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مجلس الأعمال السعودي الأمريكي

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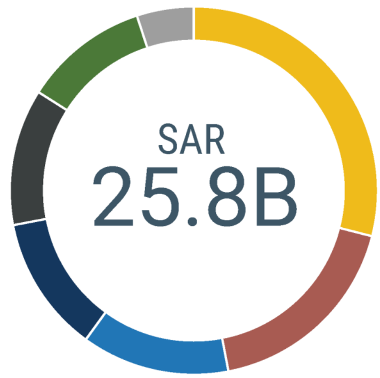
USSBC Contract Awards Index Second Quarter 2021

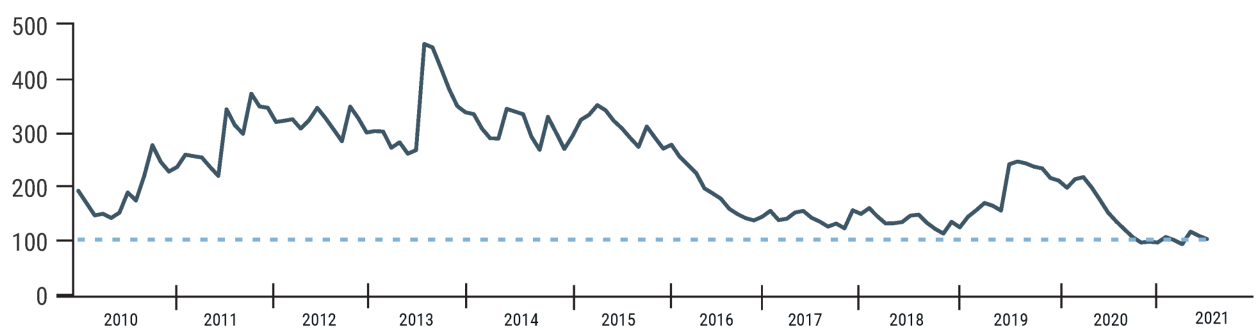
Contracts Awarded by Sector

Power	Petrochemicals	Water	Transportation	Oil & Gas	Real Estate
29%	18%	13%	12%	12%	11%



The majority of awarded contracts in Q2 were in the power, petrochemicals, and water sectors which accounted for 60 percent of the total value of contracts. The transportation and oil & gas sectors both accounted for 12 percent while real estate accounted for 11 percent. The remaining 5 percent of Q2 contracts were classified as 'Other'.

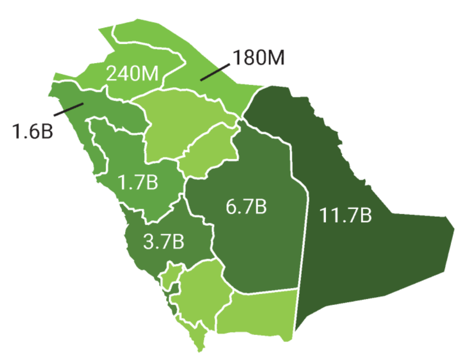
Contract Awards Index Over Time



The USSBC Contract Awards Index rose to 101.7 points as the construction sector begins to bounce back from the COVID-19 pandemic which kept the Index below the 100 point threshold in five of the six months before Q2 2021.

Contract Awards By Province

Eastern Province accounted for almost half of the value of awarded contracts (45%) in Q2, remaining the top province for construction awards in Q2. Key clients included Saudi Aramco and Arab Petrochemical Co. Riyadh Province saw the second highest value of contracts awarded in Q1 (26%), including construction of King Salman Park by the Royal Commission for Riyadh City. Makkah Province saw the third highest value (15%) where PIF-owned REPDO is building a 600MW solar power plant at Alfaisalia. Tabuk and Madinah Provinces both accounted for 6% of awarded contracts.



