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مجلس الأعمال السعودي الأمريكي

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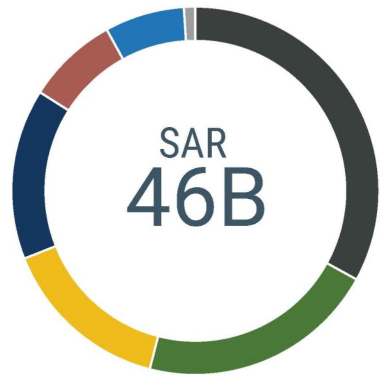
USSBC Contract Awards Index First Quarter 2022

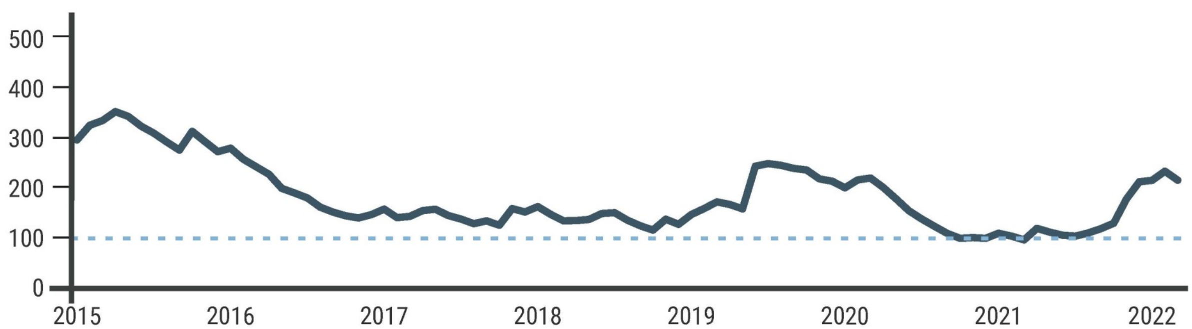
Contracts Awarded by Sector

Oil & Gas 33%
Real Estate 21%
Power 15%
Transportation 15%
Industrial 8%
Water 7%



A third of the value of awarded contracts in Q1 was from the oil & gas sector followed by real estate, power, and transportation with 21 percent, 15 percent, and 15 percent. The industrial and water sectors accounted for 8 percent and 7 percent. Other sectors accounted for the remaining 1 percent the total value of contracts.

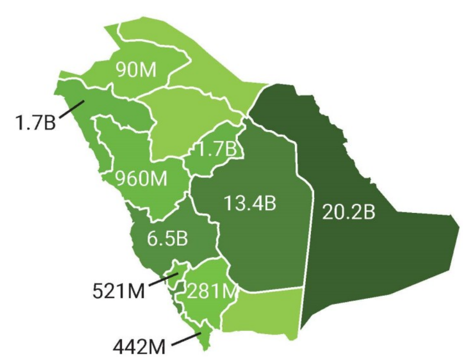
Contract Awards Index Over Time



The USSBC Contract Awards Index climbed to 212.31 points as the sector witnesses continued momentum, which has elevated the CAI above the 200-point mark in four consecutive months.

Contract Awards By Province

Eastern Province once again dominated the value of contracts awarded in Q1 2022, accounting for 44 percent of the total. Major Saudi Aramco projects included new onshore processing facilities and expansion of natural gas facilities. Riyadh Province followed with 29 percent of the quarterly total. Riyadh projects included several billion-dollar contracts for the Diriyah Gate and Qiddiya megaprojects. Makkah Province was the third largest source of contracts and constituted 14 percent of the total, including a major water reservoir project by SWCC. Tabuk Province was 4 percent of the total and saw several power contracts with SEC and other site preparation works for the AMAALA and NEOM megaprojects.



