

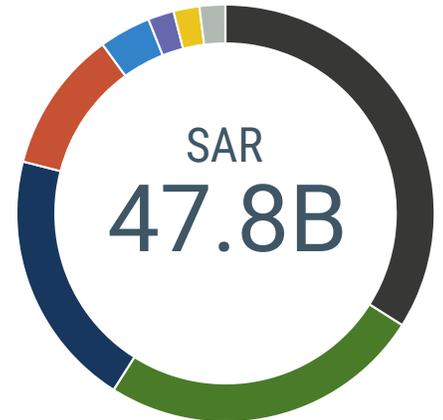
# USSABC Contract Awards Index: Third Quarter of 2019 Review of Construction Contract Awards in Saudi Arabia



مجلس الأعمال السعودي الأمريكي  
U.S.-Saudi Arabian Business Council

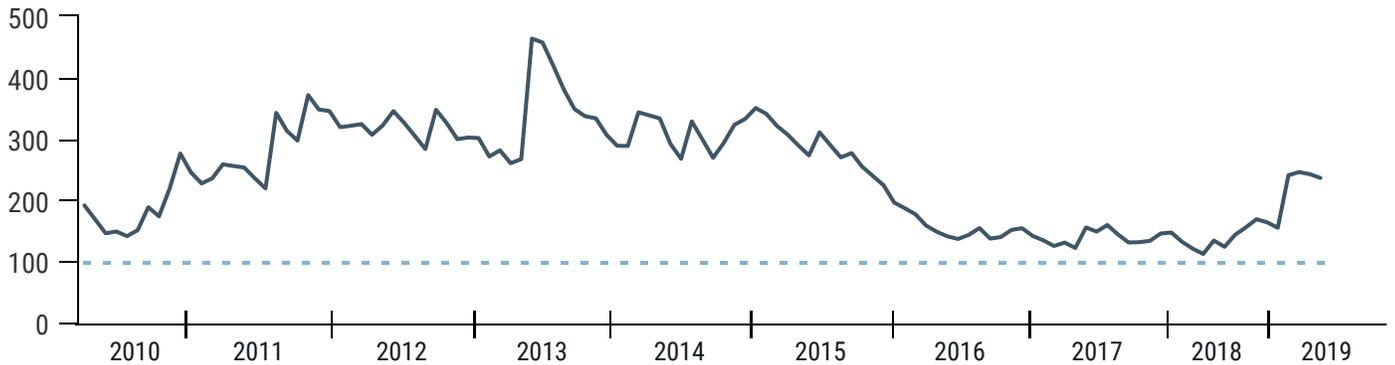
The USSABC Contract Awards Index (CAI) is an original report created by the U.S.-Saudi Arabian Business Council's economist. This report provides a sense of direction on construction activities that will transfer to the execution phase over the next 6 to 18 months. It encompasses construction related contract awards across all sectors within Saudi Arabia. The USSABC CAI is intended to be used as a forward looking indicator to gauge the health of construction activities. The CAI is calculated using a 12-month exponential moving average. This calculation allows for data smoothing while reducing the effects of outliers within the observation period. In general, a CAI reading of 100 points and above indicates an expansion while a sub-100 point reading indicates a possible contraction. Highlights from our initial Q3 2019 report are shown below. Updates are published on a quarterly basis.

## Contracts Awarded by Sector



A majority of the awarded contracts were in oil & gas, real estate, and industrial which accounted for approximately 80% of the total value of contracts awarded. Urban development, water, transportation, and power accounted for 15% of the total value while 5% were awarded to other sectors.

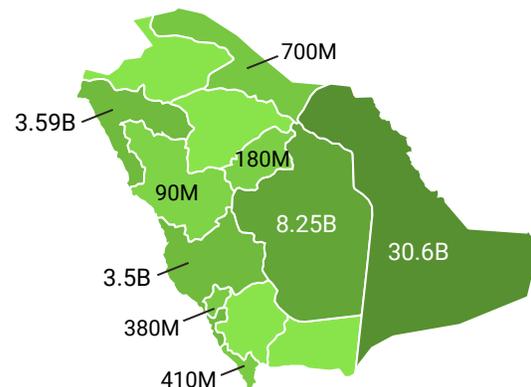
## Contract Awards Index Over Time



The USSABC Contract Awards Index (CAI) reached 260 points at the end of the third quarter of 2019, increasing its streak to four consecutive months above the 200 point threshold.