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

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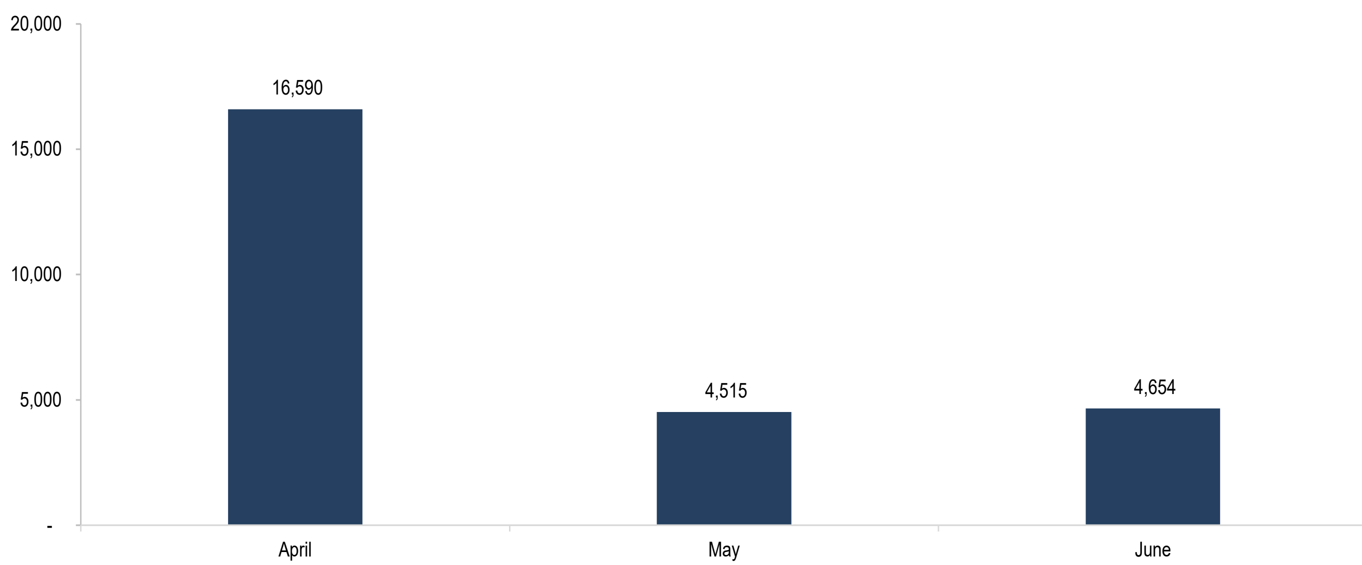
Highlights

1. The value of awarded contracts reached SAR25.8 billion ($6.9 billion) during the second quarter, marking three consecutive quarters of growth and a 134 percent jump YoY. The total value reached SAR45 billion ($12 billion) through the first half of 2021.
2. The USSBC Contract Awards Index climbed to 101.74 points as business conditions continue to improve. The CAI settled above the 100 point threshold after contracting the last two quarters.
3. The power sector registered the highest value of awarded contracts once again with approximately SAR7.6 billion ($2 billion).
4. The petrochemicals sector surged to the second spot as the value of awarded contracts reached approximately SAR4.6 billion ($1.2 billion).
5. The water sector rounded out the third highest value with approximately SAR3.3 billion ($878 million) worth of awards.

Key Takeaway:

"The construction sector continues to witness a rebound in contract awards thus far in 2021 despite ongoing challenges due to the pandemic. The consecutive growth in awarded contracts over the last three quarters after bottoming out during the third quarter of 2020 reflects the resiliency of the Kingdom's pursuit to advance its physical and social infrastructure."

Value of Awarded Contracts During Q2 2021 (SAR Millions)



