

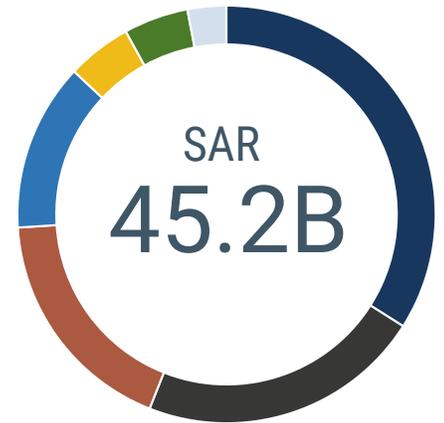
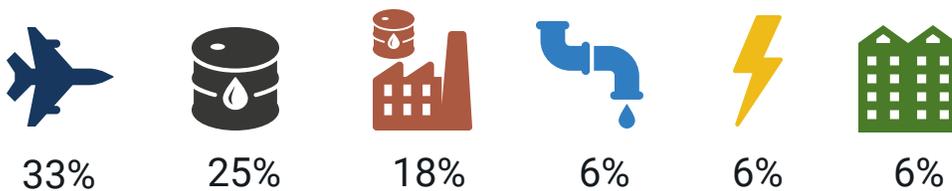
# USSBC Contract Awards Index: First Quarter of 2020 Review of Construction Contract Awards in Saudi Arabia



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

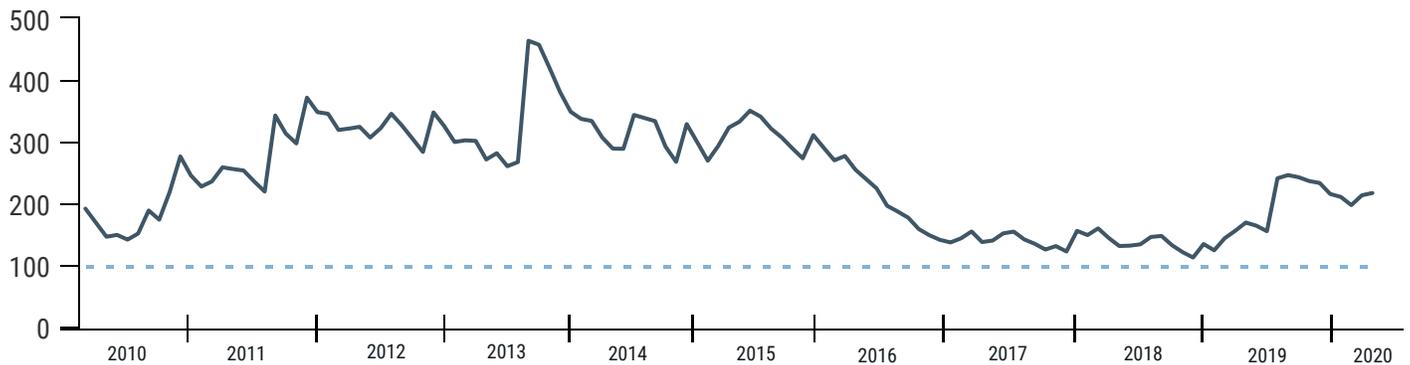
The USSBC Contract Awards Index (CAI) is an original report created by the U.S.-Saudi Business Council's economist. This report provides a sense of direction on construction activities that will transfer to the execution phase over the next 6 to 18 months. It encompasses construction related contract awards across all sectors within Saudi Arabia. The USSBC 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 Q1 2020 report are shown below. Updates are published on a quarterly basis.

## Contracts Awarded by Sector



A majority of the awarded contracts were in military, oil & gas, and petrochemicals which accounted for approximately 76% of the total value of contracts awarded. Water, power, and real estate contracts accounted for 18% of the total value while 6% were awarded in other sectors.