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

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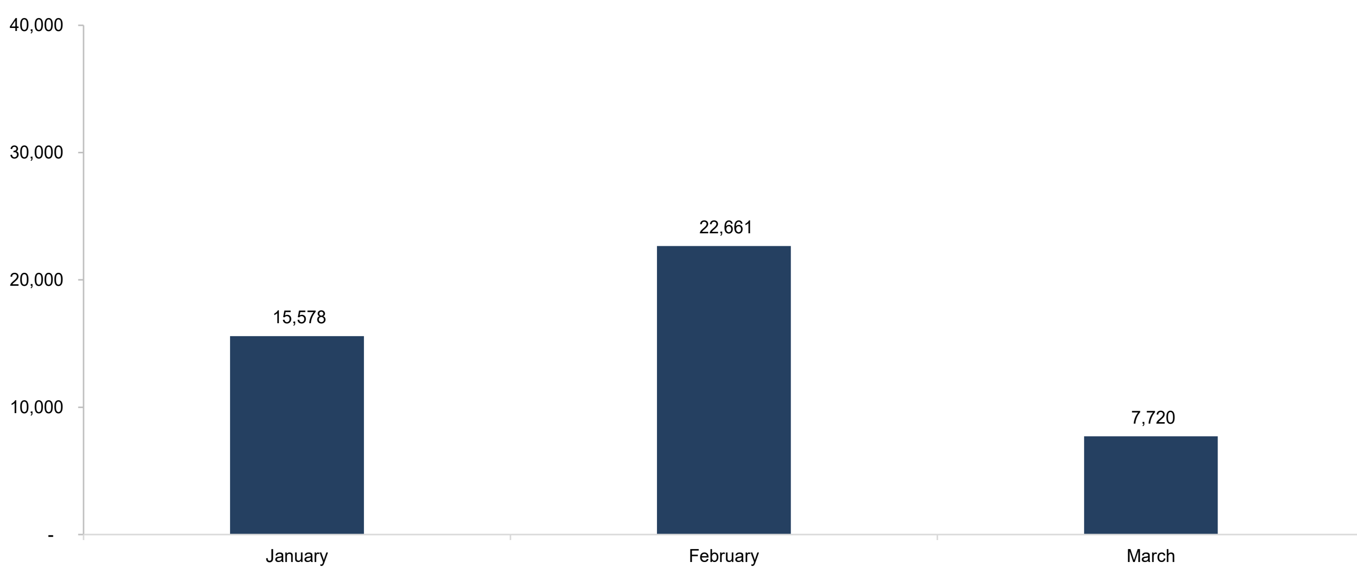
Highlights

1. The total value of awarded contracts during the first quarter reached SAR46 billion ($12.3 billion), marking a 140 percent jump compared to last year. However, the value decreased by 35 percent compared to last quarter.
2. The USSBC Contract Awards Index climbed to 212.31 points as the sector witnesses continued momentum, which has elevated the CAI above the 200-point mark in four consecutive months.
3. The oil & gas sector registered the highest value of awarded contracts with approximately SAR15.1 billion ($4 billion).
4. The real estate sector climbed to the second spot as the value of awarded contracts reached approximately SAR9.7 billion ($2.6 billion).
5. The power sector continued its strong performance from 2021 to reach the third highest value with SAR6.9 billion ($1.8 billion) worth of awards.

Key Takeaway:

“The Kingdom’s macroeconomic environment continues to improve on the back of a robust oil market, ongoing implementation of its diversification strategies, and an expected acceleration of capital projects to bolster the domestic economy.”

Value of Awarded Contracts During Q1 2022 (SAR Millions)



