

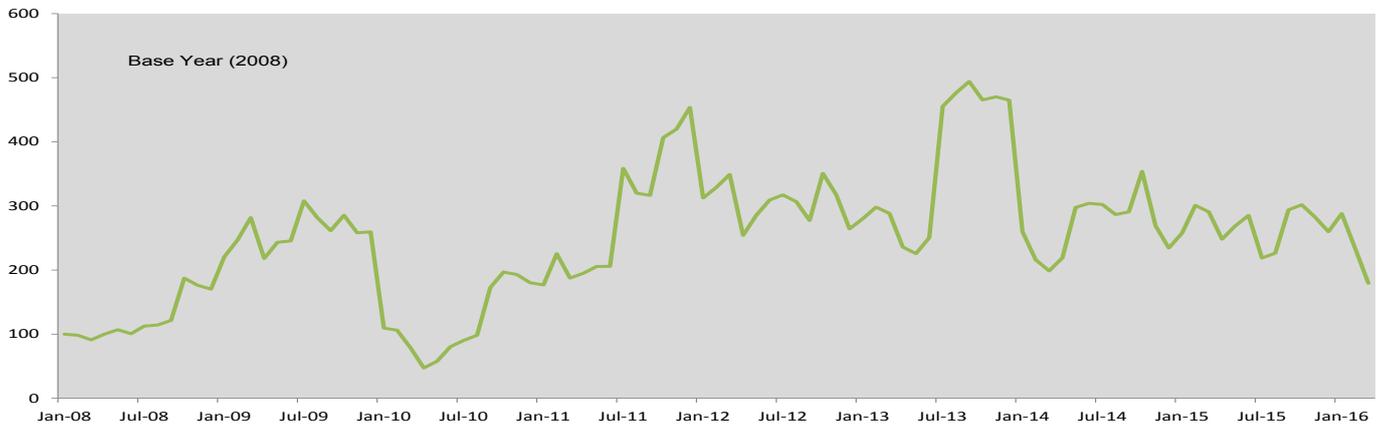
# NCB Construction Contracts Index First Quarter 2016

## NCB Quarterly Review of Contract Awards in the Construction Sector

### Headlines

- 1** NCB Construction Contracts Index reached 179.0 points by the end of the first quarter of 2016, while the total value of awarded contracts amounted to SAR27.9 billion, recording a significant decrease of 39% from the fourth quarter of 2015. The index falls by 80 points, which is indicative of an increasingly tough economic conditions for the construction industry.
- 2** January's contract awards were valued at approximately SAR14.8 billion, led by the oil & gas and residential real estate sectors.
- 3** February's value of contract awards declined sharply to approximately SAR3.2 billion, mainly led by the oil & gas sector.
- 4** March's value of contract awards rose to approximately SAR9.9 billion, led by the oil & gas and hospitality sectors.

### NCB Construction Contracts Index



Source: Various sources, NCB

### Value of Contracts

Trailing Twelve Months (2015-2016)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan (2016)	Feb	Mar
Contract Awards Value (SAR Millions)	28,020	17,823	13,729	3,169	25,123	32,624	31,264	9,810	4,526	14,741	3,203	9,994
CCI Value	248.27	268.92	285.14	218.81	226.28	293.89	302.0	282.0	260.0	288.0	235.0	179.0

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## Construction Contracts Award Index During Q1 2016\*

The momentum of the slow pace activities that witnessed toward the end of 2015 has continued further into the first quarter of 2016, as the total value of awarded contracts amounted to SAR27.9 billion, recording a significant decrease of 39% from the previous quarter. The decline in oil revenues has already led the government to cut infrastructure spending brought about by fiscal restructuring. While many of the projects already awarded are likely to proceed, they may be scaled down or rescheduled execution over an extended period. However, the government will continue to spend on social and physical infrastructure projects, but the level of spending will inevitably be rationalized over the medium term as spending needs are affected negatively by lower oil revenues. The main contributing sectors in 1Q'16 were oil & gas, which has accounted for 47% of the total value of awarded contracts to reach SAR13bn, followed by hospitality at SAR5.9bn (21%), and residential real estate SAR4.6bn (16%). The other sectors accounted for smaller shares of the remaining value of awarded contracts. (Chart 1), (Chart 2).

