



Is Saudi Arabia's Power Transformer Market Ready to Welcome New Manufacturers ?

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- According to INVEST SAUDI, Saudi Arabia's power transformer market accounted for US 9.6 million in 2020 and is forecasted to reach USD 14.4 million in 2024.
- According to Power Technology Research, Saudi Arabia provides a significant opportunity to international players to set up local manufacturing facilities for power transformers.

The global power transformer market according to Power Technology Research accounted for USD 16 billion in 2020 and is forecasted to reach USD 17.3 billion by the end of 2021 registering year on year growth of 8.1%. It is expected that the increase in the energy demand especially following electrification of transport sector and need for upgradation of existing transmission infrastructure will drive growth of global power transformers in the upcoming years. On the other hand, integration of renewables with the electricity grid has also created need to revamp the grid which in turn will contribute in the growth of power transformers among other factors.

According to INVEST SAUDI, Saudi Arabia's power transformer market accounted for US 9.6 million in 2020 and is forecasted to reach USD 14.4 million in 2024 registering a CAGR of 10.7% from 2020-2024. As far as the demand in the Saudi market is concerned mega infrastructural development projects alongside consistent increase in the population is driving the demand of power transformers market. Moreover, Saudi Arabia plans to install 214,000 MVA additional transmission capacity to serve local as well as regional demand by 2030 which will drive the demand of power transformers market.

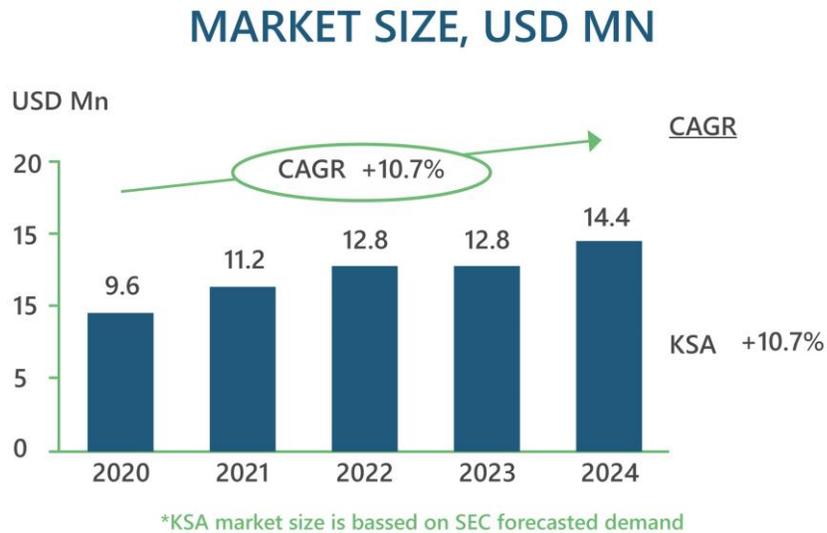


Figure 1: Power transformer market sizing of Saudi Arabia from 2020-2024.

Source: INVEST SAUDI

Supply

There are no local manufacturers of power transformers (above 100 MVA) in Saudi Arabia till date and all the power transformers above 100 MVA are imported from abroad. Saudi Power Transformer Company is the only company in whole of Saudi Arabia that manufactures low and medium rating power transformers. Whereas, the Kingdom imports power transformers from leading global players that dominate the high power transformers market in Korea, Japan, USA and EU. These players include Hyundai Heavy Industries, GE Grid Solutions, Hitachi Energy, Siemens Energy, Hyosung and Toshiba.

However, it is significant to note that there are several local suppliers (Alfanar, Jana, AFICO, General Industries, GSW and others) which provide raw materials including aluminum, copper/cables, epoxy paint, insulation sheet, rubber and steel required in the production value chain to power transformer manufacturers. Additionally, several local suppliers including GCC laboratories, SASO and others have been providing testing services as well.

Therefore, keeping in mind demand of power transformers followed by availability of raw materials and testing services, Power Technology Research believes that opportunities to localize power transformers market exists in the country. However, major potential buyers in KSA for high power transformers would be Saudi Electric Company (SEC)

and Saudi Aramco. There also exists a potential for power transformers to be exported from KSA to neighboring countries.

Policies and Incentive

The government of Saudi Arabia has incentivized the localization of power transformers market through custom duty drawbacks and exemptions. It also offers up to 75% of project financing through soft loans by SIDF where HRDF covers monthly salaries of Saudi employees (15% for males and 20% for females). Additionally, it has also allowed 100% foreign direct ownership to investors interested in establishing power transformer manufacturing facilities locally.

On the other hand in order to discourage the imports of power transformers from abroad the Saudi government has increased import duties to 15%.

Project HQ

Saudi Arabia's finance minister announced in February 2021 that only foreign companies that move their regional headquarters to Saudi Arabia by January 1, 2024 will be able to capitalize on KSA's opportunities. However, they can work with private businesses as this announcement is only applicable to contracts awarded by government owned agencies, institutions, and funds.

Import Ban from GCC Countries

In July 2021, Saudi Arabia amended its import rule to exclude goods made in free zones of GCC countries or using Israeli input from preferential tariff concessions. Saudi Arabia will also exclude goods from the GCC tariff agreement made by companies with a workforce of less than 25% local people and industrial products with less than 40% of added value after their transformation process. As a result of such development, the cost of transformers will increase in KSA as many foreign power transformer suppliers were importing from their Asian and European manufacturing facilities into other GCC countries and then rerouting it to KSA to evade the high KSA tariffs.

Looking Ahead

According to Power Technology Research, Saudi Arabia provides a significant opportunity to international players to set up local manufacturing facilities for power transformers. Especially, if we keep in mind the market size and potential for growth because of mega infrastructure projects underway in the country for instance Neom City with a planned investment of USD 500 billion, King Abdullah Economic City with USD 59 billion planned investment and Jeddah Economic City with nearly USD 28 billion investment. It is significant to note that the market already has raw material suppliers and testing facilities for international power transformer manufacturers along with friendly tariff regime.

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