

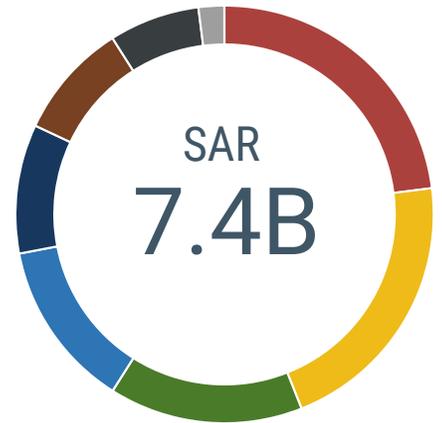
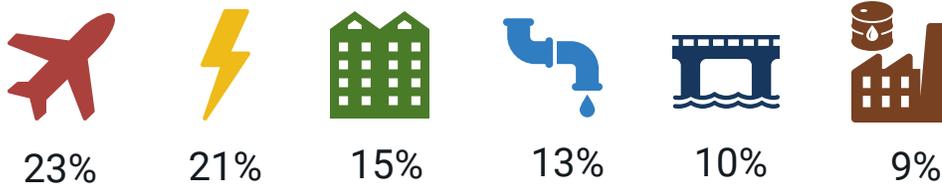
USSBC Contract Awards Index: Third Quarter of 2020 Review of Construction Contract Awards in Saudi Arabia



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 Q3 2020 report are shown below. Updates are published on a quarterly basis.

Contracts Awarded by Sector



A majority of the awarded contracts were in transportation, power, and real estate which accounted for approximately 59% of the total value of contracts awarded. Water, urban development, and petrochemicals accounted for 32% of the total value while oil & gas accounted for only 7% of the total, the lowest on record. 2% were awarded in other sectors.

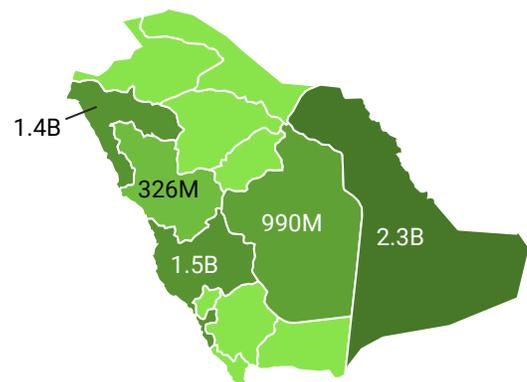
Contract Awards Index Over Time



The USSBC's Contract Awards Index fell to 105.26 points by the end of the third quarter. The index steadily declined through the quarter as the slowdown in the construction sector continues.

Contract Awards By Province

The Eastern Province accounted for nearly a third of the value of awarded contracts (32%) in Q3, including a new chlorine derivatives plant and an industrial wastewater processing plant in Jubail. Makkah Province followed with 20% of contract awards, primarily in the power and real estate sectors. Tabuk Province reached the highest level this year at SAR1.4B, or 19%, including major infrastructure works at Red Sea International Airport. Other megaproject contracts in Q3 include transportation infrastructure works at Qiddiya in Riyadh Province.



