

NCB Construction Contracts Index Second Quarter 2013

NCB Quarterly Review of Contract Awards in the Construction Sector

HEADLINES

1. *NCB Construction Contracts Index reached 250.53 points by the end of the second quarter of 2013, while the total value of awarded contracts reached SAR53.6 billion. The value of awarded contracts through the first half of 2013 reached SAR102.7 billion.*
2. *April's contract awards were valued at approximately SAR23 billion, led by the government and oil & gas sectors.*
3. *May's value of contract awards slipped to approximately SAR9.8 billion, led by the residential real estate and transportation sectors.*
4. *June's value of contract awards rose to approximately SAR20.8 billion, led by the mixed-use real estate and roads sectors.*

NCB Construction Contracts Index



Source: Various sources, NCB

Value of Contracts

Trailing Twelve Months (2012-2013)	Jul (2012)	Aug	Sep	Oct	Nov	Dec	Jan (2013)	Feb	Mar	Apr	May	Jun
Contract Awards Value (SAR Millions)	15,190	12,809	11,200	44,499	14,051	10,591	21,639	20,256	7,171	23,045	9,821	20,778
CCI Value	317.16	306.52	277.29	350.71	317.25	264.26	279.99	298.16	288.33	236.00	225.68	250.53

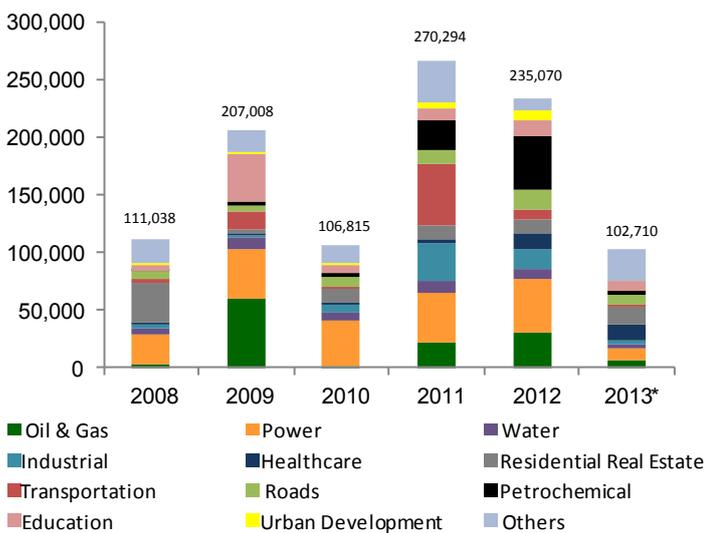
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Construction Contracts Award Index During Q2 2013*

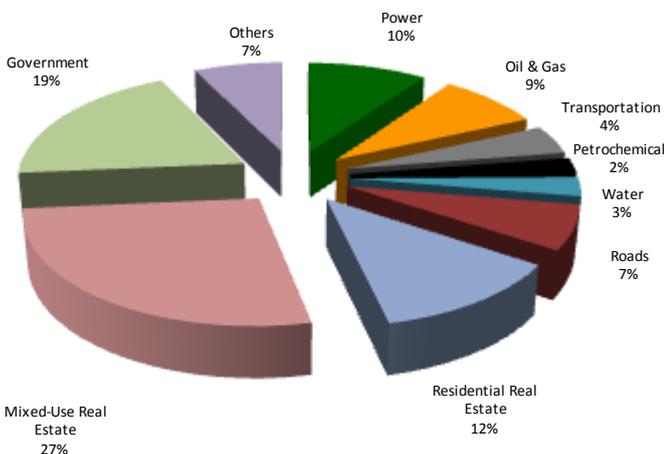
The value of awarded contracts maintained a steady pace of increased spending across the construction sector as approximately SAR53.6 billion worth of contracts were awarded during the second quarter of 2013. A majority of the contracts were dominated by the real estate sector (residential and mixed-use) as it accounted for 39% of the total value of awarded contracts during Q2'13. Furthermore the real estate sector accounted for 30% of the value of awarded contracts during the first half of 2013. The government sector played a significant role as it accounted for 19% of the value of awarded contracts during Q2'13. Contracts in the power, oil & gas and transportation sectors sustained the growth of the projects market by accounting for 23% of the total awarded contracts during Q2'13, (Chart1, 2).