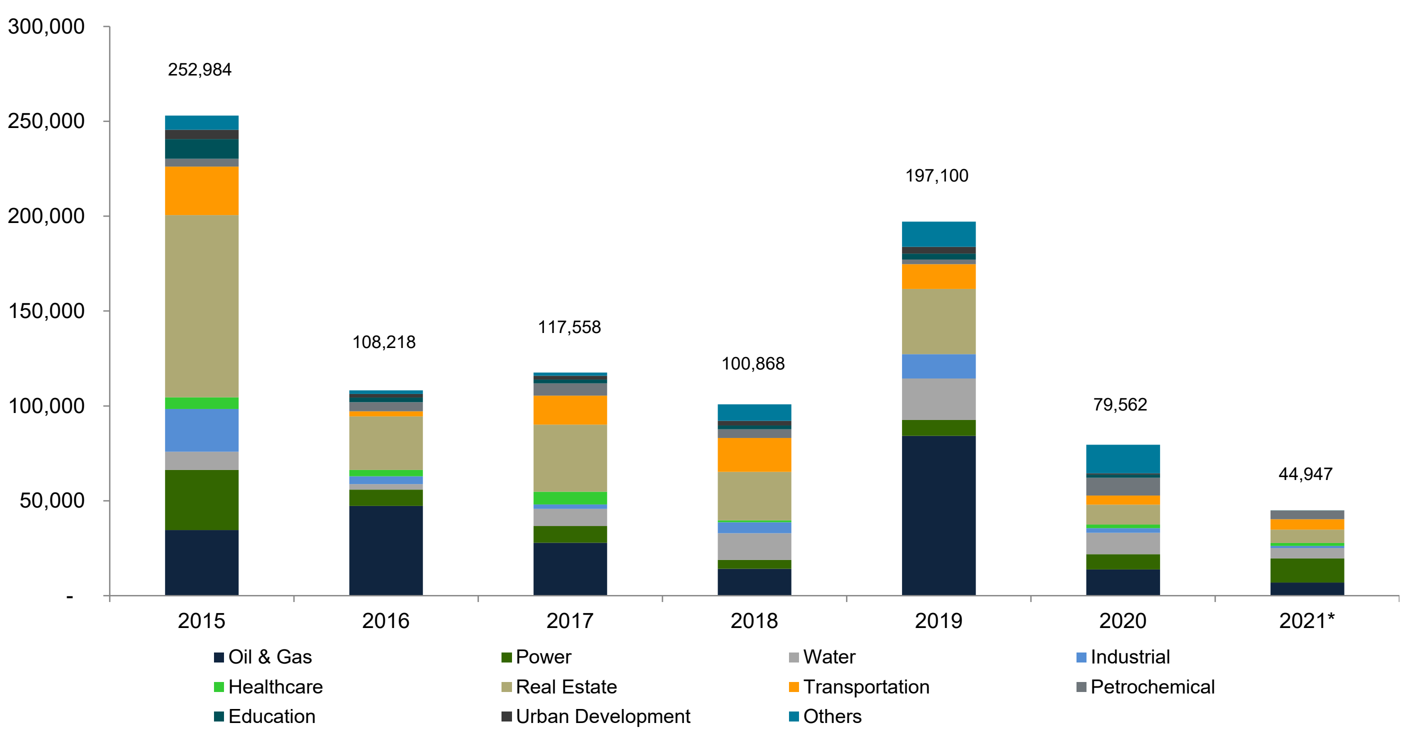
Source: MEED Projects, public outlets, government data, USSBC

Overview of Awarded Contracts During Q2 2021

The total value of awarded contracts during Q2’21 climbed to SAR25.8 billion ($6.9 billion), marking three consecutive quarters of growth after pandemic induced slowdowns caused values to bottom out during the third quarter of 2020. The value of awarded contracts grew by 34 percent QoQ and by 134 percent YoY. This brings the total value of awarded contracts to SAR45 billion ($12 billion) during H1’21, reflecting a 20 percent decrease compared to H1’20. The decrease is mainly attributed to a strong Q1’20, which had not yet been significantly impacted by the pandemic. Nevertheless, the rebound in awarded contracts over the last three quarters reflects improvements in the Kingdom’s macroeconomic environment as Q2 real GDP grew by 1.8 percent in YoY on the back of an 11.1 percent increase in private sector GDP. Furthermore, Q2 oil GDP witnessed an increase of 2.4 percent QoQ, as the price of oil jumped from $51 at the beginning of 2021 to $75 through mid-September.

The SAR25.8 billion ($6.9 billion) in awarded contracts were mainly driven by the continued resurgence of the power sector with support from the petrochemicals and water sectors. These three sectors accounted for 60 percent of all awarded contracts by value. Other sectors that contributed sizeable contracts during Q2’21 included transportation, oil & gas, and real estate.

Value of Awarded Contracts by Year (SAR Millions)



*Through Q2’21
Source: MEED Projects, public outlets, government data, USSBC

USSBC's Contract Awards Index Performance Through Q2 2021*

The USSBC Contract Awards Index (CAI) climbed to 101.74 points to end the second quarter. The gradual rebound in the CAI is attributed to an uptick in awarded contracts during H1'21 following delays in awarding and executing numerous mega-projects in 2020. The CAI grew by 9.44 points QoQ as it elevated above the 100-point threshold following two consecutive quarters of contraction. The CAI increased to 115.46 points in April before slipping to 107.86 points in May. On a YTD basis, the CAI is still well below levels it witnessed in Q2'20 when it reached 150.81 points, a 33 percent decrease. In addition to the negative effects of the pandemic, the value of awarded contracts had surged through the first four months of 2020 on the back of a very strong 2019. This main factor aided the CAI's drop in 2021.

The SAR16.6 billion ($4.4 billion) in awarded contracts during April provided the jolt the CAI needed to return to its pre-pandemic levels. However, the SAR4.5 billion ($1.2 billion) in May and SAR4.7 billion ($1.24 billion) in June does put the CAI at risk of another sub 100-point finish for Q3'21. Recent announcements in the hospitality sector (The Red Sea Development Company, Qiddiya), residential real estate (Ministry of Housing, PIF) are likely to provide additional boosts to the value of awarded contracts and buoy the CAI for the remainder of 2021.

