

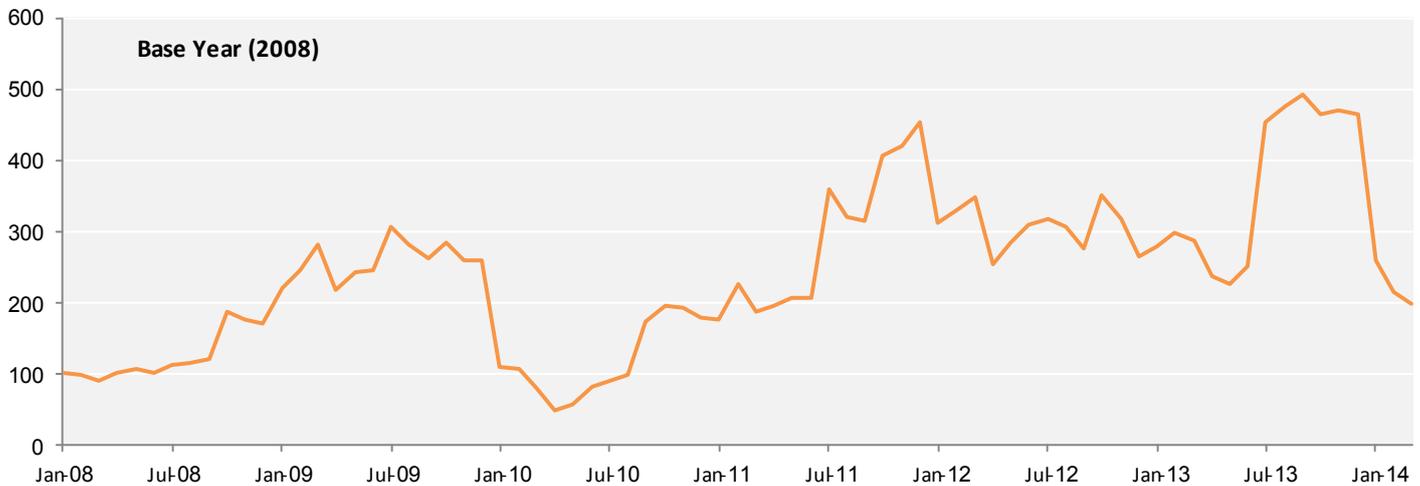
# NCB Construction Contracts Index First Quarter 2014

NCB Quarterly Review of Contract Awards in the Construction Sector

## HEADLINES

1. *NCB Construction Contracts Index reached 198.67 points by the end of the first quarter of 2014, while the total value of awarded contracts reached SAR39.7 billion. The index falls below the 200 point mark for the first time in nearly three years. However, the value of awarded contracts still illustrate the strength of construction sector.*
2. *January's contract awards were valued at approximately SAR21.6 billion, led by the power and roads sectors.*
3. *February's value of contract awards slipped to approximately SAR10.8 billion, led by the urban development and petro-chemical sectors.*
4. *March's value of contract awards further decreased to approximately SAR7.4 billion, led by the urban development and power sectors.*

## NCB Construction Contracts Index



Source: Various sources, NCB

## Value of Contracts

Trailing Twelve Months (2013-2014)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan (2014)	Feb	Mar
Contract Awards Value (SAR Millions)	23,045	9,821	20,778	105,606	28,813	14,499	11,259	11,834	18,640	21,557	10,804	7,354
CCI Value	236.00	225.68	250.53	455.34	476.21	494.09	465.34	470.25	465.03	260.02	216.09	198.67

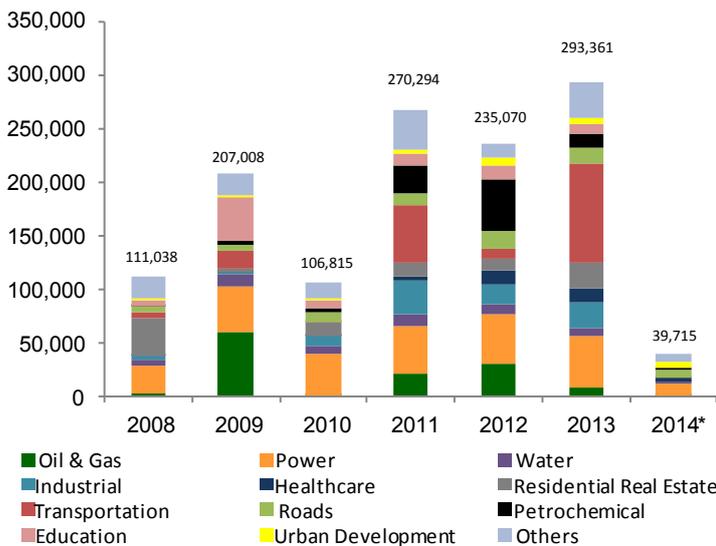
Said A. Al Shaikh  
Group Chief Economist | s.alshaikh@alahli.com

