

NCB Construction Contracts Index Third Quarter 2015

NCB Quarterly Review of Contract Awards in the Construction Sector

HEADLINES

1. *NCB Construction Contracts Index increased modestly to 293.98 points by the end of the third quarter of 2015, while the total value of awarded contracts amounted to SAR60.9 billion, recording a 2% increase from the second quarter of 2015.*
2. *July's value of contract awards dropped to SAR3.2 billion, led by the industrial and government sectors.*
3. *August's value of contract awards increased to approximately SAR25.1 billion, led by the oil & gas and residential real estate sectors.*
4. *September's value of contract awards jumped to approximately SAR32.6 billion, led by the oil & gas and water sectors.*

NCB Construction Contracts Index



Source: Various sources, NCB

Value of Contracts

Trailing Twelve Months (2014-2015)	Oct	Nov	Dec	Jan (2015)	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Contract Awards Value (SAR Millions)	45,447	9,357	7,080	30,364	22,058	4,906	28,020	17,823	13,729	3,169	25,123	32,624
CCI Value	353.38	268.63	234.48	257.62	300.85	290.78	248.27	268.92	285.14	218.81	226.28	293.89

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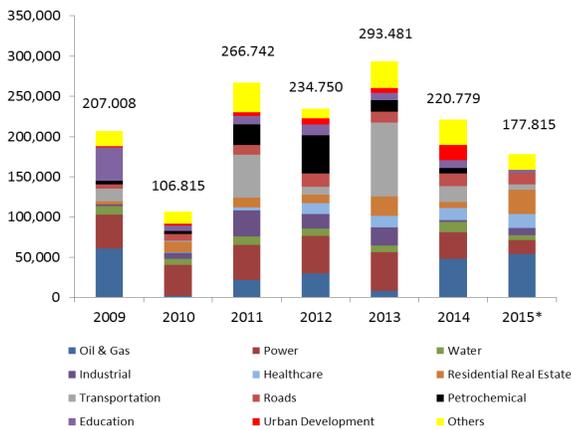
Construction Contracts Award Index During Q3 2015*

The value of awarded contracts increased modestly during the third quarter to SAR60.9 billion and maintained the same level that was recorded in the previous quarter. The value of awarded contracts in July slumped to SAR3.2 billion, which was the lowest monthly level registered up till September of 2015. Key sectors suffered from a lack of mega-projects in July, which was the major reason behind the sharp decline. However, led by the oil & gas, residential, and water sectors, the value of awarded contracts picked up in August and September, recording SAR25.1 billion and SAR32.6 billion, respectively. The oil & gas sector alone accounted for 75% of Q3'15 value of awards. The residential real estate sector garnered a distant second, with 10% of the value of awarded contracts, followed by the power sector, which contributed SAR2.7 billion during the third quarter. The water and government sectors recorded SAR1.8 billion and SAR1.5 billion worth of contracts awarded, respectively (Chart 1), (Chart 2).

Through the first three quarters of 2015, the value of awarded contracts reached SAR177.8 billion, increasing by 12% from the same period a year ago. On an annual basis, the value of awarded contracts increased by 78% in Q3'15 in comparison to SAR34.2 billion that was awarded during Q3'14. With oil prices expected to stay in the \$40 -60 a barrel range for the foreseeable future, the general project outlook is a subdued one, as the kingdom looks to manage its budget deficit by cutting costs, issuing bonds and introducing fiscal reform. However, the SAR60.9 billion in awarded contracts during Q3'15 still points to relative stability in the construction industry.

The Construction Contracts Index (CCI) has maintained a relatively healthy level on the back of strong performance during the first three quarters of 2015. The (CCI) dropped from 285.14 points recorded in June 2015 to 218.81 points in July, followed by 226.28 points in August, but rose again to 293.89 points in September. The (CCI) is currently hovering within the 200-300 points range since the beginning of the year, which is expected to assume a moderating trend throughout the coming quarters.