## Contract Awards By Province

The majority of contracts were awarded in the Eastern Province (64%), Riyadh (17%), and Makkah (7%). The Eastern Province was again dominated by Saudi Aramco contracts in the oil & gas, industrial, and water sectors. Riyadh outpaced Makkah for the first time this year with leading contracts in urban development, power, and real estate. Makkah saw the largest contracts in real estate, power, and transportation.



\*All monetary values are in Saudi Arabian Riyals. \$1 = SAR 3.75



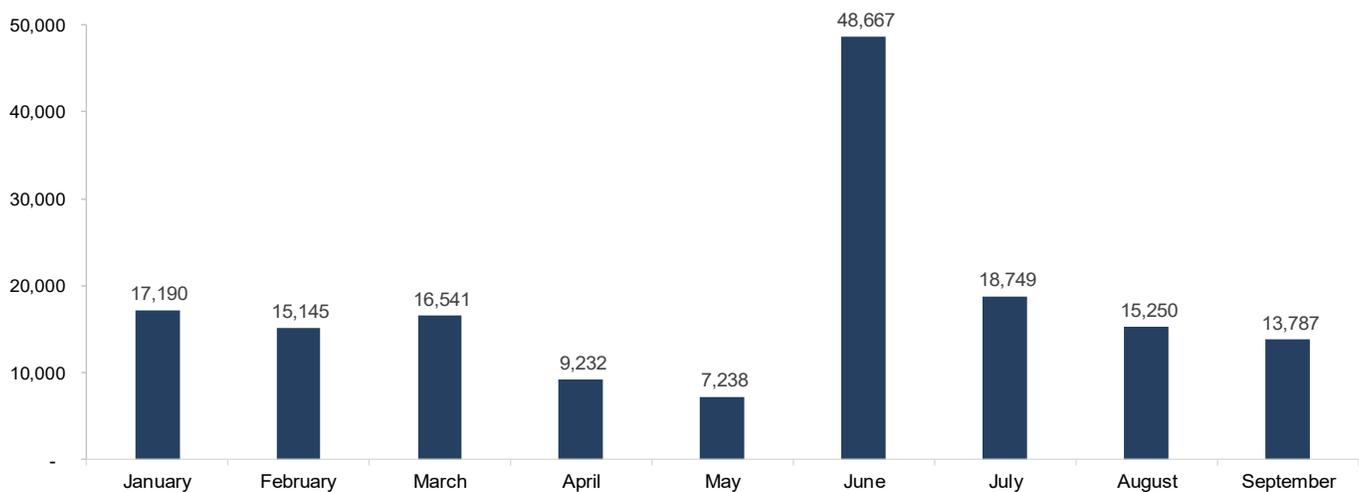
# USSABC Contract Awards Index Third Quarter 2019

## USSABC Quarterly Review of Contract Awards in Saudi Arabia

### Highlights

1. The total value of awarded contracts during the third quarter retreated compared to the previous quarter but remained at elevated levels as the value reached SAR47.8 billion (\$12.7 billion). The total value of awarded contracts through the first three quarters of 2019 reached SAR161.8 billion (\$43.1 billion).
2. The USSABC Contract Awards Index reached 236 points, increasing its streak to four consecutive months above the 200 point threshold.
3. The oil & gas sector continues to lead all sectors, as it registered SAR16.4 billion (\$4.4 billion) worth of contract awards.
4. The real estate sector was second with SAR12.1 billion (\$3.2 billion) worth of contract awards.
5. The industrial sector occupied the third spot with SAR9.6 billion (\$2.6 billion) worth of contract awards.

