

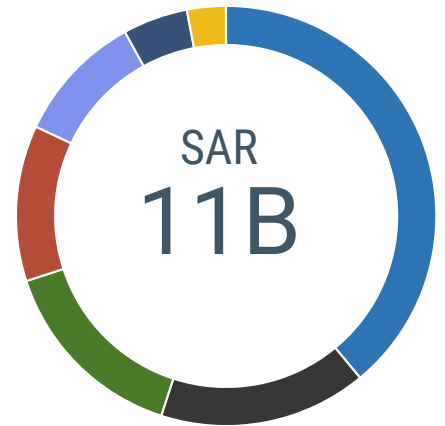
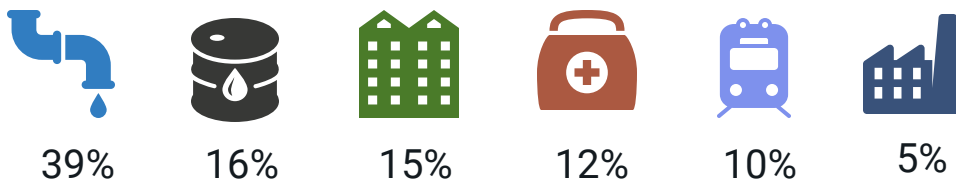
USSBC Contract Awards Index: Second Quarter of 2020 Review of Construction Contract Awards in Saudi Arabia



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

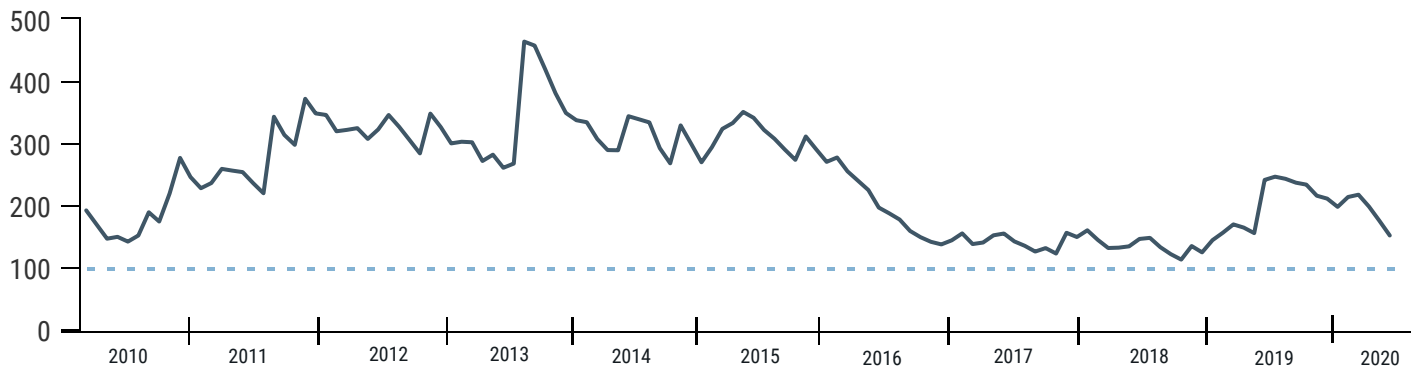
The USSBC Contract Awards Index (CAI) is an original report created by the U.S.-Saudi Business Council's economist. This report provides a sense of direction on construction activities that will transfer to the execution phase over the next 6 to 18 months. It encompasses construction related contract 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 Q2 2020 report are shown below. Updates are published on a quarterly basis.

Contracts Awarded by Sector



A majority of the awarded contracts were in water, oil & gas, and real estate, which accounted for approximately 70% of the total value of contracts awarded. Healthcare, transportation, and industrial contracts accounted for 27% of the total value while 3% were awarded in the power sector.

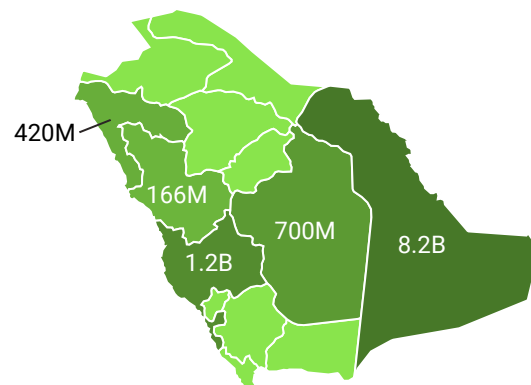
Contract Awards Index Over Time



The USSBC's Contract Awards Index fell to 150.81 points by the end of the second quarter. The index steadily declined each month on the back of increased volatility thus far in 2020.