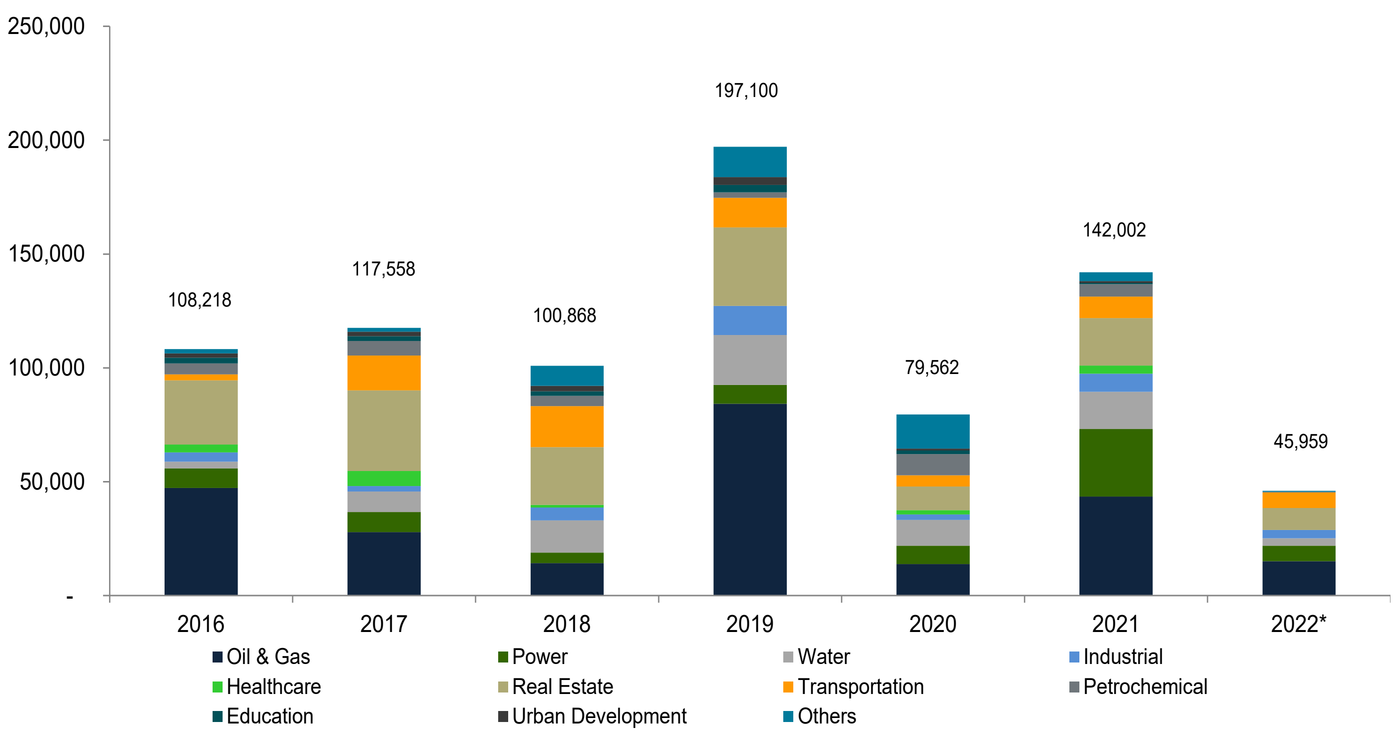
Source: MEED Projects, Saudi Gulf Projects public outlets, government data, USSBC

Overview of Awarded Contracts During Q2 2021

The momentum of awarded contracts continued unabated during Q1’22 as the value reached SAR46 billion ($12.3 billion). The Kingdom’s macroeconomic environment continues to improve on the back of a robust oil market, ongoing implementation of its diversification strategies, and an expected acceleration of capital projects to bolster the domestic economy. The most prominent development during Q1’22 was the dramatic increase in oil prices stemming from geopolitical tensions in Ukraine. Saudi Arabia recorded a 9.9 percent increase in real GDP, which was the highest since the third quarter of 2011. Oil activities witnessed a 20.3 percent jump YoY as both production and prices increased in tandem. Non-oil GDP grew by 3.7 percent YoY. Furthermore, the Kingdom’s industrial production grew by 26.7 percent YoY in April while its gross fixed capital formation grew by 18.6 percent, of which the private sector increased by 20 percent.

The SAR46 billion ($12.3 billion) in awarded contracts were led by the oil & gas, real estate, and power sectors, as they accounted for 70 percent of the total. The oil & gas sector accounted for 33 percent of the total alone as Saudi Aramco awarded a number of sizeable contracts pertaining to the Zuluf onshore oilfield development project in the Eastern Province.

Value of Awarded Contracts by Year (SAR Millions)



*Through Q1’22
Source: MEED Projects, Saudi Gulf Projects, public outlets, government data, USSBC

USSBC's Contract Awards Index Performance Through Q1 2022*

The USSBC Contract Awards Index (CAI) expanded to 212.31 points at the end of the first quarter. This marks two quarters and four months at above 200-points, respectively. The CAI has elevated above the 100-point threshold for 12 consecutive months, indicating an expected increase in construction activity over the coming year. The CAI last witnessed four consecutive 200 or higher points in 2019, as it maintained that level from June until December. The CAI grew by 120 points or 130 percent YoY, and increased by 3.26 points or 2 percent QoQ. On a monthly basis during the first quarter, the CAI grew to 211.96 points in January, escalated to 230.37 points in February, before settling at 212.31 points in March.

