

Saudi Arabia: Aviation sector a key growth target

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Highlights

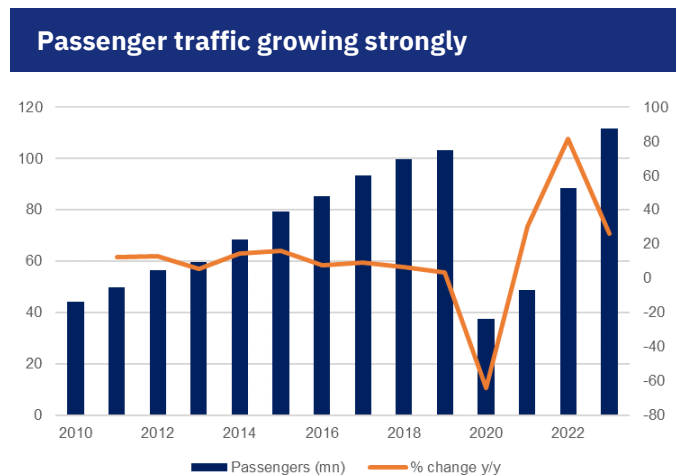
- Heavy investment into airlines and airports, alongside the development of the leisure tourism sector, will see robust growth in Saudi Arabia’s aviation sector in the coming years.
- Passenger numbers are already increasing strongly, up 26% in 2023, and will likely continue to outperform, especially once Riyadh Air is launched next year.
- The industry will support headline real GDP growth in Saudi Arabia, where hospitality and transport have already been among the fastest-growing sectors in national accounts data.

Saudi Arabia’s aviation sector is set to be one of the fastest growing in the world in the coming years as the country seeks to position itself as both a regional aviation hub and as a major tourism destination in its own right. Passenger numbers in the Kingdom have already been expanding rapidly, hitting a record in 2023, and with the substantial investment planned in building up tourism resorts such as the Red Sea Project and the development of new airline Riyadh Air, growth will remain strong over the coming decades. Air freight is also in focus, with ambitious plans to boost its contribution to GDP. The expansion of the aviation sector in Saudi Arabia will thereby support the Vision 2030 economic diversification aims, helping to create jobs, generate new FX income streams, and grow the non-oil sectors of the economy.

Growth already strong

Prior to the Covid-19 pandemic in 2020, the number of passengers passing through Saudi Arabian airports had been steadily expanding, but the pace of growth had slowed from the peak levels seen in 2014 and 2015. Coming out of the pandemic, however, there has been a surge in growth over 2021-2023 as domestic and international air travel returned to normal and passenger numbers recovered to pre-pandemic levels. The recovery is not the whole story with 2023 passenger numbers up not only 26% on 2022 levels, but also 8% on

pre-pandemic 2019, resulting in a new record for the industry. This is testament to both the structural changes that have happened in the kingdom over the interim, and the heavy investment that is going into the aviation and tourism sectors.



Source: General Authority for Statistics, Emirates NBD Research

On structural changes, Saudi Arabia has made entering the country on a tourist visa far simpler than it was previously. The opening up of entertainment and leisure facilities, and the easing of some social restrictions, has also made the country a more attractive destination for many international visitors than it was in the past. These changes have led to Saudi Arabia ranking 41st globally on the World Economic Forum’s Travel and Tourism

Development Index in 2024, up from 64th in 2015. The still relatively strong showing previously was largely on the back of facilitating religious and business travel, while leisure travel was neglected. This has started to change, however, underscored by the fact that the ‘openness to travel and tourism’ component ranked 99th in 2024, up from 107th in 2019, and is likely to continue improving.