Contract Awards By Province

The majority of contracts were awarded in the Eastern Province (75%) while Makkah and Riyadh Provinces accounted for only 10% and 6% of Q2 contracts, respectively. Water desalination and oil & gas contracts contributed the highest value of contract awards in the Eastern Province while the power and real estate sectors were the lone contributors to contract awards in Makkah. Riyadh Province saw real estate and healthcare contracts including the six-story Medical Tower Riyadh project.



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



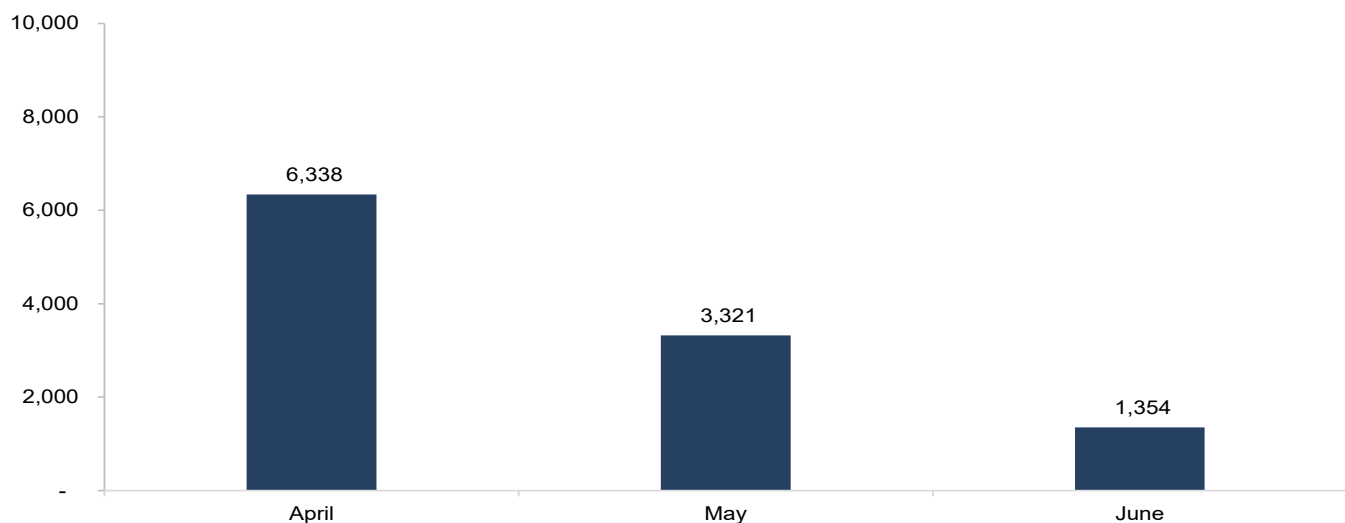
USSBC Contract Awards Index Second Quarter 2020

USSBC Quarterly Review of Contract Awards in Saudi Arabia

Highlights

1. The total value of awarded contracts declined to SAR11 billion (\$2.9 billion) during the second quarter as the widespread negative effects of COVID-19 delayed projects across many sectors. The total value of awarded contracts through the first half of 2020 reached SAR56.2 billion (\$15 billion).
2. The USSBC's Contract Awards Index fell to 150.81 points by the end of the second quarter. The index steadily declined each month on the back of increased volatility thus far in 2020.
3. The water sector led all other sectors with SAR4.3 billion (\$1.2 billion) worth of awarded contracts.
4. The oil & gas sector registered the second highest with SAR1.8 billion (\$475 million) in awards.
5. The real estate sector came in third with SAR1.7 billion (\$440 million) worth of contract awards.