The pickup in cement sales in May, which grew by 4 percent YoY and 1.7 percent MoM after a down year in 2021, signals a pickup in construction activity. The resumption of key mega-projects coupled with the expected acceleration of strategic projects on the back of higher oil revenue inflows will elevate cement sales into H2'22 and into the medium-term. Large scale developments that were awarded during 2021 are likely to provide growing demand for cement and building materials.

USSBC Contract Awards Index Performance

Source: MEED Projects, Saudi Gulf 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.

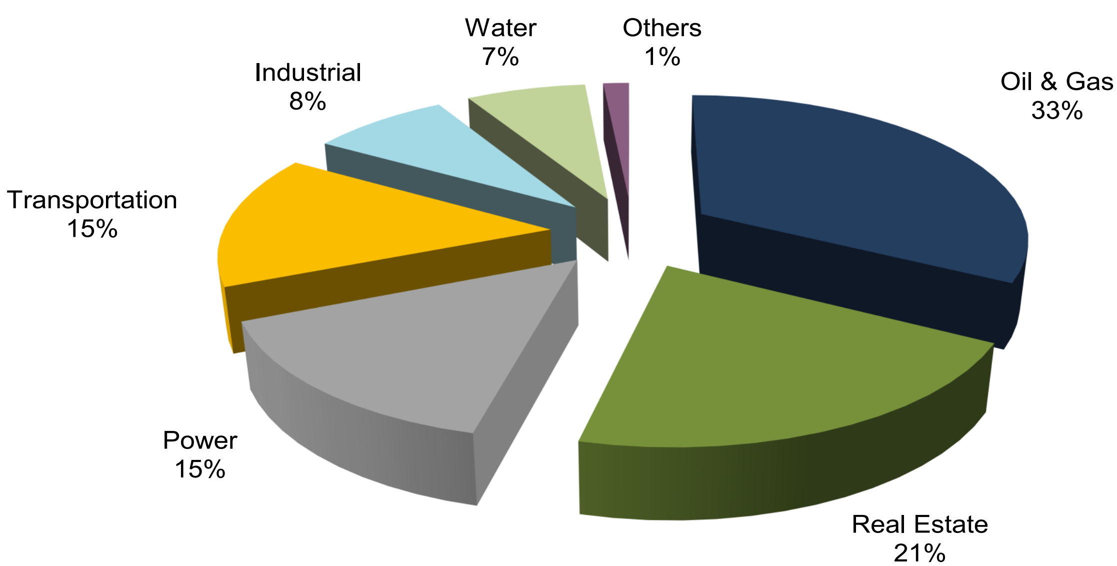
Overview of Awarded Contracts By Sector During Q1 2022

The oil & gas sector continued to lead all other sectors during Q1'22 after rebounding in 2021 as it reached SAR15.1 billion ($4 billion) or 33 percent of all awarded contracts. The oil & gas sector witnessed six contracts awarded by Saudi Aramco in the Eastern Province and Jizan. The largest contracts pertained to the construction of onshore central processing facilities at the Zuluf oil field. Additional awarded contracts included expansion plans at the Juaymah crude oil export terminal and construction work related to a new boiler at the Jizan refinery.

The real estate sector also continued the momentum from 2021 as it registered the second highest value of awarded contracts with SAR9.7 billion ($2.6 billion) or 21 percent of the total. The real estate sector had 10 contracts that were awarded by a mix of owners across residential, mixed-use, and commercial. The most significant projects were awarded by the Diriyah Gate Development Authority (DGDA) within the mixed-use segment and Qiddiya within the commercial real estate segment.

The power sector registered the third highest value of awarded contracts with SAR6.9 billion ($1.8 billion). The power sector also continued to surge after a very strong 2021. The Saudi Electricity Company was the main awarder of contracts as it accounted for 29 of the 31 total awards. SEC is continuing to expand the distribution of electricity across the Kingdom by constructing new substations and double circuit overhead transmission lines.

