GCC Projects Market Update

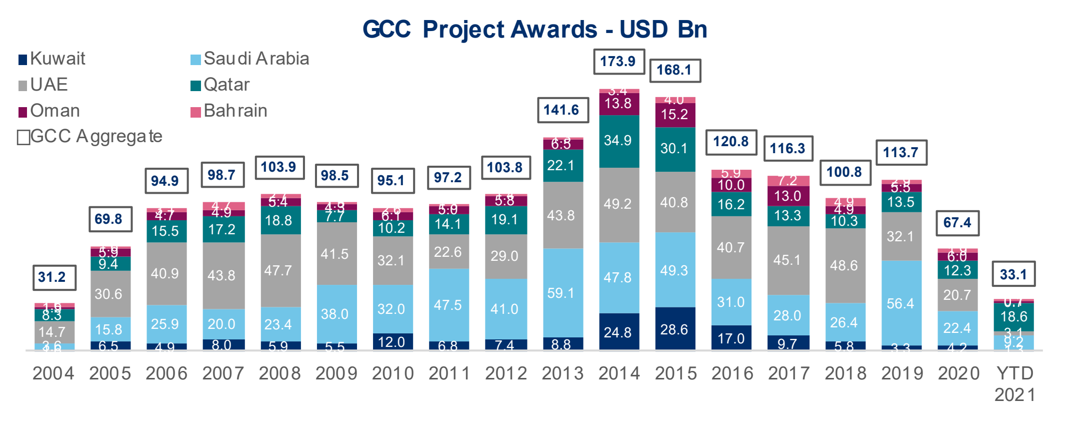
May-2021

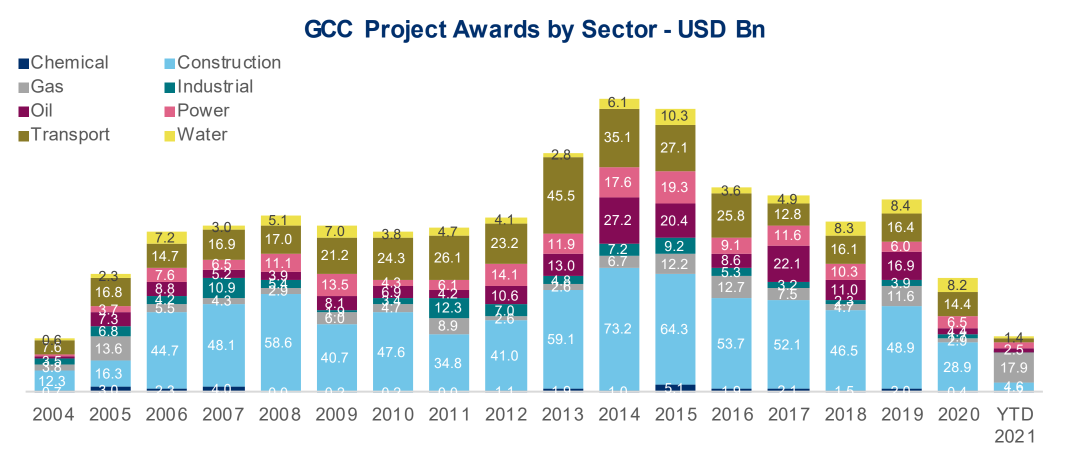
GCC projects activity shows signs of green shoots…

After witnessing declines over the last several quarters, the GCC project market showed healthy recovery during Q1-2021 with value of projects awarded more than doubling q-o-q to USD 26.3 Bn. This was mainly led by pending project awards from last year, in addition to efforts by governments in the region to vaccinate the bulk of the population and limit the spread of the Covid-19 that affected economic activity across the globe. According to Bloomberg, close to 26.5 Mn doses have been administered with at least the first dose of the vaccine in the GCC out of a total population of 54 Mn residents. Most of the countries have already announced easing or no restrictions with an eye on providing uninterrupted business activity.