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



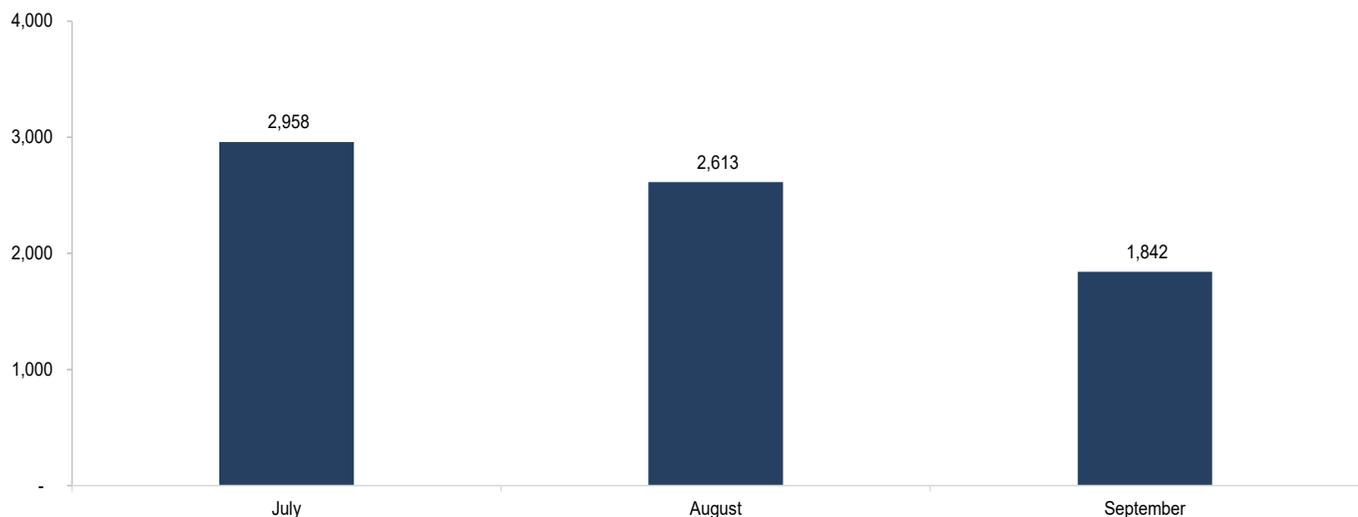
USSBC Contract Awards Index Third Quarter 2020

USSBC Quarterly Review of Contract Awards in Saudi Arabia

Highlights

1. The total value of awarded contracts declined to SAR7.4 billion (\$2 billion) during the third quarter as COVID-19 related strains on government and private sector entities persist. The total value of awarded contracts through the first three quarters of 2020 reached SAR63.6 billion (\$17 billion).
2. The USSBC's Contract Awards Index fell to 105.26 points by the end of the third quarter. The index steadily declined through the quarter as the slowdown in the construction sector continues.
3. The transportation sector led all sectors with SAR1.7 billion (\$461 million) worth of contract awards
4. The power sector placed second with SAR1.6 billion (\$414 million) worth of awarded contracts.
5. The real estate sector came in third with SAR1.1 billion (\$296 million) worth of contract awards.

Value of Awarded Contracts During Q3 2020 (SAR Millions)