Albara'a Alwazir  
Senior Economist | a.alwazir@alahli.com

## Construction Contracts Award Index During Q1 2014\*

The value of awarded contracts settled at a leisurely pace during the first quarter of 2014 after witnessing a record year in 2013. Nonetheless, contract awards in the amount of SAR39.7 billion during Q1'14 illustrates the continued role of the construction sector's significance to the Kingdom's economy. Absent this quarter are the numerous amounts of mega-projects that were witnessed throughout 2013. The anchor sectors yielded to infrastructure related sectors, which the government earmarked for heavy expenditures during 2014. While the power sector captured the highest share of awarded contracts with 25%, it was the roads and urban development sectors that significantly contributed to the overall value by capturing 16% and 12% shares, respectively. The healthcare and mixed-use real estate sectors contributed 9% and 8%, respectively, (Chart 1), (Chart 2).

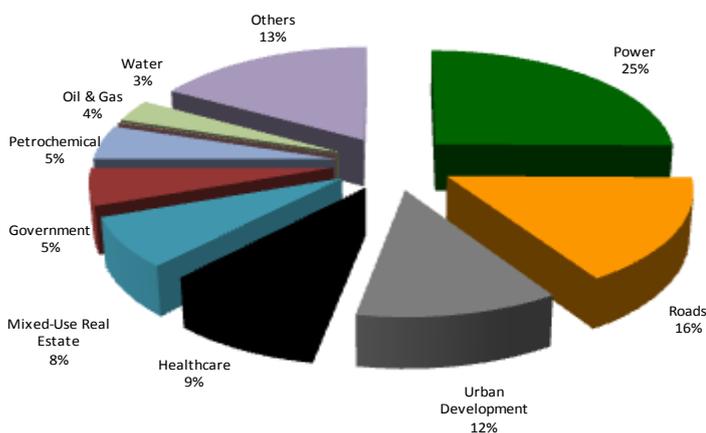
Chart 1: Value of Awarded Contracts by Year (SAR millions)



\* Through Q1'14

Source: Various sources, NCB

Chart 2: Value of Awarded Contracts by Sector During Q1'14



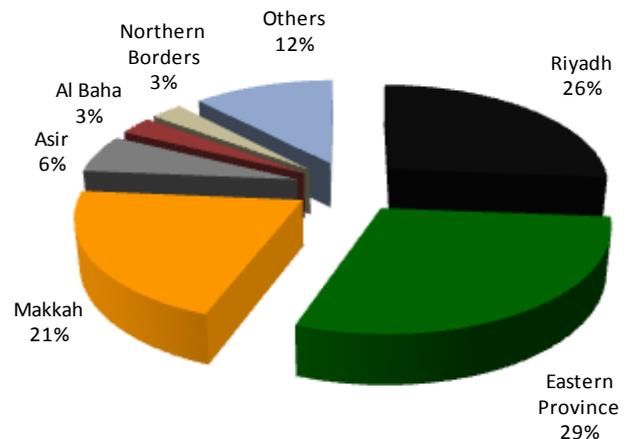
Source: Various sources, NCB

The SAR39.7 billion in awarded contracts during Q1'14 marks a 19% decline compared to Q1'13 that amassed SAR49.1 billion. The value of awarded contracts is expected to be further bolstered as many mega-projects are currently in the tendering phase, and will account for a significant share of awarded contracts throughout the year. Furthermore, the government's continued focus on improving the Kingdom's infrastructure landscape through heavy capital expenditures will allow for sustainable opportunities for both local and international contractors.

The Construction Contracts Index (CCI) dropped significantly to end the quarter at 198.67 points, reflecting a 31% decline compared to Q1'13. The CCI's slide was gradual as it slipped to 260.02 points in January and lowered to 216.09 in February. It also marked the end of a 34 month streak of consecutive periods above 200 points, which began in May 2011. However, the CCI remains in a very healthy environment and will likely climb back to its familiar zone. This will occur as more mega-projects are awarded throughout the year.