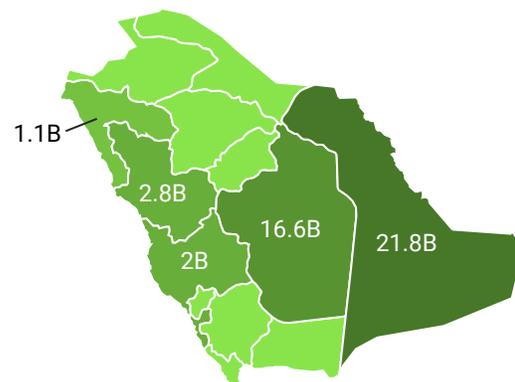
## Contract Awards Index Over Time



The USSBC's Contract Awards Index climbed to 216.6 points by the end of the first quarter. The index briefly dipped below the 200 point mark in January for the first time since May 2019.

## Contract Awards By Province

The majority of contracts were awarded in the Eastern Province (48%) and Riyadh Province (37%). All oil, gas, and petrochemicals contracts were awarded in the Eastern Province while Riyadh was dominated by the military sector as a result of the King Salman and King Faisal airbase projects. Q1 saw a notable pickup in the value of petrochemicals contracts as Saudi Arabia develops its downstream oil & gas capabilities in line with Vision 2030.



\*All monetary values are in Saudi Arabian Riyals. \$1 = SAR3.75



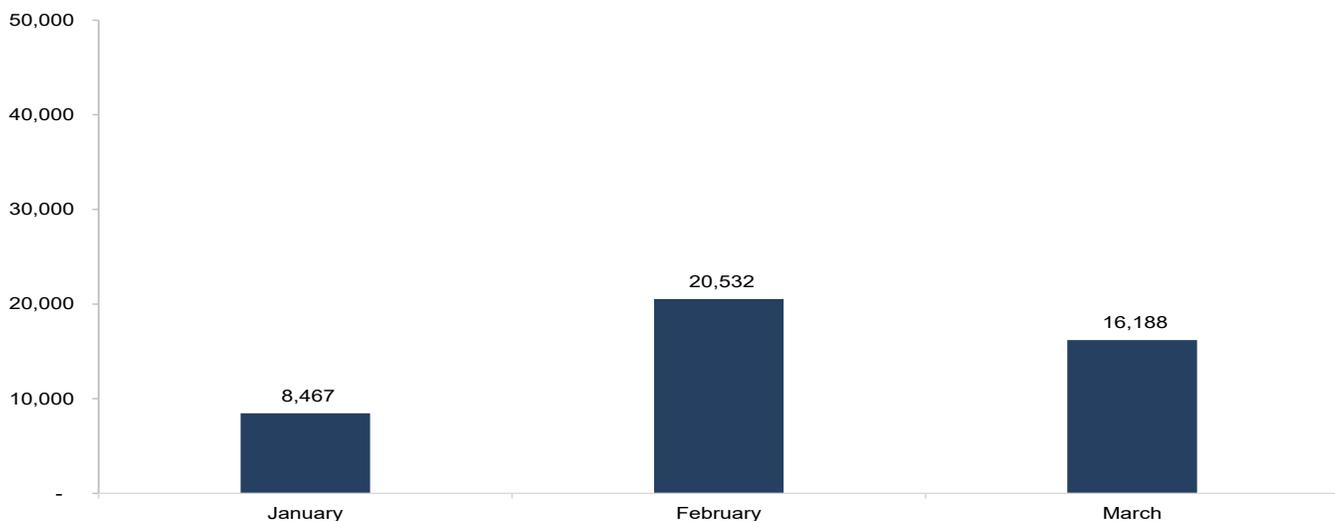
# USSBC Contract Awards Index First Quarter 2020

## USSBC Quarterly Review of Contract Awards in Saudi Arabia

### Highlights

1. The total value of awarded contracts reached SAR45.2 billion (\$12 billion) during the first quarter of 2020, marking an 8 percent decline y-o-y. However, the value grew by 28 percent q-o-q.
2. The USSBC's Contract Awards Index climbed to 216.6 points by the end of the first quarter. The index briefly dipped below the 200 point mark in January for the first time since May 2019.
3. The military sector led all other sectors with SAR15 billion (\$4 billion) worth of awarded contracts.
4. The oil & gas sector registered the second highest with SAR11.2 billion (\$3 billion) worth of contract awards.
5. The petrochemicals sector came in third with SAR8.3 billion (\$2.2 billion) worth of contract awards.