Value of Awarded Contracts During Q2 2020 (SAR Millions)



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

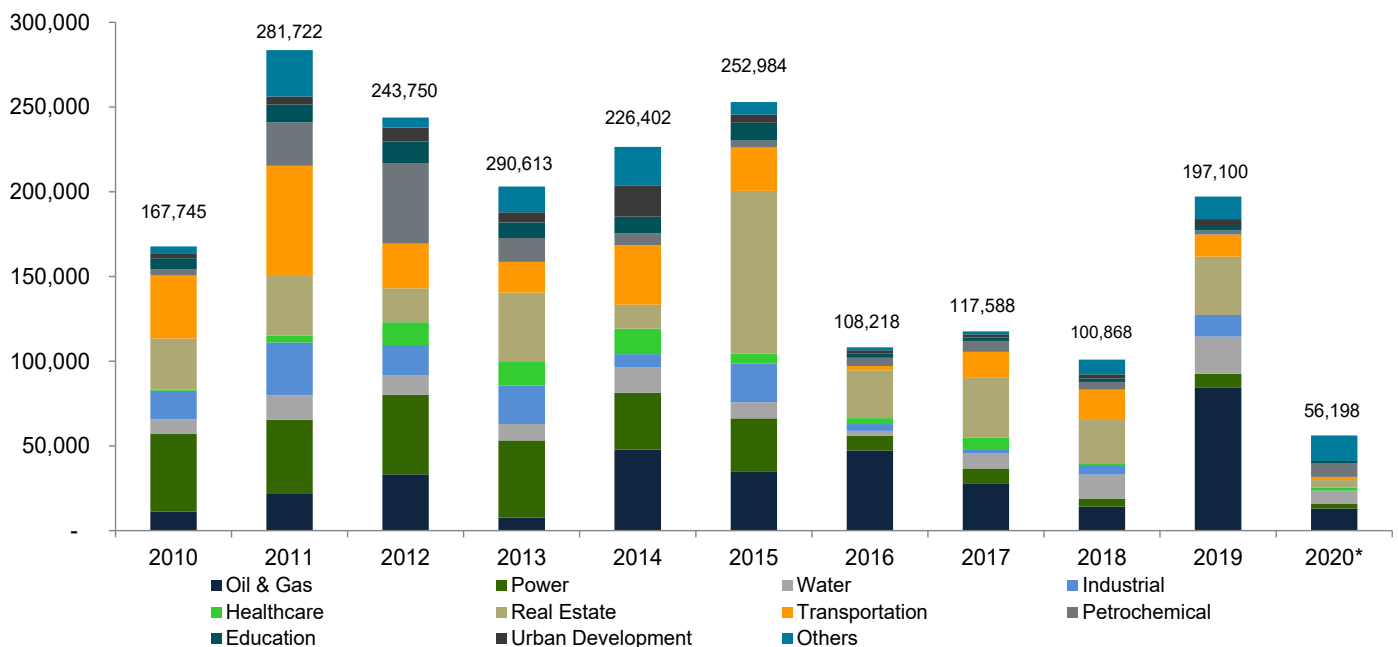


Overview of Awarded Contracts During Q2 2020

The value of awarded contracts decreased during the second quarter to SAR11 billion (\$2.9 billion) after a strong showing during the first quarter. The promising start to the year fizzled during Q2 as numerous project awards were suspended due to the effects of the coronavirus pandemic. Furthermore, many of the projects that were in initial phases of execution were halted as stay at home orders, redirecting some of the government’s budget, and significant declines in the revenues of construction companies paused spending plans and initiated reorganization strategies to accommodate these drastic market changes. The brunt of the impact was expected to occur during the second quarter as the initial challenges surfaced in March, which led the government to spend approximately SAR270 billion to accommodate the private sector. Consequently, the value of awarded contracts declined by SAR54 billion (\$14.4 billion) during Q2’20 compared to last year, and declined by SAR34 billion (\$9.1 billion) compared to last quarter. Through H1’20, the total value of awarded contract reached SAR56.2 billion (\$11 billion), a decline of SAR57.8 billion (\$15.4 billion) compared to H1’19.

The decrease in awarded contracts were across all sectors as the SAR11 billion (\$2.9 billion) in project values witnessed steep declines in areas that did well last quarter. The water, oil & gas, and real estate sectors accounted for 70 percent of awarded contracts by value. The healthcare and transportation sectors also contributed to the second quarter’s performance.

