

NCB Construction Contracts Index Second Quarter 2015

NCB Quarterly Review of Contract Awards in the Construction Sector

HEADLINES

1. NCB Construction Contracts Index jumped to 341.98 points by the end of the second quarter of 2015, while the total value of awarded contracts amounted to SAR82.8 billion, recording a 45% increase from the first quarter of 2015.
2. April's contract awards were valued at SAR51.3 billion, led by the roads and power sectors.
3. May's value of contract awards dropped to approximately SAR17.8 billion, led by the oil & gas and roads sectors.
4. June's value of contract awards slipped to approximately SAR13.7 billion, led by the government and commercial real estate sectors.

NCB Construction Contracts Index



Source: Various sources, NCB

Value of Contracts

Trailing Twelve Months (2014-2015)	Jul (2014)	Aug	Sep	Oct	Nov	Dec	Jan (2015)	Feb	Mar	Apr	May	Jun
Contract Awards Value (SAR Millions)	20,880	4,333	9,036	45,447	9,357	7,080	30,364	22,058	4,906	51,323	17,824	13,729
CCI Value	302.39	286.60	290.70	353.38	268.63	234.48	257.62	300.85	290.78	305.11	325.76	341.98

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Construction Contracts Award Index During Q2 2015*

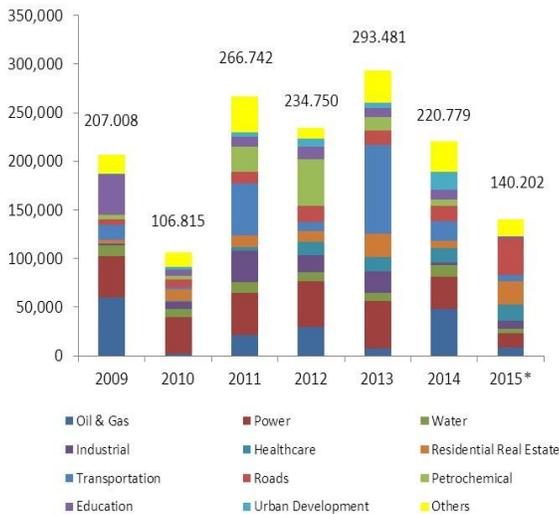
There was a significant upswing in the value of awarded contracts during the second quarter of 2015 as it reached SAR82.8 billion. It marked a strong rebound from the previous quarter. Anchor sectors took hold of the majority of spending, as the roads and residential real estate accounted for approximately 57% of the total value (SAR47.5 billion). The power sector came third, with 14% of the value of awarded contracts during Q2'15. Beyond the roads and residential real estate sectors, the value of awarded contracts were varying across the remaining sectors during Q2'15. The value of awarded contracts in April jumped to SR51.3 billion, which had the highest monthly value of awarded contracts during Q2'15, (Chart 1), (Chart 2).

Despite falling oil prices, and accordingly oil revenues, the construction awarded contracts in the first half 2015 showed a higher pace than 2014, but likely to weaken in 2016. Furthermore, with the prospect of recording twin deficits in 2015, government's large foreign reserves held by SAMA should provide enough cushion to sustain an elevated level of spending during 2015 and beyond. The value of awarded contracts during H1'15 surpassed that of H1'14 by 13%, reaching SAR140 billion. The SAR82.8 billion in awarded contracts during Q2'15 reflects the continued strength of the construction industry and also shows that the Kingdom can afford to keep spending close to its recent past levels, even at lower oil prices. Following the pattern of 2014, the physical and social infrastructure related projects continued their growth in Q2' 2015, with fewer of industrial mega projects.

The Construction Contracts Index (CCI) increased to record 341.98 points by the end of the second quarter of 2015, from 290.78 points recorded at the end of the first quarter of 2015, which was at the same level recorded in Q3'2014. The CCI gradually rose from 305.11 in April to 325.76 and 341.98 points in May and June, respectively. This continued strong reading of CCI confirms the growing volume of projects that will be under implementation in the medium term.