Historically, however, the GCC project market has remained under severe pressure ever since the crude oil prices started declining and the onset of Covid-19 was essentially only partly responsible for the slowdown that the sector is witnessing recently. The region has seen a decline in new project awards over the years as even the existing and ongoing projects were thoroughly scrutinized for their viability in a low spending environment. With rising debt levels and record high fiscal deficits as revenues declined, governments in the GCC cancelled numerous projects after the fall in oil prices. **This affected the aggregate project market in the region even before the Covid-19 pandemic started and as projects got completed contractors in the region were seeing declining workloads.**

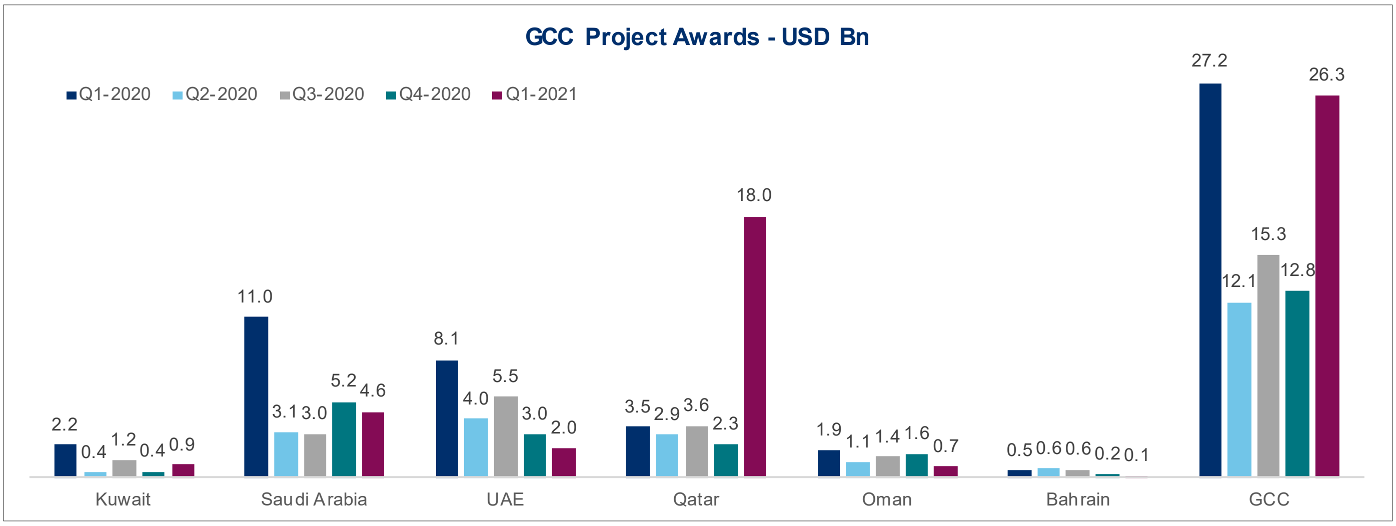
The value of projects planned and under execution in the GCC has remained around the USD 1.7 Trillion mark since 2017. However, at the country level, UAE has seen its share decline consistently over the years whereas Saudi Arabia has seen an increasing share especially post the announcement of the big ticket projects. The two markets have accounted for more than 84% of the total market over the last two years. **The project market in Kuwait has witnessed very gradual growth over the last several years. Total value of project planned and under execution stood at USD 86.1 Bn at the end of 2015 that increased to USD 91.6 Bn at the start of May-2021.**





Sources : MEED Projects, Kamco Invest Research

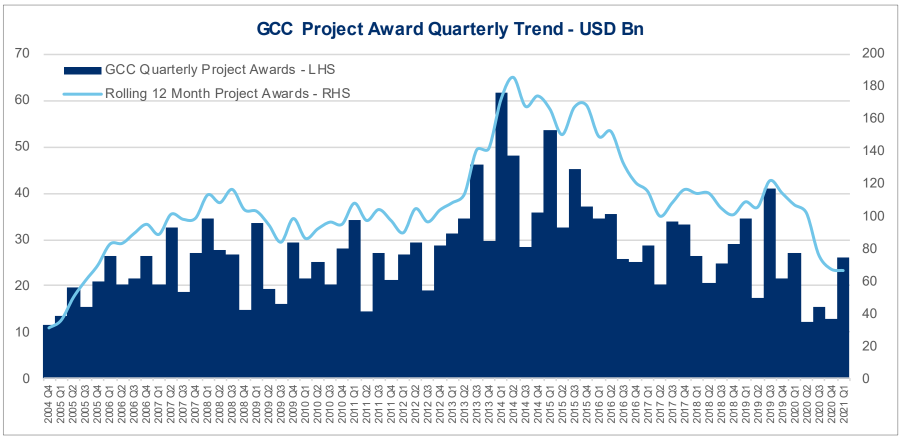
Junaid Ansari
Head of Investment Strategy & Research
+(965) 2233 6912
jansari@kamcoinvest.com