Value of Awarded Contracts by Year (SAR Millions)



* Through Q2’20

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



USSBC’s Contract Awards Index Performance Through Q2 2020*

The USSBC Contract Awards Index (CAI) reached 150.81 points at the end of the second quarter. This reflects a decrease of 65.79 points compared to the first quarter as the value of awarded contracts precipitously declined during the second quarter. The CAI ended at 197.51 in April, 174.63 in May, and 150.81 in June. The CAI’s performance compared to H1’19 reflected an 89.63 point decrease, highlighting the pace of awarded contracts that were witnessed in 2019. The strong showing during the first quarter lifted the CAI above the 100 point mark but will be tested in the coming quarters as contracts are still expected to be suspended or cancelled.

Prior to fall out from the pandemic, the CAI was returning to the form it witnessed during the construction boom period prior to 2016 whereby index values of 200 or more were common. The rebound in 2019 and into Q1’20 reflected the resurgence the construction sector was witnessing, which would likely have had continued into 2020. The resolve of the construction sector, led by government infrastructure and housing projects will assist in the resurgence of the sector as the negative effects of the pandemic subside.

USSBC Contract Awards Index Performance



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

* The USSBC 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.

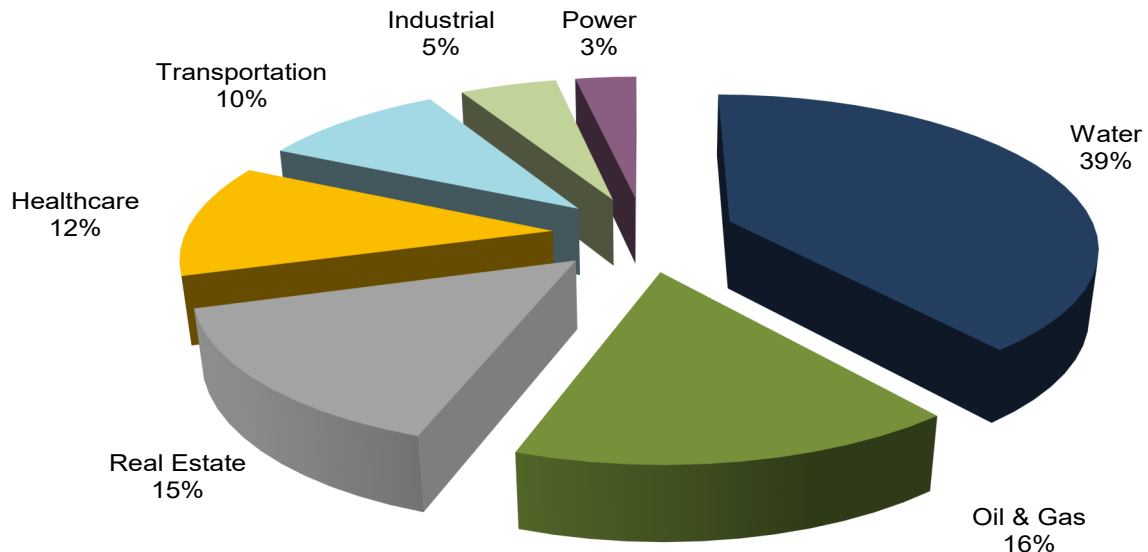


Overview of Awarded Contracts By Sector During Q2 2020

The value of awarded contracts during Q2'20 was led by the water sector, which accounted for SAR4.3 billion (\$1.2 billion) or 39 percent of all contracts. There were two awarded contracts in the water sector and both pertained to the construction of desalination plants in the Eastern Province on behalf of the Saudi Water Partnership Company (SWPC) and the Saline Water Conversion Corporation (SWCC). The water sector has garnered approximately SAR7.1 billion (\$1.9 billion) through H1'20, accounting for 13 percent of all awarded contracts by value.

The oil & gas sector registered the second highest value of awarded contracts with SAR1.8 billion (\$475 million), which accounted for 16 percent of all contracts. Saudi Aramco awarded two contracts during the second quarter that included transmission line work and installation in the Eastern Province. The oil & gas sector leads all other sectors through H1'20 with approximately SAR13 billion (\$3.5 billion), accounting for 23 percent of all awarded contracts by value. The real estate sector registered a close third place with SAR1.7 billion (\$440 million), accounting for 15 percent of all awarded contracts by value. Within the real estate sector, the hospitality and mixed-use categories awarded contracts across the Kingdom. The real estate sector has generated SAR4.4 billion (\$1.2 billion) or 8 percent of all awarded contracts by value. Other supporting sectors included healthcare, transportation, industrial and power.

