GCC Projects Market Update

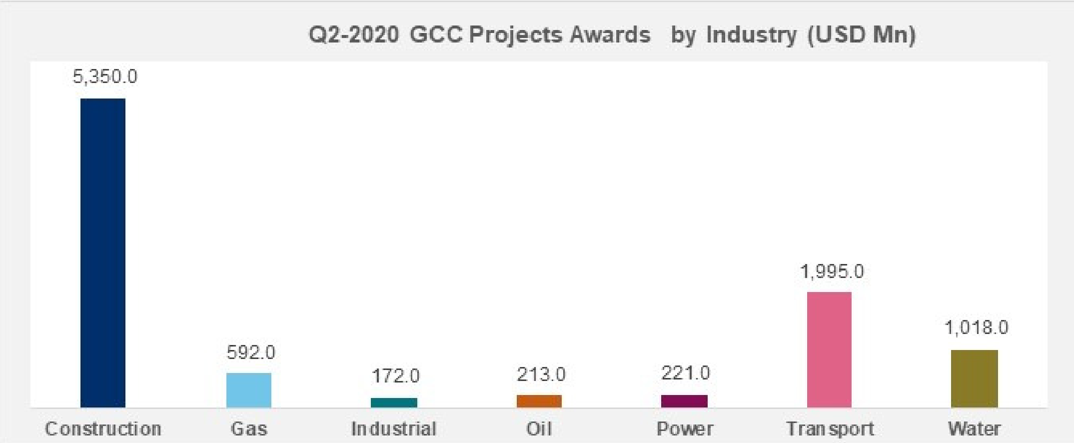
September-2020

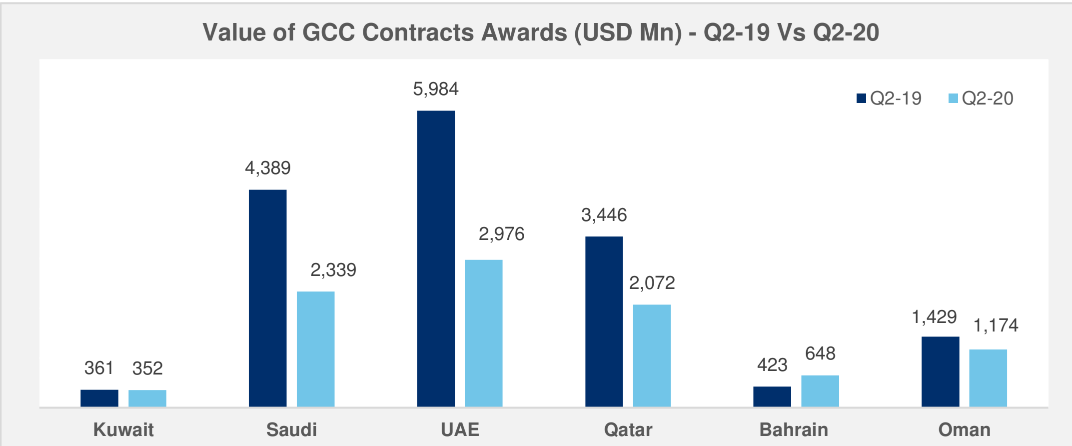
GCC projects stumble due to the disruption cause by COVID-19...

The Covid-19 pandemic has severely disrupted life and business across the world and in the GCC countries. As a result, countries globally have implemented strong measures such as curfews, airport closures, closing down of restaurants and high street businesses to fight the virus. ***In the case of GCC countries, the impact is on a dual front. First, the impact of the lockdowns on economic growth of the region and secondly, the record decline in oil prices that have severely affected oil revenues that account for more than 50% of the GCC government revenues.*** *The events prompted the IMF to project that the GCC real GDP growth would contract -7.1% in 2020 and all the six GCC countries' (UAE, Saudi Arabia, Qatar, Kuwait, Bahrain and Oman) 2020 real GDP were estimated to contract.*