### Value of Awarded Contracts During Q1 2020 (SAR Millions)



Source: MEED Projects, public outlets, government data, USSBC

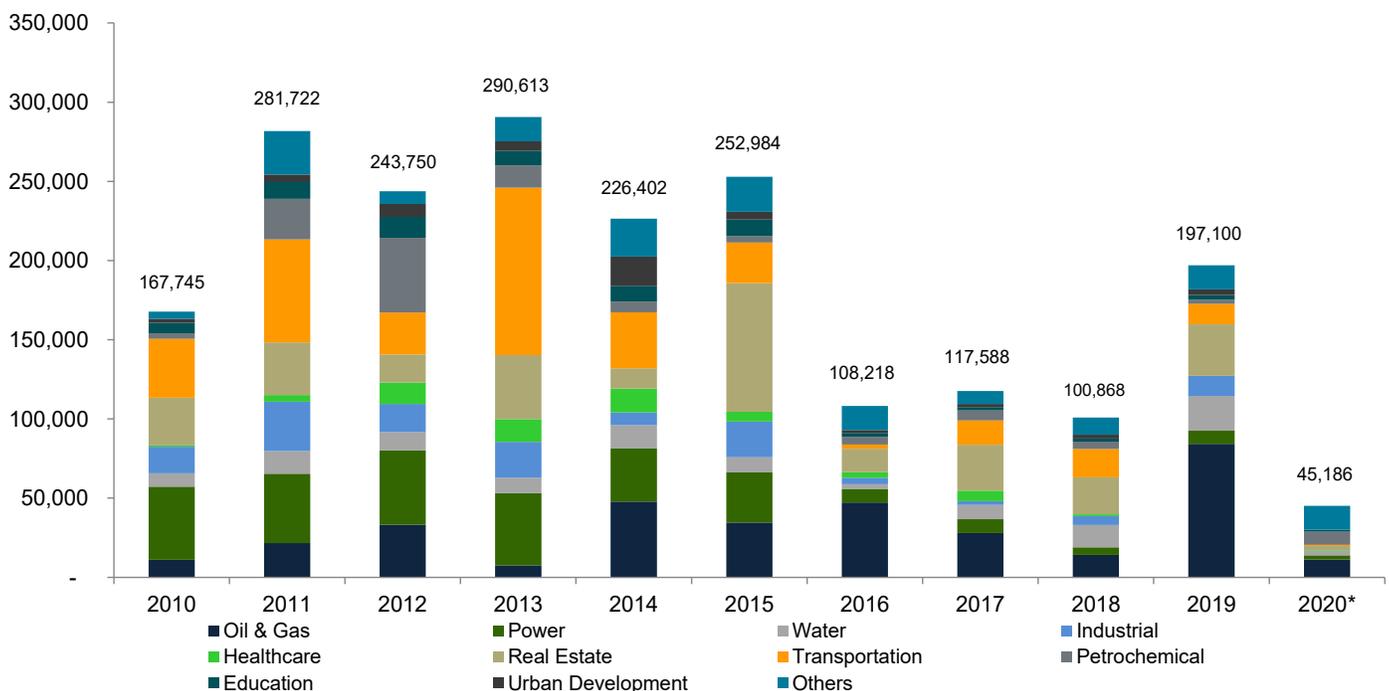


## Overview of Awarded Contracts During Q1 2020

The value of awarded contracts reached SAR45.2 billion (\$12 billion) during Q1'20 as the momentum that was witnessed in 2019 continued into 2020. The value of awarded contracts increased by 28 percent compared to Q4'19 but decreased by 8 percent compared to Q1'19. While the pace of awarded contracts during Q1'20 exhibited the continued rebound in both the value and volume of awarded contracts that was witnessed in 2019, it was spared what is expected to be a downturn in the number of projects for the remainder of 2020 resulting from COVID-19 and the reduction in global oil prices. The government's action to combat the effects of COVID-19 by announcing a 5 percent budget cut in March did not materially impact project awards during the first quarter but will affect the execution timeline of those contracts moving forward. The implementation of budgetary cuts in March as well as the more recent additional budget cut announced in May of SAR100 billion (\$26 billion) are likely to dampen the Kingdom's capital expenditures in 2020.