Value of Awarded Contracts by Sector During Q2 2020



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

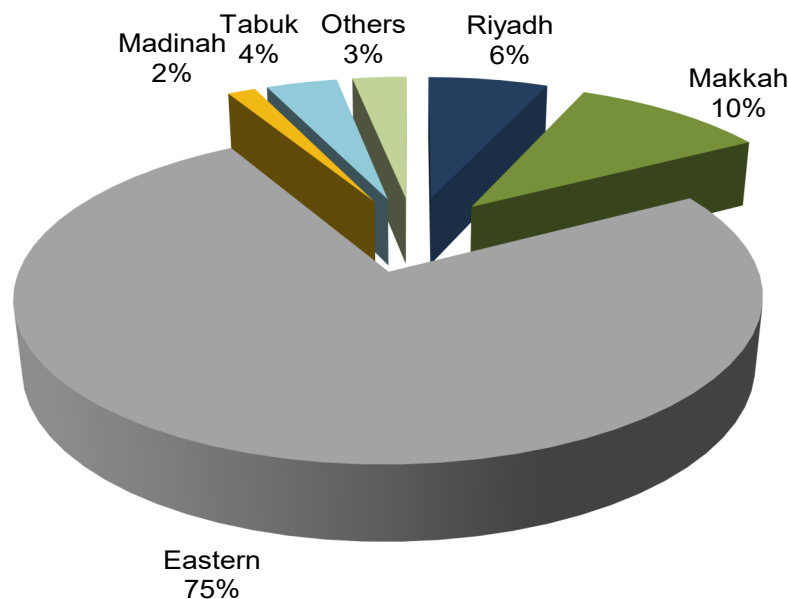


Overview of Awarded Contracts By Region During Q2 2020

The Eastern Province accounted for the highest share of awarded contracts during Q2'20 with SAR8.2 billion (\$2.2 billion) or 75 percent of the total. The water and oil & gas sectors contributed the highest value of awarded contracts in the Eastern Province, accounting for SAR6.1 billion (\$1.6 billion), or 74 percent of all projects. The projects included water desalination projects as well as work in the Marjan fields. Other contributing sectors included transportation, real estate, and industrial. Through H1'20 the Eastern Province has overwhelmingly led all other provinces with SAR30 billion (\$8 billion) or 54 percent in awarded contracts.

The Makkah region garnered a distant second by value of awarded contracts with SAR1.2 billion (\$307 million) or 10 percent. The power and real estate sectors were the lone contributors to the Makkah region as they involved the construction of an electric substation and a mixed-use development in Jeddah. Thus far through H1'20, the Makkah region has attracted SAR3.2 billion (\$842 million) or 6 percent of the total awarded contracts. The Riyadh region came in third place with SAR707 million (\$188.5 million) as the healthcare and real estate sectors were the lone contributors. The projects include the construction of a six-story hospital and a large development by the Diriyah Gate Development Authority. The Riyadh region's total value of awarded contracts through H1'20 accounted for SAR17.3 billion (\$4.6 billion) or 31 percent.

Value of Awarded Contracts by Region During Q2'20



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



Breakdown of Awarded Contracts Across Top Performing Sectors

Water

The water sector's SAR4.3 billion (\$1.2 billion) during Q1'20 led all other sectors although only two contracts were awarded. The water sector grew by SAR1.5 billion or 53 percent compared to last quarter, which witnessed SAR 2.8 billion (\$752 million) in awarded contracts. However, the water sector registered a decline in awarded contracts in H1'20 of SAR6.4 billion (\$1.7 billion) compared to the same period last year.

The first of the two contracts was awarded in April by the Saudi Water Partnership Company to a joint venture between China's SEPCO III Electric Power Construction Corporation and Spain's Abenoga in the amount of SAR2.4 billion (\$650 million). According to MEED Projects, the projects call for the consortium to construct a desalination plant as part of the Jubail 3 independent water plant (IWP). The project will include construction of a seawater reverse osmosis plant that will produce 600,000 cubic meters per day, a 380/33 kV electrical substation, a pumping station, product water storage tank, seawater intake system, and the development of associated facilities. The project is expected to be completed by the first quarter of 2022.