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

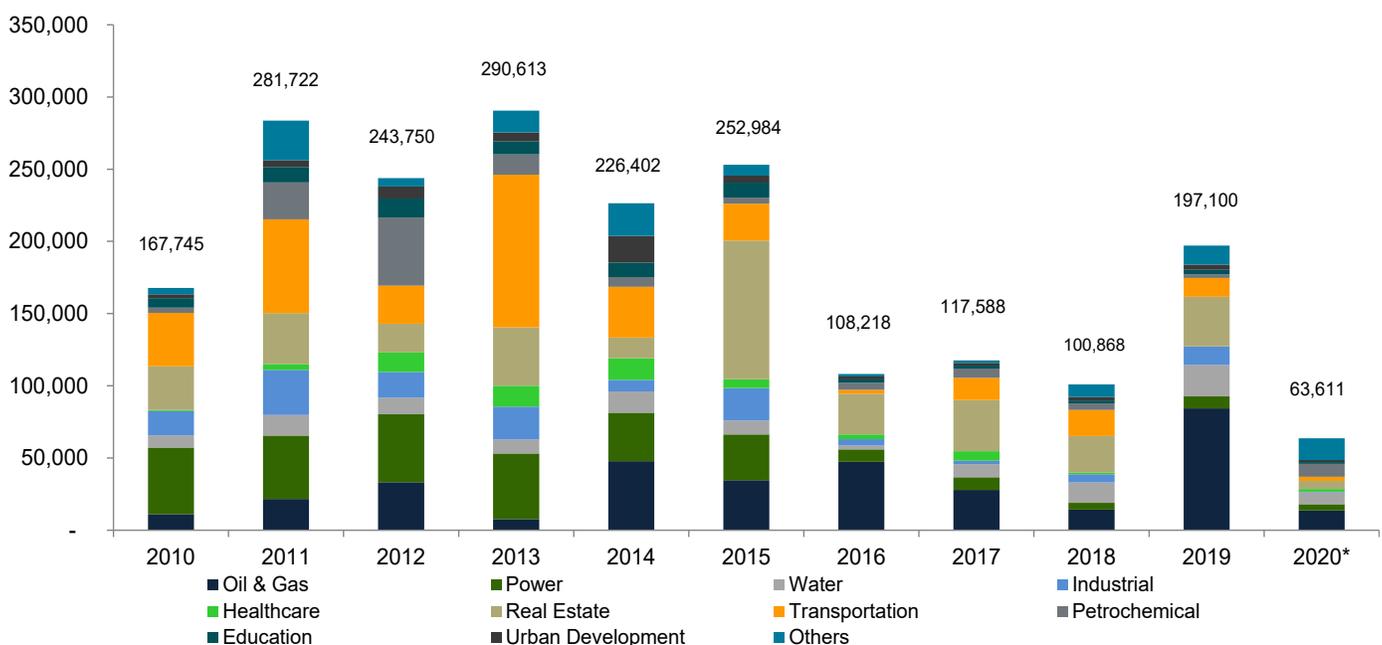


Overview of Awarded Contracts During Q3 2020

The construction sector continued to weather the COVID-19 pandemic as project owners and contractors face ongoing challenges. Revised budget spending along with fiscal consolidations by the government and private sector strained the pipeline of awarded contracts during Q3'20 as the value reached SAR7.4 billion (\$2 billion). The government's commitment to absorbing the financial impact of the pandemic on the economy through fiscal spending cuts has mainly impacted its capital expenditures. According to the Q3 2020 budget update report from the Ministry of Finance, capital expenditures have decreased by 26 percent through Q3 compared to 2019. Furthermore, the 'Economic Resources' sector, which includes infrastructure and tourism related spending witnessed a 38 percent decline through Q3'20 compared to 2019. Spending in these areas is one of the main drivers of contract awards as was the case in 2019. The drop in awarded contracts in Q3'20 compared to Q2'20 resulted in a 33 percent decrease. Compared to Q3'19, the value of awarded contracts precipitously fell by SAR40.4 billion (\$10.8 billion) in Q3'20. Through Q3'20 the value of awarded contracts during the pre-pandemic period of 2019 reached SAR161.8 billion (\$43.2 billion) versus 2020, which slowed to SAR63.6 billion (\$17 billion).

The power, urban development, and real estate sectors accounted for 55 percent of all awarded contracts by value. The transportation, water, and petrochemical sectors were also contributors although their values were suppressed compared to 2019.

Value of Awarded Contracts by Year (SAR Millions)



* Through Q3'20

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



USSBC's Contract Awards Index Performance Through Q3 2020*

The USSBC Contract Awards Index (CAI) reached 105.26 points at the end of third quarter. The steady decline in the index since the start of the pandemic signals the potential slow down in executable projects in the coming 6-18 months. The CAI heightened level during 2019 indicated that a significant number of projects were expected to transition into the execution phase in 2020. However, the numerous suspension of projects stemming from COVID-19 has put many of those developments on hold. While these projects are expected to resume as the Kingdom recovers financially from the pandemic, the stagnation of awarded contracts in 2020 will cause executable contracts to decline in the next year. Improved market conditions in 2021 will revive the CAI as the pipeline of contracts currently in the design/bidding phase that are on hold will be awarded throughout next year.

The CAI ended at 134.27 points in July, 119.50 in August, and 105.26 in September. The CAI declined by 45.55 points compared to Q2'20 and by 130.73 points compared to Q3'19. The steep declines in the CAI have not been witnessed since 2016 as the Kingdom was faced with budgetary pressures stemming from volatile oil markets. The CAI is expected to recover at a quicker pace than it did between 2016-2018.