The SAR45.2 billion (\$12 billion) in awarded contracts contained numerous mega-projects across several sectors. The military sector garnered the highest value of awarded contracts followed by oil & gas and petrochemicals. These three sectors accounted for 76 percent of all awarded contracts alone. Other contributing sectors included water, power, and real estate.

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



\* Through Q1'20

Source: MEED Projects, public outlets, government data, USSBC



## USSABC's Contract Awards Index Performance Through Q1 2020\*

The USSABC Contract Awards Index (CAI) reached 216.60 points at the end of the first quarter. The increase in contract awards during Q1'20 saw the CAI climb by 3 percent q-o-q as the value of projects slowed during Q4'19. While the CAI ended above the 200 point mark during Q1'20, its streak of seven consecutive months above that level was broken in January. The CAI briefly fell to 196.98 in January before climbing up to 212.90 in February and ending at 216.60 in March. Nonetheless, the CAI in Q1'20 grew by 28 percent y-o-y reflecting the surge that was witnessed throughout the rest of 2019 and into the first quarter of 2020.

The impact of COVID-19 on the construction sector will certainly test the CAI's strong showing moving forward. As the anticipated slowdown in awarded contracts takes hold during 2020, the CAI will likely be challenged to maintain its level of performance of the past five quarters. However the elevated value of awarded projects during Q1'20 will likely keep the CAI from dipping below the 100 point mark. A CAI score below 100 normally indicates a contraction as the future execution of awarded contracts signals a historically lower than average rate of construction activities.

### USSBC Contract Awards Index Performance



Source: MEED Projects, public outlets, government data, USSBC

\* 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.

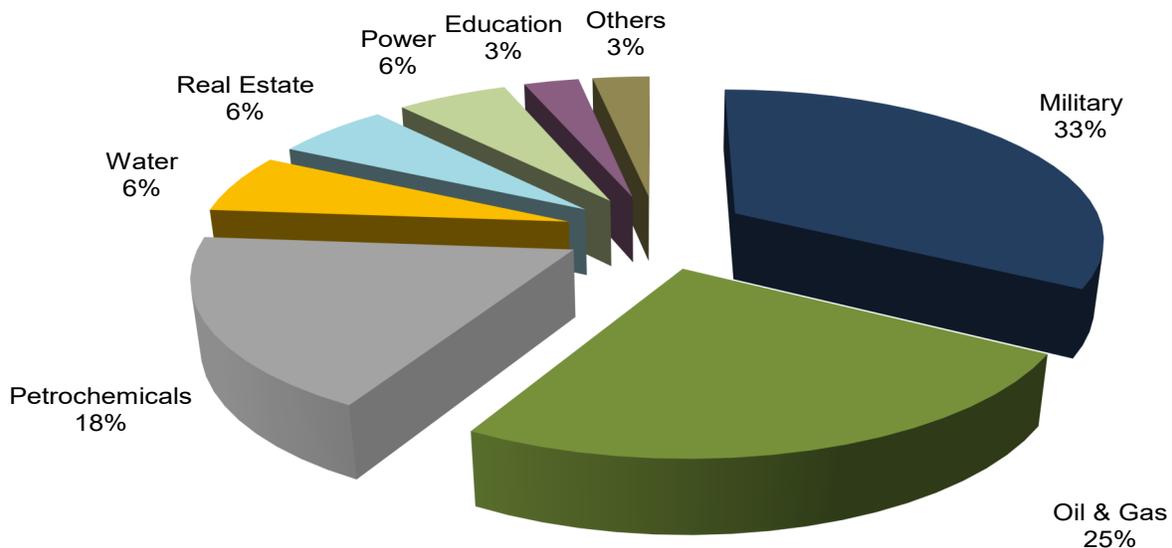


## Overview of Awarded Contracts By Sector During Q1 2020

The value of awarded contracts during Q1'20 was led by the military sector, which accounted for SAR15 billion (\$4 billion) or 33 percent of all contracts. The military sector was led by two mega-projects associated with the construction of the King Salman airbase as well as the King Faisal air academy, each valued at SAR7.5 billion (\$2 billion). This marks the highest value of awarded contracts in a quarter and year in the military sector on record. The previous high on a quarterly basis was Q1'19, which registered SAR7.7 billion (\$2 billion). The previous high on an annual basis also occurred in 2019 with SAR11.4 billion (\$3 billion).