USSBC Contract Awards Index Performance

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

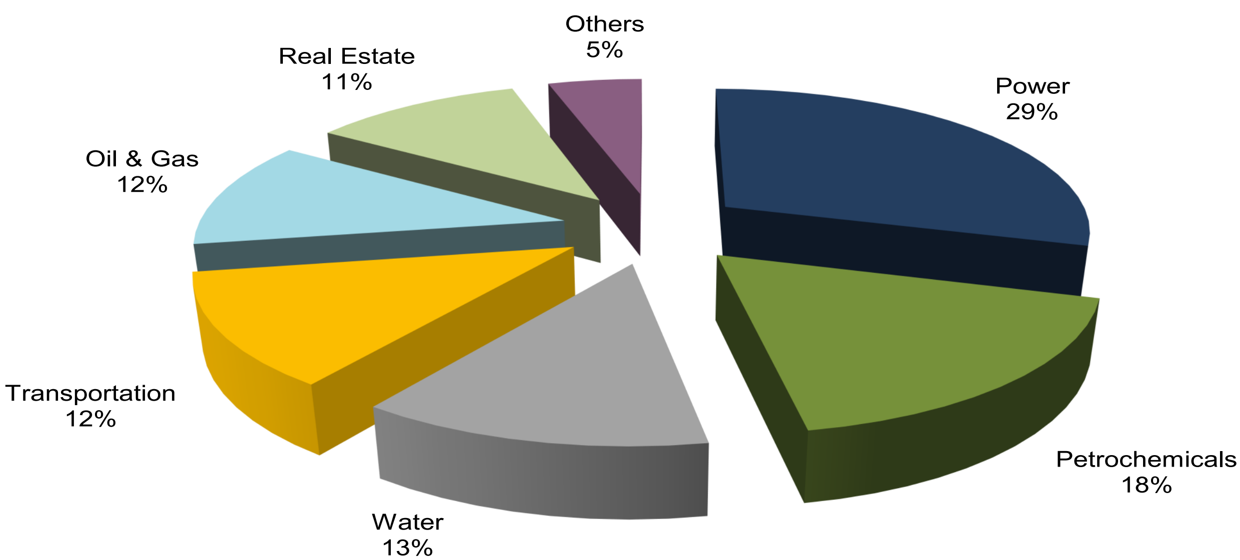
* The USSBC CAI is calculated using a 12 month exponential moving average. This calculation smoothens the data while reducing the effects of outliers within the observation period. The index aims to give our readers a sense of direction on construction activities that will transfer to the execution phase 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 2021

The value of awarded contracts during Q2'21 was led once again by the power sector, accounting for SAR7.6 billion ($2 billion) or 29 percent. The resurgence of awarded contracts in the power sector thus far in 2021 has been fueled by the Saudi Electricity Company (SEC), the Renewable Energy Projects Development Office (REPDO), and ACWA Power. After delays in awarding a number of renewable energy projects in 2020, REPDO resumed its Category A and B of Round Two awards across the regions of Makkah, Madinah, Riyadh, and the Eastern Province. SEC continued developing overhead and underground transmission lines and cabling in addition to its substation expansion plans across the Kingdom. The power sector has accumulated SAR12.8 billion ($3.4 billion) or 28 percent of total awards by value through H1'21.

The petrochemicals sector climbed to the second spot after no contracts were awarded last quarter. The SAR4.6 billion ($1.2 billion) accounted for 18 percent of all contracts. Of the three contracts that were awarded in the petrochemicals sector, Advanced Petrochemical Company (APC) awarded two of them as part of its joint venture between Advanced Global Investment Company and South Korea's SK Gas Co. Those projects entail developing propane dehydrogenation and polypropylene plants in the Eastern Province. The water sector garnered the third largest share of awarded contracts by value with SAR3.3 billion ($878 million) or 13 percent. The water sector was lead by a large contract by the Saudi Water Partnership Company (SWPC) to construct a desalination plant in the Eastern Province. Through H1'21 the water sector has captured SAR5.4 billion ($1.5 billion) or 12 percent of the total value of awarded contracts through H1'21.