Significant tourism infrastructure spend, USDbn

| | Estimated Budget (\$bn) | Contract Value (\$bn) |
|-----------------------------------|-------------------------|-----------------------|
| NEOM | 500.0 | 41.6 |
| Diriyah | 63.9 | 7.6 |
| New Marabba | 50.0 | 0.1 |
| ROSHN | 46.3 | 5.0 |
| Rua Al-Madinah | 37.0 | 1.2 |
| King Salman International Airport | 30.0 | 0.0 |
| Red Sea Project | 27.6 | 10.0 |
| Qiddiya | 25.0 | 7.1 |
| Jeddah Central | 20.0 | 3.2 |
| Al-Ula | 15.5 | 2.0 |
| Saudi Entertainment Ventures | 13.3 | 4.7 |
| Soudah | 13.3 | 0.1 |
| Other | 25.6 | 10.3 |
| Grand Total | 867.5 | 92.8 |

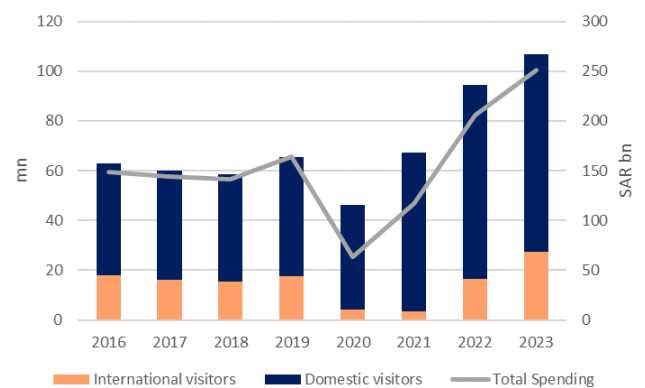
Source: Meed Projects, Emirates NBD Research

Tourism is earmarked as a key growth sector in Saudi Arabia in the coming years as the wider industry (apart from religious tourism) develops from a very low base following the country’s opening up to tourists several years ago. If ambitious government visitor targets are reached then it will become an increasingly important component of the economy and the kingdom has earmarked USD 800bn of investment into tourism over the next decade. This is going into improving infrastructure and building new hotels at existing sites, but also developing whole new resorts as part of the massive gigaprojects ongoing in the kingdom. The Red Sea Project has an estimated budget of USD 27.6bn, with USD 10.0bn in contracts already awarded. Al-Ula, already a key draw for visitors, has a development budget of USD 15.0bn, with USD 2.0bn already awarded.

The strong growth in tourism over the past three years has led Saudi Arabia to raise its visitor target for 2030 from 100mn to 150mn after the initial target was exceeded more quickly than anticipated. For airports,

domestic and foreign travelers are expected to be evenly split, although overall tourism is still likely to be dominated by domestic tourists. The number of foreign visitors to the kingdom is expected to rise to 50mn by 2030 from around 30mn in 2023.

Domestic tourism still dominates



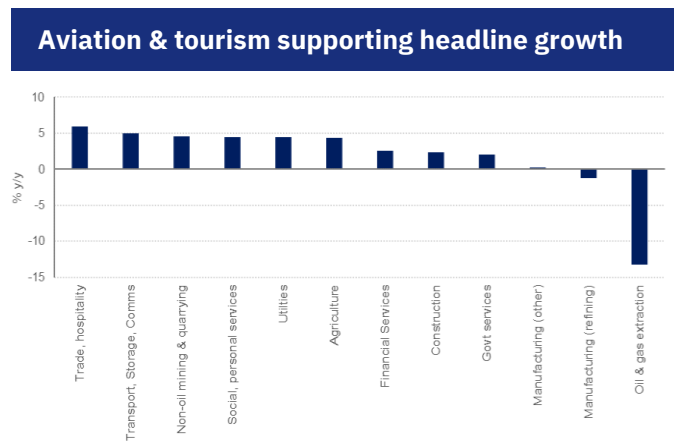
Source: General Authority for Statistics, Emirates NBD Research

In 2023, there were 60.5mn international passengers at Saudi Arabia’s airports, compared to 51.1mn domestic travellers. International flights grew by 36% on 2022 numbers, while domestic flights were up just 2% (global recovery of air travel would explain some but not all of this disparity). International airlines are adding new routes to Saudi Arabia as the country has eased visa rules and heavily marketed destinations such as al-Ula internationally. Hosting major sporting and cultural events will further boost numbers, and publicity: Saudi Arabia has been awarded the 2029 Asian Winter Games, the 2030 Expo, and is set to host the 2034 FIFA World Cup.