The oil & gas sector continued its momentum from 2019 as it accounted for SAR11.2 billion or 25 percent of awarded contracts. Saudi Aramco continues to award contracts for the development of the Marjan oil field as well as Safaniya and South Ghawar in the Eastern Province. Saudi Aramco is poised to continue awarding mega-projects in the oil & gas sector despite the impact of COVID-19 on the economy. The petrochemicals sector rose this quarter after a relatively slow year in 2019. The value of awarded contracts reached SAR8.3 billion (\$2.2 billion) from two contracts, accounting for 18 percent of total projects. This reflects a significant jump as the total value of awarded contracts in 2019 was SAR2.5 billion (\$662 million) for the petrochemicals sector.

**Value of Awarded Contracts by Sector During Q1 2020**



Source: MEED Projects, public outlets, government data, USSBC

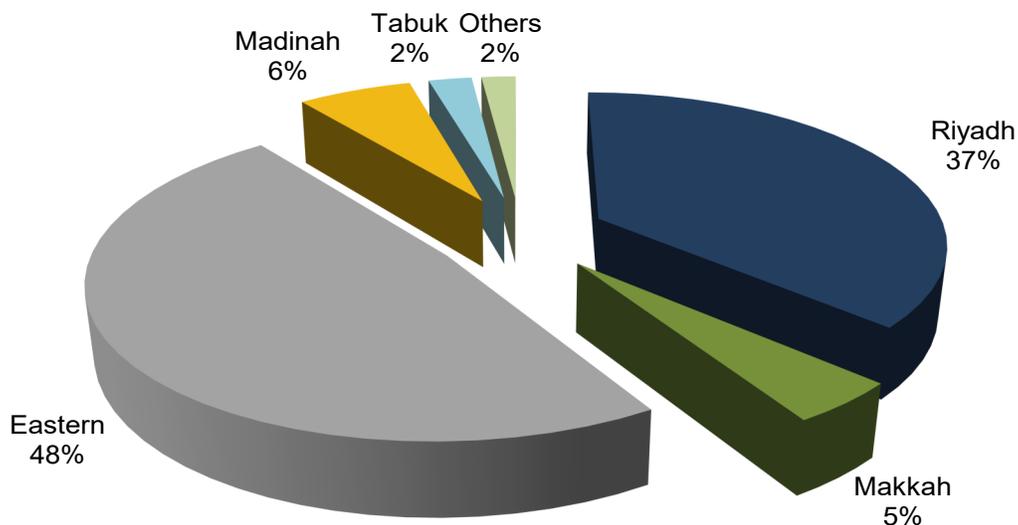


## Overview of Awarded Contracts By Region During Q1 2020

The Eastern Province accounted for the highest share of awarded contracts during Q1'20 with SAR21.8 billion (\$5.8 billion) or 48 percent of the total. All of the oil & gas and petrochemicals sector contracts were awarded in the Eastern Province, accounting for SAR19.5 billion (\$5.2 billion) or 89 percent. Saudi Aramco awarded all the oil & gas contracts while several companies awarded petrochemical projects, with Advanced Petrochemicals Company awarding a significant contract in the amount of SAR6.8 billion (\$1.8 billion). The power, real estate, and transportation sectors also contributed to the Eastern Province's awarded contracts.

The Riyadh region registered 37 percent of the awarded contracts with SAR16.6 billion (\$4.4 billion). The Riyadh region was dominated by the military sector as a result of the King Salman and King Faisal airbase projects, which accounted for SAR15 billion (\$4 billion) or 90 percent. Other contributing sectors in the Riyadh region included real estate, healthcare, and transportation. The Madinah region registered a distant third with SAR2.8 billion (\$752 million) or 6 percent of awarded contracts. Madinah registered two notable contracts of which the largest was a SAR2.6 billion (\$700 million) water project. The Makkah region contributed SAR2 billion (\$533 million) or 5 percent and was led by the education and power sectors.