Sources : MEED Projects, Kamco Invest Research

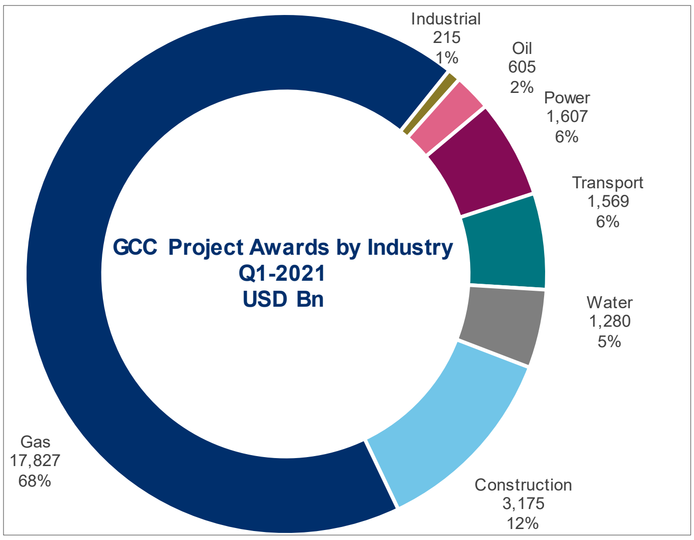
Quarterly trend shows wide variations in the GCC but promising seasonal rebound...

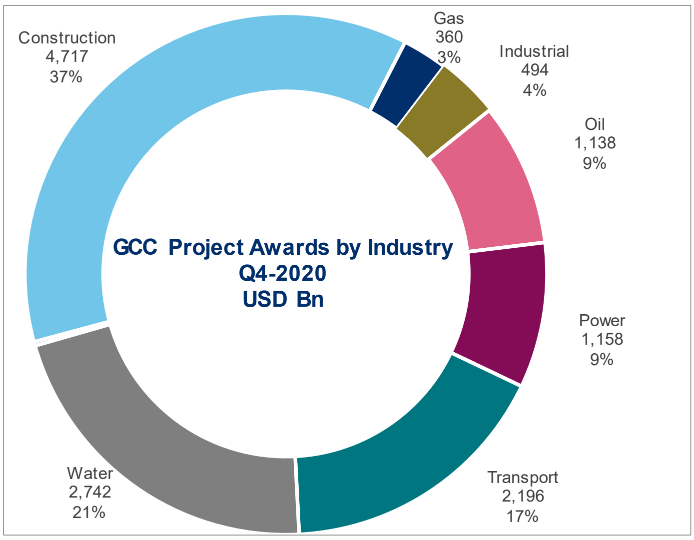
In terms of quarterly data on project awards, the GCC region witnessed the normal seasonal spike during Q1-2021 with project awards worth USD 26.3 Bn, more than double the contract awards during Q4-2020 that stood at USD 12.8 Bn. However, the growth came mainly on the back of a q-o-q increase in project awards in Qatar and Kuwait while the rest of the GCC countries reported declines. When compared to Q1-2020, only Qatar reported a growth in project awards that resulted in a smaller decline at the aggregate GCC level at 3.5%. The higher number for Qatar mainly reflects the USD 13.0 Bn award for the Qatargas - LNG processing trains project. On the other hand, Saudi Arabia and UAE have seen the biggest absolute fall in project awards during Q1-2021 with declines at USD 6.5 Bn and USD 6.1 Bn, respectively.



Sources : MEED Projects, Kamco Invest Research

In terms of full year performance, project awards in the GCC showed a declining trend in the last 6 out of 7 years. According to data from MEED Projects, total project awards in 2020 reached USD 67.4 Bn the lowest recorded level since 2004. The y-o-y decline in 2020 stood at USD 46.2 Bn with Saudi Arabia seeing the biggest decline in the region with a fall of USD 34.0 Bn followed by UAE with a decline of USD 11.5 Bn. Kuwait and Oman were the only bright spots during 2020 recording a y-o-y





Sources : MEED Projects, Kamco Invest Research growth in project awards during the year at USD 0.9 Bn and 0.5 Bn, respectively. Total value of GCC contracts of the Construction Sector awarded during Q4-20, the largest projects sector in the GCC, sank 50.3% to reach USD 4.1 Bn against USD 8.2 Bn during Q4-19 according to data gathered by MEED.