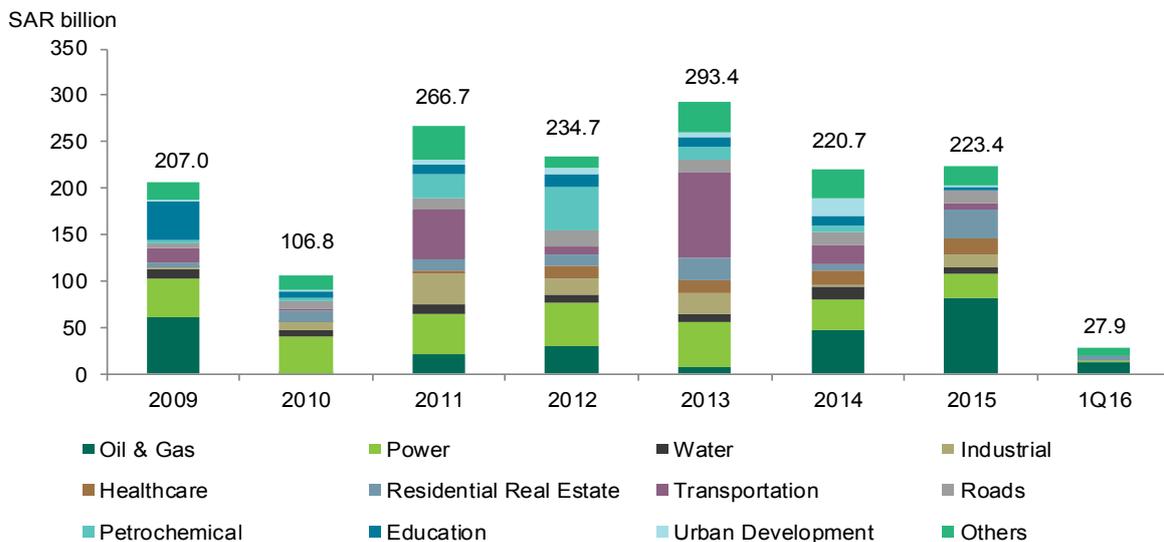
The SAR27.9 billion in awarded contracts during Q1'16 marks a 51% decline compared to Q1'15 that amassed SAR57.3 billion. This represents a substantial drop and is indicative of an increasingly tough economic conditions as the construction industry comes to terms with the sever impact of ongoing low oil prices. It is the sharpest quarterly decline in the value of awarded con-

tracts since 2009. Given the fiscal environment the government is currently operating under, it is anticipated that it will resort to public private partnership (PPP) model for major utility schemes over the medium-term. If the current financial squeeze can deliver greater diversification of the economy, as promised by the transformation plan recently announced in the Saudi vision 2030, greater private sector participation would ultimately spur projects market in the medium term.

The Construction Contracts Index (CCI) dropped significantly to end the quarter at 179.0 points, and exhibited unstable movements since the start of the year. It is marked as the first time to score lower than 200.0 points since 1Q'14. The contract market conditions had become less favorable during 1Q'2016, and this trend is very likely to continue with a fewer projects awarded during the upcoming quarters of 2016.

The geographical analysis of awarded contracts shows that the Eastern province received the largest share with 51% of the total value of awards. They covered mega projects associated with oil & gas, power, and residential real estate sectors. The Madinah region's came second with a 13% share, which was mainly attributed to projects awarded by private companies in the hospitality sector, besides the continued focus on improving the infrastructure of the power sector. The Northern region had an 11% share of the awarded contracts, mainly due to a significant contract by Saudi Aramco, as part of the shale gas development, (Chart 3).

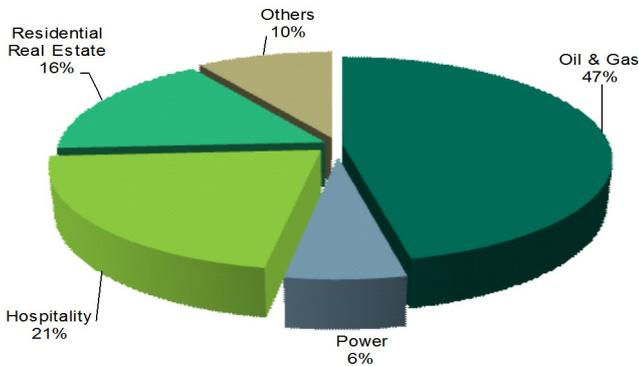
Chart 1: Value of Awarded Contracts by Year (SAR millions)



Source: Various sources, NCB

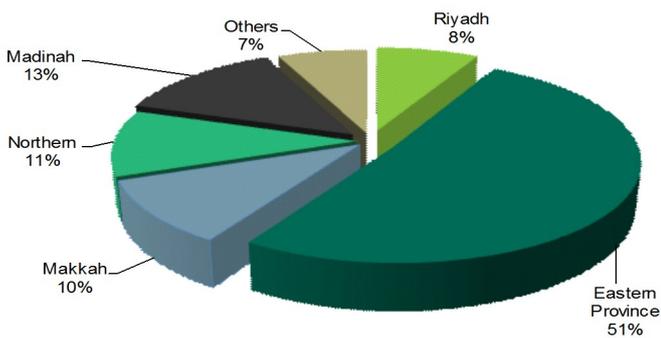
\*See Appendix for the NCB Construction Contracts Index methodology