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



* Through H1'13
Source: Various sources, NCB

Chart 2: Value of Awarded Contracts by Sector During Q2'13



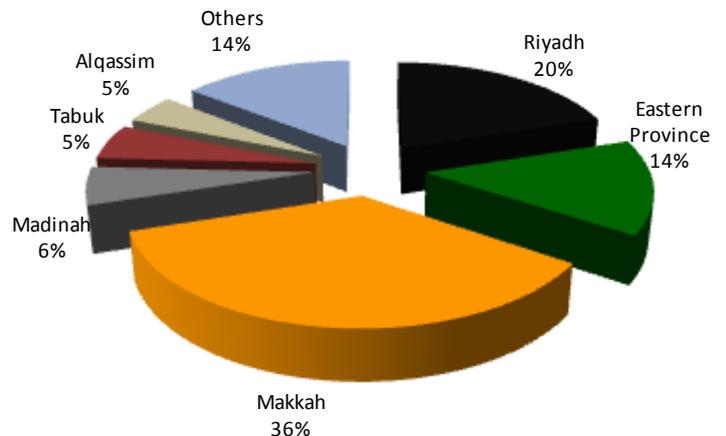
Source: Various sources, NCB

The extended growth in the value of awarded contracts during Q2'13 resulted in approximately SAR102.7 billion worth of contracts during H1'13. The strength of the Saudi construction market is manifested by the exerted pressure borne by government and private sectors to diversify expenditures across all sectors. There was a 19% slip in H1'13 compared to H1'12, which registered an impressive SAR126.7 billion worth of awarded contracts. Nonetheless, the second half of 2013 is likely to be infused with a high number of mega projects across numerous sectors, which in turn will lessen the difference in the value of awarded contracts with 2012.

The Construction Contracts Index (CCI) ended the quarter at 250.53 points. The CCI registered a dip in April to achieve 236 points, while the slide continued in May where the CCI reached 225.68 points. The CCI registered a 19% drop compared to Q2'12, which reached 309.12 points. Nonetheless, the CCI has remained at healthy levels over the 200 point level for 26 consecutive months.

The geographical breakdown of awarded contracts by value reveals that the Makkah region captured the lion share of contracts. The real estate sector was the main contributor to the Makkah region's 36% share as one of the contracts was a SAR13 billion mixed-use real estate mega-project. The Riyadh region captured a 20% share of awarded contracts by value, which was spurred by investments across most of the sectors. The Eastern Province lacked the usual mega-projects that are commonly witnessed in the oil & gas, petrochemical and industrial sectors causing it to comprise a 14% share of the value of awarded contracts. A number of significant contracts that were awarded by the Ministry of Interior led to healthy investments into the rest of the areas across the Kingdom, (Chart 3).

Chart 3: Value of Awarded Contracts by Region During Q2'13



Source: Various sources, NCB

April

April's value of awarded contracts reached a healthy SAR23 billion. Approximately three contracts worth SAR10.3 billion were awarded within the government sector as the Ministry of Interior continued with its plans to increase the number of

security compounds in the Kingdom. The first contract was awarded to the Saudi Binladin Group for the development of the King Abdullah Project- KAP 3 (third phase). The SAR3.8 billion contract calls for Saudi Binladin to construct 620 security compounds across various regions in addition to building 15 call centers and associated facilities. The project is expected to be completed by the second quarter of 2016. KAP 4, which was the second contract that was awarded by the Ministry of Interior went to Al Rashid Trading Contracting Company. This phase of the project was worth SAR3.8 billion and involved the construction of 13 sport recreational facilities along with planned dormitories across various areas. The project is expected to be completed by the third quarter of 2016. As for the third contract, which was package 2 of the fourth phase, the Ministry of Interior awarded it to Al Arrab Contracting Company in the amount of SAR2.8 billion. Al Arrab will be tasked with constructing 8 sport recreational facilities and dormitories. The project is expected to be completed by the second quarter of 2016.