The GCC region has always been associated with mega-projects mainly in the construction and oil and gas sectors. Project activity has also picked up in recent years due to the implementation of long term vision plans by GCC countries that are aimed at diversifying the economies away from oil dependence and develop the non-oil economy. ***Total value of GCC contracts awarded on Q2-20 fell 40% y-o-y to USD 9.6 Bn against USD 16.0 Bn in Q2-19 mainly due to the disruption of the coronavirus outbreak and the steep decline of oil prices according to data gathered by MEED Projects. The value of contracts awarded in the region fell USD 6.9 Bn in Q2-20 compared with Q2-19.***

The UAE, the region's largest projects market, recorded the biggest fall in value of contracts awarded in absolute terms with over USD 3 Bn decline Q2-20 y-o-y to reach USD 3 Bn against USD 6 Bn in Q2-19. *Saudi Arabia, the second largest projects market in the GCC, recorded a 46.7% decline in y-o-y contracts awarded in Q2-20 to reach USD 2.3 Bn. Similarly, Qatar's value of projects awarded in Q2-20 fell by 39.9% to USD 2.1 Bn compared with USD 3.4 Bn in the corresponding period of 2019.* ***The UAE, Qatar and Saudi Arabia between them represented over 77% of GCC contract awards in Q2-20.*** *On the other hand, Q2-20 projects awarded in Kuwait dipped only 2.5% to USD 352 Mn down from USD 361 Mn in Q2-19.*





Sources : MEED Projects, Kamco Invest Research

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Saudi Arabia

Saudi Arabia saw its value of contract awards in Q2-2020 collapse, led by the disruption caused by the Covid-19 pandemic and the fall of oil prices. Moreover, the Kingdom's Ministry of Finance has asked relevant government bodies to reduce their 2020 expenditure by 20% to 30%. The combination of low oil prices, government spending cuts and the lockdown disruption could affect current and future diversification projects in the Kingdom.

Saudi Aramco has announced that it will be reducing operations at its local refineries to increase its potential to export crude oil. This move is expected to put many energy projects on hold. Recently Aramco has awarded four main EPC (engineering, procurement and construction) of the South Ghawar unconventional gas field development project estimated about USD 2 Bn. Furthermore, Aramco has requested that the bidders of its Jafurah gas processing plant to extend the validity of their bids till the end of 2020 citing ongoing Covid-19 pandemic and low oil prices as reasons for the delay. Moreover, according to MEED Projects there are currently over USD 25 Bn EPC projects out to bid scheduled by Aramco including the USD 2.5 Bn Shedgum and Uthmaniya Gas Compression Plant and the USD 1.5 Bn ZCPF Hydrocarbon Processing Facility.