The concentration of contracts within the roads sector in the Makkah region, which had 42% share, witnessed a sizeable road project that was awarded by Umm Al Qura for Development & Construction, amounting to SAR23.3 billion. Riyadh region captured 18% share of the total value of awarded contracts during Q2'15. Riyadh also was the recipient of three roads contracts that were awarded by Arriyadh Development Authority. These three phases cover the construction of road works and Bus Stations. The Jizan region came third (9%), as this share was attributed to the SAR7.1 billion Refinery IGCC power plant contract that was awarded by Saudi Aramco worth. There are other several projects in the power and residential real estate sectors that were awarded in the remaining regions, (Chart 3).

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



* Through 1H'15

Source: Various sources, NCB

Chart 2: Value of Awarded Contracts by Sector During Q2'15

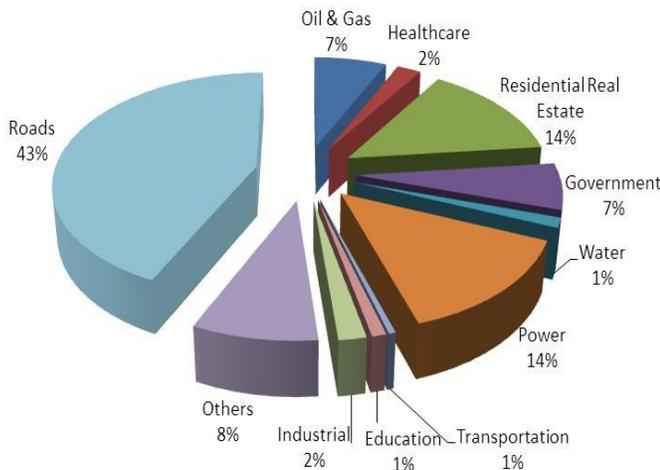
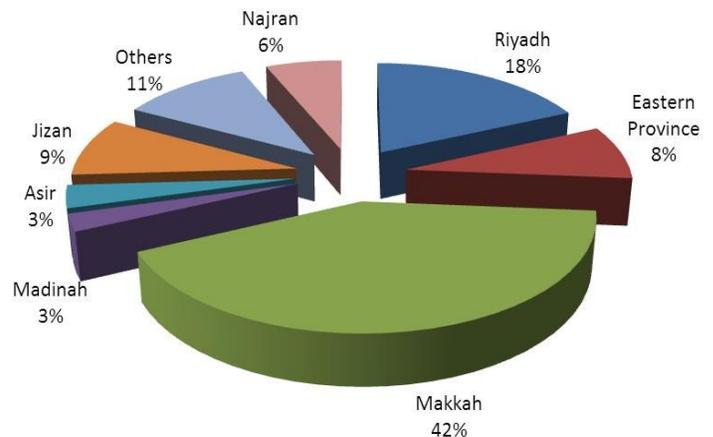


Chart 3: Value of Awarded Contracts by Region During Q2'15



Source: Various sources, NCB

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April

The value of awarded contracts showed an increase in April, reaching SAR51.3 billion. The roads, power, residential real estate, and industrial sectors were the largest contributors. Seven major contracts were awarded in the roads sector. The largest contract amounting to SAR23.3 billion was awarded by Umm Al Qura for Development & Construction to Dallah Albaraka Group. The contractor will construct a mixed-used infrastructure in Mecca known as "Tareeq al-Mawazee" that will focus on widening the main road into Mecca and redeveloping the land on both sides of the highway. The project will include developing a road of 3-kilometre long, 80-meter wide, four-lane highway into the city. Properties on either side of the road, which cover 1 square kilometer of land, will be re-built. The project is expected to be completed by the first quarter of 2025. The second contract, which worth SAR6.6 billion, was also awarded by Umm Al Qura for Development & Construction to Nesma & partners. The infrastructure work involves building roads and general infrastructure for the project. It is expected to be completed by the fourth quarter of 2019. The third contract was awarded by Ministry of Transportation to Bin Tamy Saudi Pan in the amount of SAR225 million for Taif, Al Baha and Abha road expansion, and implementation of service roads on both sides: Mecca Part (20km) and Taif Ring Road phase 4 (8km). The project is expected to be completed by the second quarter of 2018.