Sector performance shows consistent awards in Construction, Power and Transport segments

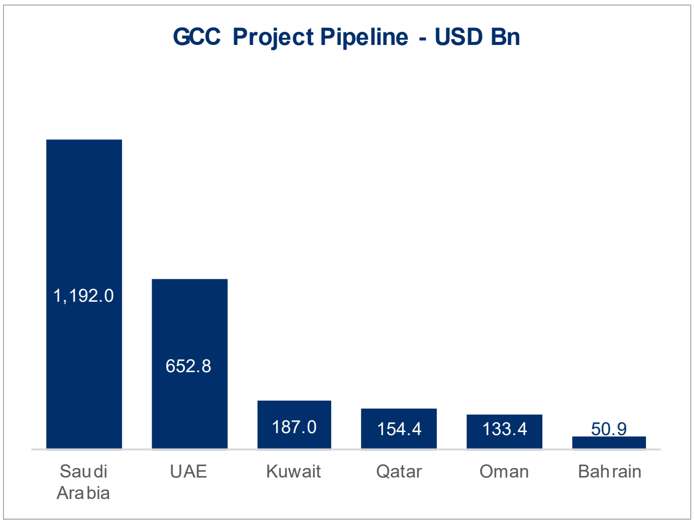
The quarterly contract awards for the GCC region shows a spike in project for the Gas sector during Q1-2021, mainly due to the Qatargas award in Qatar. However, sectors like Construction, Power and Transport continue to show promising consistency in awards in the region. According to data from MEED Projects, average project award for the Construction sector stood at USD 5.5 Bn during the last four quarters while that in the Power and Transport sectors showed averages of USD 1.2 Bn and USD 2.4 Bn, respectively. The water sector has also seen regular project awards over the last few years.

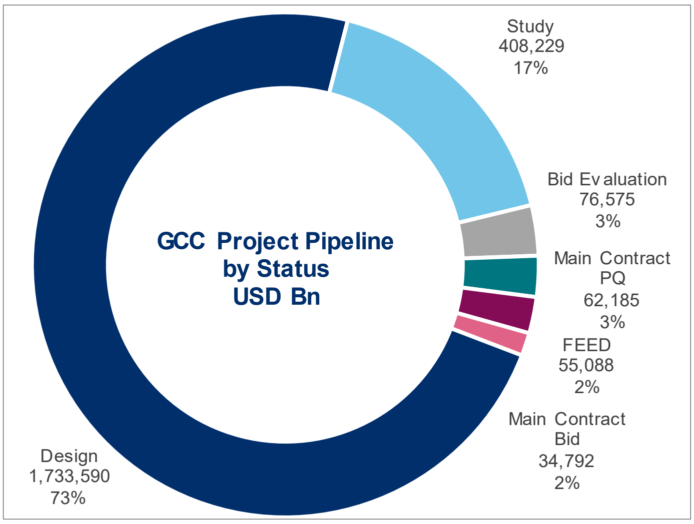
Largest GCC projects awarded in 2020	Country	Value (USD Bn)
MOD - King Faisal Air Academy Construction and Relocation	Saudi Arabia	2.00
MOD - King Salman Airbase Facilities Construction and Relocation Project	Saudi Arabia	2.00
Block 7 - Innovation Hub and Academic Campus in Abu Dhabi	UAE	1.80
KAPP / MPW - Umm al-Hayman Wastewater Treatment Plant Expansion	Kuwait	1.40
Barwa - Madinatna and Barahat Al Janoub Residential Development in Al Wakrah	Qatar	1.35
EWEC - Al Dhafra Second Solar IPP	UAE	1.10
ADPower - Fujairah F3 Independent Power Plant	UAE	0.95
Saudi Aramco - MFD: Co-generation Independent Steam Power Project (ISPP)	Saudi Arabia	0.80
SWPC - Yanbu Desalination Plant: Phase 4	Saudi Arabia	0.70
JWDC - Jubail 3A IWP	Saudi Arabia	0.65

Sources : MEED Projects

Kuwait is expected to roll-out relatively larger number of projects in the near term

