Sino-MENA: A new investment era

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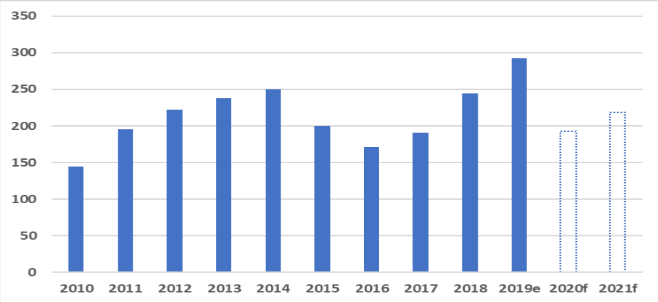
- **With oil prices set to be "lower for longer", we expect downstream investments between China and Saudi Arabia to be pushed out for now. They could be reduced in size in the short to medium term.**
- **All is not negative, however. Chinese companies continue to receive investments from the GCC in the healthcare and e-commerce sectors.**

Sino-Saudi: COVID-19 pushing for deal diversification

The Sino-Saudi oil business is on two distinct paths as we head towards the end of 2020 as a direct result of the economic downturn. Flows are fine, but deals are delayed.

- China has bought high volumes of crude over the past five months, keeping with its growing appetite for energy. But high-profile investments in the downstream markets by Saudi Aramco are now being put on hold.
- China is Aramco's top client. Saudi oil exports to China have grown significantly over the past decade as the pillar of bilateral trade.
  - Between 2008-2019, Sino-Saudi trade grew on average by approximately 8% per annum. In the past three years, however, bilateral trade grew by 27% annually on average, driven by increased Chinese demand.
  - In 2019, Saudi Arabia overtook Russia to become the top supplier to China.
- Aramco had ambitious plans for downstream market expansion globally, as part of USD 500B-worth of investments planned for the next 10 years.
- Saudi deals in China, designed to maximise profits from the large quantity of crude delivered, included:
  - Acquiring a 9% stake in the 400,000 b/pd ZPC refining complex led by private-sector firm Rongsheng, in Zhejiang Province.
    - The refinery was to become the single-largest refinery in China with a total capacity of 800,000 b/pd in two phases.
  - Investment in a USD 10B, 300,000 b/pd greenfield refinery and petrochemical complex at Panjin, in the northeast province of Liaoning.
- Both deals are now in limbo, delayed without formal explanation. Local bureaucracy has been blamed, but oil prices -- bumping along at some of the lowest levels in decades, and squeezing Aramco's capital -- may be a more significant reason.
  - Part of the agreements involve Saudi Arabia supplying crude, which, because it is currently a bargain for buyers, is making the deal more costly for the company.
  - For example, Saudi was planning to supply up to 70% of the crude for the Liaoning refinery, but the price of Brent crude today is around 35% lower than when the deal was signed.
- We understand the postponement of the deals is causing uneasy speculation in China, particularly in Liaoning where the economy is growing slower than in Zhejiang, and which relies on FDI for development.
  - Phase One of the Zhejiang refinery has already begun operating, but the Liaoning project is yet to start.
- We believe that even with the current collapse in price, a significant tranche of Aramco's future investments (albeit less than USD 500B) will still go to China.
- While the deals are unlikely to be cancelled, we expect further delays and potentially significant reductions in deal sizes in the short to medium term. This, in return, could affect Saudi Arabia's overall crude exports to China.

Figure 1 – Sino-MENA Bilateral Trade (USD, B)[1]