Economic boost

Looking at Saudi Arabia’s national accounts data, it is hard to separate the individual impact of either the aviation or the tourism sectors, but both the transport, storage & communication, and the wholesale trade & restaurants components of GDP logged the fastest growth last year. Taken together, they accounted for 15.7% of real GDP in 2023, and while this proportion is somewhat inflated by the oil production curbs which have shrunk the share of the oil sector, even in 2022

when oil production was high, they made up 14.5%. With the heavy focus on developing these sectors, this share will likely augment further in the coming years, and they also help drive growth in other sectors such as construction. Respondents to the Riyadh Bank PMI survey have often cited higher tourism levels as helping to drive growth in their new orders, which will sustain headline growth in future.



Source: Haver Analytics, Emirates NBD Research

According to the Saudi Arabian General Authority of Civil Aviation’s 2024 paper on The State of Aviation, the aviation sector contributed USD 53bn to the Saudi economy last year, representing 5.2% of GVA, and 10% of non-oil GVA (this figure is arrived at through including the direct, indirect, and induced values, plus the ‘tourism catalytic’ which accounts for the greatest share of the value). The sector has also become a major employer, supporting 958,000 jobs across the country (again including the tourism catalytic). Saudi Arabia’s air connectivity index score was hit by the pandemic, falling from 60 in 2019 to just 46 in 2021. This had recovered to 56 in 2022 and is set to rise substantially in the coming years. Last year, 148 destinations were served, and this will likely expand rapidly once Riyadh Air is launched. The Saudi Aviation Strategy (SAS), launched in December 2020, targets 250 global destinations by 2030, with the aim of tripling passengers to 330mn.

The SAS is highly ambitious in its targets, but as with many of the Vision 2030 projects in train in Saudi Arabia, even if they are not realised in full, a partial realisation would still represent a significant expansion. The

strategy explicitly targets becoming the Middle East’s aviation leader, setting itself up to emulate and overtake neighbouring competitors, but the UAE and Qatar’s aviation sectors have an advantage over KSA in that they are already well established in transit services. Nevertheless, IATA projects annual global passenger growth at 3.4% annually over the period to 2040, which would double current traveler levels. Given the GCC’s geographical location it can serve many millions of consumers in Sub-Saharan Africa and Asia that will enter the middle classes over the coming decades, meaning that there is still room for growth at all the regional hubs.

Airports

Saudi Arabia’s General Authority of Civil Aviation lists 29 airports in the country, the largest of which are King Abdulaziz International Airport at Jeddah, King Khaled International Airport at Riyadh, and the King Fahd international Airport at Dammam. Last year, these handled 43.0mn, 31.9mn, and 11.1mn passengers respectively, together accounting for a little more than three quarters of the national total.

Given the scope and scale of the development plans for the aviation sector and tourism in KSA, there are ambitious plans to develop these air facilities over the coming years, modernising them and greatly expanding their throughput capacities. King Abdulaziz International is being expanded to an annual capacity of 100mn by 2035, and King Khaled International will be able to handle 40mn passengers a year by 2038. There is also a massive new facility planned. The USD 30bn King Salman International Airport at Riyadh is expected to launch by 2030 with an annual capacity of 120mn passengers on opening, and able to handle 185mn by 2050.

Airlines

There are four Saudi Arabian airlines: budget carriers Flynas and Flyadeal, long-standing flag carrier Saudia, and the under-development Riyadh Air. While Riyadh Air has been generating the bulk of the headlines for its ambitious expansion plans, all four have been placing orders for new aircraft over the past year or so as they look to expand their reach. On July 25, Airbus announced

that Flynas had signed a deal to purchase 75 single-aisle A320neo jets and 15 long-haul A330-900s, while Flyadeal's CEO has recently told media outlets that his airline is also considering placing new orders.

Saudia has been recording strong growth in passenger numbers, with volumes up 19% y/y in Q1 of this year (to 8.3mn), following on from a 21% rise in 2023. Last year the airline added 11 new destinations to its network and placed an order for 49 new Boeing 787 Dreamliners. By 2030, Saudia aims to have 241 aircraft in the fleet (from 143 presently) flying to over 100 destinations.

Saudia will complement what is expected to become the primary engine of Saudi Arabia's aviation growth, which is Riyadh Air, anticipated to begin operations in 2025. Last March, the airline placed its first order for 39 confirmed Dreamliners, with the option to acquire a further 33, in the largest ever order for a new carrier. It is expected to connect over 100 destinations globally by 2030.

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