A majority of the awarded contracts took place in the three main regions of Eastern Province, Riyadh and Makkah as they accounted for 29%, 26% and 21% of contract values, respectively. The nature of the contracts were geared toward the rehabilitation of roads, up keeping and enhancement of urban developments and the construction of new healthcare centers. A number of contracts in the power sector contributed to the Eastern Province's market share. In Riyadh, a sizeable project for the development of employee housing for Sabic employees was awarded. The real estate sector contributed to Makkah's performance as the hospitality and mixed-use sector made sizeable contributions, (Chart 3).

Chart 3: Value of Awarded Contracts by Region During Q1'14



Source: Various sources, NCB

## January

January had the highest value of awarded contracts during Q1'14, reaching SAR21.6 billion. The power and roads sectors accounted for the highest share of awarded contracts by value. The power sector's SAR8 billion in awarded contract accounted for 37% of all contracts in January. The biggest contract by value was awarded by the Saudi Aramco to Larsen & Toubro in the amount of SAR1.1 billion. The contracts calls for the installation of a 230kV double circuit overhead transmission line and underground cabling spanning 55 kilometers. Larsen & Toubro are expected to complete the project by the first quarter of 2016. other contracts in the power sector, which were awarded by the Saudi Electricity Company (SEC) mainly pertained to the construction and maintenance of transformers and substations.

The roads sector accounted for 19% of the value of awarded contracts. The SAR4.2 billion in awarded contracts were primarily directed to numerous parts of the Kingdom. The majority of contracts were aimed at completing, rehabilitating and asphaltting new highways and rural roads.

Within the mixed-use real estate sector, a significant contract was awarded in Makkah by Jabal Omar Development Company as part of the fourth phase. The contract was awarded to Ruwad Civil Construction in the amount of SAR3 billion. Phase four includes the construction of 11 towers and associated facilities and a built-up area of 320,000 square meters. The project is expected to be completed by the first quarter of 2017.

The oil & gas sector witnessed one contract, which was awarded by Saudi Aramco to Samsung Engineering in the amount of SAR1.5 billion. Samsung Engineering will expand the handling facilities at the Shaybah oil field to increase the fields output by 250,000 barrels a day. This includes adding additional gas oil separators, a wet crude handling train and a booster gas compressor. This engineering, procurement and construction (EPC) project is expected to be completed by 2016.

A significant project in the hospitality sector was awarded by AMIAS Holding to the Al Saad/ BESIX JV for the construction of the Kempinski Residences in Jeddah. The luxury development will include a 65 story hotel with 242 rooms and 104 serviced apartments. The total built-up area will be approximately 79,600 square meters. The project is expected to be completed by the first quarter of 2017.

The healthcare sector made a sizeable contribution of SAR2 billion worth of contracts during January. The most notable contract was awarded by the Ministry of Health to Seder Construction Company in the amount of SAR626 million. The contract calls for the construction of a 500 bed hospital building in Makkah with a built-up area of 40,000 square meters. The project is expected to be completed by the first quarter of 2017.

## February

The value of awarded contracts was cut nearly in half during February, reaching SAR10.8 billion. The urban planning sector accounted for the highest share of awarded contracts with SAR2.1 billion. The contracts were awarded by the Ministry of Municipal and Rural Affairs and were spread across numerous area within the Kingdom. The contracts were numerous in volume but low in value. Contracts included the rehabilitation of public gardens, maintenance and improvement of grounds as well as the beautification of public areas.

A housing project in the petrochemicals sector for Sabic's employees was awarded by Sabic to Joannou & Paraskevaides in the amount of SAR2 billion. The development, which will be called Al Waseel Hills in Riyadh will contain 685 employee housing units in addition to mosques, schools, shopping centers and sports clubs. The project is expected to be completed by the first quarter of 2017.

The healthcare sector had SAR1.2 billion worth of contracts that were awarded in February. The largest contract by value was awarded by the Ministry of Health to Rabia Trading and Agriculture Company for the construction of a 400 bed mental health hospital in Abha. The project is expected to be completed within 24 months.

A sizeable contract was awarded in the Transportation sector by the Saudi Ports Authority to China Harbour Engineering Company in the amount of SAR770 million. The contract calls for the construction of three berths, dredging and reclamation of 28 million cubic meters and demolishing the existing breakwater to construct a new one. The new terminal aims to serve the Waad Al Shamal City in the Eastern Province. The project is expected to be completed by the third quarter of 2016.