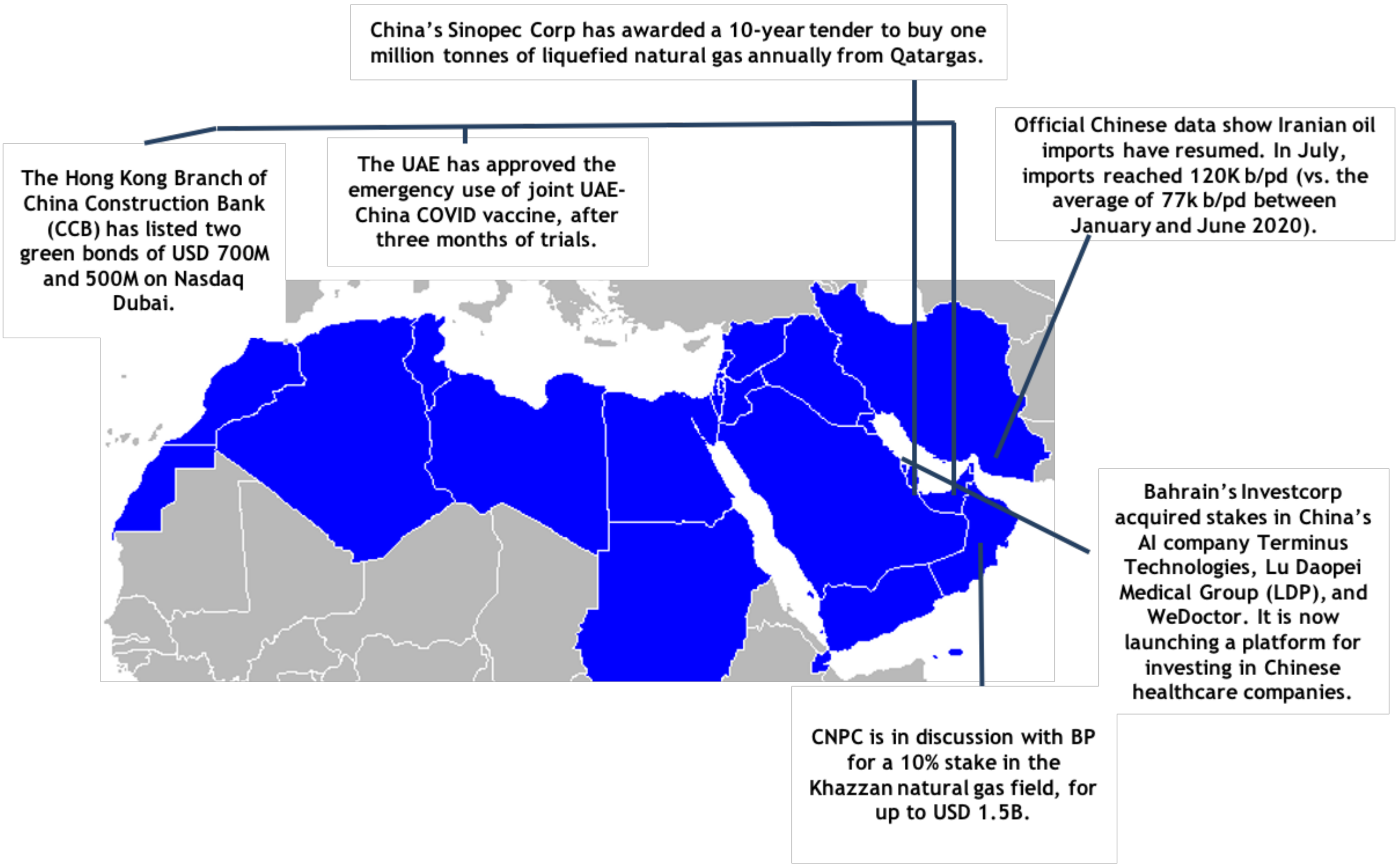


In the healthcare and e-commerce sectors, however, Chinese entities continue to receive investments in the form of equity stakes and infrastructure building.

- A notable example is Bahrain's Investcorp taking a stake in Expo 2020's Chinese AI partner Terminus Technologies.
  - Investcorp has also launched a new platform dedicated to investing in Chinese healthcare companies. It has already acquired minority equity stakes in Lu Daopei Medical Group and WeDoctor.
  - WeDoctor plans an IPO in Hong Kong at the beginning of 2021, estimated at USD 10B. Investcorp's stake could prompt similar moves from MENA funds looking for Chinese portfolios.
- Nakheel Malls and DP World in the United Arab Emirates have jointly launched dragonmart.ae as the online portal for Dragon Mart Dubai, which is the largest trading hub for Chinese products outside mainland China.
  - Dragon Mart has become the first shopping mall in the MENA region with an online platform and an onsite fulfilment centre.
- Given the importance of SMEs to Dubai's economy and job market, we think the new e-commerce site in particular has been launched at the right time to support Dubai's post-COVID-19 recovery. Additionally, it would support China's exports to the UAE, and the region overall via Dubai.
- While we expect overall Chinese exports to MENA to drop by at least 30% this year as a result of the COVID-19 pandemic, new investments in the e-commerce sector are likely to help accelerate rapid recovery next year.

[1] Arabia Monitor; IMF Direction of Trade Statistics.

Sino-MENA Deal Tracker: Major deals & projects July-September 2020



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