The Privatisation of Saudi Arabia's Football Clubs: An Update

Progress towards privatising the top 14 professional football clubs in the Kingdom of Saudi Arabia ("KSA") continues apace in light of a string of recent developments.

Background

Presently KSA sporting clubs, including clubs competing in the Saudi Professional League ("SPL"), are government-owned. This status quo stems from an historic objective to centralise the growth and development of socially-desirable sporting initiatives across KSA sports, including those which may not enjoy the commercial appeal and sustainability of football.

The push towards privatisation of SPL clubs started in earnest in April 2016 with the unveiling of the Saudi Vision 2030 plan ("Vision 2030"), which aims to diversify KSA's economy and reduce its dependence on oil revenues. Vision 2030 crystallised the government's long-standing position, advanced most recently by His Royal Highness Prince Mohammad bin Salman that the privatisation of certain state-owned assets can and should play a significant role in economic and social development. The plan expressly promotes social goals including increasing physical and sporting activities, as well as the creation of new public-private partnerships ("PPPs") to establish dedicated sporting facilities and programmes, a general reduction in costs and increased efficiency.

The unveiling of Vision 2030 prompted a number of developments. In May 2016, the General Presidency of Youth Welfare was rebranded as the General Authority for Sports ("GAS") and given greater responsibilities for developing sports clubs and facilities. This was followed in June 2016 by the launch of the National Transformation Program 2020, a framework for the implementation of Vision 2030. Shortly thereafter in July 2016, the GAS and the Ministry of Commence and Investment launched a campaign to increase awareness amongst KSA football clubs and other interested parties regarding, inter alia, the need to register trademarks and otherwise protect their IP.

In November 2016, the Council of Ministers approved the Council for Economic Development Affairs' ("CEDA") recommendations to:

1. privatise SPL clubs as new corporate entities;
2. give the GAS responsibility for granting licences to such entities;
3. create a Sports Development Fund to finance new stadiums and facilities for clubs; and
4. create a supervisory committee (headed by the Chairman of the GAS and with representatives of the SPL and Saudi Arabian Football Federation ("SAFF")) to oversee the transfer of operational and financial control from government hands to the private sector.

Specific goals for the privatisation process were also set, including elevating the quality and status of the SPL and positioning it to diversify revenues and make a greater contribution to the national economy. All of these steps indicate that a serious review of factors relevant to the privatisation process has been undertaken, underlining the KSA government's commitment to the project.

Recent Developments

A number of recent developments impact, either directly or indirectly, upon the plans to privatise SPL clubs and the potential of a privatised KSA football industry:

- In February 2017, Jadwa Investment, one of KSA's largest privately-owned investment banks, was appointed to advise on the privatisation of up to five SPL clubs, following a competitive tender exercise;
- In January 2018, the KSA government lifted the ban on women attending football games and in doing so opened up a large and hitherto un-tapped commercial market for the SPL;
- In February 2018, SAFF announced a new 10 year broadcasting deal with Saudi Telecommunications Company ("STC", which is 70% owned by the KSA Public Investment Fund) from season 2018/19 worth $1.76 billion. This deal is reportedly an increase of 61% from the previous deal with MBC and ensures that all SPL games are free-to-air across the MENA region; and
- In April 2018, CEDA approved a 'Privatisation Program' for the creation of, inter alia, the legal and regulatory basis for the privatisation process. The Privatisation Program document confirms that the privatisation of SPL clubs is a core component of the initial tranche of projects due to be finalised by 2020.

These recent developments demonstrate a number of important points. Firstly, that the KSA government remains committed to keeping up the momentum towards the privatisation of SPL clubs. Secondly, that the privatisation of SPL clubs has become a bellwether project to showcase KSA's progressive economic and social reforms, with the expectation that the SPL will become a powerful marketing tool for KSA to attract international brands and investors. And thirdly, that the KSA government is committed to grow and develop the KSA football industry in general.

The Structural Potential of KSA Football

Football is the preeminent sport in Saudi Arabia. The national team is one of the most successful in Asia, winning the AFC Asian Cup three times (and reaching the final on three further occasions) since 1984, as well as qualifying for the FIFA World Cup on five occasions, including Russia 2018. Domestically, Al-Hilal FC and Al-Nassr FC are considered to be the amongst the leading football clubs in Asia, having won numerous Asian Club Championship, AFC Champions League and Arab Club Championship titles.