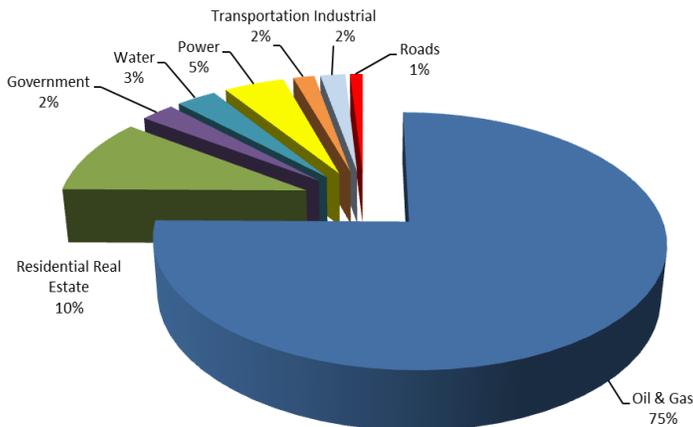
Chart 1: Value of Awarded Contracts by Year (SAR millions)



* Through Q3'15

Source: Various sources, NCB

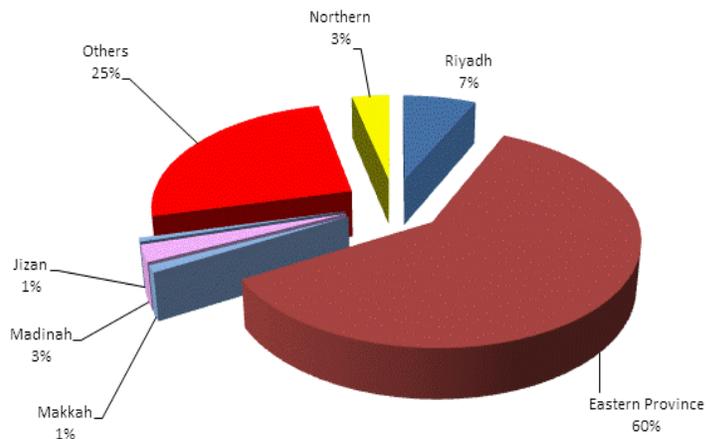
Chart 2: Value of Awarded Contracts by Sector During Q3'15



Source: Various sources, NCB

On a regional basis, the Eastern Province accounted for the largest share, which had 60% of the overall value of awarded contracts. The Eastern Province was the recipient of numerous mega-project contracts as part of Saudi Aramco's development of Al Fhadli Gas Program worth SAR24.0 billion. Riyadh region captured 7% share, and witnessed a sizable power plant being awarded by Saudi Electricity Company (SEC), amounting to SAR1.2 billion. There are other several projects in the water, industrial, and education sectors that were awarded in the remaining regions, (Chart 3).

Chart 3: Value of Awarded Contracts by Region During Q3'15



Source: Various sources, NCB

July

Approximately SAR3.2 billion worth of contracts were awarded in July. The industrial and government sectors were the largest contributors. Two major contracts were awarded in the industrial sector. The first contract amounting to SAR750 million was awarded by Durrah Advanced Development Co to Omega Group/ TSK Electronica (Spanish engineering and industrial construction company) to construct a sugar refinery in Saudi Arabia. The refinery is expected to produce 2500 tons of sugar daily. The scope of work includes a sugar refinery and associated facilities, and the project is expected to be completed by the fourth quarter of 2017. The second contract, which worth SAR150 million, was awarded by Petronash to Petronash & Saudi Local Company. Petronash is coming up with a new facility in Dammam Industrial Area2. The project includes structural fabrication, piping fabrication, skid mounted packages, assembly and testing, WHCP enclosure fabrication, WHCP assembly and testing calibration lab, warehousing facilities, inspection and testing, and coating, and is expected to be completed by the fourth quarter of 2017.