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.

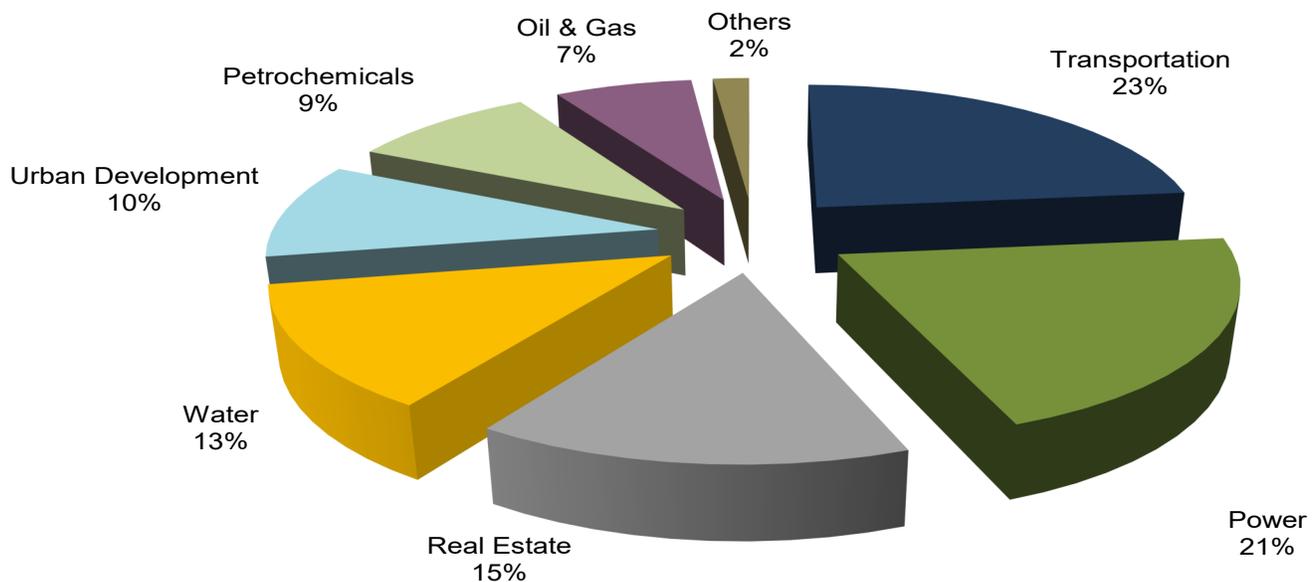


Overview of Awarded Contracts By Sector During Q3 2020

The value of awarded contracts was fairly distributed among a number of sectors during Q3'20. The transportation sector registered the highest value of contract awards with SAR1.7 billion or 23 percent of the total. It had only three contracts but each of them pertained to roadway development at the Red Sea Development project, the Qiddiya project, and the Amaala project. Thus far in 2020, the transportation sector has accounted for SAR3.5 billion (\$936 million) or 6 percent of the total value of awarded contracts.

The power sector accounted for the second highest value of contract awards with SAR1.6 billion or 21 percent of the total. The majority of the contracts were awarded by the Saudi Electricity Company (SEC) and involved the construction of substation and overhead transmission lines. The Royal Commission for Jubail and Yanbu along with the Saline Water Conversion Corporation accounted for the remaining power projects. The power sector accounted for SAR4.5 billion (\$1.2 billion) or 7 percent of the total value of awarded contracts through the first three quarters of 2020. The real estate sector garnered the third largest contracts awards by value with SAR1.1 billion (\$296 million). The majority of the projects involved the continued development of the residential sector per the government's prioritization of supplying affordable housing to its citizens. Thus far in 2020, the real estate sector has attracted SAR5.5 billion (\$1.5 billion) or 9 percent worth of awarded contracts.