KSA football clubs tend to rely on a combination of traditional revenue streams (broadcast, commercial and match-day) and contributions from wealthy groups and individuals affiliated, formally or informally, with clubs. The hope is that privatisation will significantly increase traditional revenue streams without impacting investment from wealthy groups and individuals. As touched upon further below, this may require some delicate handling to ensure that the best aspects of modern corporate governance and management structures do not alienate existing financial backers.

Football is the largest spectator sport in KSA and the SPL boasts an impressive average stadium capacity of 33,273 (falling just short of the English Premier League's 37,644). Given that the average SPL attendance in the 2017/18 season was only 5,726, there is spare capacity into which the SPL fan base can grow. As alluded to above, fan engagement with SPL and attendances are expected to receive a significant boost from the progressive societal reforms taking place in KSA generally.

Fan engagement is also expected to receive a boost due to the new broadcast deal with STC, which ensures that all SPL games will be free-to-air across the MENA region. International broadcast penetration of the SPL has also hitherto been limited, with only about 5% of MBC Pro Sports (the outgoing SPL broadcast rights-holder) subscriptions coming from outside Saudi Arabia. The new rights deal should ensure that SPL viewership increases many-fold.

In addition, KSA has one of the most digitally engaged populations in the world. Mobile phone penetration is extremely high (estimated at 180 subscriptions per 100 residents), it has the highest per capita rate of YouTube use of any country in the world (according to a 2015 BBC study) and its residents use social media for an average of five hours per day (according to a 2016 YouGov study). Potential football fans are therefore increasingly accessible and SPL clubs are increasingly looking to engage with their already very large digital fan-bases.

Potential Challenges

After positive reports in early 2017, specific details about the procedural steps for transforming clubs into corporate entities and subsequently formalising the process of private investment, including timelines, applicable regulations and execution documentation have still not been confirmed as of the date of this article's publication. For example, it is not yet known whether a specific corporate entity will be required to hold the assets, or what form and scope a designated long-term regulator may take and what its part in the privatisation process will be. Anecdotal reports suggest that for the purposes of investment, every club will have two components: assets and real estate; and that a given privatisation need not necessarily include an obligation to purchase the club's real estate. This would provide some welcome flexibility to investors in considering various business plans and strategies to optimise growth and development in years to come.

Comment

Subject to effective implementation and the absence of significant market distortion factors, the privatisation of sports clubs can be beneficial in terms of providing both access to capital for short-term investment in stadia, training facilities and playing squads, and also in establishing the necessary business framework to nurture talent and encourage the best practices in club management. Indeed the prospect of attracting owners who are incentivised to bring the best and brightest management teams to drive commercial success could bode well in terms of growing match-day revenues with stadium development and an increased ability to compete for domestic and foreign players.

Given the issues outlined above, the 2020 target date for all SPL clubs to be privatised does seem ambitious, as some commentators have noted; however the KSA government is clearly committed to the project. Indeed, it has become a central pillar in the delivery plan for Vision 2030 and the political capital staked on the project being a success should help drive it forward.

As touched upon in this article, a number of unknowns remain. For example, the size of the Sports Development Fund earmarked for assisting with this process and the precise details of planned allocations are not officially available at present but the establishment of the fund does suggest an understanding and appreciation that there will be certain costs involved in helping even the top clubs achieve immediate sustainability.

Further afield, the privatisation of SPL clubs has prompted reports that Saudi investors are considering investment into British clubs in order to link them with newly privatised SPL clubs. Ironically, and subject to particular investment dynamics, this could mean that the sovereign wealth fund created by the wider KSA privatisation program may indirectly lead to Saudi investment in European clubs, which we are already starting to see (e.g., Sheffield United), in much the same way that middle-eastern investors have acquired Premier League and Ligue 1 clubs.

It is likely that the SPL would benefit significantly from such tie-ups, as they would bring to the table a wealth of on-field and off-field technical expertise, as well as opportunities to share playing talent and synchronise commercial objectives. In addition to the ancillary benefits of such direct foreign investment, Saudi interests have also been linked with proposals to reconceive the Club World Cup. With greater influence in top leagues and competitions abroad and a roadmap to stabilize and grow the domestic league, the future for the KSA football industry has never looked brighter.

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