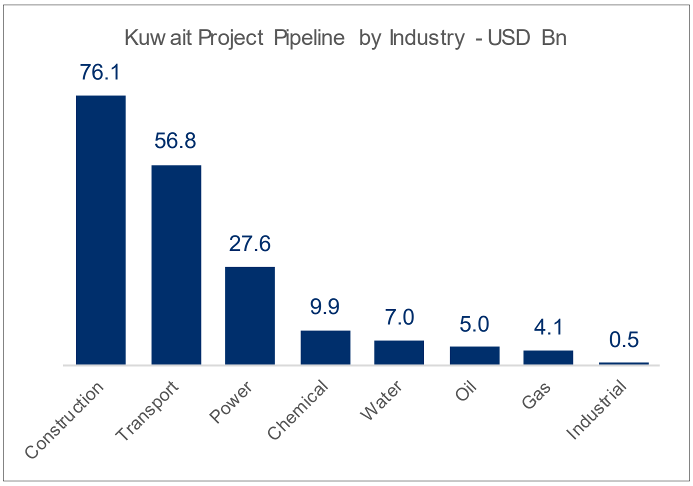
The need to develop non-oil sectors is very apparent in the project pipeline for the GCC countries. According to MEED Projects, Construction projects account for the bulk of the GCC project pipeline at 65% or USD 1.5 Trillion of the total USD 2.4 Trillion. Projects in the Transport industry was next at 12.7% or USD 301.5 Bn followed by Power projects at 6.6% or USD 156.0 Bn. Saudi Arabia continues to be the biggest market with USD 1.2 Trillion worth of projects in pipeline followed by UAE and Kuwait at USD 652 Bn and USD 187 Bn.





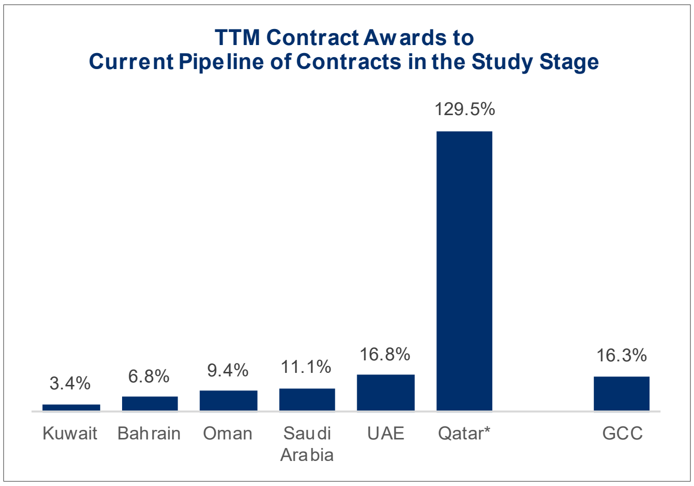
Sources : MEED Projects, Kamco Invest Research

In terms of the stage of the projects, around USD 1.7 Trillion worth of projects are under the design stage followed by USD 408 Bn in the study phase. Despite being the third biggest market in the region in terms of size of project pipeline, Kuwait is the only market in the GCC for which the size of projects under the study stage is greater than the rest of the stages. This can further be analyzed using the last twelve month (TTM) contract awards to current pipeline of projects in the study phase ratio. This ratio is the lowest in the case of Kuwait at 3.4% as compared to the GCC average of 16.3%. This indicates the country could potentially announce an increasing number of projects after the projects progress from the study stage to the bid and design stages. One of the key reasons for this was the slowdown in project awards in Kuwait between 2015-2019. Despite the pandemic, the year 2020 witnessed a growth in project awards in Kuwait from USD 3.3 Bn in 2019 to USD 4.2 Bn in 2020. The trends for 2021 also looks promising with



Sources : MEED Projects, Kamco Invest Research

USD 1.3 Bn worth of projects awarded until April-2021. Within Kuwait, Construction accounted for the biggest pie of the pipeline at USD 76 Bn followed by Transport and Power at USD 56.8 Bn and USD 27.6 Bn, respectively.



Sources : MEED Projects, Kamco Invest Research
** Qatar data includes USD 14 Bn project in Q1-2021*

Contract awards expected to reach 5-year high in 2021

With YTD-21 contract awards at USD 33.1 Bn, the full year is expected to be promising in terms of project market activity in the GCC. According to MEED projects, USD 114 Bn worth of contracts are expected to be awarded this year, which is more than 3 times the size of contract awards in 2020 and double the awards in 2019. The significant increase is expected to come from pending projects from last year as well as an accelerated of diversification efforts in the GCC. The increasing pace of vaccinations in the region and the expected easing of Covid-19 related restrictions are expected to further boost business confidence and encourage investment in new projects. Saudi Arabia is expected to be the biggest market for new contract awards of USD 35.0 Bn by year end followed by Qatar and UAE at around USD 31 Bn and USD 28 Bn, respectively. Oman is expected to award little over USD 10 Bn worth of projects this year whereas Kuwait's market is expected to see around USD 9 Bn in new projects.