### Value of Awarded Contracts in 2019 (SAR Millions)



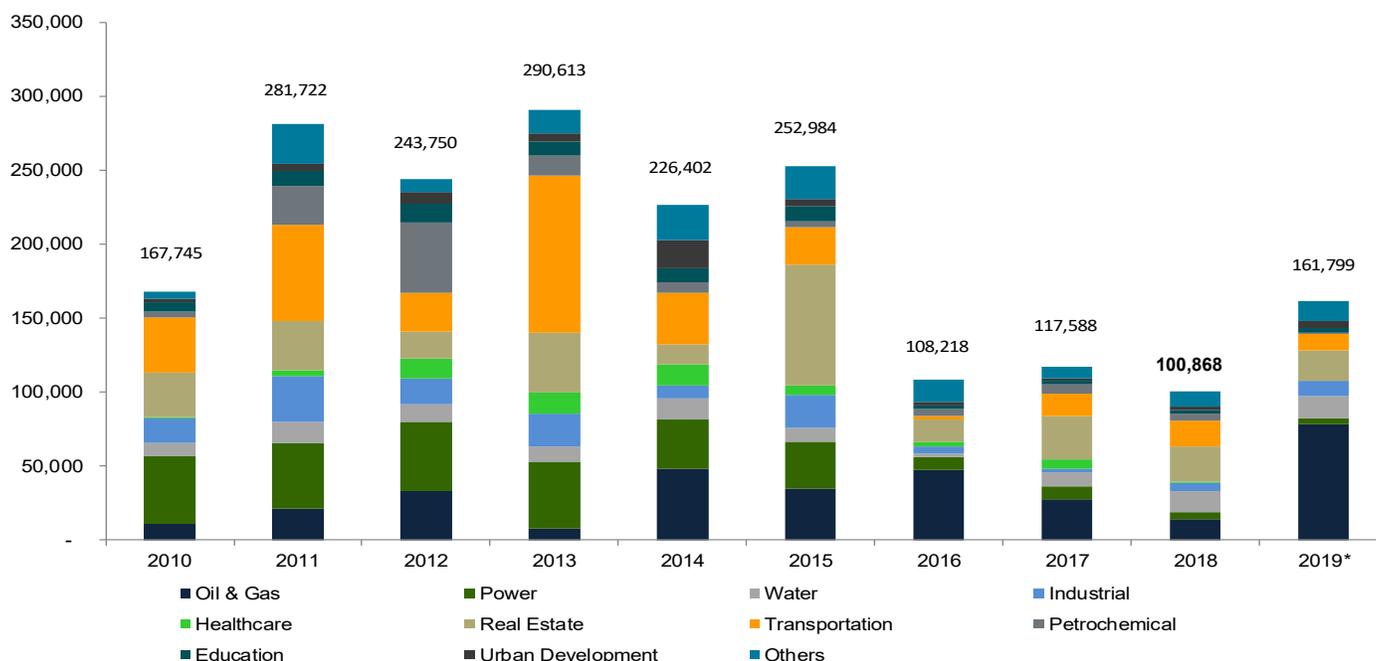
Source: Various Sources, USSABC

## Overview of Awarded Contracts During Q3 2019

The value of awarded contracts reached SAR47.8 billion (\$12.7 billion) during Q3'19 as the level of construction activities continue at an accelerated rate thus far in 2019. While the value of awarded contracts retracted during Q3'19 compared to the previous quarter by SAR17.4 billion (\$4.6 billion) or 27 percent, the rate at which contracts have been awarded still resemble that of the construction boom prior to the downturn of the economy. Further bolstering this notion is the y-o-y growth of contract awards during Q3'19 which jumped by 164 percent compared to Q3'18. Moreover, the first three quarters of 2019 witnessed a dramatic increase of SAR87.2 billion (\$23.3 billion) or 117 percent compared to the same period in 2018. As noted in our previous Q2'19 report, the value of awarded contracts thus far in 2019 has surpassed all that of 2018, further increasing during Q3'19 by a total of SAR60.9 billion (\$16.2 billion) or 60 percent.

