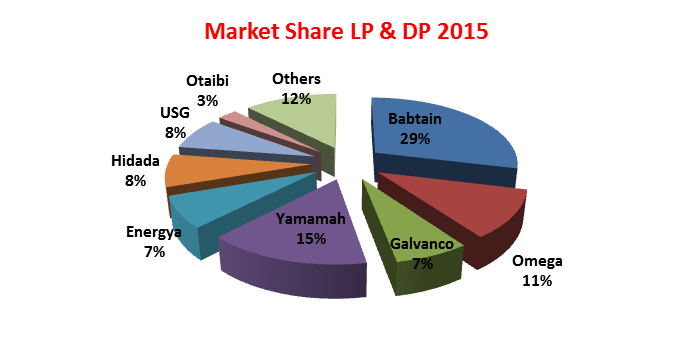
Galvanizing price for steel (one ton) range from SR1100 to SR1600 and the sponsor’s proposed selling price is SR2100/Ton which is away higher than the average market price. Therefore, MCD has revised sponsor’s price to be in line with the market average prices.

1. **COMPETITION**

**9.1 Steel Poles**

There are seven large manufacturers of poles in Saudi Arabia. Amongst them their total sales production of LP and DP is around 222 thousand tons in 2015. The total installed capacity of the steel pole industry is about 290 thousand tons a year that excludes telecommunication monopoles, transmission monopoles, and other poles.

The DP and LP market is an oligopoly with with similar market volumes in the mid segment. There is one dominant player that is Al-Babtain with manufacturing of poles, towers and steel structure. Al-Babtain has close to 29% market share. At the meantime, Al-Yamamah has market share of close to 15%, Omega comes in the third place with 11% market share from the local market. The other 4 players (Hidada, USG, Energya and Galvenco) evenly have market share of 30% (7-8% for each), while the remaining is divided between others including Al-Otaibi.



**9.2 Galvanizing Service**

Customer decision where to galvanize their steel fabricated products is influence by the following factors:

* Price.
* Quality.
* Location.
* Speed of Turnaround “Delivery period, which is the number of days between collection of the steel products from clients and dispatch of the products to the clients”.
* Technical advice and design assistance for clients.

It is important to be aware that delivery time for the clients “steel fabricators” sometimes is important that they are willing to pay higher prices to get their steel products galvanized. Also, the owners of galvanizing plant construct large galvanizing bath because the initial investment for large bath compared with small bath is not huge.

This allows them to absorb any future growth in the market. The clients for galvanizing do not have loyalty for specific galvanizing company as the process of galvanizing is simple and most of the clients are not quality conscious and they are shopping around for cheap price.

The hot dip galvanization market in the Southern Province depends on the supply of Western Province’s galvanizers as there is no active galvanizing service providers located in the Southern Region. The total market size of the Southern Region in 2015 reached around 46,100 tons. The sponsor is going to be the first galvanizer in the region when starting commercial production in 2017.

1. **SEGMENTING, TARGETING AND POSITIONING** **(STP)**

The players in the steel poles industry are selling an engineering product which is predominantly a tender-based business. It is of importance that the price quotation must be in the market level where most of the customers seek competitive price. Cost effective strategy and an adoption of low price/mass production strategy are the key criteria to achieve profitability.

The sponsor’s marketing strategy aims at:

1. Closely monitoring the timing, volume and delivery aspects of tenders from various agencies like SEC, Municipalities, Telecommunication companies, Highway Authorities, project Developers etc. and building one-to-one relationships with decision-makers in these organizations.
2. Building strong relationship with local producers in terms of co-ordination in order to avoid price war.

The sponsor is targeting all regions around the kingdom; however the priority will be given to the Southern Region where 25% of the local demand exists and where no other factories located. They will also be targeting other regions so as to capture a good market share and not limiting their market to one region only. According to several sources involved in the industry; the regional demand is distributed as follows: Central Region 25%, Southern Region 25%, Western Region 20%, Eastern & Northern Regions share evenly the rest 30%. However, they state that demand is considered kingdom based where factories can supply and compete in all regions.

It should be noted that the sponsor has not hired any sales manager and sales force; and since the poles selling is predominantly a tender-based business they should employ a sales & marketing manager well-experienced in tender-based business of engineering products.

1. **DISTRIBUTION & PROMOTION**

The distribution and promotion aspects of the project are straightforward as the project is business to business function. In terms of distribution, the factory management will deal directly with end-users on a direct basis the company expects to receive orders one month ahead of production where the company starts design and engineers the steel poles and then the base plate and anchors are ordered from overseas and subsequently the steel work starts. Once the product is ready, it will be transported from the factory production facility directly to the whole-seller/distributors and retailers where they will be located though the project’s delivery trucks.

In regards to promotion and advertisement, this is not a business that needs any media promotion, but rather is one more geared to relationship management. The sponsor is advised to direct 1% of revenues towards business development purposes.

1. **SWOT ANALYSIS**

|  |  |
| --- | --- |
| **Strengths**   * The sponsor has already registered as an official supplier of Saudi Electric Company. * Sponsor’s contracting establishment executed several projects since 2006 with total amount of SR 18.3 million. * The sponsor’s contracting establishment has done some projects which include supplying and installing 481 steel poles between 2008 and 2012. * Connections with municipalities and contractors. | **Weaknesses**   * No prior experience of manufacturing. * No professional staff hired yet. |
| **Opportunities**   * Saudi Arabia is the biggest market for construction in the GCC. * Increasing urbanization means more roads and needs for lighting. | **Threats**   * Slowdown in award of government contracts and payments for work done. * High competition from the local existing producers and importers. * Oversupply in the market and expected to increase in 2017 to reach 136,880 due to expansions & new entrants. * This project is tender based business as there is limited customer base. |

1. **CONCLUSION**

The sponsor is planning to set up a new factory for the production of Steel Poles (lighting and distribution poles) located in Jazan with total capacity of 6,200 tons (TCD has not finalized calculations). He has a good experience in the construction sector by having a contracting establishment executed several projects since 2006 with total amount of SR 18.3 million. The sponsor is planning to target the entire kingdom with priority to the Southern Region as no other existing factories located there which allows the sponsor to get competitive advantage on transportation costs and where the demand represents around 55,482 tons in 2015 (25% of the total local market). However, in the coming few years, there will be oversupply in the market and expected to increase in 2017 to reach 136,880 due to expansions & new entrants. It is also clear that the sponsor does not have experience in the manufacturing investments and has not hired professional staff yet.

1. **RECOMMENDATION**

This project is recommended from a marketing point of view at the revised sales forecast and recommended selling prices under the following condition:

* To hire a qualified experienced sales manager in regard with selling the proposed products in the Saudi market.