Value of Awarded Contracts by Region During Q1'20



Source: MEED Projects, public outlets, government data, USSBC



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

### **Military**

The military sector led all other sectors with SAR15 billion (\$4 billion) during Q1'20. As previously mentioned, this marks the highest value of awarded contracts for the military contracts as the previous high was in 2019 with SAR11.4 billion (\$3 billion). On a y-o-y basis, the military sector grew by an impressive 96 percent over Q1'19.

According to MEED Projects, there were two significant projects in the military sector, which accounted for the entire SAR15 billion (\$4 billion) in value of awarded contracts. The first project, which was awarded in February, was the development of the King Salman airbase facilities construction and relocation project in the Riyadh region. The Ministry of Defense awarded the SAR7.5 billion (\$2 billion) contract to a joint venture between Al Seif Engineering Contracting, Almabani, and Nesma & Partners. The consortium will be responsible for the construction of airbase facilities on 17.4 square miles that will have infrastructure and runway facilities, residential facilities, and operation and maintenance facilities. Other work includes the construction of air force facilities at the Salbukh base and associated facilities. The project is expected to be completed by the fourth quarter of 2024.

The second contract in the military sector was also awarded by the Ministry of Defense to the joint venture between Shihb Aljazira Contracting, Salini Impregilo, and Al Bawani, according to MEED Projects. The SAR7.5 billion (\$2 billion) contract, which was awarded in March, pertains to the King Faisal air academy construction and relocation project in the Riyadh region. The project calls for the consortium to construct air academy facilities on 121 square miles on land. It also includes the construction of security gates and fences, infrastructure work, service facilities, residential facilities, and connection to the public electricity grid. The project is expected to be completed by the fourth quarter of 2024.

### **Oil & Gas**

The oil & gas sector registered the second highest value of awarded contracts during Q1'20 with SAR11.2 billion (\$3 billion). The oil & gas sector continues to fuel the Kingdom's construction contracts through Saudi Aramco's expansion plans. On a y-o-y basis, the oil & gas sector remained relatively stable, as it declined by only four percent during Q1'20. Meanwhile, the sector grew by 46 percent q-o-q as the pace of oil & gas contracts slowed at the end of 2019.

The largest contract pertained to the continued development of the Marjan oil & gas field in the Eastern Province. According to MEED Projects, Saudi Aramco awarded the project to Samsung Engineering C&T in the amount of SAR3 billion (\$800 million) in February. Samsung C&T will be responsible for the



development of the Marjan co-generation independent steam and power project (ISPP). The scope of the project included the construction of a 700-900 MW power plant, construction of substations, a 20,000 square meters per day desalination plant, a seawater intake system, installation of three heat recovery steam generators, along with associated works. The project is expected to be completed by the first quarter of 2023.

The second largest contract was also awarded in February by Saudi Aramco. According to MEED Projects, a SAR2.1 billion (\$560 million) was awarded to Japan's JGC Corporation for the development of the gas separation development plan at South Ghawar field in the Eastern Province. This particular project will focus on the development of Mazlaj and Mihwaz fields, which will produce 330 million standard cubic feet per day (MMSCFD) of raw gas, 200 MMSCFD of sales gas, and 34 million barrels per day of condensate. The scope will be centered on the development of the gas separation plant and its associated facilities as well as the infrastructure requirements to develop the project. The project is expected to be completed by the first quarter of 2023.

According to MEED Projects, another significant contract was awarded by Saudi Aramco this time for the development of production deck modules at Safaniya in the Eastern Province. The SAR1.5 billion (\$400 million) project, which was awarded in January to National Petroleum Construction Company, will include the upgrading of two production deck modules, laying of pipelines and sea cables, and construction of associated facilities. The project is expected to be completed by the second quarter of 2022.

## Petrochemicals

The petrochemicals sector registered the third highest tally during Q1'20, as it netted SAR8.3 billion (\$2.2 billion) worth of contract awards. This marks a significant jump in awarded contracts compared to 2019 as the total value of awarded contracts reached only SAR2.5 billion (\$662 million). On a y-o-y basis, the value of awarded contracts dramatically grew from SAR795 million (\$212 million) during Q1'19. Furthermore, on a q-o-q basis, the value of awarded contracts grew from SAR1.7 billion (\$450 million) during Q4'19.