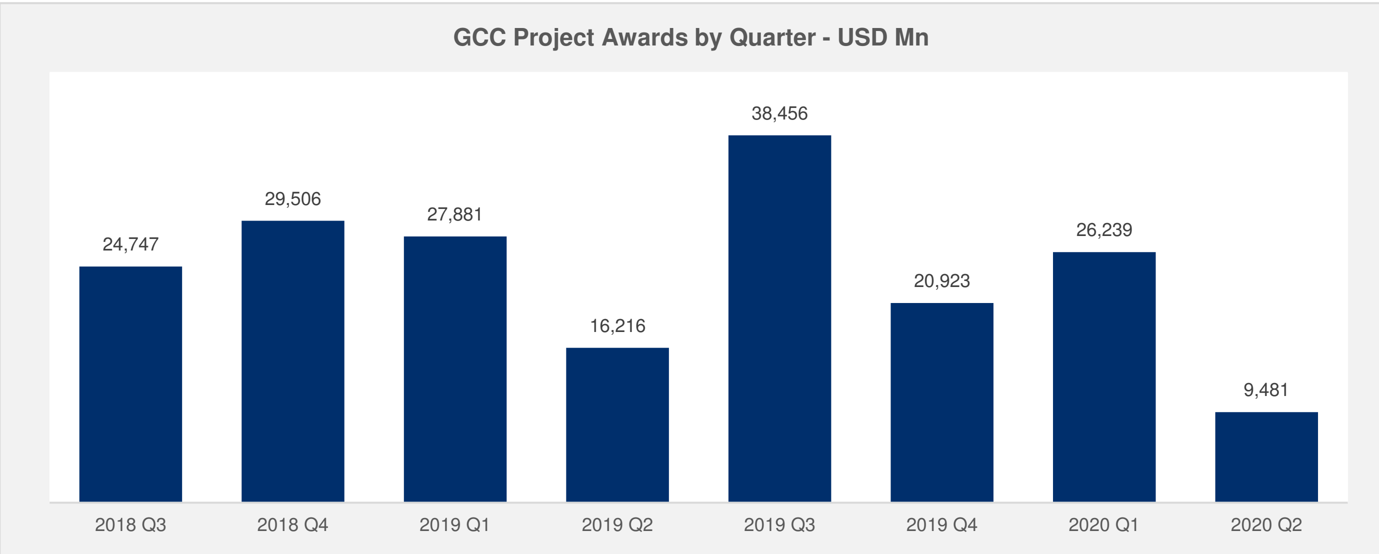
UAE

The UAE has also postponed or delayed some major projects due to the Covid-19 pandemic. According to reports, ADNOC has informed its suppliers and contractors that it would be cutting costs in response to the steep decline of oil prices. Similarly, Italian energy group ENI is reviewing its Middle East projects due to the coronavirus pandemic and the fall in oil prices. ENI, which owns 20% of equity interest of ADNOC Refining, one of ADNOC's main strategic partners, declared that it would be cutting capital expenditure of 2020 and 2021 by 25% and 30% equivalent to USD 2.2 Bn and USD 3 Bn, respectively. ADNOC indicated that it would be reviewing current deals while also increasing oil production by about 1 mbpd more than its present output. This is to accelerate production capacity expansion projects. Furthermore, due to the Covid-19 disruption ADNOC has extended the deadline for commercial bids submission for some of its key projects such as the USD 1.5 Bn Um Shaif gas cap development project till 15-July-2020. However, as things slowly go back to normal there are new contracts that have been awarded like the USD 54.5 Mn Jubail Island infrastructure project. Moreover, according to MEED Projects ADNOC Onshore has opened bids for its USD 250 Mn contract for Al-Dabbiya phase-2 field sustainability development.

Meanwhile, Dubai's Department of Finance has instructed to all government agencies to slash capital expenditure on ongoing infrastructure projects by at least a half and to stop new hiring's until further notice due to the Covid-19 outbreak. Emaar Properties has reportedly suspended work on major construction projects temporarily because of the Covid-19 lockdown and the economic disruption caused by the virus. The projects that Emaar suspended include Dubai Creek Harbour, a property development for 200,000 people, and Dubai Creek Harbour Tower which is expected to be overtake Dubai's Burj Khalifa as the tallest building in the world.

Qatar

The decline in the value of projects awarded in Qatar during Q2-2020 is largely attributed to low gas prices due to the supply glut and dropping demand for LNG from China along with the Covid-19 disruptions. As a result, Qatar's investments in energy and utilities sectors is expected to be affected. Furthermore, Qatar Petroleum stated that it is slashing spending by 30% this year due to the Covid-19 pandemic disruption. However, Qatar's USD 200 Bn worth of construction projects intended for the 2022 FIFA World Cup are expected to have been completed during 1H-2020, as per MEED Projects. Furthermore, Qatar Petroleum is moving forward with its plans to increase Qatar's LNG production from 77 million tonnes per annum to 110 million tonnes within five years. The final bids for the first phase of the expansion plans which were expected in Q1-2020 are now expected to be delayed until Q4-2020, according to MEED Projects. This delay may also affect the development of other LNG projects in the pipeline such as the second phase of the North Field South Project.



Sources : MEED Projects, Kamco Invest Research

Kuwait

In line with project market in the rest of the GCC, the Covid-19 containment measures coupled with low oil prices had an adverse effect on the Kuwait's economy, although the value of contracts awarded in Kuwait during Q2-20 has declined only marginally. Because of the suspension on non-essential work during the outbreak, it is expected that the Construction sector, the largest contracts sector in Kuwait, would bear the brunt of the fall in contracts among other sectors. According to MEED Projects, there are certain major projects that could be affected by Kuwait's response to the Covid-19 economic impact, including the USD 740.5 Mn Khiran Power and Desalination Plant planned for Q2-20. Similarly, according to reports, the Dibdibah Solar Plant project has been cancelled by the Kuwait cabinet recently. Other vital projects such as the Trunkline-5 (TL-5), a crude pipeline project estimated around USD 264 Mn and envisioned to carry crude from North Kuwait fields to central Kuwait has also been disrupted by Covid-19 response and put on hold, according to MEED Projects.