Value of Awarded Contracts by Sector During Q1 2022



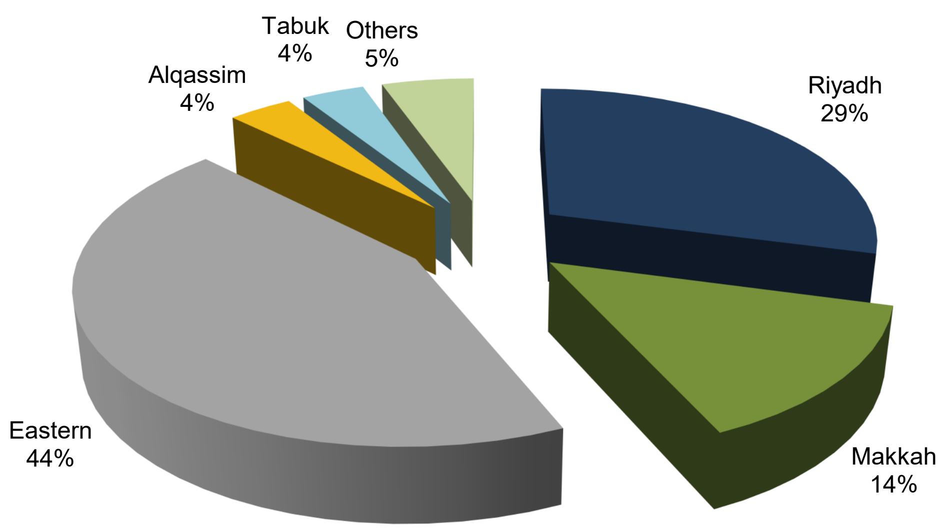
Source: MEED Projects, Saudi Gulf Projects, public outlets, government data, USSBC

Overview of Awarded Contracts By Region During Q1 2022

The Eastern Province accounted for the highest share of awarded contracts during Q1’22 with SAR20.2 billion ($5.4 billion) or 44 percent of the total. The oil and gas sector accounted for SAR14.7 billion ($3.9 billion) or 73 percent of awarded contracts in the Eastern Province, while the industrial sector accounted for SAR3.1 billion ($836 million) or 16 percent. Saudi Aramco awarded all the oil & gas projects, while the Industrial sector had one contract awarded. The real estate, water, transportation, and petrochemical, power, and military sectors also contributed to the Eastern Province’s contracts awards.

The Riyadh region captured second place with SAR13.4 billion ($3.6 billion) in awarded contracts or 29 percent of the total. The real estate sector accounted for the highest share of awarded contracts as it witnessed SAR7.5 billion ($2 billion) or 56 percent of the total. DGDA and Qiddiya accounted for a majority of the real estate contracts. The transportation sector was awarded the second highest value of contracts with SAR3.7 billion ($1 billion). The Royal Commission for Riyadh City and DGDA attracted the highest value of awarded contracts in Riyadh for road work. The Makkah region accounted for SAR6.5 billion ($1.7 billion) or 14 percent of the total. The water sector registered the highest value of awarded contracts with SAR2.8 billion ($739 million) or 42 percent. The transportation sector accounted for SAR1.7 billion ($453 million) or 26 percent of the total. The power sector captured the third largest share in the Makkah region with SAR1.2 billion ($318 million) or 18 percent of the total.

Value of Awarded Contracts by Region During Q1 2022



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

Breakdown of Awarded Contracts Across Top Performing Sectors

Oil & Gas

The oil & gas sector continued to dominate during Q1’22 as the total value of awarded contracts reached SAR15.1 billion ($4 billion) or 33 percent of the total. This follows a strong performance in 2021 whereby the oil & gas sector accumulated SAR43.5 billion ($11.6 billion) worth of contract awards. On a YoY basis, the oil & gas sector climbed by SAR11.2 billion ($3 billion) or 290 percent, signaling that the sector is off to an even faster start than in 2021 as Saudi Aramco continues to push forward with its capital expenditure plans. Despite the strong performance, the sector declined by SAR19.8 billion ($5.3 billion) or 46 percent QoQ after reaching the second highest quarterly tally on record during Q4’21.