Chart 2: Value of Awarded Contracts by Sector During Q1'16



Source: Various sources, NCB

Chart 3: Value of Awarded Contracts by Region During Q1'16



Source: Various sources, NCB

## January

The month of January had the highest value of awarded contracts during 1Q'16, reaching SAR14.8 billion. The oil & gas and residential real estate sectors led the way, as they accounted for nearly 47% and 31%, respectively. There were four contracts in the oil & gas sector. Three of them were mega-projects contracts worth SAR5.2 billion, awarded by Saudi Aramco to Saudi KAD construction LLC to meet increased demand for gas; it is made in three packages: Western (package 1), Central (package 2) and Eastern (package 3). Upon the completion, they will provide 9.6 billion cubic feet a day (cf/d) of gas. The scope of work includes pipeline, instrumentation works, Shedgum Riyadh gas pipeline 3, Shedgum Riyadh gas pipeline 2, control systems, cathodic protection system and associated facilities. The three projects are expected to be completed by the fourth quarter of 2018.

The fourth contract is for the Fadhili gas plant package 4 in Eastern province, and was also awarded by Saudi

Aramco to Saudi KAD construction LLC in the amount of SAR1.7 billion. The scope of work includes pipelines; 260km gas pipeline of 56" from Fadhili gas plant to East-West Pump Station Number 1, 40km gas pipeline of 56" from Khursaniyah-Berri gas and Wasit-Berri gas to Fadhili gas plant, 40km pipeline of 3" to transport heavy diesel oil from Fadhili gas plant to the Wasit gas plant, 40km pipeline of 30" to transport sour gas plant from Wasit gas plant to Fadhili gas plant and, 61km pipeline to transport sweet water from Marfiq / Jubail to Fadhili gas plant and associated facilities. The project is expected to be completed by the third quarter of 2019.

Approximately SAR4.6 billion worth of contracts were signed in the residential real estate sector. The most noticeable contracts were awarded by Saudi Aramco in the Eastern province. The first contract was awarded for SAR1.1 billion to Khonaini International, for Ajyal residential development project package 2. The second contract was awarded to Azmeel/ Sinohydro joint venture in the amount of SAR1.6 billion, for Ajyal residential development project package 3&4. Saudi Aramco is planning to construct 2,400 villas for its workers in Dhahran. The scope of work includes roads, mosques, schools, public amenities, infrastructure works and associated facilities. The current profile is about 345 villas in package 2, and 791 villas in package 3&4. The projects are expected to be completed by the first quarter of 2019.

A sizable contract was awarded in the commercial real estate sector by Saudi Electricity Company (SEC) to Shapoorji Pallonji in the amount of SAR1.8 billion. It is for construction of new headquarters building for SEC in Riyadh, and the project includes office buildings, car parking, cafeteria, landscaping works and associated facilities. The project is expected to be completed by the first quarter of 2018.

The total value of awarded contracts in the power sector reached SAR1.0 billion. The Saudi Electricity Company (SEC) awarded a contract to Saudi Services for Electro Mechanic Works in the amount of SAR225.0 million. This project aims to meet a rapidly growing demand for electricity in the Eastern province. SEC has planned to come up with several new projects and reinforcement schemes of old supply facilities. The current profile includes 380kV Qaisumah interconnection, cables, tower, insulator and associated facilities. The project is expected to be completed by the second quarter of 2018.

The second contract in the power sector worth SAR775.0 million, and was awarded by Saudi Aramco to Al Yamama company in Jizan Refinery IGCC Power Plant. In order to meet the increasing demand, Saudi Aramco plans to enhance the power generation capacity of the Kingdom by building multiple power plant. The

scope of the project involves industrial buildings, technical & non-technical buildings, installation of traffic signals, Landscaping and associated utilities and facilities. The project is expected to be completed by the first quarter of 2018.

As part of the prospective plan to upgrade the country's road infrastructure, the Ministry of Transport awarded a single contract to Al Enjaz trading & contracting to construct a ring road in Baha stage 9. The scope of work includes road (3 km), electrical works, pavements, infrastructure and associated facilities. The SAR112.5 million's project is expected to be completed by the first quarter of 2019.