The second contract, which was also awarded in April pertained to the development of another desalination plant in the Eastern Province. The Saline Water Conversion Corporation awarded the contract to a consortium consisting of Spain's ACCIONA and the local Al Rashid Trading and Contracting Company. The approximately SAR1.9 billion (\$500 million) project involves the construction of the Alkhubar 2 desalination plant. Once constructed, the desalination plant will also produce 600,000 cubic meters per day of water. The desalination plant is expected to service up to 3 million residents in the surrounding area. The project is estimated to be completed by the second quarter of 2022.

Oil & Gas

The oil & gas sector witnessed significant declines in contract awards during Q2'20 compared to last year. The SAR1.8 billion (\$475 million) in awarded contracts this quarter reflects the impact of COVID-19 as well as the decrease in oil prices has had on Saudi Aramco's project plans for 2020. Prior to the downturn, the oil & gas sector generated SAR11.2 billion (3 billion) in awarded contracts during Q1'20, which was on par with the prior year of SAR11.8 billion (\$3.1 billion). Even more detrimental was the performance through H1'20, which yielded only SAR13 billion (\$3.5 billion) compared to SAR60.2 billion (\$16 billion) in the prior year. The numerous project holds by Saudi Aramco during Q2'20 will increase the pipeline of awarded contracts into the remainder of 2020 and into 2021, once they are resumed.

Similar to the water sector, the oil & gas sector witnessed only two contracts. Saudi Aramco awarded both



contracts within the Eastern Province. The first contract was awarded to Lebanon's CAT Group in April in the amount of SAR1.5 billion (\$400 million). According to MEED Projects, CAT group will construct transmission pipelines in South Ghawar. Additional work include, laying four trunk line scraper receivers from Mihwaz and Mazalij fields, laying of two transmission lines scraper launcher to Haradh Gas Plant, laying of new flow lines, and additional related facilities. The project is expected to be completed by the fourth quarter of 2023.

The second awarded contract by Saudi Aramco was in the amount of SAR281 million (\$75 million) to Italy's Saipem. According to MEED Projects, Saipem will be responsible for the installation of jackets at Qatif and Marjan fields in the Eastern Province. There will be two jackets installed at each of Qatif and Marjan, and one jacket installed at Abu Safah. Two observation decks will be installed at Manifah, along with associated facilities. The project is expected to be completed by the fourth quarter of 2022.

Real Estate

The real estate sector's SAR1.7 billion (\$440 million) in awarded contracts rounded out the top three sectors during Q2'20. The real estate sector witnessed declines as a number of project awards were delayed. Consequently, the value of awarded contracts declined by SAR3.8 billion (\$1 billion) in Q1'20 compared to last year. Furthermore, the value of awarded contracts through H1'20 also witnessed declines as the value decreased by SAR5.7 billion (\$1.5 billion) compared to the same period last year.

There were three contracts of note in the real estate sector that focused on the mixed-use and hospitality areas. The first contract was awarded within the mixed-use real estate by AWJ Group to Azad Properties Turkiye in May. According to MEED Projects, the SAR900 million (\$240 million) project calls for the development of Souq7, a retail shopping complex on 728,000 square meters in Jeddah. The development will include food and beverage outlets, family entertainment zones, electronic stores, furniture stores, automotive zones, as well as parking and related facilities. The project is expected to be completed by the fourth quarter of 2023.

The second contract pertained to the hospitality category and involved the construction of a hotel in Dhahran. The contract was awarded in May by the Dhahran Techno Valley Company to China's Sinohydro in the amount of SAR450 million (\$120 million). According to MEED Projects, Sinohydro will construct the hotel on 55,000 square meters of land. The four-star hotel will be 10 stories high and will consist of 216 hotel rooms and 118 apartment rooms. Accor is expected to be the sole hotel operator. The project is expected to be completed by the fourth quarter of 2023.

