

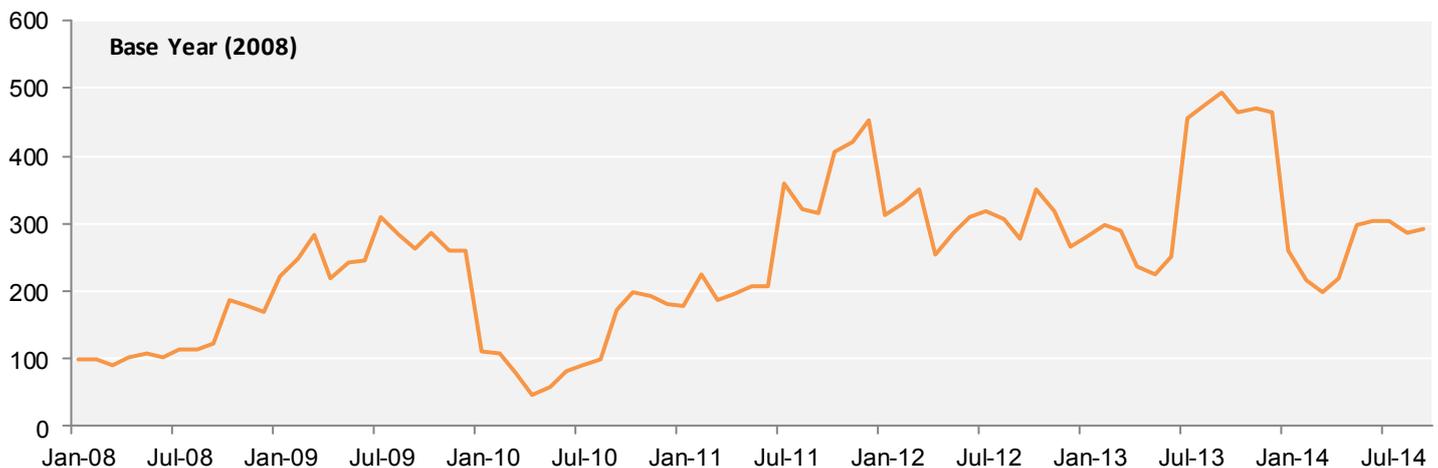
NCB Construction Contracts Index Third Quarter 2014

NCB Quarterly Review of Contract Awards in the Construction Sector

HEADLINES

1. *NCB Construction Contracts Index retreated to reach 290.70 points by the end of the third quarter of 2014, while the total value of awarded contracts reached SAR34.3 billion. The index dipped due to a relatively weak third quarter, while the total value of awarded contracts through the first three quarters of 2014 reached SAR158.9 billion.*
2. *July's contract awards were valued at approximately SAR20.9 billion, led by the transportation and power sectors.*
3. *August's value of contract awards significantly dropped to approximately SAR4.3 billion, led by the oil & gas and education sectors.*
4. *September's value of contract awards rebounded to approximately SAR9 billion, led by the water and power sectors.*

NCB Construction Contracts Index



Source: Various sources, NCB

Value of Contracts

Trailing Twelve Months (2013-2014)	Oct (2013)	Nov	Dec	Jan (2014)	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Contract Awards Value (SAR Millions)	11,259	11,834	18,640	21,557	10,804	7,354	19,577	44,102	21,254	20,880	4,333	9,036
CCI Value	465.34	470.25	465.03	260.02	216.09	198.67	218.95	297.66	304.04	302.39	286.60	290.70

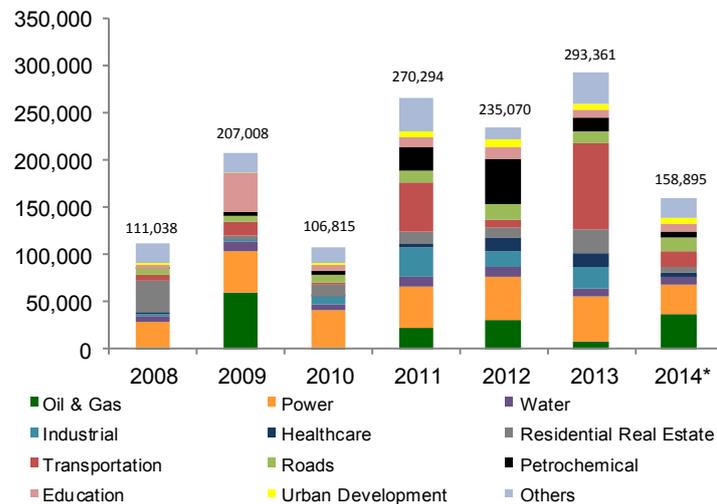
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Construction Contracts Award Index During Q3 2014*

The value of awarded contracts retreated during the third quarter of 2014 after showing signs of recovery during the previous quarter. Approximately SAR34.3 billion worth of contracts were awarded during Q3'14. The value of awarded contracts in August slumped to SAR4.3 billion, which was the lowest output since April of 2010. Anchor sectors suffered from a lack of mega-projects which was a major reason for the slowdown. Meanwhile, the transportation sector alone accounted for 36% of Q3'14 value of awards. The water sector witnessed a jump in the value of awards compared to the previous two quarters as it accounted for 13%. The power sector, which usually holds a significant share of awarded contracts, contributed an unusual 11% (Chart 1), (Chart 2).