Value of Awarded Contracts by Sector During Q2 2021



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

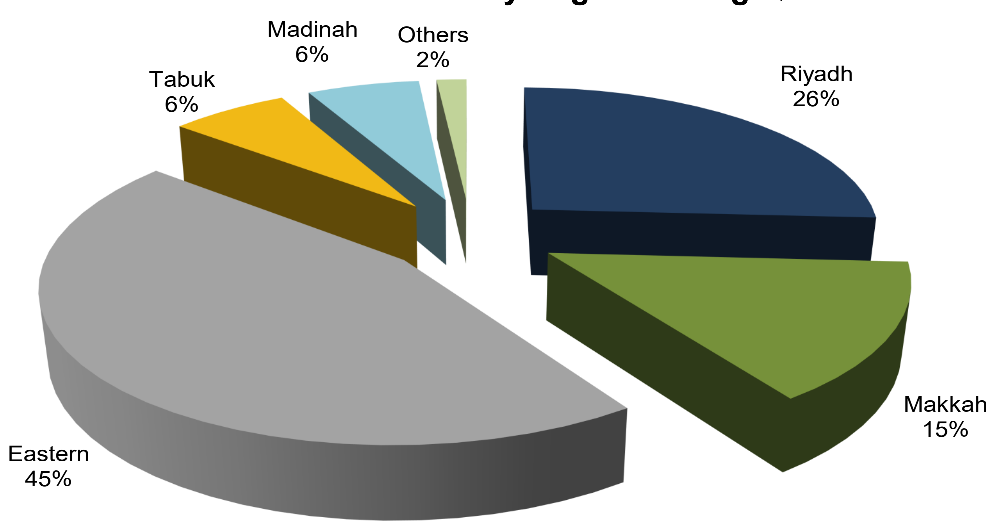
Overview of Awarded Contracts By Region During Q2 2021

The Eastern Province captured the largest share of awarded contracts during Q2'21 with SAR11.7 billion ($3.1 billion) or 45 percent of the total value. The Eastern Province's contracts were led by the petrochemicals sector with 39 percent, followed by the oil & gas sector with 26 percent, and the water sector with 25 percent. Other contributing sectors included power, industrial, and real estate. APC and SABIC awarded the contracts pertaining to the construction of petrochemical plants. Saudi Aramco awarded multiple contracts for on and off shore projects at Zuluf, Berri, and Abu Safah fields. Saudi Aramco was also involved in the water sector at Khursaniyah while the SWPC awarded a contract to develop a desalination plant. The Eastern Province has secured SAR18.3 billion ($4.9 billion) or 41 percent of total awarded contracts by value during H1'21.

The Riyadh region witnessed the second highest value of awarded contracts with SAR6.7 billion ($1.8 billion) or 26 percent. The power sector attracted the highest value of awarded contracts with SAR4.3 billion ($1.1 billion) or 65 percent. The majority of the projects involved the development of the Sudair solar PV plant by ACWA Power and expansion developments by SEC. The transportation sector accounted for SAR1.8 billion ($477 million) or 18 percent. Through H1'21 the Riyadh region accumulated SAR9.3 billion ($2.5 billion) or 21 of the total value of awarded contracts.

The Makkah region registered the third highest contracts by value with SAR3.8 billion ($1 billion) or 15 percent. The power sector once again accounted for the highest share of contracts with SAR2.4 billion ($640 million) with a single contract awarded by REPDO for the Alfaisalia solar power plant. The real estate sector account for SAR900 million ($240 million) or 24 percent pertaining the development of a residential complex in Obhur by the Ministry of Housing. The Makkah region has accounted for SAR7.1 billion ($1.9 billion) or 16 percent of the total value of awarded contracts through H1'21.

Value of Awarded Contracts by Region During Q2 2021



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

Breakdown of Awarded Contracts Across Top Performing Sectors

Power

The power sector witnessed 13 contracts during Q2'21 as it maintained its lead from last quarter as the highest awarded sector. The power sector grew by SAR2.4 billion ($642 million) or 46 percent QoQ and by a substantial SAR7.2 billion ($1.9 billion) or 207 percent YoY. This marks the highest value of awarded contracts in the power sector since the fourth quarter of 2015, when it tallied SAR11.3 billion ($3 billion). Impressively, the power sector's SAR12.8 billion ($3.4 billion) in H1'21 surpassed the total value of awarded contracts in all of 2020, which reached SAR8.1 billion ($2.2 billion). The power sector in H1'21 grew by SAR9.8 billion ($2.6 billion) or 77 percent YoY.