## March

The value of awarded contracts further clipped in March, reaching SAR7.4 billion. The urban development sector contained the highest value of awarded contracts with nearly SAR1.8 billion. The contracts were a continuance of contracts similar to February that are aimed at enhancing rural towns and public facilities.

The power sector had SAR1.4 billion worth of contracts awarded. SEC awarded several contract of which the most notable being awarded to National Contracting Company for the installation of 380kV overhead transmission lines in the Eastern Province. The value of the contract is approximately SAR623 million.

**Outlook**

The value of awarded contracts is expected to pick up during the upcoming months as numerous mega-projects in anchor sectors are expected to be awarded in the petrochemical, industrial and power sectors. The government’s plan to continually upgrade and enhance the physical and social infrastructure of the Kingdom ensures that the construction sector will likely to continue the momentum that has been in place over the past several years.

**Selected Awarded Contracts During the First Quarter of 2014:**

Sector	Contractor	Client	Details	Value (SAR millions)
Mixed-Use Real Estate	Ruwad Civil Construction	Jabal Omar Development Company	Jabal Omar Phase 4	3,000
Petrochemicals	Joannou & Paraskevaides	SABIC	Al Waseel Hills Employee Housing Development	2,000
Oil & Gas	Samsung Engineering	Saudi Aramco	EPC Contract at Alshaybah	1,538
Hospitality	Al Saad/ BESIX	AMIAS Holding	Kempinski Residences Jeddah (Sail Tower)	1,125
Power	Larsen & Toubro	Saudi Aramco	Install Overhead Transmission line	1,125

---

## Appendix

### NCB Construction Index Methodology

The purpose of the NCB Construction Index is to inform our readers of the scale of awarded construction projects in the Kingdom. The index tracks construction contracts that have been awarded only. It may take approximately six to eighteen months for awarded contracts to begin implementation and the length of the construction period averages around three years but is largely dependent on the size and scope of the project. Consequently, the index serves as an indicator for construction activities that will be implemented in the future.

Data from various available publications and reports are used to identify awarded construction contracts. Awarded contracts that do not state the value of the contract are excluded from the index. Additionally, construction contracts that meet the United Nations construction classifications are included in the analysis.

The NCB Construction Index begins with January 2008 as its base year. The base year is assigned an index score of 100 points and the index is also measured on a six-month moving average. Therefore, outliers are designed to have a reduced effect on the calculation of the index. In general, an index score that is higher than the base year of 100 reflects the expansion of awarded construction contracts while any value below the base year reflects a contraction.





## Economics Department

### The Economics Department Research Team

Head of Research

**Said A. Al Shaikh, Ph.D**

*Group Chief Economist*  
s.alshaikh@alahli.com

Macroeconomic Analysis

**Tamer El Zayat, Ph.D**  
*Senior Economist*  
t.zayat@alahli.com

**Majed A. Al-Ghalib**  
*Senior Economist*  
m.alghalib@alahli.com

Sector Analysis/Saudi Arabia

**Albara'a Alwazir**  
*Senior Economist*  
a.alwazir@alahli.com

**Mai Al-Swayan**  
*Economist*  
m.alswayan@alahli.com

**Yasser Al-Dawood**  
*Economist*  
Y.aldawood@alahli.com

**Shahrazad Faisal**  
*Economist*  
s.faisal@alahli.com

Management Information Systems

**Sharihan Al-Manzalawi**  
*Financial Planning & Performance*  
s.almanzalawi@alahli.com

### To be added to the NCB Economics Department Distribution List:

**Please contact: Mr. Noel Rotap**

Tel.: +966-2-646-3232

Fax: +966-2-644-9783

Email: n.rotap@alahli.com

**Disclaimer:** The information and opinions in this research report were prepared by NCB's Economics Department. The information herein is believed by NCB to be reliable and has been obtained from public sources believed to be reliable. However, NCB makes no representation as to the accuracy or completeness of such information. Opinions, estimates and projections in this report constitute the current judgment of the author/authors as of the date of this report. They do not necessarily reflect the opinions of NCB as to the subject matter thereof. This report is provided for general informational purposes only and is not to be construed as advice to investors or an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or other securities or to participate in any particular trading strategy in any jurisdiction or as an advertisement of any financial instruments or other securities. This report may not be reproduced, distributed or published by any person for any purpose without NCB's prior written consent.