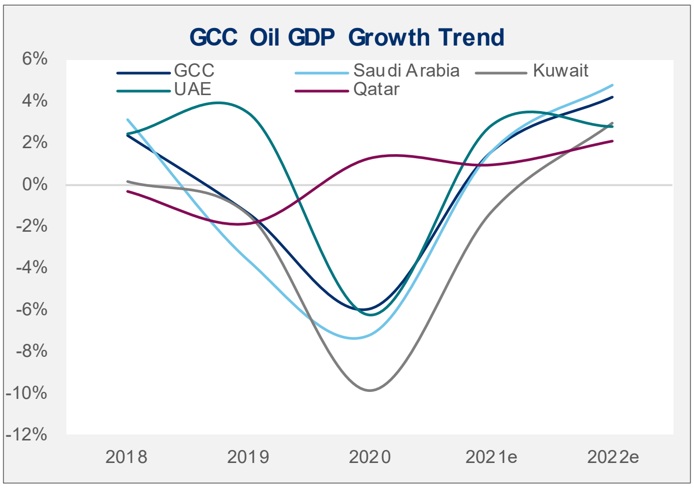
Construction sector outlook remains clouded but government looks at financing alternatives

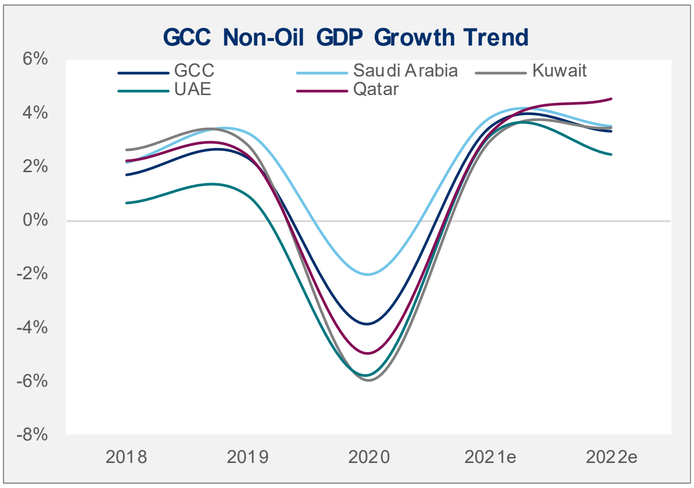
Being the largest sector in the GCC in terms of contract awards and project activity, the trends in the construction sector are expected to be crucial for the overall project market. The sector is expected to remain under pressure in 2021 as governments remain cautious on the Covid-19 related shocks but is expected to see broad-based growth in the next three years. Stretched balance sheets for most of the countries in the region with record borrowing has limited the government's involvement in the construction sector. However, the recovery in oil prices recently to over USD 60/b has lowered the fiscal deficits for most of the countries in the region, including in Kuwait. Moreover, countries are increasingly tapping the public private partnership (PPP) route to finance new projects. For instance, Saudi Arabia is changing laws to attract foreign investments and encourage PPP. Qatar also passed a law that allows 100% ownership of companies. Kuwait has also seen some real progress with awards including the USD 1.7 Bn Umm al-Hayman wastewater PPP last year and further progress on housing and education schemes. According to a report from MEED, the Kuwait Authority for Partnership Projects (KAPP) and Kuwait Municipality are expected to tender the South Jahra Labour City using a build, operate and transfer (BOT) model. The Public Authority for Housing Welfare (PAHW) has also received up to 15 prequalification applications to develop four private schools as PPPs. Recently, Kuwait's PAHW reported pre-qualified bidders to participate in two PPP projects at the Jaber al-Ahmad city that included a private university and a second project for the development of a private hospital.

Estimates provided by MEED showed mixed y-o-y growth expectations in construction output in the GCC during 2021 with declines expected in Oman and Kuwait and low-single digit growth in the rest of the GCC countries mainly reflecting efforts to manage rising debt financing in the short term. However, the forecast for 2022 - 2024 showed healthy growth in output across the board.