The third contract was also in the hospitality category and involved the construction of a hotel in April. The project was awarded by the Diriyah Gate Development Authority to the local Al Bawani in the amount of



SAR300 million (\$80 million). According to MEED Projects, the project calls for the construction of a 142 room “Samhan Heritage Hotel” in the Bujairi District in Riyadh. Additional works include horse bridle paths, pedestrian pathways, infrastructure and associated facilities. The project is expected to be completed by the fourth quarter of 2025

Healthcare

There was one notable contract in the healthcare sector involving the construction of a hospital in Riyadh. The Royal Commission for Riyadh City awarded the contract to the local International Hospitals Construction Company in the amount of SAR675 million (\$180 million). According to MEED Projects, the project involves constructing a six story, 1,200 bed hospital called “Medical Tower Riyadh” that will be situated on 10,673 square meters of land. Additional works include the construction of a retail shop, offices, amenities, and related facilities. The project is expected to be completed by the fourth quarter of 2023.



Contract Awards Outlook

The decline in awarded contracts during Q2'20 was anticipated as stay at home orders and significant budgetary adjustments by the government and private sector were dictated by the coronavirus pandemic. The recent release of the Kingdom's Q2 budgetary report illustrates the impact COVID-19 and lower oil prices had on revenues, which resulted in a deficit of SAR109 billion (\$29.1 billion). Furthermore, the redirecting of state expenditures impacted the allocation of capital expenditure projects. Capital expenditures have fallen by 52 percent during Q2'20 and by 36 percent during H1'20 compared to last year. The impact of the pandemic also affected the Economic Resources expenditures category, which decreased by 43 percent in H1'20 compared to the prior year. This category contains infrastructure related projects such as environmental works, water, agriculture, energy and mineral wealth, and tourism projects.

Construction activities are expected to recover in the coming months after a tough second quarter. The remainder of 2020 will still be challenging but construction activity has already picked up slightly as the number of coronavirus cases in the Kingdom decline and the recovery of oil prices continues. A number of positive developments are underway that include the continued development of the Kingdom's residential real estate sector. In order to achieve one of Vision 2030's most important objectives of a 70 percent homeownership rate, the Ministry of Housing continues to construct housing units at an historic pace. The "Sakani" program plans to construct 100,000 housing units in 2020 and this will drive the growth of the construction sector. The Public Investment Fund's recent establishment of "Roshn" is expected to attract more private sector involvement while lessening the burden on government resources to allocate housing to citizens.

Another positive sign is the resurgence of cement sales. Total cement sales of the 17 local producers jumped by 38 percent in August compared to the same period last year. Domestic sales increased by 41 percent. Furthermore, the National Cement Committee expects the cement sales to be buoyed by the residential real estate sector and witness steady demand for the remainder of 2020.

Looking ahead, there are a number of projects on the horizon that should drive construction activities for the remainder of 2020. These projects include the construction of the public facilities phase of the Qiddiya Project, the Red Sea Tourism airport packages, and Saudi Aramco oil & gas related projects.



Notable Contracts During Q2 2020

Sector	Region	Client	Contractor	Details	Value (SAR Millions)
Water	Eastern	Saudi Water Partnership Company	SEPCO III Electric Power Construction Corporation and Abengoa (Joint Venture)	Reverse osmosis desalination plant including installation of field solar photovoltaics	2,438
		Saline Water Conversion Corporation	ACCIONA and RTCC	Construction of the Al Khobar 2 desalination plant	1,875
Oil & Gas	Eastern	Saudi Aramco	CAT Group	Transmission pipelines connecting to the main Haradh gas separation plant	1,500
Transportation	Eastern	Royal Commission for Jubail & Yanbu	China Geo-Engineering Corporation	Series of highway interchanges on the TS-1, TS-2, Ansar Road, Al Lulu Road, and Saud Road	596
		Ministry of Transportation		Completion of Jubail/ Riyadh to Riyadh/ Dammam highway road	628
Mixed-Use Real Estate	Makkah	AWJ Group	Azad Properties Turkiye	Souq7, a retail shopping complex in Jeddah	900
Hospitality	Eastern	Dhahran Techno Valley Company	Sinohydro	Ten-story, four-star hotel with 216 rooms and other amenities	450
Healthcare	Riyadh	Ministry of Health	International Hospitals Construction Company	Six-story hospital tower called 'Medical Tower Riyadh'	675



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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