The SAR47.8 billion (\$12.7 billion) in awarded contracts during Q3'19 continued the trend seen thus far in 2019 as the oil & gas sector led all other sectors followed by the real estate sector. This quarter witnessed the industrial sector amass the third highest value of awarded contracts after a relatively slow place during the two previous quarters. These three sectors accounted for 80 percent of all contract awards during the quarter. Other notable contributing sectors include urban development, water, and transportation. As can be seen in the below chart, the value of awarded contracts is on pace to pass the SAR200 billion (\$53.3 billion) mark for the first time since 2015.

**Value of Awarded Contracts by Year (SAR Millions)**



\* Through Q3'19  
Source: Various Sources, USSABC

## USSABC's Contract Awards Index Performance Through Q3 2019\*

The USSABC Contract Awards Index (CAI) reached 236 points at the end of the third quarter. The CAI remained above the 200 point mark for the fourth consecutive month as the ramp up in awarded contracts during Q1'19 and continued momentum during Q2 and Q3 elevated the CAI into a very healthy environment. The CAI marginally dipped compared to the previous quarter's 240.44 points. However, the CAI grew by an impressive 111 percent y-o-y compared to Q3'18. The CAI gradually decreased during Q3'19 as it reached 245.67 points in July, 242.21 points in August, and 236 points in September. The inconsequential drop in the CAI during Q3'19 is attributed to the surge in the value of awarded contracts during June, which reached SAR48.7 billion (\$13 billion) alone and caused the CAI to soar. This led to the CAI normalizing throughout the third quarter.

The CAI's run of four consecutive months above 200 points bodes well for the remainder of 2019 as the streak is likely to continue into 2020 given the current pace of awarded contracts. The CAI's rebound in 2019 is a welcome occurrence for existing contractors and potential international contractors looking to enter the market as the implementation of these contracts will commence over the next 6 to 18 months.

### USSABC Contract Awards Index Performance



Source: Various Sources, USSABC

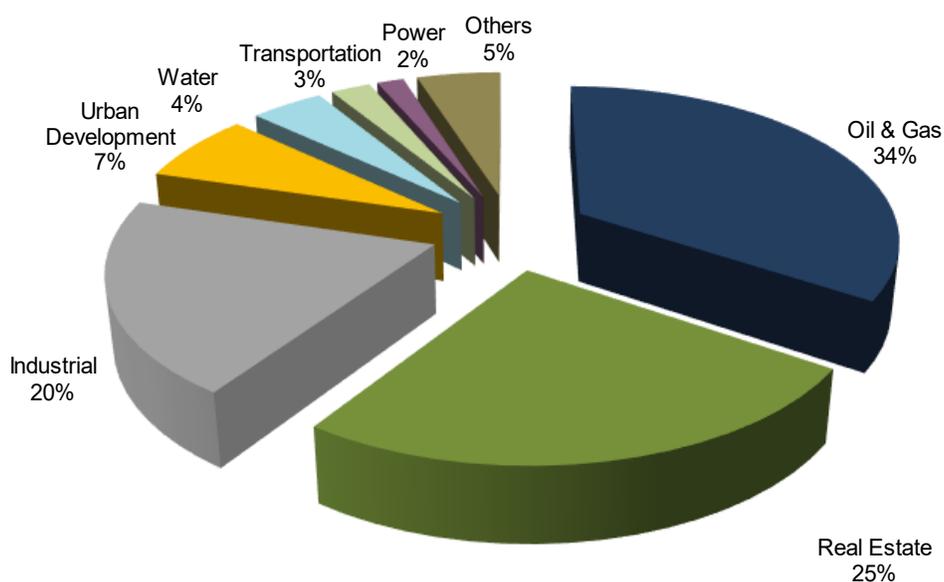
\* The USSABC CAI is calculated using a 12 month exponential moving average. This calculation smoothens the data while reducing the effects of outliers within the observation period. The index aims to give our readers a sense of direction on construction activities that will transfer to the execution phase over the next 6 to 18 months. Thus, the CAI should be used as a forward looking tool to gauge the health of construction activities across all sectors. In general, a CAI reading of 100 points and above indicates an expansion while a sub-100 point reading indicates a possible contraction.