There were two large contracts that were awarded in the petrochemicals sector during Q1'20. The larger contract was awarded in March by a joint venture between Advanced Petrochemical Company (85 percent ownership) and SK Gas Petrochemical (15 percent ownership), which established a new company called Advanced Global Investment. The SAR6.8 billion (\$1.8 billion) contract involves the development of two new petrochemical plants in the Eastern Province. The two plants will consist of a propane hydrogenation unit and a polypropylene unit. The two plants will produce 840,000 tons of propylene and 800,000 tons of polypropylene, per annum. Construction is expected to begin in 2021 while completion is expected by the fourth quarter of 2024.



The second contract was awarded in January by the National Methanol Company to China's Wison Engineering in the amount of SAR1.5 billion (\$400 million). According to MEED Projects, Wison Engineering will be responsible for constructing an autothermal reformer and methanol converters in Jubail Industrial City in the Eastern Province. Additional work includes constructing a desulphurizer unit, distillation unit, air/gas separation unit, and a methanol purification unit. The project is expected to be completed by the fourth quarter of 2022.

## **Water**

While the water sector did not register among the top three sectors in terms of value of awarded contracts, there was a notable contract in February. According to MEED Projects, the Saudi Water Partnership Company awarded a SAR2.6 billion (\$700 million) contract to South Korea's Doosan Heavy Industries & Construction. The project calls for Doosan to construct a 450,000 square meters per day reverse osmosis desalination plant in the Madinah region. Additional work included the construction of a seawater intake system, storage tanks, and associated facilities. The project is expected to be completed by the fourth quarter of 2023.



## Contract Awards Outlook

Judging by the pace of awarded contracts during Q1'20, the construction sector appeared on pace to continue the strong showing that was witnessed in 2019. The oil & gas sector continued to see mega-projects being awarded as Saudi Aramco continued to expand the Kingdom's hydrocarbon extraction capabilities to meet both local and global demand. The petrochemicals sector had a significant joint venture that led to the largest awarded contract of the quarter. Furthermore, the military sector awarded two long-term air base projects that are expected to provide numerous employment opportunities to the non-oil sector.

Further signs of a strengthening construction sector was the government's capital expenditure spending during Q1'20. The Kingdom had spent approximately 4 percent less on its capital expenditures y-o-y. Another positive development was an 81 percent increase in the infrastructure & transportation sector y-o-y, which also represented 22 percent of the annual budget for this category. The private sector was poised to take on an active role similar to 2019 in lessening the burden on the government, while the PIF continues to invest domestically to lift the non-oil sector.

The effects of COVID-19 on the Kingdom's economy exerted additional strains as health-related concerns were equally met with lowered state revenues resulting from depressed demand for oil. To address the negative effects of the pandemic, the Kingdom enacted stringent fiscal measures that to date, has amounted to more than SAR270 billion (\$72 billion) worth of budgetary cuts and stimulus plans (Please see our most recent [Economic Brief](#) covering the Kingdom's policy response to combat the pandemic). Further mitigation plans include the decision to raise the VAT rate from 5 percent to 15 percent starting in July 2020, which is not likely to provide a sizeable contribution to non-oil revenues in the short-term given current lowered consumer demand for goods and services. Alternatively, this was a long-term measure that will provide the Kingdom with growing non-oil revenues to support state spending.

The budgetary cuts will likely impact capital expenditures for the rest of 2020 given the procyclical nature of the Kingdom's spending. As stated by the Minister of Finance, the budgetary cuts will impact Vision Realization Programs (VRP's) that are key to the fulfilment of Vision 2030. However, the impact will largely come from plans to delay or extend the timeline of several mega-projects in the tourism and entertainment sectors, like NEOM, the Red Sea Project, and Qiddiya.