Within the power sector, three major contracts were awarded. The largest contract in the amount of SAR7.1 billion was awarded by Saudi Aramco to JV of Air products & Acwa Holding to build multiple power plants. The current project deals with the construction of an air separation unit of the new IGCC power plant at Jizan refinery, which is the world largest industrial gas complex, to supply 75,000 metric tons per day (20,000 oxygen and 55,000 nitrogen). The scope of work will include: air separation unit, oxygen and nitrogen production facilities, and associated facilities. The project is expected to be completed after 23 months. The second contract worth SAR450 million and was awarded by Saudi Electricity Company (SEC) to Archiorodon for building a power plant named PP13 at Riyadh. The third contract was also awarded SEC at SAR450 million to Al-Gihaz Holding to build Tabuk substation 380/kv, and associated facilities. The two projects are expected to be completed by 2016.

Within the residential real estate sector, three major contracts were awarded. The largest contract in the amount of SAR5.2 billion was awarded by the Ministry of Interior to El Seif Engineering Contracting to build a residential compound in Najran— residential compound with 2800 residential units, which include 337 apartment buildings. The project is expected to be completed by the second quarter of 2018.

The second and third projects in the amount of SAR750 million, and SAR375 million were awarded by the Ministry of Hosing to Emdad Najed Group for constructing residential units, which include 985 apartments, 192 sqm each). The two projects are expected to be completed by the second quarter of 2018.

Within the industrial sector, three contracts were awarded. The largest EPC contract in the amount of SAR1.08 billion was awarded to Taiwan's CTCI and Japan's Chiyoda Corporation by the Local National Industrial Company (Tasnee) to build a titanium sponge plant. The project is expected to be completed by the first quarter of 2017. The second contract was awarded to China National Building Materials Company by Arabian Cement Company in the amount of SAR363.8 million. The objective of this project is the expansion of Rabigh Cement Plant. The scope of works includes:- expansion of cement plant (added capacity of 10,000 tones). The project is expected to be completed by the second quarter of 2016.

Within the commercial real estate sector, two major contracts were awarded. The largest contract in the amount of SAR2.25 billion was awarded by Arabian Centers to Fare Construction to build a shopping mall called Salboukh Mall in Riyadh. The scope of works will include: shopping mall (4-storey with leasable area of 275,337 sqm.), car park (7,154 vehicles), shops, hyper market, entertainment area, kid zania and food court. The project is expected to be completed by the second quarter of 2019.

Within the healthcare sector, two contracts were awarded in the amount of SAR937.6 million. The first contract was awarded by Dallah Albarakha Group to Hashem Contracting & Trading to build a hospital in Riyadh on 20,000 square meter piece of land in namar area in Riyadh. The scope of works will include hospital 400 beds, clinics 200 rms, central utility plant, and multi-storey parking building and associated facilities. The project is expected to be completed by the second quarter of 2018. The second largest contract was awarded by Mouwasat Medical Services to Mazen M Alsaeed Holding for constructing a hospital in Dhahran. The hospital will have 300 beds and associated facilities. The project is expected to be completed by the fourth quarter of 2018.

In the education sector, the Ministry of Higher Education awarded two contracts worth SAR221.3 million. The first project was awarded to Almarshad Group for the construction of college of education for women in Zulfi at Al Majmaah University. The second contract was awarded to SAS Arabia to construct college of Art & Science in Kamel at King Abdul-Aziz University. The two projects are expected to be completed by the second quarter of 2018.

May

For the second consecutive month, the oil & gas, roads, residential real estate, and power sectors led all other sectors in contract awards. The oil & gas and roads sectors accounted for SAR10.6 billion of the overall SAR17.8 billion in value of awarded contracts. Residential real estate sector had five contracts worth SAR4.06 billion during the month of May.

In oil & gas sector, Saudi Aramco awarded a contract worth SAR5.6 billion to McDermott for providing engineering, procurement and construction (EPC) services on its offshore facilities. The scope of the lump-sum element of the agreement covers the rehabilitation of offshore facilities as well as the construction of new projects, including platforms, pipelines and cables. The project is expected to be completed by the second quarter of 2020.