The Hospitality sector has a contract that was awarded by Osool International to Saudi Central for constructing the Nasima Hotel in Riyadh. The scope of the project includes hotel, car park, restaurant, swimming pool and associated facilities. The SAR112.5 million's project is expected to be completed by the fourth quarter of 2018.

## February

The value of awarded contracts in February dipped considerably from January's to approximately SAR3.2 billion. The oil & gas sector awarded contracts reached about SAR2.2 billion, which represents 69% of the total value of awarded contracts in February. These contracts were awarded by Saudi Aramco in the Eastern Province to expand the production facilities in Ras Tanura Refinery. Nesma & Partners were awarded two contracts in the total amount of SAR1.5 billion. The first contract is Clean Fuel Project- Package 3. The scope of work includes 69 kV relocation & demolition, communication duct bank relocation, heavy haul gate 23 modifications, and associated facilities. The second awarded contract is Clean Fuel Project- Package 4. The scope of work includes process area site preparation, construction of segregation fence, new security gate 45 site preparation, south terminal road upgrades, temporary facilities site preparation, and associated facilities. They are expected to be completed for both projects by the first quarter of 2018.

Saudi Aramco has awarded a third contract worth SAR675.0 million to Kentz Engineers & Constructors. Saudi Aramco is planning to expand asphalt production facilities in Ras Tanura refinery. The scope of work includes expansion of asphalt production facilities, storage tanks, loading areas and associated modification and demolition work. The project is expected to be completed by the fourth quarter of 2018.

In the power sector a contract worth approximately SAR300.0 million was awarded by the Saudi Electricity Company (SEC) to Larsen & Toubro in Madinah prov-

ince. In order to meet a rapidly growing demand for electricity, SEC has planned to come up with several new projects and reinforcement schemes of old supply facilities. The scope of work includes transmission line (87 km), tower conductor, insulator and associated facilities. The project is expected to be completed by the fourth quarter of 2018.

There is a single contract in the sewage sector that was awarded by Ministry of Water & Electricity for constructing Abu Arish sewage treatment plant in Jizan, to cater to the increasing demand of water in the Kingdom. The contract was awarded to Washnah Trading & Contracting for the approximate value of SAR195.0 million. The scope of the project involves sewage treatment plant (30,000 cu meters), storage tanks, sewage tanks, filters and associated facilities. The project is expected to be completed by the first quarter of 2018.

Within the industrial sector, a single contract was awarded by Saudi Kayan Petrochemical Company to CTCI Corporation worth about SAR356.3 million. Saudi Kayan is building a new furnace cracker at its complex in Jubail Industrial City. The scope of work includes furnace cracker unit, ethylene production, ethylene oxide production, gas dryer, instrumentation works and associated facilities. The project is expected to be completed by the fourth quarter of 2017.

The hospitality sector had two contracts worth approximately SAR176.3 million. The notable contract, which worth SAR101.3 million, was awarded by Riyadh Chamber of Commerce & Industry to Al Latifa Trading & Contracting. Riyadh Chamber is constructing a Radisson Blu Hotel on 12,000 sqm lands located near Riyadh International Convention & Exhibition Center on King Abdullah Road in Riyadh. The scope of work includes 5-storey hotel, 218 rooms, 21 suites, 6-second class suites, meeting rooms, 2 restaurants, health club, ballroom, event hall, car parking lot, and associated facilities. The construction is expected to be completed by the third quarter of 2018.

## March

The value of awarded contracts has jumped to SAR9.9 billion, led by the hospitality and oil & gas sectors, accounting for 58% and 39% of the total value of awarded contracts during March of 2016, respectively. The hospitality sector had two significant awarded contracts worth SAR5.7 billion.

The first contract was awarded to Posco E&C Saudi Arabia by Dar Al Hijrah Company for construction a pilgrim city in Madinah province for about SAR3.2 billion. Dar Al Hijrah, a body owned by Public Investment Fund (PIF) is planning to develop an integrated mixed-use projects

called 'Pilgrim City' composing 100 buildings, 30 floors in average each, to accommodate over 120,000 pilgrims and 31,000 employees. The scope of the project includes 5 four-star hotels, 3,070 rooms, reception halls, restaurants, coffee shops, business centers, parking, landscaping and associated buildings. This project is expected to be completed by the third quarter of 2018.

Another contract in the hospitality sector was awarded by Midad Real Estate Investment & Development Company to Al Bawani in Makkah Province. The SAR2.5 billion project is intended to construct a five-star hotel in Jeddah city. The scope of work includes 275 rooms, 25 services & 50 apartments, 8-storey retail podium, basement for parking & services and associated facilities. The project is expected to be completed by the first quarter of 2019.