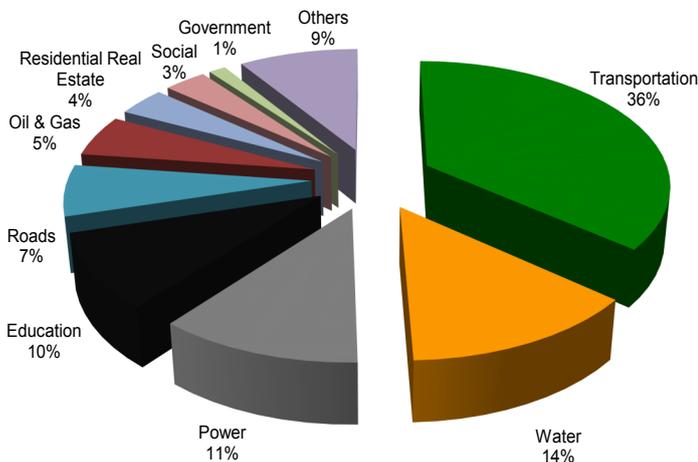
Chart 1: Value of Awarded Contracts by Year (SAR millions)



* Through Q3'14

Source: Various sources, NCB

Chart 2: Value of Awarded Contracts by Sector During Q3'14



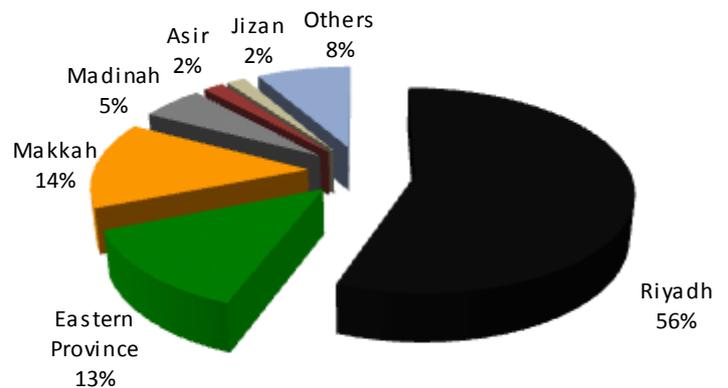
Source: Various sources, NCB

Through the first three quarters of 2014, the value of awarded contracts reached SAR158.9 billion. The decline in the value of awarded contracts during Q3'14 put a halt in the strong momentum that was witnessed during H1'14. The value of awarded contracts during Q3'14 yielded a significant shortfall compared to Q3'13, which reached SAR148.9 billion alone, a 77% decline. Furthermore, the first three quarters of 2013 yielded SAR251.6 billion, marking a 37% decrease for 2014 thus far. Undoubtedly, the value of awarded contracts in 2014 is not expected to come close to 2013's record of SAR293 billion, although it must be noted that 2013's performance was significantly enhanced by the Riyadh Metro project whereby SAR85 billion worth of contracts were awarded.

The Construction Contracts Index (CCI) has maintained a relatively healthy level on the back of strong performances during Q2'14. The CCI leveled from 302.39 points in July followed by 286.60 points in August and settling at 290.70 points in September. While the CCI is currently hovering within the 200-300 point range, a strong fourth quarter is needed to prevent a sub-200 point showing, given the weak pipeline of awarded contracts during Q3'14.

The Riyadh region garnered a significant share of the value of awarded contracts. This was mainly due to the King Khalid Airport terminal upgrade project, in addition to a number of water contracts. The Makkah and Eastern Province regions captured the other bulk of awarded contracts. The contracts were spread across numerous sectors aimed at improving infrastructure capabilities as well as a few oil & gas projects in the Eastern Province. There were numerous contracts in the education sector across the rest of the Kingdom, which were aimed at building and improving new and existing universities, (Chart 3).

Chart 3: Value of Awarded Contracts by Region During Q3'14



Source: Various sources, NCB

July

Approximately SAR20.9 billion worth of contracts were awarded in July. The transportation sector garnered a significant portion of the value of awarded contracts as it reached SAR11.3 billion. A significant contract was awarded by the General Authority of Civil Aviation (GACA) to a consortium

consisting of Shapoorji/ Hochtief/ Nahdat Al Emaar JV in the amount of SAR10.9 billion. The contracts call for the consortium to upgrade, in two parts, terminals 1 through 4 at King Khalid International airport in Riyadh. Part A involves the upgrade of terminals 3 and 4, which consists of 284,000 sqm on six levels including one basement. Part B involves the upgrade of terminals 1 and 2, which consists of 290,000 sqm on six levels including one basement. The contract is expected to be completed by the third quarter of 2017.