Within the roads sector, Arriyadh Development Authority awarded three contracts worth SAR5.02 billion. The first contract was awarded to Yuksel Construction, while the second and third contracts were awarded to Saudi Constructioners. The projects include: rehabilitation works, and construction of 21 bus rapid transit stations, 2,574 community bus stops and 7 pedestrian bridges with all civil, mechanical and electrical works. The first and third contracts will be completed by the second quarter of 2017, and the second contract is expected to be completed by the fourth quarter of 2016.

In the residential real estate sector, five major contracts were awarded. The largest contract in the amount of SAR2.2 billion was awarded by Ministry of Interior to IVRCL Infrastructure & Projects Ltd. for construction of 513 residential units at three sites in the Dharan al-Janoube, Al-Qahmah and Asir region of the kingdom. The project will include: administrative buildings/ schools/ shopping centers/fuel stations, and is expected to be completed by the second quarter of 2018. The second contract worth SAR1.6 billion was awarded by Saudi General Organization for Social Insurance to Saudi Constructioners to build villas and apartment buildings with 854 apartments, garden, and associated facilities. The project is expected to be completed by the second quarter of 2018.

In the power sector, Saudi Electricity Company (SEC) awarded three contracts. The first contract was awarded to Initec SA/Saudi Services in the amount of SAR1.2 billion for Electro-Mechanical Works. The project covers plant PP9 conversion of eight gas turbines to combined cycle. This forms the 1st phase, and SEC will initiate the conversion of another 8 units at a later stage. The project will include: steam turbines– gas turbines– heat recovery steam generator (HRSG), air condenser (ACC), control system (DCS), transformers and related BOPs. The project is expected to

be completed after 40 months. The second contract was awarded to Alfanar Bena Contracting Company, and worth SAR600 million. The current work involves construction of a combined cycle gas turbine based power plant at Riyadh, Saudi Arabia. The scope of works include: industrial buildings, technical & non technical buildings and associated utilities & facilities, and will be completed by the second quarter of 2017.

In the government sector, the Ministry of Justice awarded a SAR862.5 million contract to Hashem Contracting & Trading to build a court complex in Riyadh. The project is expected to be completed by the fourth quarter of 2018.

June

There was a decline in the value of contracts awarded during June, reaching SAR13.7 billion. In the government sector, two contracts were awarded by the Ministry of Interior to Beijing Emirates International Construction Company for developing King Abdullah Project (KAP) program, which will cover the construction, operation and maintenance of 28 types of facilities at more than 50 locations. The security compounds will be used to house, educate and train members of the kingdom's public security, civil defense, police, passports division, and special security and investigative forces. The scope of works includes security compounds in Mecca, Al Madinah, Asir, Najran, Jizan, and Al baha, with associated facilities. The two projects are expected to be completed by the second quarter of 2019.

Within the commercial real estate sector, Arabian Centers awarded two contracts to Fare Construction in the amount of SAR4.03 billion. The first contract is for developing a mega-scale mixed-use project called "Dhahran Boulevard", located in front of Dhahran Mall in Dhahran city. The scope of works includes: shopping mall with leisure facilities, luxury hotels, retail area, residential towers, Infrastructure facilities, and public amenities. The second contract is for constructing a shopping mall called Mall of Arabia in Riyadh, which will be the Kingdom's premier retail destination, and the project is located along main road arteries into Riyadh. The scope of works will include: shopping mall (1-storey, leasable area 164,63 sqm), car park (5,552 vehicles), shops, hyper market, entertainment area, and food court. These two projects are expected to be completed by 2015 and 2018, respectively.

In the power sector, SEC awarded nine contracts worth SAR1.5 billion. Four contracts at SAR506 million were awarded to ABB Contracting Company for expanding substations in central region known as Al Mursalat substation, western part of Saudi Arabia known as Al badr substation, Abha East substation, and KAFC substation. They will include: substation(380kv), conductor, transformer, switch gears, cables and associated facilities, and they are expected to be completed by 2017. The other four contracts at SAR521.3 million were awarded to Alstom for constructing

(132kv) substations in Al Arida, Balqarn, Bisha central, and Dabiya with associated facilities. They are expected to be completed by 2017. In addition, another contract was awarded to Alfana Group at SAR468.8 million to construct 380/115/ 13.8 kv substation in North Dammam with associated facilities. This project is expected to be completed by the fourth quarter of 2017.