Meanwhile, during mid-March-2020, Kuwait Petroleum Corporation ordered all its subsidiaries to cut capital spending and review their spending plans for the financial year of 2020/2021. KPC admitted that this decision was in response to the current oil market turmoil and the outbreak of the coronavirus. KPC's decision is expected to affect investment on ongoing projects, new project awards are expected to be delayed till next year. However, according to local Kuwait Arabic language daily AlAnba, key projects valued approximately USD 47 Bn would be completed on time (2020-2021) despite the Covid-19 lockdown. The Clean Fuels Project, estimated to worth around USD 15.2 Bn is among the projects expected to be completed on time. There are 29 projects with value around USD 9.9 Bn which are scheduled to be completed on time in 2021 in Kuwait. Furthermore, according to MEED Projects, USD 15 Bn worth of contracts such as Al Zour Petrochemical Complex and the Kuwait Airport Expansion will be out on a bid in the near term.

Top 10 ongoing projects in Kuwait

Project Name	Industry	Progress (%)	Net Value (USD Mn)	Completion Date
PAHW - South Al Mutlaa City (Master plan)	Construction	28%	12,247	Dec-2030
KIPIC - New Refinery Project (Master plan)	Oil	76%	5,614	Jun-2022
KAPP - Al Zour North IWPP (Master plan)	Power	53%	5,456	May-2026
MPW - Kuwait Airport Expansion: New Passenger Terminal 2: Package 1: Main Works	Transport	66%	4,300	Aug-2022
KOC - Ratqa Lower Fars Heavy Oil (LFHO) Handling Facilities (Master plan)	Oil	5%	3,545	Nov-2030
KIPIC - LNG Import and Regasification Terminal	Gas	88%	2,930	Mar-2021
KIPIC - New Refinery Project: Package 2 (Process Plant)	Oil	89%	2,914	Mar-2021
Laala al-Kuwait Real Estate - Sabah Al-Ahmad Sea City (Master plan)	Construction	37%	2,877	Dec-2025
PAHW - South Al Mutlaa City: Major Infrastructure Works Package Contract 3 (Master plan)	Transport	60%	2,872	Mar-2022
KIPIC - New Refinery Project: Package 3 (Utilities & Offsites)	Oil	89%	2,850	Mar-2021

Source : MEED Projects

Oman

Oman's government has taken extraordinary measures to support the economy against the Covid-19 pandemic and the fall in oil prices., including a 10% cut in the Sultanate's state expenditures. According to MEED Projects, the Sultanate's total value of projects awarded in Q2-20 stood USD 1.2 Bn as compared to USD 1.4 Bn in Q2-19. Energy and utilities sectors are the two main sectors which are expected to be the hardest hit by the pandemic. Oman's semi-state owned oil producer Petroleum Development Oman (PDO) has also announced plans to cut the number of staff working on its gas and oil projects. PDO has instructed its contractors and service providers to come up with plans that will cut their contract values by at least 30%. However, the Omani government announced that one of its the flagship projects, the USD 9 Bn Duqm Refinery and Petrochemical Industries is expected to be completed on schedule in 2021 despite the COVID-19 pandemic. MEED Projects estimated the current amount of contracts out on a bid in the Sultanate to be over USD 20 Bn although some of these contracts viability does not look good because of the COVID-19 disruption. On the other hand, certain big projects such as the USD 400 Mn solar power (500 MW Ibri II) project have progressed despite the COVID-19 outbreak. The Ibri II PV solar project received USD 275 Mn loan from Acwa Power the Saudi energy company.

Bahrain

Bahrain's government has awarded 372 proposals estimated at USD 740 Mn during Q1-2020. Similarly, during Q2-2020, the value declined to USD 648 Mn, as compared to USD 423 Mn in Q2-19. Some of the key projects under execution in Bahrain includes the USD 1.1 Bn Bahrain International Airport and the USD 6 Bn Bahrain Petroleum Company (Bapco) refinery development project. The Bapco refinery development project is one of the largest projects in the country with estimated capacity to process 400,000 barrels of oil per day after its completion.

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