Diversification a top priority for the GCC

A focus on expanding non-oil economy is one of the key components of near to mid term strategic plans announced by almost all





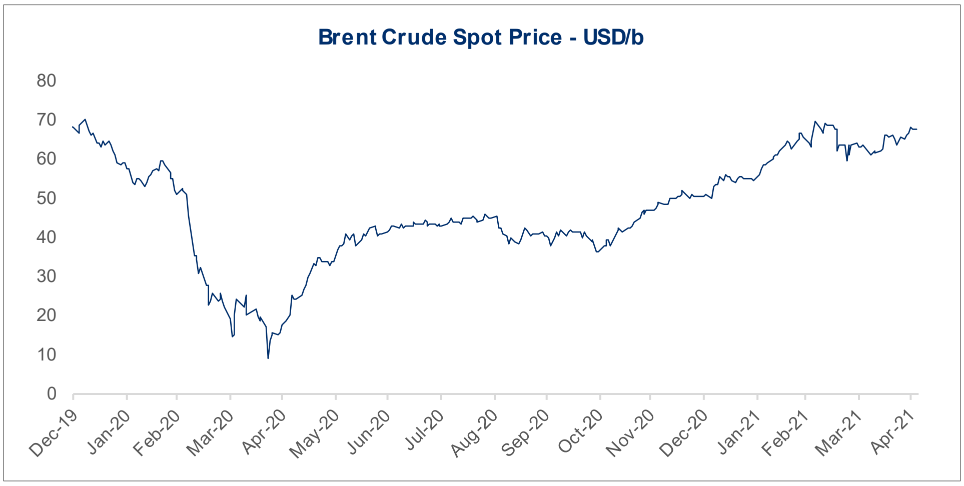
Sources : IMF, Kamco Invest Research

the countries in the GCC. In terms of progress on this front, the IMF expects GCC non-oil GDP to grow at double the pace of oil GDP during 2021, indicating a much faster recovery from the Covid-19 pandemic. According to the IMF's Regional Economic Outlook, non-oil GDP is expected to grow by 3.5% in the GCC during 2021 followed by 3.4% growth during 2022. Oil GDP, on the other hand is expected to grow by 1.6% in 2021 followed by 4.3% in 2022. We believe that the faster growth in 2022 shows higher oil production in the region which would depend on OPEC+ production policy.

Bahrain is expected to clock the highest GDP growth of 3.3% in 2021 followed by the UAE with an expected growth of 3.1%. Saudi Arabia is expected to clock a growth of 2.9% in 2021 while Kuwait is estimated to grow marginally by 0.7% in 2021 followed by a pickup in 2022 at 3.2%. The better-than-expected forecast of the GCC economies growth is underpinned by the expectation of the gulf countries inoculating significant amount of their population by the end of 2021. Most of the GCC countries started their vaccine rollout at the end of 2020 or early 2021. The small expected increase in oil output during 2021 would support growth, while higher oil prices are expected to result in declining fiscal deficits in the near-term.

Higher oil prices would ease borrowing pressure and support government spending

Crude oil prices have remained elevated over the last few months at above the USD 60/b mark. This provided the much need relief for the GCC governments resulting in lower expected fiscal deficits. According to Bloomberg estimates, median Brent crude oil forecast is expected to remain comfortably above the USD 60/b mark over the next five years. In addition to elevated prices, stable oil prices recently have also assisted in long-term policy formulation and strategic plans.



Sources : EIA, Kamco Invest Research

On the fiscal front, Qatar is expected to continue to see higher surpluses of 1.4% in 2021 and 7.3% in 2022. As a result, the country has the lowest fiscal breakeven oil price in the GCC for 2021 at USD 43.11/b, according to the IMF. For the overall GCC region, fiscal deficit is expected to contract to 3.0% of GDP in 2021 from 9.2% in 2020 and further improve to a deficit of 1.4% of GDP in 2022.

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Kamco Investment Company - K.S.C. (Public)
Al-Shaheed Tower, Khalid Bin Al-Waleed Street- Sharq
P.O. BOX : 28873, Safat 13149, State of Kuwait
Tel: (+965) 2233 6600   Fax: (+965) 2249 2395
Email : kamcoird@kamcoinvest.com
Website : www.kamcoinvest.com