## Overview of Awarded Contracts By Sector During Q3 2019

The value of awarded contracts throughout 2019 continues to be dominated by the oil & gas sector. The oil & gas sector accounted for SAR16.4 billion (\$4.4 billion) or 34 percent of the total value of awarded contracts. On a YTD basis, the oil & gas sector has witnessed SAR76.6 billion (\$20.4 billion) or 47 percent of all awarded contracts by value. This marks the highest value of awarded contract for the oil & gas sector in a single year since the CAI's inception. The previous high occurred in 2009 at a value of SAR60.5 billion (\$16.1 billion), although it accounted for only 28 percent of awarded contracts by value that year. There was an expected drop-off in contract awards in oil & gas during Q3'19 after it achieved a record high of SAR48.5 billion (\$12.9 billion) last quarter. Nonetheless, Saudi Aramco continues to award projects involving the Marjan and Zuluf fields to local and international contractors as it has done throughout 2019.

The real estate sector garnered SAR12.1 billion (\$3.2 billion) or 25 percent of the total value of awarded contracts. Within the real estate sector, the mixed-use subsector generated the highest value of contracts with SAR7.6 billion, followed by residential with SAR4 billion (\$1.1 billion) and commercial with SAR490 million (\$130 million). Lastly, the industrial sector had SAR9.6 billion (\$2.6 billion) or 20 percent worth of awarded contracts. The largest contract by value in the industrial sector pertained to the construction of a tire manufacturing facility in the Eastern Province for the National Tire Company.

### Value of Awarded Contracts by Sector During Q3 2019



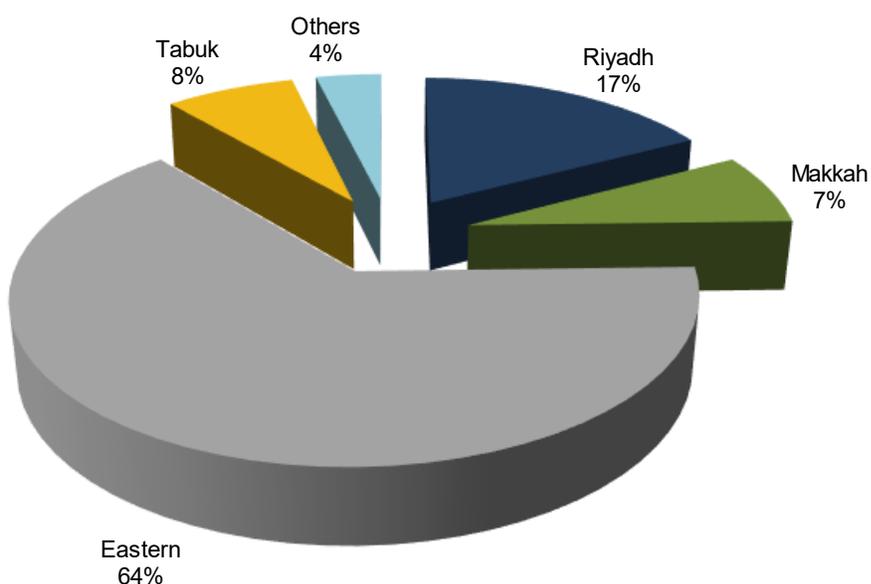
Source: Various Sources, USSABC

## Overview of Awarded Contracts By Region During Q3 2019

The value of awarded contracts during Q3'19 within the Eastern Province continued to account for the highest share by region. Similar to the previous two quarters, the sheer magnitude of project volume and value awarded by Saudi Aramco continues to dominate all other regions. The Eastern Province witnessed SAR30.1 billion (\$8 billion) or 64 percent in contract awards. The oil & gas sector accounted for SAR15.9 billion (\$4.3 billion) or 52 percent of all contracts in the Eastern Province as Saudi Aramco accounted for a majority of the awards. The industrial sector also contributed significantly to the Eastern Province with SAR9.4 billion (\$2.5 billion) worth of contract awards. The remaining contracts in the Eastern Province were awarded across numerous sectors such as urban development, water, real estate, and transportation. The Eastern Province's YTD contribution to total awarded contracts thus far accumulates to SAR98.9 billion (\$26.4 billion) or 61 percent.