The government sector had two contracts worth SAR900 million that were awarded by the Ministry of Finance in July. The largest contract in the amount of SAR551 million was awarded to Al Muhaidib Contracting for the construction of a conference center called King Salman International Conference Centre in Medina on an area of 91,000 sqm land. The scope of work includes auditorium with 2,500 seats (3,500 sqm), multi-purpose halls for 1,560 people (2,200 sqm), exhibition hall (2,300 sqm), meeting rooms for 1,300 people (1,800 sqm), media center (450 sqm), administration offices (1,100 sqm), and car park (25,500 sqm), and is expected to be completed by 2018. The second contract worth SAR225 million and was awarded to Saudi company for Development of Construction & Trading for building a court complex in Jeddah and associated facilities, and will be completed after 36 months.

In the education sector, the Ministry of Higher Education awarded four contracts worth SAR510 million. The first project was awarded to Babel Co. for Operation & Maintenance for the construction of campus and men college complex in Yanbu at Taibah University. The project is expected to be completed by the third quarter of 2018. The other three contracts were awarded to Eastern Trading & Contracting Est. to construct college of art & human sciences in Al Darb, Al Ardha, and Al Dayer at Jizan University. They are expected to be completed by the third quarter of 2018.

A single contract was awarded in the hospitality sector in July in the amount of SAR348.8 million. Mawten Real Estate awarded the contract to Mobco Civil Construction for the

construction of Mirage Grand Hotel in Riyadh (Hilton). The scope of this project includes a hotel with 260 rooms, 15 story shops, 110 luxurious serviced apartments, and associated facilities. The project is expected to be completed by the fourth quarter of 2018.

Three contracts were awarded within the roads sector by the Ministry of Transport. The significant contract was awarded to Rosan Contracting in the amount of SAR225 million to build Riyadh Rayn Bisha Road Dualization, Phase1. The project is expected to be completed by the second quarter of 2018.

August

The value of awarded contracts jumped in August to reach SAR25.1 billion. The oil & gas sector led all other sectors in contract awards, as it accounted for SAR16.5 billion worth of awarded contracts. The Saudi Aramco awarded three contracts with the largest two contracts being awarded to Japan Gasoline Co. (JGC) Corporation. The first contract, which worth SAR15.0 billion, is intended for the production of shale gas in three different locations; in the south of the empty quarter, south Ghawar in the Eastern Province, and Turaif in the northern part of Saudi Arabia. The scope of the project includes exploration phase, geological and geophysical assessments, seismic surveys, drilling of exploratory wells, drilling of assessment wells, and associated facilities. The project is expected to be completed by the fourth quarter of 2020.

The second contract worth SAR750 million. The scope of the project includes processing facilities, wellheads 10 nos, flow lines 6, 2km, 10 nos., pipeline connecting the center to Waad al-Shamal, scraping facilities, metering station, gas gathering facility, inlet manifold, compressors, dehydration unit, high and low pressure inlet separators, and will be completed by the fourth quarter of 2016. The last contract was awarded to A.Hak International in the amount of SAR750 million. The objective of this Khurais Increment Program is to increase production capacity at the Khurais central processing facilities (CPF) by 300,000 barrels of oil per calendar day (BPCD) above its current capacity of 1,200,000 BPCD, as well as to enhance production from the Mazalij and Abu Jifan fields by installation of a satellite Gas Oil Separation Plant (GOSP). This profile is of seawater pipeline package. The scope of work involves seawater pipeline 78km 42" inch and 145km 48" inch carbon steel pressure line, coated with FBE both internal and external, and associated facilities, it expected to be complete by fourth quarter of 2018.

Within the residential real estate sector, three contracts were awarded. The two contracts in the amount of SAR3.7 billion and SAR1.9 billion respectively, were awarded by Saudi Ar-

amco to Azmeel Contracting for constructing of 2,400 villas in Dhahran. The first project aims to provide housing for staffs and employees of Saudi Aramco. The scope of work includes villas, schools, roads and streets, and infrastructure work, and it will be completed by the first quarter of 2020. The second contract includes 955 villas, and undisclosed number of mosques, schools and public amenities (package1), and it is expected to be completed by the third quarter of 2018.