The oil & gas sector had two contracts that were awarded during April, reaching SAR3.4 billion. The first of the two contracts was awarded by Saudi Aramco to Samsung Engineering to boost the capacity of the Riyadh refinery. The SAR2.6 billion project will call for Samsung Engineering to build four new processing plants for the isomerization, naphtha splitting sulfur guard-bed and the diesel hydrotreater reactor. Additional work includes two debottlenecking operations on the hydrocracker and the gas concentration unit, and the replacement of crude and vacuum distillation tower internals. The project is expected to be completed by the third quarter of 2016. The second contract was awarded by Saudi Aramco Lubricating Oil Refining Company (Lubref) to Samsung Engineering for expanding the propane de-asphalting unit (6,000 barrels per day) at the Yanbu Refinery. The SAR750 million contract is expected to be completed by the second quarter of 2015.

Within the residential real estate sector, a majority of the approximately SAR2.8 billion worth of contracts were awarded by the Ministry of Housing. The Ministry of Housing awarded five contracts as part of the infrastructure development to accommodate a portion of the targeted 500,000 homes that were mandated by King Abdullah bin Abdulaziz. Mohammed Ali Al Swailem Group was the recipient of the first two packages of the first phase as it was awarded approximately SAR814 million for the two contracts. Package one calls for the development of infrastructure works for more than 3.7 million square meters across various areas within the Kingdom. Package two calls for the development of 380,000 square meters of infrastructure work.

The third package that was awarded by the Ministry of Housing went to Saudi Turais Company in the amount of SAR308 million. The infrastructure development will encompass approximately 1.4 million square meters across the Kingdom. The fourth package was awarded to Abdulaali Al Ajmi Company in the amount of SAR926 million. Package four entails the infrastructure development of approximately 3.7 million square meters. All four packages are expected to be com-

pleted by the second quarter of 2015.

The Ministry of Housing also awarded a contract to Abdullah A. M. Alkhodari in the amount of SAR780 million for the completion of infrastructure works at various sites. Work on the project is expected to be completed by the third quarter of 2014. Within the mixed-use real estate sector, a contract was awarded by the Zaki MA Farsi Group to Specialized Contracting Company for the construction of the Farsi Seven Towers. The development, which will be located in Jeddah, will consist of two buildings with 130 apartments, four penthouses, 16 retail outlets and a gym. The value of the contract is SAR503 million and is expected to be completed by the second quarter of 2016.

Approximately SAR2.4 billion worth of contracts were awarded within the power sector as the Saudi Electricity Company (SEC) and the Royal Commission for Jubail & Yanbu (RCJY) initiated several projects. SEC awarded nearly SAR1.7 billion worth of contracts. The most notable contract was awarded to Middle East Engineering & Development to construct a 380 kilovolt (kV) and 132kV overhead line. RCJY's most notable contracts that were worth SAR967 million, were for the construction of two power plants in Ras Al Khair. Two companies, Saudi Services for Electro-Mechanical Works and Al-Babtain Contracting, will each build 1,500 megawatt electricity power plants in addition to the construction of buildings and amenities for the plants. The two projects are expected to be completed by the third quarter of 2016.

May

May's value of awarded contracts dipped as approximately SAR9.8 billion worth of contracts were awarded. The residential real estate sector garnered the highest value of awarded contracts, capturing SAR3.7 billion. The most significant contract was awarded by Lamar Investment and Real Estate Development to Drake & Scull Construction in the amount of SAR1.7 billion. The scope of work includes the completion of the Lamar Towers on Jeddah's Corniche. The development will contain two towers of 57 and 49 stories, and will have a built-up area of 409,770 square meters. The project is expected to be completed by the fourth quarter of 2015.

A second contract within the residential real estate sector was awarded by the Ministry of Housing to Al Rashid Trading Contracting Company in the amount of SAR1.1 billion. The project will focus on infrastructure development as part of the first phase of the Ministry of Housing's scheme. The project is located near King Khalid Airport in Riyadh and is expected to encompass the development of five million square meters. The project is expected to be completed by the first quarter of 2015.

A single contract worth SAR1.5 billion was awarded within the transportation sector. The General Authority for Civil Aviation (GACA) awarded the contract to the joint venture between Al Arrab and TAV for the King Khalid International Airport expansion (terminal 5). The aim is to significantly

increase the annual number of passengers from 14 million to 24 million. The project is expected to be completed by the third quarter of 2016.