Saudi Aramco’s project for the construction of onshore central processing facilities at Zuluf oil field commanded the two largest contract awards in February. Both contracts were awarded to Japan’s JGC Corporation and its local subsidiary, JGC Arabia in the total amount of SAR13.1 billion ($3.5 billion) for package one and two. The U.S.’s Jacobs was selected to perform the front end engineering and design for both packages. Package one was awarded in the amount of SAR9.4 billion ($2.5 billion). According to MEED Projects, JGC Corporation will be responsible for the construction of hydrocarbon processing facilities, a gas-oil separation unit, a wet crude handling facility, a crude storage facility, crude shipping facility, gas compression facility, gas conditioning facility, laying of pipelines, and the installation of safety and security systems. The project is expected to be completed by the fourth quarter of 2025.

Package two was awarded in the amount of SAR3.8 billion ($1 billion). According to MEED Projects, the scope of work includes two main components. The first being the construction of utility facilities, which will incorporate a power supply and distribution facility as well as flaring facilities. The second being the construction of water treatment and injection facilities, which will include a water production disposal facility. The project is expected to be completed by the fourth quarter of 2025.

The third largest contract awarded by Saudi Aramco went to a joint venture between the U.K.’s Subsea 7 and India’s Larsen & Toubro for the expansion of Juaymah’s natural gas liquids (NGL) facilities in February. The contract was awarded in the amount of SAR1.1 billion ($300 million) and calls for the construction of an NGL ship berth to accommodate tankers with a capacity of 25,000-60,000 deadweight tonnage, installation of a piled steel platform with NGL offloading facilities, installation of piping, electrical, and instrumentation systems. The project is expected to be completed by the third quarter of 2025.

Saudi Aramco awarded a contract in Jizan to Egypt’s Petrojet during March in the amount of SAR368 ($100 million). Petrojet will undertake the construction and installation of a new boiler at the Jizan refinery. According to MEED Projects, the scope of work will include the construction of a new demineralization plant, replacement of essential piping materials and neutralization systems, and the construction of associated facilities. The project is expected to be completed by the fourth quarter of 2024.

Real Estate

The real estate sector has consistently garnered one of the highest value of awarded contracts after rebounding in 2021. Within the real estate sector, the mixed-use market accounted for SAR4 billion ($1.1 billion) or 42 percent of all real estate contract awards. Meanwhile, the commercial real estate market accounted for SAR3.2 billion ($863 million) or 34 percent of the real estate sector's awards. The residential market garnered SAR1.4 billion ($378 million) or 14 percent, while the hospitality market accounted for SAR990 million ($264 million) or 10 percent. The real estate sector increased by SAR5.4 billion or 126 percent YoY and by SAR2.1 billion ($558 million) or 28 percent QoQ.

The largest contract by value in the real estate sector was awarded in January by DGDA to Italy's Webuild through its subsidiary Salini Saudi Arabia. Webuild will develop the project in the amount of SAR4 billion ($1.1 billion) that calls for the construction of package two, which is the Super-Basement Works that will accommodate 10,500 vehicles on a multi-level car garage to be built on 1 million square meters. The project includes the construction of hotels, retail outlets, offices, mosques, pedestrian walkways, and associated facilities. According to Webuild, the project is expected to employ 9,000 people. The project is expected to be completed by the third quarter of 2024.

The second largest contract in the real estate sector was awarded by the Qiddiya Investment Company to a joint venture consisting of the local El Seif Engineering Contracting and the U.A.E's ALEC in February. The SAR2.8 billion ($750 million) project calls for the construction of a water park that will span 250,000 square meters. The water park will include 22 games and attractions, including 9 games that will be unique to the park. The park will also contain the latest facilities for water sports and 17 food and shopping stores. According to MEED Projects, the project is expected to be completed by the fourth quarter of 2026.

Within the hospitality market, Al Saedan Real Estate awarded two contracts in January worth SAR900 million ($240 million) in Makkah and Riyadh. The first contract was awarded in the amount of SAR600 million ($160 million) to the local Mostafa Abdulrahman Rajab Contracting to develop a 438 room Courtyard Hotel by Marriott. In addition to the hotel, construction work will include a fitness center, dining facilities, and parking. The project is expected to be completed by the fourth quarter of 2024.