The Riyadh region registered SAR8.2 billion (\$2.2 billion) or 17 percent of the total awarded contract during Q3'19. Two sizeable contracts were awarded in the Riyadh region for real estate and urban development that amounted to SAR6.2 billion (\$1.7 billion) and SAR1.6 billion (\$426 million), respectively. The Tabuk region came in third with a total of SAR3.6 billion (\$956 million) or 8 percent in contract awards. The real estate sector garnered the largest share in Tabuk with SAR2.4 billion (\$640 million). The largest contract pertained to the construction of mixed-use developments on behalf of The Red Sea Development Company in the amount of SAR1.2 billion (\$320 million).

### Value of Awarded Contracts by Region During Q3 2019



## **Breakdown of Awarded Contracts Across Top Performing Sectors**

### **Oil & Gas**

The oil & gas sector led all other sectors during Q3'19 and is likely to complete the year with the highest awarded contracts by value by a wide margin. The YTD value of awarded contracts, which reached SAR76.6 billion (\$20.4 billion) is a staggering 485 percent compared to the same period last year and 439 percent more than all of 2018. This impressive ascent of awarded contracts in the oil & gas sector occurred during a time of consistently elevated levels of spending by Saudi Aramco to boost the Kingdom's extraction, transmission, and supply of oil, gas and condensates. These numerous mega projects also involve the construction of necessary infrastructure and transportation capabilities in order to accommodate such developments

The largest contract in the oil & gas sector during Q3'19 was awarded in July by Saudi Aramco to Tecnicas Reunidas in the amount of SAR5.6 billion (\$1.5 billion). The project pertains to the development of a gas plant located in the Tanajib area to process gas and non-associated gas from Marjan field as well as associated gas from Safaniya and Zuluf fields. The specific contract calls for the completion of package 9, which covers inlet, storage and compression. More specifically, Tecnicas Reunidas will construct a number of facilities including a gas compression and tankage substation, a natural gasoline storage unit, an off-spec products storage unit, propane and butane storage, and the installation of numerous inlet facilities and related facilities. The project is expected to be completed by the fourth quarter of 2023.

The second largest contract was awarded in July from Saudi Aramco to Enppi in the amount of SAR2.4 billion (\$650 million). Enpii will be responsible for debottlenecking the Safaniya field in the Eastern Province. The objective of this project is to increase the Arab Heavy crude processing capacity from 1,200 to 1,300 MBCD and the produced water handling capacity from 810 to 1,500 MBWD. Some of the details of the project include the construction a new low pressure degassing tank (LPDT), construction of new substations, and related facilities. The project is expected to be completed by the fourth quarter of 2022.

Saudi Aramco awarded a contract to Saipem for package 5 of the Marjan field water transport project. The SAR1.2 billion (\$320 million) project calls for the construction of facilities to transport water from a well site to a new pump system in Tanajib. The project includes the construction of two well pads, a substation, access roads, installation and laying pipelines along with the construction of associated facilities. The project is expected to be completed by the fourth quarter of 2023.

The remaining smaller projects that were awarded by Saudi Aramco throughout Q3'19 continued to support the development of the Marjan and Zuluf oil fields as well as numerous water injection systems across the Kingdom's oil fields.

## Real Estate

The real estate sector registered the second highest value of awarded contracts for the second straight quarter as it reached SAR12.1 billion (\$3.2 billion). This brings the YTD value of awarded contracts in real estate to SAR20.4 billion (\$5.4 billion). This represents a 6 percent increase over the same period last year. The YTD value of awarded contracts for residential reached SAR10.9 billion (\$2.9 billion), SAR7.9 billion (\$2.1 billion) for mixed-use, and SAR1.6 billion (\$427 million) for commercial. Many of the residential real estate contracts pertain to the government's efforts to supply affordable housing throughout the Kingdom whereas the mixed use real estate contracts were primarily awarded by The Red Sea Development Company in addition to a significant project by Shomoul Holding in Riyadh.