Within the mixed-use real estate sector, a contract was awarded by Rikaz Properties to Saad Saeed Alsaedi & Sons for the infrastructure development of Al Qandeel district in Makkah. The development area encompassed 2 million square meters. The SAR1 billion project is expected to be completed by the second quarter of 2016.

June

The value of awarded contracts rebounded in June to reach SAR20.8 billion. The mixed-use real estate sector accounted for nearly 63% of the total value of awarded contracts with a single mega-project award in Makkah. The Ministry of Finance awarded the SAR13 billion contract to the Saudi Binladin Group as part of the government's efforts to attract and enhance its religious tourism. The project, known as Abraj Kudai, involves the construction of 12 towers ranging in height from 30 to 45 stories. The towers will have 10,150 residential units and hotel rooms. Additionally, it will boast a bus station, shopping mall, restaurants, food courts, a conference center and parking garages. The total built-up area of the development will be 1.5 million square meters. The site is located in the Manafia area, which is approximately 1.7 kilometers away from the Grand Mosque. The project is expected to be completed by the fourth quarter of 2018.

Approximately SAR2 billion worth of contracts were awarded in the roads sector. A majority of the contracts that were awarded by the Ministry of Transport to local Saudi contractors pertained to the ongoing expansion of road networks, completion of road linkages and site improvement to alleviate traffic congestion across various areas in the Kingdom.

The power sector witnessed approximately SAR1.9 billion worth of contracts that were awarded by SEC. The most notable contract was an SAR896 million project to establish underground cable to link electricity plants in Al-Safa, Khashm Al-An and Sultana districts in Riyadh with a voltage of 380 kV. Another contract was awarded in the amount of SAR505 million and involved setting up Al-Mashaer plant with a voltage of 380/110/13.8 kV. The project is expected to contribute to meeting future needs in the Western region due to the expansion of construction activities.

Within the petrochemicals sector, two contracts were awarded with a total value of SAR1.2 billion. The first contract was awarded by the JV between Solvay and Sadara Chemical Company to Consolidated Contractors Company in the amount of SAR675 million. The scope of work includes the construction of a hydrogen peroxide plant along with associated facilities in Al-Jubail. The project is expected to be completed by the fourth quarter of 2016. The second contract was awarded by Saudi International Petrochemical Company (Sipchem) to ThyssenKrupp in the amount of SAR563 million. The scope of work includes the construction of a polybutylene terephthalate (PBT) unit at the Jubail Petrochemicals complex. The project is expected to be completed by the fourth quarter of 2014.

Outlook

The Saudi economy continues to benefit from the ongoing diversification of development strategies set forth by the government and implemented in partnership with the private sector. The magnitude of construction activities in the real estate sector in particular, reflects the need for continual large-scale projects to accommodate growing demand. Furthermore, sectors such as petrochemical and industrial have yet to take off in 2013 but are expected to account for a respectable share of the value of awarded contracts for the remainder of 2013.

Selected Awarded Contracts During the Second Quarter of 2013:

Sector	Contractor	Client	Details	Value SAR millions
Residential Real Estate	Al Rashid Trading Contacting Company	Ministry of Housing	Infrastructure works for a housing project near Riyadh	1,061
	Drake & Scull	Lamar Investment and Real Estate Development Company	Build a residential project in Jeddah: The Lamar Towers	1,730
Mixed-Use Real Estate	Saad Saeed Alsaedi & Sons	Rikaz Properties	Infrastructure in Al Qanadeel district in Makkah	1,002
	Saudi Binladen Group	Ministry of Finance	Abraj Kudai mixed-use real estate in Makkah	13,000
Oil & Gas	Samsung Engineering	Saudi Aramco	To boost the capacity of Riyadh refinery	2,625
	Larsen & Toubro	Saudi Aramco	Build Midyan gas processing plant	1,125
Government	Al Rashid Trading Contacting Company	Ministry of Interior	Security Compound: KAP 4	3,750
	Saudi Binladen Group	Ministry of Interior	Security Compound: KAP 3	3,750
	Al Arrab Contracting	Ministry of Interior	Security Compound: KAP 4 Package 2	2,800
Transportation	Al Arrab/TAV JV	(GACA)	King Khalid International Airport Expansion: Terminal 5	1,500

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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