A single contract was awarded in the power sector in the amount of SAR1.2 billion. Saudi Electricity Company (SEC) awarded the contract to GAMA to come up with several new projects and reinforcement schemes of old supply facilities. The current profile involves installation and erection of equipment at the PP13 combined cycle power plant at Riyadh. The scope of works include installation and erection of machinery and equipment, electro - mechanical work, substation, waste water plant installation, desalination plant installation, BOP piping work, and associated works. The project is expected to be completed by the fourth quarter of 2018.

Within the government sector, two major contracts were awarded. The largest contract in the amount of SAR502 million was awarded by the Ministry of Finance to Fayafer Trading & Contracting to construct a new check point at Al Adid, Saudi- Qatar border. The scope of work includes customs building, passports, residential building, mosque, and related road works. The project is expected to be completed by the third quarter of 2018. The second contract was awarded by Saudi Food & Drug Authority to Bejah Saudi Co in the amount of SAR150 million for building regional head-quarter 5 storey, car park, landscaping, and associated facilities. The project is expected to be completed by the third quarter of 2017.

Within the transportation sector, the largest contract was awarded in the amount of SAR375 million by the Ministry of Defense & Aviation (GACA) to Al Joudah Construction to upgrade and renovate the airside of King Fahd International Airport in Dammam. The upgrading of airside of the airport will include runways, taxiways, control tower, maintenance buildings, and landscaping. The project is expected to be completed by the third quarter of 2019.

September

For the third consecutive month, the oil & gas sector led all other sectors in contract awards for the month of September. The oil & gas sector accounted for SAR28.3 billion of the overall SAR32.6 billion in value of awarded contracts. Saudi Aramco awarded four contracts, the first and second contracts were awarded to Dutco McConnell Dowell/ Con-

solidated Contractors Company Joint Venture (CCC JV) in the amount of SAR24.4 billion and SAR1.6 billion, respectively, for development of the Fadhili Gas Program in the Eastern Province of the Kingdom of Saudi Arabia. The scope of work will typically include raw gas inlet and processing facilities, natural gas liquids (NGL) fractionation unit, gas oil separation unit, sour water stripper unit, mono ethylene glycol regeneration unit, amine treating unit, tri ethylene glycol dehydration unit, sulphur recovery unit, dedicated cogeneration power plant, Fadhili downstream pipelines, a residential camp, industrial support facilities, and associated facilities. While the scope of work for the second contract includes transmission pipeline, Pipeline 1(148 km,1200 Dia), Pipeline 2(2.6 km,1200 Dia), Pipeline 3(60 km,1400 Dia), Pipeline 4(1.8 km,600 Dia). They are expected to be completed by the second quarter of 2019. The third and fourth contracts were awarded to Al Robaya Holding Company in the amount of SAR1.9 billion and SAR375 million, respectively, for constructing AB pipeline project and to construct AB pipeline project (package1). They are expected to be completed by 2015 and 2018, respectively.

Within the water sector, National Water Company awarded three contracts worth SAR1.8 billion. The first contract was awarded to Al Rashid Trading & Contracting, while the second and third contracts were awarded to Dongah Construction/Nahtat Al Emaar Construction JV. The scope of work for the first contract includes water treatment plant (360000 cubic meter per day), raw water reservoirs, and associated facilities. The contract is expected to be completed by the second quarter of 2017. In the second and third contracts, NWC is planning to construct water transmission lines for Wadi Al Shamal city as well as for the project of King Abdullah to increase the capacity of treated water, and the project is expected to be completed by the fourth quarter of 2017.