The largest contract in the real estate sector during Q3'19 was awarded by Shomoul Holding to Nesma and Partners for the development of "The Avenues Riyadh" during September. The SAR6.2 billion (\$1.7 billion) mixed-use real estate contract entails the construction of a shopping mall that will include hypermarkets, cinemas, retail shops, restaurants, and parking. This contract is part of the overall plan to also include two hotel towers, residential apartments, offices, and additional parking. The current phase of this project is expected to be completed by the fourth quarter of 2023.

The second largest contract was awarded by the Ministry of Housing to Aljazera Contracting within residential real estate in August. The SAR2.9 billion (\$760 million) contract calls for the development of "Madinat Al Wurud" in Taif on an area of 6.3 million square meters. The project includes the construction of 4,775 villas, swimming pools, mosques, health centers, schools, play grounds, and associated facilities. The project is expected to be completed by the first quarter of 2023.

The Red Sea Development Company awarded a contract to Al Majal Al Arabi in September for the development of the "Coastal Village." The SAR1.2 billion (\$320 million) mixed-use real estate project involves the construction of residential facilities, corporate offices, restaurants, auditoriums, parking, and associated facilities. The project is expected to be completed by the first quarter of 2021.

## Industrial

The industrial sector witnessed three large contracts during Q3'19 that tallied to SAR9.2 billion (\$2.5 billion) of the total SAR9.6 billion (\$2.6 billion) in awarded contracts. The YTD value of awarded contracts in the industrial sector came to SAR11.9 billion (\$3.2 billion). This marks a 113 percent increase compared to the same period last year. The three large contracts during Q3'19 pertain to the continued

development of the mining sector and its downstream value chain as part of the Kingdom's broader goal to diversify the mining and manufacturing sector.

The largest contract in the industrial sector was awarded by the National Tire Company to Samsung Engineering in August for the development of a tire manufacturing facility in Jubail. The SAR4.8 billion (\$1.3 billion) project involves the construction of a power plant, training facilities, mosque, and associated facilities. The development area of the project is situated on approximately 1 million square meters. The project is expected to be completed by the first quarter of 2022.

The second largest contract was awarded by ASK Group to China Gezhouba Group Corporation in July for construction of a civil explosive production plant. The SAR2.9 billion (\$773 million) project involves constructing the plant with the capacity of 50,000 metric tons per annum (TPS) with future potential to expand to 250,000 TPA. Additional work includes the construction of storage facilities and installation of air compressors and process heater systems. The project is expected to be completed by the fourth quarter of 2022.

The third largest contract was awarded by GASAN Investment & Industrial Development Ltd to China Aluminum International Engineering Corporation Limited (Chalieco). The SAR1.5 billion (\$400 million) project calls for Chalieco to develop a calcined petroleum coke (CPC) plant on 25 hectare land plot in Jubail. The CPC plant will have a capacity of 670,000 metric tons a year of calcined coke that is mainly used in the manufacture of carbon anodes for aluminum smelting cells and for steel making furnaces. The project is expected to be completed by the fourth quarter of 2023.

## Civil

Although the civil sector was not among the top three sectors with highest value of awarded contracts, there was a sizeable contract in July for the development of botanical gardens in Riyadh. The Riyadh Municipality awarded a SAR1.6 billion (\$426 billion) contract to Zaid Alhussain Group for phase 3 of the King Abdullah Botanical Gardens project. The project is considered to be the world's largest botanical gardens spanning 20 acres. It is expected that 30,000 visitors a day and up to 45,000 to 50,000 visitors at capacity will visit the gardens. The project will include a paleobotany garden, watchtowers, courtyards, restaurants, 5,000 parking spaces, and associated facilities. The project is expected to be completed by the fourth quarter of 2021.