In the residential real estate sector, three major contracts were awarded. The first and second contracts in the amount of SAR1.01 billion were awarded by Saudi Basic Industries Corporation to Azmeel Contracting for development works in Mutrafiah: phase1, including building villas (2600 units), infrastructure works, and associated facilities. The two projects are expected to be completed by 2017 and 2020, respectively. The third contract worth SAR337.5 million was awarded by Riyadh Investment Company to Turkey's Akfa Contracting for mechanical, electrical and plumbing (MEP) works on a mixed-use housing project in Jeddah. The project is expected to be completed after 54 months.

Outlook

Over the past few years, the value of awarded contracts in the Kingdom have been rising considerably, reaching a record of SAR290 billion in 2013. However, on lower oil prices in the H2'14, this value registered a lesser amount of SAR220 billion in 2014. In the Q2'15, the value of awarded contracts made a comeback, amounting to SAR82 billion, following SAR57 billion in 1Q'15. The most noticeable contracts in the Q2'15 is the SAR23 billion roads' project in Mecca, for the purpose of accelerating the flow of traffic and keeping pace with rising numbers of pilgrims. The other mega projects, including power, oil & gas, and roads will strengthen the economic competitiveness, empower the private sector, and sustain economic growth in the near to med-term. Meanwhile, keeping up the recent pace of contract awards is highly dependent on oil prices, which need to be maintained above the budget's break-even level of USD85 a barrel. Given lower oil prices, averaging USD55 a barrel in the H1'15, there are not enough funds to maintain the same level of recent yearly spending. To overcome the funding shortage, the government so far has relied on its huge reserves, withdrawing USD60 billion in the first half of 2015. In addition, the government resorted to capital market, issuing bonds worth SAR35 billion, and is planning to issue additional bonds for the amount of SAR80 billion before the end of the year. Looking to H2'2015 and 2016, the government led initiatives will continue in the medium term to drive growth in the Kingdom's construction sector, as it continues to focus on social and physical infrastructure projects.

Selected Awarded Contracts During Q2, 2015

Sector	Contractor	Client	Details	Value SAR (millions)
Roads	Dallah Albaraka Group	Umm Al Qura for Development & Construction	King Abdul Aziz Road Project in Mecca	23,302.5
	Nesma & Partners	Umm Al Qura for Development & Construction	King Abdul Aziz Road Project in Mecca: Infrastructure	6,697.5
	Yuksel Construction	Arriyadh Development Authority	Riyadh Rapid Bus Transit (Road works and Stations) Phase 3	2,287.5
	Saudi Constructioners	Arriyadh Development Authority	Riyadh Rapid Bus Transit (Road works and Stations) Phase 2	1,402.5
Power	JV of Air Products & Acwa Holding	Saudi Aramco	Jizan Refinery IGCC Power Plant: Air Separation Unit	7,125
	Initec SA/Saudi Services for Electro-Mechanical Works	Saudi Electricity Co	PP9 Combined Cycle Power Plant	1,200
Residential Real Estate	Al Seif Engineering Contracting	Ministry of Interior	Residential Compound: Najran	5,250
	IVRCL Infrastructure & Projects Lmt.	Ministry of Interior	Residential development (513) units in Asir province	2,197.5
	Saudi Constructioners	Saudi General Organization for Social Insurance	GOSI - Al Rimal Gated Community in Riyadh, Villas / Apartment buildings	1,462.5
Government	Beijing Emirates International Construction Co	Ministry of Interior	Security compound to educate and train members (Makkah & Madina)	3,063.8
	Beijing Emirates International Construction Co	Ministry of Interior	Security compound to educate and train members (Southern Province)	1,552.5
Oil & Gas	McDermott	Saudi Aramco	(EPC) services on its offshore facilities.	5,625
Commercial Real Estate	Fare Construction	Arabian Centers	Mixed-use project called "Dhahran Boulevard", includes: Shopping mall and Luxury hotels	2,812.5
	Fare Construction	Arabian Centers	Salbuck Mall in Riyadh	2,250
Industrial	Taiwan's CTCI and Japan's Chiyoda Corporation	Tasnee: The Local National Industrial Company	Tasnee Titanium Plant	1087.5

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.

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