Approximately SAR3.9 billion worth of two contracts were awarded in the oil & gas sector. The first contract was awarded by Saudi Aramco to SNC-Lavalin in the Northern province for roughly SAR3.0 billion. Aramco is pushing ahead with its plans to produce shale gas. The project consists of the construction of 50 wellheads, as well as 50 flow lines of six inches in diameter. The wellheads and flow lines will be linked to five gathering centers, each with a capacity of 50 million cf/d. The gas from this scheme will then be sent through a 70-kilometre pipeline to Waad al-Shamal; the industrial phosphates city. The completion of the project is expected by the fourth quarter of 2020.

The second contract in the oil & gas sector was also awarded by Saudi Aramco to Al Muhaidib Contracting in the amount SAR900.0 million. Saudi Aramco is planning to come up with industrial support facilities for the Fadhili Gas in Eastern province, which include RC& pre-engineered buildings, security fences, storm water evaporation pond, roads, landscaping, power & water supply. The location of the project is about 30 kilometers southwest of the existing Khursaniyah gas central processing facility. The project is expected to be completed by the second quarter of 2019.

The power captured the rest of March's awarded contracts value with a contract worth SAR412.5 million. It was awarded by Saudi Electricity Company (SEC) to Saudi Services for Electro Mechanic Works in Makkah province. Due to rapid growing demand for electricity, SEC is constructing underground transmission line between Aziziyah to south of Al Shefa. The project involves 16.2 km cables, underground cable, excavation works, meshing works and associated facilities. The project is expected to be completed by the second quarter of 2018.

## Outlook

After six consecutive years of strong projects market, the 2016 is set to be a challenging year for the Saudi construction sector, as it is evident in the 51% y/y decline in the value of awarded contracts in the 1Q' 16. The most significant factor driving this sharp drop is the continued low level of oil prices, which is rapidly being recognized as a new norm rather than a transitory setback. Accordingly, the decline in oil revenues, combined with the geopolitical turmoil in the region have led not only government but even key private entities to adopt a wait-and-see approach to what the future holds in store. While oil prices are expected to recover to around USD50-55 a barrel by year end 2016, the fiscal account would still be in deficit, indicating no immediate change in the fiscal tightening measures aimed to curtail capital spending. The government is pursuing fiscal reform and realigning its plans to allow for a new economic landscape, that is triggered by the collapse of oil prices. The 14% reduction in the 2016's budget is likely to have a disproportionate impact on contract awards for new infrastructure projects. As a result, scaling down and further cancellation of planned projects may be unavoidable. Contractors are already facing increased competition as a result of the slowdown in spending, delays to project timelines, and slow contract payments. Lower oil revenues may have slowed down pace of contract awards, but have not resulted in a major shock, as infrastructure projects still high on the government's development agenda, despite lower oil revenues. While the tough conditions have affected most sectors, oil & gas, hospitality, residential real estate, and power sectors will maintain their momentum. Moreover, it is obvious that in the near term, the projects market will rely more on the private companies.

## Selected Awarded Contracts During the First Quarter of 2016:

Sector	Contractor	Client	Details	Value SAR Millions
Oil & Gas	SNC Lavalin	Saudi Aramco	Shale Gas Development: System B	3,000.0
	Saudi KAD Construction LLC	Saudi Aramco	MGSE – Phase 2: Western Region Pipeline (Package 1)	2,625.0
	Saudi KAD Construction LLC	Saudi Aramco	Fadhili Gas Plant: Package 4	1,688
	Saudi KAD Construction LLC	Saudi Aramco	MGSE – Phase 2: Eastern Region Pipeline (Package 3)	1,313
Residential Real Estate	Azmeel/ Sinohydro Joint Venture	Saudi Aramco	Ajyal Residential Development: Package 3 & 4	1,575
	Khonaini International	Saudi Aramco	Ajyal Residential Development: Package 2	1,069
Hospitality	Posco E&C Saudi Arabia	Dar Al Hijrah Co.	Pilgrim City: Four Star Hotels: Group 4 A	3,188
	Al Bawani	Midad Real Estate Investment & Development Company	Four Seasons Hotel in Jeddah	2,250
Commercial Real Estate	Shapoorji Pallonji & Company	Saudi Electricity Company	Headquarters Building in Riyadh	1,800.0
Power	Al Yamama Company	Saudi Aramco	Jizan Refinery IGCC Power Plant: Industrial Support Facilities	799

Source: Various sources, NCB

## Appendix

### NCB Construction Index Methodology

The purpose of the NCB Construction Contracts 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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