Value of Awarded Contracts by Sector During Q3 2020



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

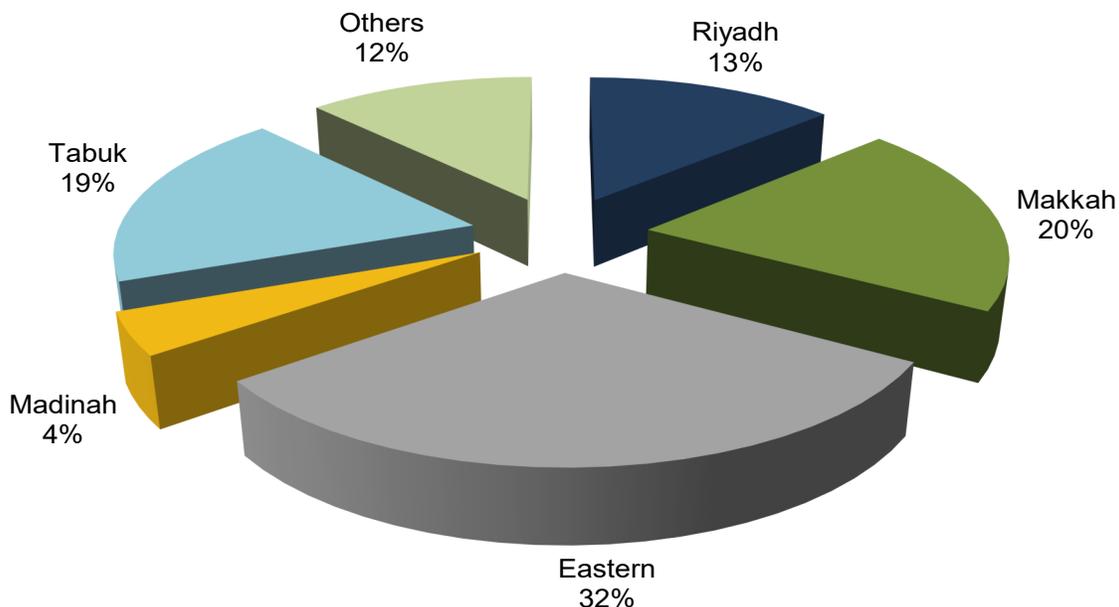


Overview of Awarded Contracts By Region During Q3 2020

The Eastern Province continued to lead all regions in awarded contracts despite the slowdown in oil & gas projects. The Eastern Province accounted for SAR2.3 billion (\$621 million) or 32 percent in Q3'20. The oil & gas and petrochemical sectors accounted for SAR1.2 billion (\$317 million) or 51 percent of the Eastern Province's contracts. The oil & gas projects were awarded by Saudi Aramco for the construction and installation of jackets and storage tanks while the petrochemical project involved the construction of a chlorine derivatives plant in Jubail. Through Q3'20, the total value of awarded contracts in the Eastern Province has accounted for 32.4 billion (\$8.6 billion) or 51 percent of all projects.

The Makkah region accounted for the second highest value of contract awards with SAR1.5 billion (\$400 million) or 20 percent. The power and real estate sectors accounted for the majority of contracts in Makkah with SAR477 million (\$127 million) or 32 percent and SAR600 million (\$160 million) or 40 percent, respectively. The projects involve the construction of power substations and residential real estate housing projects. The Makkah region has garnered SAR4.6 billion (\$1.2 billion) worth of contracts through Q3'20. The Tabuk region registered the third highest value of awarded contracts with SAR1.4 billion (\$371 million) or 19 percent. Tabuk was represented by several sectors in the third quarter but most notable was the transportation sector which accounted for SAR1 billion (\$370 million) or 74 percent. The Tabuk region has accounted for only 5 percent of the total value of awarded contracts in 2020.