The impact of COVID-19 on the Kingdom's construction sector is expected to be steep over the next three quarters of 2020. A recent report from the Saudi Contractors Authority forecasted that contracts awards will decline between 20-40 percent over the course of the year. The IMF forecasts a 2.3 percent contraction in GDP, while it predicts a 4 percent decline in the non-oil sector for 2020. As the Kingdom's



insulates the economy from the effects of the pandemic, the construction sector will be among the most challenged sectors. The labor intensive nature of the construction sector, which is heavily reliant on blue collar foreigners adds financial strain on contractors to maintain their workforce while also facing mobility restrictions. These challenges have caused hardship on SMEs that are threatened with the lack of necessary funds to maintain their payrolls and access working capital. The government has stepped in with a new injection of SAR36 billion (\$9.6 billion) that is aimed at supporting SMEs in the construction sector. According to the Private Sector Stimulus Office, the initiative will support more than 17,500 SMEs in the Kingdom. Another source of consternation is the challenges faced by commercial banks to withstand delays in loan repayments, thus creating a growing liquidity crunch and an increase in non-performing loans. However, the SAR50 billion (\$13 billion) injection into SAMA to support the banking sector and SME's will soften the impact on the financial sector.

The next two quarters will reveal the extent to which the pandemic has effected the construction sector. The downturn in global oil prices that began in 2014 initiated a period of drastically lower construction activities between 2016-2018 as the average value of awarded contracts per year during that period was SAR109 billion (\$29 billion). Recent production cuts by OPEC+ has allowed oil prices to gradually rise after April witnessed one of the most volatile periods that saw West Texas Intermediate (WTI) May future contracts close at -\$37.63 on April 20. Other recent signs of growing strains was the Ministry of Justice's real estate transactions report, which reflected a 72 percent y-o-y decline for the months of March and April and the lowest drop since 2008. The drop in transaction signals a likely delay in real estate project starts that will last throughout 2020.

The good news is that the Kingdom's has initiated opening measures such as easing the stay at home directive, opening shopping malls, resumption of domestic flights on May 31, and inter-province mobility. These measures will gradually lift the economy from the shutdown period and begin the recovery process. Looking ahead to next quarter, we expect to see a continuation in project awards in the oil & gas sector by Saudi Aramco at the South Ghawar field. The Saudi Water Partnership Company is also expected to award sizeable projects related to desalination projects in Jubail Industrial City.



## Notable Contracts During Q1 2020

Sector	Region	Client	Contractor	Details	Value (SAR Millions)
Military	Riyadh	Ministry of Defense	El Seif Engineering & Contracting, Almagbani, Nesma & Partners	Infrastructure and runway construction at King Salman airbase in Dyarb	7,500
		Ministry of Defense	Shibh Aljazira, Salini Impregilo, Al Bawani	Construction and relocation of King Faisal air academy	7,500
Petrochemicals	Eastern	Advanced Petrochemical Company	SK Gas Petrochemical	Construction of propane dehydrogenation unit and polypropylene unit	6,750
		National Methanol Company (Ibn Sina)	Wison Engineering	Construction of autothermal reformer and methanol converters in Jubail Industrial City	1,500
Oil & Gas	Eastern	Saudi Aramco	Samsung C&T	Development of onshore and offshore facilities at Marjan oil & gas field	3,000
		Saudi Aramco	JGC Corporation	Development of South Ghawar unconventional resources field for gas separation	2,100
		Saudi Aramco	National Petroleum Construction Company	Installation and upgrade of production deck modules at Safaniya	1,500
		Saudi Aramco	Saipem	Installation of new LPG pipelines at Juaymah NGL Fractionation plant	1,000
Water	Madinah	Saudi Water Partnership Company	Doosan Heavy Industries & Construction	Construction of reverse osmosis seawater desalination plant	2,625
Real Estate	Tabuk	Public Investment Fund	Mofarreh M Al Harbi Est	Construction of industrial and commercial buildings at Neom Industry City site	1,000
Education	Makkah	Tatweer Buildings Company	ACWA Power & Al Bawani (JV)	Construction of 60 schools in Jeddah and Makkah	900

Source: MEED Projects, public outlets, government data, USSBC



### **Disclaimer:**

*The sources used to obtain data in this report are derived from government/ministerial agencies, news outlets, 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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