Continuing from last quarter, renewable energy projects led the power sector after contract delays stemming from the pandemic in 2020. There were four renewable energy contracts, which accounted for 73 percent of all power sector awards by value. The largest contract was awarded in April by a JV consisting of ACWA Power with 35 percent ownership, Badeel, a PIF company with 35 percent ownership, and Saudi Aramco subsidiary, SAPCO with the remaining 30 percent. The Sudair project was awarded to India's Larsen & Toubro in the amount of SAR2.7 billion ($725 million). Larson & Toubro will be tasked with developing one of the largest single-contracted solar PV plants in the world and the largest of its kind in Saudi Arabia at an installed capacity of 1,500 MW. In addition to the PV plant, additional work will include the installation of solar panels, transformers, photovoltaic panels, laying of transmission lines, and substations. According to MEED Projects, the project is expected to be completed by the fourth quarter of 2024.

The second largest contract was in April by REPDO to the local Al Babtain Contracting as part of Round 2, Category B 600 MW Alfaisalia power plant. The SAR2.4 billion ($640 million) project is the largest under Round 2 Category B. Additional work will include the installation of solar panels, transformers, transmission lines, and associated facilities. According to MEED Projects, the project is expected to be completed by the fourth quarter of 2023.

REPDO also awarded two smaller contracts in April for the 50 MW Madinah power plant and 20 MW Rafha power plant in the Northern Borders. The Madinah power plant contract was awarded to a local JV of Alfanar and Desert Technologies. The SAR206 million ($55 million) project is expected to be completed by the second quarter of 2024. The Rafha power plant was also awarded to the Alfanar and Desert Technologies JV in the amount of SAR180 million ($48 million). The project is expected to be completed by the fourth quarter of 2024.

SEC awarded seven contracts during the second quarter in the amount of SAR1.6 billion ($434 million).

The most notable contract awarded by SEC was to local Trading & Development Partnership in the amount of SAR548 million ($146 million). According to MEED Projects, the project entails the installation of two 380kV cable circuits, copper conductors, civil works and associated facilities. The project is expected to be completed by the fourth quarter of 2023.

Petrochemicals

The petrochemicals sector had no contracts awarded last quarter but surged to the second highest ranking during Q2'21 with SAR4.6 billion ($1.2 billion) on only three contracts. The petrochemicals sector had no awarded contracts during the same period last year but did have sizeable contracts that were awarded in the first quarter prior to the pandemic. For H1'21, the value of awarded contracts in the petrochemicals sector was SAR4.1 billion ($1.1 billion) or 48 percent lower YoY.

Two of the three contracts were awarded by APC in April as part of the Advanced Global Investment Company and SK Gas Co. JV in Jubail. The first contract was awarded to South Korea's Samsung Engineering in the amount of SAR2.4 billion ($653 million). The project calls for developing a propane dehydrogenation plant including associated utilities and offsites. The plant will have a production capacity of 843,000 tons per annum (tpa) and will include the installation of reactors, heaters, feed/effluent heat exchange system, cooling and compression equipment, propane/propylene splitter, and a catalyst regeneration system. USSBC members Fluor Corporation and McDermott were designated as project manager consultants and technology providers, respectively. According to MEED Projects, the project is expected to be completed by the fourth quarter of 2024.

The second contract awarded by APC went to Italy's Maire Tecnimont for the development of a polypropylene plant. The SAR1.9 billion ($500 million) project will have two production units with a capacity of 400,000 tpa each. Construction work will include a propylene storage and feed transfer system and a C3 splitter unit. Additional work will also include the installation of gas-phase PP reactors, heat exchange systems, emission control system, and a flare unit. Fluor Corporation and McDermott will perform the same roles as the previous contract. According to MEED Projects, the project is expected to be completed by the second quarter of 2024.

The third contract in the petrochemicals sector was awarded by SABIC to the local Al Kifah Contracting as part of the development of an emergency response academy in Jubail Industrial City. The amount of the award was SAR240 million ($64 million). According to MEED Projects, in addition to constructing the emergency response academy, Al Kifah will also develop landscaping, infrastructure, and parking facilities. The project is expected to be completed by the first quarter of 2024.

Water

The water sector had five contracts that were awarded during Q2’21 that were valued at SAR3.3 billion ($878 million). The value of awarded contracts grew by SAR1.1 billion ($305 million) or 53 percent QoQ but declined by SAR1 billion ($272 million) or 24 percent YoY. Through H1’21 the water sector has witnessed SAR5.4 billion ($1.5 billion) worth of awarded contracts, which is SAR1.7 billion ($451 million) or 24 percent lower than the same period last year.