Value of Awarded Contracts by Region During Q3'20



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



Breakdown of Awarded Contracts Across Top Performing Sectors

Transportation

The transportation sector accumulated SAR1.7 billion (\$461 million) worth of awarded contracts on only three deals during Q3'20. The transportation sector grew by SAR668 million (\$178 million) or 63 percent compared to last quarter, which witnessed SAR1.1 billion (\$283) worth of contracts. Compared to Q3'19, the transportation sector grew by SAR596 million (\$159 million) or 53 percent this quarter. However, the transportation sector declined by SAR7.7 billion (\$2.1 billion) through Q3'20 compared to the same period in 2019.

Two notable contracts were awarded that pertained to the development of the Kingdom's tourism sector. The first contract was awarded in July by the Red Sea Development Company to a local joint venture between Almabani and Nesma & Partners. According to MEED Projects, the SAR938 (\$250 million) project involves the construction of an airside package, which will have the capacity to handle 1 million passengers a year by 2030 at the Red Sea Tourism project's international airport. Details of the project included the development of a 3.7km runway, a seaplane runway, taxiways, helipads, roadway paving, lighting, and additional utilities. The project is expected to be completed by the fourth quarter of 2022.

The second contract was awarded by the Qiddiya Investment Company to the local Shihb Al Jazira Contracting in July for the development of Qiddiya's road and bridges in Riyadh. According to MEED Projects, the SAR698 million (\$186 million) contract involves the construction of 45km of road works, seven road bridges, asphaltting 1.2 million square meters, stormwater drainage, and associated facilities. The project is expected to be completed by the second quarter of 2023.

Power

The power sector climbed in Q3'20 to reach SAR1.6 billion (\$414 million) worth of awarded contracts. The power sector witnessed a sizeable increase after only SAR349 million (\$93 million) worth of contracts were awarded during Q2'20. Awarded contracts also rose by SAR788 million (\$210 million) compared to Q3'19. For the year, the power sector has reached SAR4.5 billion (\$1.2 billion) in 2020 versus SAR3.9 billion (\$1 billion) for the same period in 2019.

The SEC awarded a majority of the contracts in the power sector yet they were smaller in size. The two largest contracts were awarded by the Royal Commission of Jubail & Yanbu (RCJY) and the SWCC. The first of these two contracts was awarded by RCJY in July to the local Hadi Haider Company for the construction of a new substation in the Jizan City for Primary & Downstream Industries. The contract, which is worth SAR300 million (\$80 million), calls for the construction of a 132kV substation, installation of underground cables, switchgears, and associated facilities. According to MEED Projects, the project is



expected to be completed by the fourth quarter of 2023.

The second contract was awarded by SWCC in September to the local Al Gihaz holding in the amount of SAR409 million (\$109 million). According to MEED Projects, Al Gihaz Holding will construct a 380kV substation in Shoaiba and install switchgears, a power transformer, capacitor bank, along with associated facilities. The project is expected to be completed by the fourth quarter of 2022.

Real Estate

The real estate sector had the third largest awarded contracts by value as it garnered SAR1.1 billion (\$296 million). The real estate sector's value of awarded contracts has steadily declined in 2020, yet it still maintained its position as a top contributor. The value of awarded contracts declined by SAR540 million (\$144 million) compared to the previous quarter and was unable to maintain the pace that was witnessed in Q3'19 when the awards reached SAR12.1 billion (\$3.2 billion). Through Q3'20, the real estate sector has accumulated SAR5.5 billion (\$1.5 billion) in awarded contracts although this is significantly lower than the same period in 2019, when SAR22.2 billion (\$5.9 billion) worth of contracts were awarded.

Residential real estate contributed the highest amount of contract awards, accounting for 60 percent. Commercial real estate accounted for 27 percent and hospitality with 13 percent. The two largest contracts were in residential and commercial real estate. According to Saudi Gulf Projects, the residential real estate contract was awarded in August by the National Housing Company to the local Sumou Real Estate Development Company for the construction of 404 villas that will be situated on 105,000 square meters of land in Jeddah. The SAR300 million (\$80 million) project is expected to be completed by the third quarter of 2024.