In the power sector, two major contracts were awarded by Saudi Electricity Co. The largest contract in the amount of SAR1.09 billion was awarded to SEPCO III Electric Power Construction Corporation for installation and erection of equipment at the PP14 combined cycle power plant in Riyadh. The project will include installation and erection of machinery and equipment, electro, mechanical work, substation, waste water plant installation, desalination plant installation, BOP Piping work, and associated works, and is expected to be completed by the second quarter of 2017. The second contract worth SAR225 million, and was awarded to Alfanar Group for installation of a substation at Al-Nariyah. The scope of project includes substation 380/115/33 KV, and associated facilities, and it is expected to be completed by the fourth quarter of 2017.

In the transportation sector, a single contract was awarded

by Arriyadh Development Authority to Larsen & Toubro Construction in the amount of SAR603 million for constructing Light Rail Transit (LRT) in Riyadh. The project will have an execution period of five years and an optional maintenance service period for the next ten years. The new metro system will fulfill the traffic load of growing population. It will also reduce traffic congestion and improve air quality. The program has been divided into three packages. The first is for lines 1 and 2, the second for Line 3 and the third for lines 4, 5 and 6. The current profile is about the civil works for line 1, and 2. The scope of work includes double ballast less tracks in tunnels 62.86km via ducts, at-grade sections, depots 3 nos., and will completed by the first quarter of 2019.

Outlook

The value of awarded contracts in the Kingdom have marginally retreated, reaching SAR177 billion in the first three quarters of 2015. The most noticeable contract in the Q3'15 is the SAR24 billion oil & gas' project in the Eastern province, for the purpose of keeping up gas supply to rising demand by power generation, desalination, and other industrial uses. Attributed to lower oil revenues witnessed in 2015, the government was forced to scale back its expenditure, and particularly, capital spending. Given expected lower oil prices in 2016, funding will very likely be short to maintain the same level of recent yearly spending. However, Saudi Arabia's projects market is unlikely to significantly slow down despite the recent tightening of capital expenditure. To overcome the funding shortage, the government so far has relied on its huge reserves, withdrawing USD84 billion up till October 2015. In addition, the government resorted to the capital market, issuing bonds worth SAR95 billion, and is planning to issue additional bonds for the amount of SAR20 billion before the end of the year. Looking to the Q4 2015 and 2016, the government-led initiatives will continue to drive growth, yet moderately, in the construction sector, as it continues to focus on social and physical infrastructure projects.

Selected Awarded Contracts During Q3, 2015

Sector	Contractor	Client	Details	Value SAR (millions)
Oil & Gas	Dutco McConnell Dowell / CCC JV	Saudi Aramco	Fadhili Gas Plant	24,375
	JGC Corporation	Saudi Aramco	Shale Gas Development	15,000
	Al Robaya Holding Company	Saudi Aramco	Bapco/ Saudi Aramco—AB Pipeline Project	1,875
	Dutco McConnell Dowell / CCC JV	Saudi Aramco	Fadhili Gas Plant, Package 4	1,687.5
Residential Real Estate	Azmeel Contracting	Saudi Aramco	Ajyal Residential Development: 2400 Villas	3,712.5
	Azmeel Contracting	Saudi Aramco	Ajyal Residential Development: 955 Villas—Package 1	1,912.5
Power	SEPCO III Electric Power Construction Corporation	Saudi Electricity Company	PP14 Combined Cycle Power Plant Electro-Mechanical Package	1,098.8
Water	Dongah Construction/Nahdat Al Emaar Construction JV	National Water Company	Water Transmission Line For Wadi Al Shamal Project. Lot2	862.5
	Dongah Construction/Nahdat Al Emaar Construction JV	National Water Company	Water Transmission Line For Wadi Al Shamal Project. Lot1	525
Government	Al Muhadib Contracting	Ministry of Finance	King Salman International Conference Center in Madina	551.3
	Fayafer Trading & Contracting	Ministry of Finance	Construction new check point at Al Adid on Saudi-Qatar Border	502.5
Transportation	Larsen & Toubro Construction Larsen	Arriyadh Development Authority	Riyadh Light Rail Transit Line 1&2, Civil Work	603.8
Industrial	Omega Group/ TSK Electronica y Electricidad JV	Durrah Advanced Development Co	Sugar Refinery	750

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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