The largest of the five contracts was awarded in June by SWPC to a JV between China’s SEPCOIII Electric Power Construction Corp and Spain’s ACCIONA for the development of the Jubail 3B IWP project. The SAR2.1 billion ($560 million) project calls for the development of a desalination plant in Jubail that will serve Riyadh and Qassim with potable water and will include in-house solar power to reduce utilization from the national electricity grid. Once completed, the seawater reverse osmosis plant will produce 570,000 cubic meters of water per day. Additional work will include the construction of a seawater intake system and the installation of pumps, pressure exchangers, and membranes. According to MEED Projects, the project is expected to be completed by the first quarter of 2024.

Another sizeable contract in the water sector was awarded by Saudi Aramco to China’s Petroleum Pipeline Engineering in April in the amount of SAR900 million ($240 million). The project revolves around the rerouting of the Khursaniyah Ras Tanura pipelines in Jubail. The scope of the work includes laying water pipelines, constructing a pumping station and storage tanks, and the installation of a power supply system as well as control systems and water transportation pipes. According to MEED Projects, the project is expected to be completed by the fourth quarter of 2023.

The three remaining contracts, which were smaller in value and scope pertained to the construction of a main sewerage line at King Khalid International Airport that was awarded by the Riyadh Airports Company to Alkhorayef Group in the amount of SAR38 million ($10 million); the construction of the north/south/east Jeddah stormwater project that was awarded by the Jeddah Municipality to Alkhorayef Group in the amount of SAR135 million ($36 million); the upgrading and rehabilitation of the wastewater treatment plant at King Khalid International Airport that was awarded by the General Authority for Civil Aviation to Metito in the amount of SAR120 million ($32 million).

Transportation

The value of awarded contracts in the transportation sector was marginally lower than the water sector as it finished the quarter with SAR3.2 billion ($855 million). This brings the total value of awarded contracts through H1’21 to SAR5.4 billion ($1.4 billion), which has already surpassed all of 2020’s awards of SAR4.8 billion ($1.3 billion). Of the 11 contracts during Q2’21, there was one large project that was awarded by the Royal Commission for Riyadh City to a JV between Consolidated Contractors Company and El Seif Engineering Contracting. The SAR1.4 billion ($373 million) project calls for road infrastructure works at the King Salman Park. Additional work will include the development of road bridges, tunnels, traffic diversions, and excavation works. The project is expected to be completed by the first quarter of 2023.

Contract Awards Outlook

The construction sector continues to witness a rebound in contract awards thus far in 2021 despite ongoing challenges due to the pandemic. The consecutive growth in awarded contracts over the last three quarters after bottoming out during the third quarter of 2020 reflects the resiliency of the Kingdom's pursuit to advance its physical and social infrastructure. However, the construction sector is still on fragile footing as it faces a number of headwinds that must be accounted for as it continues to improve. Alternatively, the sector is benefiting from a number tailwinds as well, which will be significant drivers in the resurgence of the sector to pre-pandemic levels.

Beginning with the tailwinds, the macroeconomic landscape continues to improve on the back of a resurgent non-oil sector, which grew by 8.4 percent during Q2'21 YoY in real terms. Despite the lower base effects caused by the pandemic, a number of economic activities still registered remarkable growth such as non-oil manufacturing, which grew by 15.3 percent; wholesale & retail trade, restaurants and hotels grew by 16.9 percent; community, social, and personal services grew by 17.1 percent; construction grew by 3.2 percent. Furthermore, the rise in oil prices, which crossed the $80 per barrel mark in September and the gradual increase in production bodes well for future investments into the domestic economy.

The Kingdom's total revenues through H1'21, which reached SAR453 billion ($121 billion) is on pace to surpass the budgeted SAR849 billion ($226 billion) earmarked for 2021. The recovery in oil prices has largely supported the reduction in the Kingdom's deficit, which was expected to reach SAR141 billion ($38 billion) by end of 2021, yet has only accounted for 9 percent of that amount through the first half of the year. Typically, the rise in oil revenues has prompted the Kingdom into a pro-cyclical spending pattern, with capital expenditures being a main beneficiary.

Capital expenditures (capex) through H1'21 were 36 percent lower than the same period last year and are only 36 percent of the budgeted spending for 2021. The low capex can be attributed to two main factors. The first resulting from lingering pandemic related restrictions and shortages that are still present, albeit a less of a factor in Q2 versus Q1 of 2021. Secondly, the role of the private sector in shouldering a larger proportion of the burden away from the government compared to several years ago is another factor. Nonetheless, with oil prices climbing to levels not witnessed since 2018, there likely will be a pickup in capex spending during the second half of 2021. If capex spending were to reach 80 percent of its budgeted value, similar to what occurred in 2020, it can be expected that spending will increase by an additional SAR44 billion ($11.7 billion) over the next two quarters.