## Contract Awards Outlook

While there was a moderation in awarded contracts during Q3'19 following a significant spike from the previous quarter, the resurgence in 2019 has been elevated to levels not seen since 2015. As previously mentioned, the value of awarded contracts is expected to surpass SAR200 billion (\$53 billion), while the CAI will remain elevated well above the 200 point mark into 2020. According to the Ministry of Finance's Q3 budgetary performance report, a total of SAR121 billion (\$32.4 billion) of the budgeted SAR246 (\$65.6 billion) in capital expenditures has been spent thus far. This indicates that approximately SAR118 billion (\$31.5 billion) in capital expenditures remain in the fourth quarter. However, the recently released 2020 preliminary fiscal budget forecasts total expenditures will fall to SAR1,048 billion (\$279.5 billion) for 2019 from the originally forecasted SAR1,106 (\$295 billion). Given that capital expenditures comprise 22 percent of total expenditures (as per 2019 original budget), it can be assumed that the new figure for capital expenditures decreased to SAR230 billion. Consequently, approximately SAR109 billion (\$29 billion) in capital expenditures will be required to reach the estimated figure. While it is unlikely the government will achieve this level of investment in the fourth quarter alone, we expect continued heavy investments on par with rest of the year.

Another noteworthy development from the 2020 preliminary fiscal budget report highlights that the mega-projects budget is expected to double in 2020 compared to 2019 allocations. This positive announcement places the construction sector at the top of the list of being a leader in driving non-oil growth over the medium-term.

The construction sector's contribution to GDP is another sign of the sector's revival. In real terms, the construction sector grew by 1.28 percent q-o-q in the second quarter and by an impressive 4.4 percent y-o-y. As the awarded contracts enter the implementation phase coupled with the Ministry of Finance's expectation that mega projects will double in 2020, the construction sector will return to being a significant contributor to the Kingdom's economy.

A few mega-projects that are expected to be awarded during Q4'19 that will elevate the value of awards include SADAF's Chlor-Alkali plant in the Jubail Chemical Industry Park in Jubail, SWCC's project to undertake the construction of a large water transmission system in Jubail, and Qiddiya Investment Company's plan to construct a sports complex in the entertainment city in Riyadh.

## Notable Contracts During Q3 2019

Sector	Region	Client	Contractor	Details	Value (SAR Millions)
Industrial	Eastern	National Tire Company	Samsung Engineering	Tire manufacturing facility in Jubail including power plant	4,801
		ASK Group	China Gezhouba Group Corporation	Construction of civil explosive production plant with 50,000TPA capacity	2,925
		GASAN Investment & Industrial Development Ltd	Chalieco	Development of a calcined petroleum coke (CPC) plant in Al Jubail	1,500
Oil & Gas	Eastern	Saudi Aramco	Tecnicas Reunidas	Package 9 of gas plant project located in the Tanajib area	5,626
			Enppi	Debottlenecking of the Safaniya Field by increasing the heavy crude processing and produced water handling capacities	2,438
			Saipem	Wells, pipelines, and the construction of a new substation	1,200
Real Estate	Tabuk	The Red Sea Development Company	Al Majal Al Arabi	Development of Coastal Village along with the red sea western coastline in Saudi Arabia	1,200
	Riyadh	Shomoul Holding	Nesma & Partners	Commercial mall as part of the "The Avenues Riyadh"	6,188
	Makkah	Ministry of Housing	Al Jazera Contracting	Construction of the city of "Madinat al Wurud" including nearly 5,000 villas	2,850
Civil	Riyadh	Riyadh Municipality	Zaid Alhussain Group	Phase 3 of King Abdullah Botanical Gardens	1,598
Water	Eastern	SWCC	Mutlaq Damook Al Ghowairi Contracting	Two contracts for construction of water transmission systems from Al-Khobar to Al-Hofuf	1,350

### **Disclaimer:**

*The sources used to obtain data in this report are derived from government/ministerial agencies, news outlets, interviews, subscription based databases, and other related sources. The awarded contract values are subject to change each month as a result of changes to the status of a contract. There may be situations in which previously reported contracts are delayed, cancelled, or otherwise altered in any way. The information contained in this document was gathered from sources believed to be accurate at the time, and the U.S.-Saudi Arabian Business Council accepts no liability from errors or omissions in any part due to human or mechanical error. The above information should not be taken as investment advice or as trading recommendation on behalf of the U.S.-Saudi Arabian Business Council.*

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