The commercial real estate contract was awarded by RCJY for the development of a shopping mall in Yanbu. According to Saudi Gulf Projects, the SAR300 million (\$80 million) project will be developed with U.A.E. based LuLu group and will also contain an AMC theater. The project will be constructed on 40,814 square meters of land and anchored by a LuLu Hypermarket.



Contract Awards Outlook

The construction sector continues to be significantly impacted by the COVID-19 pandemic as the pace of awarded contracts have precipitously fallen over the last two quarters. The Kingdom's real GDP declined by 7 percent in the second quarter and marginally improved to -4.2 percent in the third quarter. Real GDP also improved quarter over quarter to grow by 1.2 percent after declining by 4.9 percent in the second quarter. While these mild improvements do provide optimism for the near-term, the recent resurgence of COVID-19 cases globally coupled with volatile oil markets stemming from these uncertainties clouds the Kingdom's budget. The Kingdom's construction sector is largely reliant on capital expenditures along with robust oil revenues. In an effort to mitigate potential budgetary shortfalls, OPEC recently stated that global oil demand is anticipated to be lower than previously forecasted. OPEC estimates demand will grow by 6.25 million barrels per day (bpd) in 2021 to reach an average 96.26 million bpd. This forecast reflects a 300,000 bpd decrease compared to OPEC's forecast a few weeks ago.

The Kingdom's budget, as mentioned earlier, witnessed declines in capital expenditures and infrastructure based spending. However, the recent announcement by H.R.H. Crown Prince Mohammed bin Salman that the Public Investment Fund will inject SAR150 (\$40 billion) annually into the economy in 2021 and 2022 is a positive development. The PIF's role in keeping the economy buoyant in the face of a global downturn will be pivotal in progressing through Vision 2030's mandates. Furthermore, the Saudi Contractors Authority has maintained that the government's mega-projects related to Vision 2030 will continue to be its focal point in the near-term. Another positive sign is the Ministry of Finance's 2021 preliminary budget statement, which maintains that spending on mega-projects and Vision Realization Programs, including the Housing Program and Quality of Life Program will continue to see investments into these areas.

In the short-term, a number of mega-projects are expected to keep the construction sector active. Chief among them is the recent announcement by The Red Sea Development Company to close on financing facilities worth SAR14 billion (\$3.7 billion) from local banks. The company also plans on awarding SAR15 billion (\$4 billion) worth of contract through 2020, which will maintain the Kingdom's construction spending.



Notable Contracts During Q3 2020

Sector	Region	Client	Contractor	Details	Value (SAR Millions)
Transportation	Tabuk	The Red Sea Development Company	Almabani and Nesma & Partners (Joint venture)	Construction of a 3.7km runway and taxiways for the Red Sea International Airport	938
	Riyadh	Qiddiya Investment Company	Shibh Al Jazira Contracting	Stormwater drainage, roads, and bridges within Qiddiya's lower plateau	698
Water	Eastern	Marafiq	Saudi Services for Electro Mechanical Works	Wastewater treatment plant processing 125k cubic meters per day as part of the Jubail industrial WTP expansion	758
Petrochemicals	Eastern	Basic Chemical Industries Co.	Nasser Saeed Al Hajri & Partners Contracting Co.	Construction of chlorine derivatives plant in Jubail	685
Power	Makkah	SWCC	Al Gihaz Holding	Substation in the Shoibah area	409
	Jizan	RCJY	Hadi Haider Company	Substation SS1A to provide power to the expansion area in the JCPDI	300
Urban Development	Madinah	Madinah Municipality		King Abdulaziz Square project. Includes a 38k square meter yard, commercial outlets	300
Oil & Gas	Eastern	Saudi Aramco	Tecnicas Reunidas	Sour water stripper at Ras Tanura refinery	300
Real Estate	Makkah	National Housing Company	Sumou	Construction of 404 villas on a land area of 105k square meters	300
		RCJY		Shopping mall project in Yanbu City in collaboration with UAE-based LuLu Group	300

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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