The power sector witnessed approximately SAR2.8 billion worth of contracts. Four contracts worth SAR1.6 billion were awarded by the Saudi Electricity Company (SEC), which included the construction of Al Jallah electric power transformer station in the Riyadh region. Additional scope of the contracts include the purchase of main transformers to raise the capacity of generators, feeding transformers to assist generating units in the 13 and 14th generating station in Riyadh, in addition to the provisioning of compensatory facilities for fixed and dynamic power activation in the transformer stations in Hail and Al Jouf.

Another contract in the power sectors was awarded by SEC to Hyundai E&C in the amount of SAR881 million. The contract calls for the construction of a 380kV substation at the Jubail Industrial complex. The project is expected to be completed by the fourth quarter of 2016.

Within the social sector a sizeable contract was awarded by Raidah Investment Company to Al Bawani for the construction of a science museum at King Abdullah Financial District in Riyadh. The contract was valued at SAR1.1 billion and calls for constructing a four story museum, a five story geoclimate center, a six story national aquarium and a two story monorail station. The project is expected to be completed by the third quarter of 2017.

August

A dramatic slowdown in the number and value of awarded contracts occurred in August. The value of awarded contracts dropped to SAR4.3 billion with the oil & gas sector contributing nearly SAR1.1 billion on two contracts. The first contract was awarded by Saudi Aramco to CAT Group in the amount of SAR923 million as part of the Kingdom's Master Gas System Expansion (MGSE) in remote areas. The scope of the project includes the installation of MGS pipelines, mainline valve stations and associated facilities in Yanbu. The project is expected to be completed by the fourth quarter of 2017. The second contract was also awarded by Saudi Aramco in the amount of SAR203 billion to Essar. Essar will be tasked with upgrading the crude stabilization unit at Abqaiq plant in the Eastern Province. The project is expected to be completed by the first quarter of 2017.

The education sector had numerous contracts that pertained to the construction of new universities and technical colleges for a total amount of SAR1 billion. All the contracts were awarded by the Ministry of Higher Education to local contractors.

Within the transportation sector, the Saudi Railways Organization (SRO), awarded a contract in the amount of SAR392 million to build 214 km as part of the first phase of doubling the freight mainline from Dammam to Riyadh. The track will pass through Abqaiqa, Hasa, Harad and Al-Kharj. The project is expected to be completed within 24 months.

September

The value of awarded contract rebounded in September to reach SAR9 billion. The water sector garnered nearly half of the value of awarded contracts with approximately SAR4.5 billion. The Saline Water Conversion Corporation (SWCC) awarded two contracts worth approximately SAR1.4 billion. The main contract, which was worth SAR1.3 billion pertained to implementing three pipelines as part of the new city feeder plan for the transmission of desalinated water in Riyadh. Two of the proposed pipelines will have a total length of 92.5 km, while the third pipeline will have a total length of 41km.

Another contract in the water sector was awarded by the National Water Company to Al Harbi Trading & Contracting in the amount of SAR881 million. The contract is part of the Wasea water project in Riyadh, which is expected to add 360,000 m3/d of water capacity to the city's grid. The scope of the work for package three includes the installation of a pumping station, transmission water lines and excavation and backfilling works. The project is expected to be completed by the second quarter of 2016.

Two contracts were awarded within the power sectors by SEC. The first contract was awarded to Middle East Engineering & Development Company in the amount of SAR574 million. The scope of the work includes the construction of a 380kV substation in Jeddah. The project is expected to be completed by the third quarter of 2016.

The second contract that was awarded by SEC went to Larsen & Toubro for the improvement of the power system's reliability in Shedgum and Uthmaniyah areas in the Eastern Province. The plan is to install 192 km of high voltage double circuit overhead transmission line. The SAR563 million project is expected to be completed by the third quarter of 2016.

A notable contract was awarded within the residential real estate sector by Gulf Related to Drake & Scull International in the amount of SAR487 million. The project entails the construction of, Antara, a residential compound for expatriates in Riyadh. Antara will comprise of a built up area of 98,115 sqm consisting of 520 homes, which include 12 apartment buildings with a total of 267 apartments, 70 duplexes, 151 villas as well as 32 short stay apartments. The project is expected to be completed with 24 months.

Outlook

The stalling of awarded contracts during the third quarter halted the momentum that was witnessed during the first half of 2014. As a result, the value of awarded contracts is expected to fall short of 2013’s record performance of SAR293 billion. Nonetheless, while the value of awarded contracts may end far below that of 2013, the fourth quarter still remains and may reenergize the contracting market heading into 2015.

Selected Awarded Contracts During the Third Quarter of 2014:

Sector	Contractor	Client	Details	Value (SAR millions)
Transportation	Shapoorji / Hochtief / Nahdat Al Emaar JV	GACA	King Khalid International Airport Expansion: Terminals Upgrade	10,875
Power		SEC	Contracts pertaining to the construction of AlJallah electric power transformer station	1,577
Water		SWCC	implementing three pipelines	1,300
		Ministry of Water & Electricity	Contract with three local companies to implement a feeder line project from water tanks to three locations in Riyadh	1,030
Social	Al Bawani	Raidah Investment Company	Science Museum, Geo-Climate Center, National Aquarium, Monorail Station	1,125

Source: Various sources, NCB

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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