The second contract that was awarded by Al Saedan Real estate went to the local First Saudi Contracting in the amount of SAR300 million ($80 million). The scope of work includes the construction of a 266 room Renaissance Hotel near King Khalid International Airport. Additional facilities will include a spa, swimming pool, fitness center, and parking. The project is expected to be completed by the first quarter of 2025.

A notable contract was awarded by Saudi Entertainment Ventures (Seven) for the development of the Al Hamra Entertainment Complex in Riyadh. The project was awarded in January to India's Shapoorji Pallonji in the amount of SAR300 million ($64 million). According to MEED Projects, the scope of work will include the construction of recreational and entertainment facilities, restaurants, cinemas, indoor sport facilities, and parking. The project is expected to be completed by the second quarter of 2024.

Power

The power sector has witnessed a rise in contract awards that began in 2021 and has continued through the first quarter of 2022. The SAR6.9 billion ($1.8 billion) was dominated by SEC but also witnessed two sizeable contracts by the Saudi Energy Procurement Company. The power sector grew by SAR1.7 billion ($450 million) or 33 percent YoY but decreased by SAR5.4 billion ($1.4 billion) or 43 percent QoQ.

SEC's 29 out of the 31 total contracts that were awarded accounted for SAR4.3 billion ($1.2 billion) or 64 percent. A majority of the contracts pertained to the construction of new or expansion of substations and overhead transmission lines Kingdom wide. The largest of these contracts pertained to the construction of two 380kV double circuit overhead transmission lines between Tabarjal BSP and Buirah BSP in Tabuk, according to MEED Projects. The contract was awarded to the local Arabia Electrical Transmission Line Construction Company in January in the amount of SAR544 million ($145 million). The project is expected to be completed by the fourth quarter of 2024.

The second largest contract by SEC was awarded to the local National Contracting Company for the construction of a 380kV double circuit overhead transmission line between Jillah and Laila in Riyadh. The project was awarded in the amount of SAR416 million ($111 million) in March. The project is expected to be completed by the first quarter of 2023.

The two largest contracts in the power sector were awarded by the Saudi Energy Procurement Company in March in the amount of SAR2.5 billion ($666 million). The larger contract was in the amount of SAR1.7 billion ($453 million) and was awarded to Al-Rass Solar Energy Company, which is owned by the consortium of Water and Energy International (ACWA Power), SPIC, and the Water and Electricity Holding Company. The solar project, which will be built in Alqassim is expected to produce 700 MW. The cost of purchasing electricity is booked at 5.62 halalas (1.5 U.S. cents)/kWh.

The second contract was awarded to Al-Ghazala Energy Company in the amount of SAR800 million ($213 million). The project will take place at the Saad solar photovoltaic project. Al-Ghazala Energy Company, which is owned by a consortium consisting of Jinko Power Hong Kong Limited, Jinko Power

Middle East Holding, and Jinko Power Dhafra Holding Company, will produce 300 MW with an electricity purchase cost of 5.56 halalas (1.5 U.S. cents)/kWh. Both projects will supply power to 180,000 homes, in addition to reducing 1.75 million tons annually of carbon emissions.

Contract Awards Outlook

As the construction sector continues its post COVID-19 rebound, the Kingdom's economy is being supported by a number of key economic factors that will enable it to expand on ongoing diversification strategies. Despite breaking the streak of five consecutive quarters of growth especially after a significantly strong fourth quarter in 2021 of SAR70.2 billion ($18.7 billion), the value during the first quarter of 2022 still surged to SAR46 billion ($12.3 billion) marking a 140 percent increase YoY. The growth of the Kingdom's economy, which witnessed sizeable increases to GDP due to global oil market dynamics and steady strengthening of its non-oil GDP will keep the construction sector active.

The dramatic increase in oil prices stemming from the Russia and Ukraine conflict, aided in the Kingdom's SAR57.5 billion ($15.3 billion) budget surplus as oil income accounted for 66 percent of total revenues during Q1'22. The Q1'22 budget report revealed that SAR14.8 billion ($4 billion) worth of capital expenditures (capex) was spent, which accounted for only 15 percent of the annual budgeted amount. A pickup in capex is anticipated for the remainder of 2022 as numerous state social and physical infrastructure projects that were earmarked in the budget will commence.