Another positive development is the strong pickup in the Kingdom's Gross Fixed Capital Formation (GFCF) thus far in 2021. One of the major impacts on the economy stemming from the pandemic was the reduction in construction activities whereby investments on capital goods significantly declined. Delayed and suspended projects halted new demand for machinery and ongoing improvements to land. GFCF declined by 13 percent YoY by the end of 2020 after dropping as low as 24.8 percent during Q2'20. The resumption of construction activities by the end of 2020 saw GFCF gradually increase resulting in a gain of 18.3 percent YoY during Q2'21 and by 7.2 percent QoQ. As the number of construction activities continue to increase, GFCF will return to pre-pandemic levels and increase the level of investments in unfinished dwellings, non-residential buildings and civil engineering works.

The rebound in housing starts thus far in 2021 also bodes well for the construction sector as this data point serves as proxy for upcoming residential real estate developments. Housing starts remained relatively robust in 2020 despite the pandemic but still lagged compared to 2019. The pickup in housing starts during H1'21 reflects an increase of 16,442 starts or 10 percent increase YoY. Furthermore, mortgages remain elevated with SAR8.5 billion worth of issuances in July 2021. Pent-up demand for affordable housing coupled with the government's goal of achieving a 70 percent homeownership rate by 2030 will keep the residential real estate sector's construction activities vibrant over the medium to long-term.

The construction sector does face a number headwinds but one of the largest impediments is the rising costs of construction materials. The global supply chain continues to suffer from manpower shortages, significant transport costs, storage limitations, and the availability of raw goods. Data on construction material prices from the General Authority for Statistics (GAStat) through August reflects significant increases in 2021 alone. Besides cement prices, year to date ready-mixed concrete prices increased by 2 percent, iron by 3 percent, cabling by 24 percent, and timber by 8 percent. These increases present challenges to contractors' budgets and require cost revaluations by clients, which further delay the execution of projects.

The increase in cement and clinker inventories also present an important data point. Cement prices have gradually been decreasing on the back of growing inventory levels due to the slowdown in the execution of projects. This coincides with the CAI's trend in 2020 and into the first quarter of 2021. The CAI dipped below the 100 point mark during Q4'20, which signaled that the sharp decrease in awarded contracts in 2020 would translate into a decline in the execution of projects over the upcoming 6-18 months. However, this will likely be a short-term situation as the pick up in the execution of awarded contracts is expected to ramp up by the end of 2021 and well into 2022. The previously mentioned tailwinds support the resumption of stronger demand for cement in the near-term.

Looking ahead, a number of mega-projects are expected to be awarded over the next two quarters. These projects include construction of the Moyeath copper and zinc processing plant on behalf of Al Masane Al Kobra Mining Company, SWCC awarding of phase 2 of the Jubail desalination plant upgrade, and infrastructure works at Wadi Safar on behalf of the Diriyah Gate Development Authority. Saudi Aramco's awarding of residential compounds for its master gas system expansion project will be another valuable contract award.

Notable Contracts During Q2 2021

Sector	Region	Client	Contractor	Details	Value (SAR million)
Power	Riyadh	PIF/ACWA Power	Larsen & Toubro	1500 MW solar photovoltaic plant in Sudair	2,719
	Makkah	REPDO	Al Babtain Contracting	600 MW solar power plant in Alfaisalia	2,400
	Riyadh	SEC	Trading & Development Partnership (TDP)	380kV underground cable for Substation 9098 in Riyadh	548
Petrochemicals	Eastern	APC	Samsung Engineering	Propane dehydrogenation and utilities plant	2,449
			Maire Tecnmiont	Polypropelene plant in Jubail	1,875
Water	Eastern	SWPC	ACCIONA & SEPCO III	Desalination plant serving Riyadh and Qassim	2,100
		Saudi Aramco	China Petroleum Pipeline Engineering	Rerouted pipelines at Khursaniyah Ras Tanura in Jubail	900
Transportation	Riyadh	RCRC	El Seif / Consolidated Contractors (JV)	Infrastructure works for King Salman Park in Riyadh	1,399
Oil & Gas	Eastern	Saudi Aramco	National Petroleum Construction Company	New bypass system at Juaymah offshore platform	1,125
Real Estate	Makkah	Ministry of Housing	Beijng Emirates International Construction Co.	Residential complex in North Obhur, Jeddah with 8,000 units	900
Industrial	Eastern	Saudi Aramco	Larsen & Toubro	"First of its kind" common-user oilfield supply services center	499

Source: MEED Projects, Saudi Gulf Projects, USSBC, public outlets

Disclaimer:

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