With the recent improvement in oil prices, the government aims to avoid the procyclical spending of previous oil booms as it is in the midst of initiating its Fiscal Sustainability Program, which seeks to decouple higher government spending from higher oil revenues. Despite the drawdown in government reserves over the years, the current levels are still within an acceptable range, according to the Ministry of Finance. Traditionally, the government has replenished its reserves during oil booms and this is likely to continue. However, the focus to develop the Kingdom's domestic economy in part through the PIF and National Development Fund will take precedence compared to previous periods.

Another positive development is the strong pickup in the Kingdom's Gross Fixed Capital Formation (GFCF) in Q1'22. 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. The resumption of construction activities in 2021 and further acceleration during Q1'22 saw GFCF increase resulting in a gain of 18.6 percent YoY and 13 percent QoQ in real terms. The most noteworthy development was the drastic jump in private sector GFCF, which surged by 20 percent YoY and by an impressive 36 percent QoQ. The private sector's contribution to the development of the Kingdom's non-oil economy is a critical component to the success of Saudi Arabia diversification strategy. The growth of GFCF is a key benchmark in gauging this success, and recent developments place the private sector on solid footing.

The pickup in GFCF has been aided by and will continue to be bolstered by the increase in Foreign Direct Investments (FDI). The first quarter witnessed a historic rise in new foreign investment licenses as there were 9,383 issuances. This increase was a 19-fold jump YoY and a 350 percent rise QoQ. While wholesale and retail garnered the largest share of new licenses by registering a 7,612 percent increase, the construction sector witnessed an impressive 1,326 percent rise in new licenses, while manufacturing rose by 504 percent YoY. The entrance of experienced foreign entities will play a vital role in developing best in world project deliveries ahead of 2030.

Looking ahead, a number of sizeable projects are expected to be awarded during the second quarter that will continue to propel the construction sector. Infrastructure works at NEOM such as drill and blast work as well as tunnel development are expected to be awarded. The King Salman International Park is expected to award the Royal Art Complex project that will comprise 16 buildings with outdoor theaters with a seating capacity up to 8,000. Lucid Motor's much anticipated electric car manufacturing plant is also expected to be set up at King Abdullah Economic City. Lucid Motors announced that it will manufacture 150,000 vehicles annually at this plant as part of the Kingdom's localization strategy to expand its manufacturing base.

Notable Contracts During Q1 2022

Sector	Region	Client	Contractor	Details	Value (SAR million)
Oil & Gas	Eastern	Saudi Aramco	JGC Corporation	Construction of the onshore central processing facilities	9,375
	Eastern	Saudi Aramco	JGC Corporation	Construction of an onshore central processing facility	3,750
	Eastern	Saudi Aramco	Subsea 7 / Larsen & Toubro (Joint Venture)	Expansion of natural gas liquids (NGL) facilities at Juaymah crude oil export terminal	1,125
Real Estate	Riyadh	DGDA	Webuild	Development of the super basement project in Riyadh	4,013
	Riyadh	QIC	El Seif Engineering Contracting / ALEC (Joint Venture)	Qiddiya development featuring approximately 4,000 residential units by 2025	2,813
Industrial	Eastern	TCFC	Doosan Heavy Industries & Construction	Construction of MENA's first-of-its-kind high-end forging & casting manufacturing facility	3,135
Transportation	Riyadh	RCRC	Freyssinet Saudi Arabia / Haif Company (Joint Venture)	Infrastructure works for King Salman International Park	2,344
	Riyadh	DGDA	Nesma & Partners	Construction of tunnel and bridge works under the Diriyah gate project	1,166
Water	Makkah	SWCC	Mutlaq Damook Al Ghowairi Contracting / Alishar Contracting (Joint Venture)	Construction of a strategic water reservoir project	2,033
Power	Alqassim	Saudi Energy Procurement Co.	Al-Rass Solar Energy Co.	Secure energy needs of more than 180,000 homes, in addition to reducing 1.75 million tons annually of carbon emissions	1,700

Source: MEED Projects, Saudi Gulf Project, public outlets, government data, USSBC