

Kuwait: Project awards were soft in 3Q18, but expected to pick-up in coming quarters

> Saqer Al-Zayed
Economist
+965 2259 5655
SaqerAlZayed@nbk.com

Daniel Kaye
Head of Research
+965 2259 3136
Danielkaye@nbk.com

Highlights

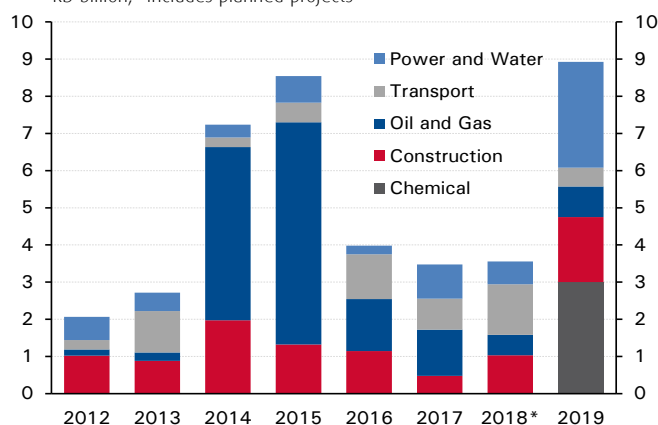
- Project awards picked up slightly in 3Q18 on construction projects, but 2018 awards remain relatively low.
- Technical and legal delays have been at the core of the low awards this year.
- The construction and transport sectors have been most active in 2018.
- Awards are expected to pick-up in 4Q18 and in 2019, partly due to plans for large chemical, power and water projects.

Project awards rise in 3Q18, but remain relatively low

Project awards in the third quarter were higher than the previous quarter (a multi-year low), but remained relatively weak, at only KD 380 million. This was around half the average level of awards per quarter in 2017, for example. Government delays and cancellations have been at the root of the drop in awards in all quarters since the beginning of the year, with scheduled projects shifted to later in the year. Year to date, project awards are valued at KD 1.1 billion, only 29% of the KD 3.8 billion that had been planned for 2018. At this pace, it is unlikely that the planned figure will be achieved by year-end.

Chart 1: Annual awarded and planned projects

KD billion, *includes planned projects



Source: MEED projects, as of October 1.

Looking forward, the pace of project awards – although not guaranteed – is expected to pick-up in coming quarters, according to MEED's project database. The expected pick-up in awards is partly due to the rolling forward of 2018 projects into

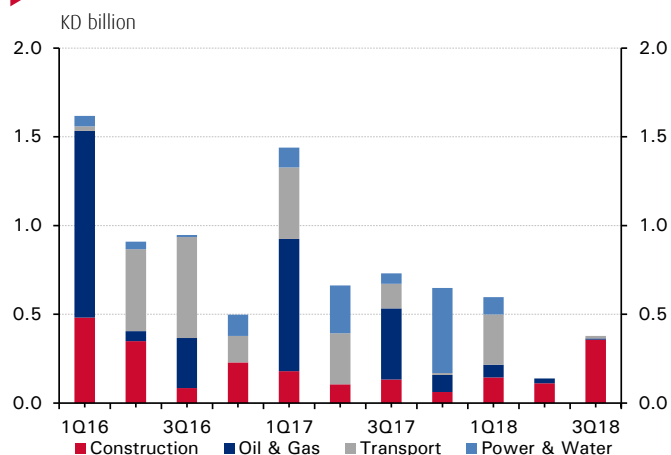
2019 due to delays, in addition to a large KD 3 billion chemical sector project expected in 2Q19. A strong rise in power, water and construction projects is also expected in 2019. Projects planned for 2019 are estimated to be worth around KD 9 billion, similar to the surge levels in 2014-2015.

Moreover, we believe the macroeconomic environment remains accommodative for growth in the projects sphere, as oil price forecasts remain high and the budget deficit continues to narrow. Further, inflation and interest rates remain low and conducive to spending and growth. We think it is likely that government agencies will strive to resolve delays and deliver on these projects in the coming quarters, as these awards and the health of Public Private Partnership projects (PPPs) in Kuwait are central to the government's development plans aimed at boosting and diversifying non-oil GDP.

Construction

Construction was the leading sector in terms of the value of projects awarded (KD 613 million) in the first three quarters of 2018 with a number of large infrastructure projects taking place, including numerous Public Authority for Housing Welfare (PAHW) housing mega-projects such as South/West Abdulla al Mubarak and East Taima, as well as the Diwan Al Amiri New Justice Palace building, and the Kuwait National Guard - Kazma Camp project. Moreover, the bulk of these awards took place in the third quarter. Looking forward, KD 420 million in awards is possible in the remainder of 2018, and KD 1.7 billion in 2019. Notable upcoming projects include the PAHW Jahra and Sulaibiya Low Cost Housing city, and the Kuwait Armed Forces Hospital, valued at KD 510 million each.

Chart 2: Quarterly project awards



Source: MEED projects, as of October 1

Transport

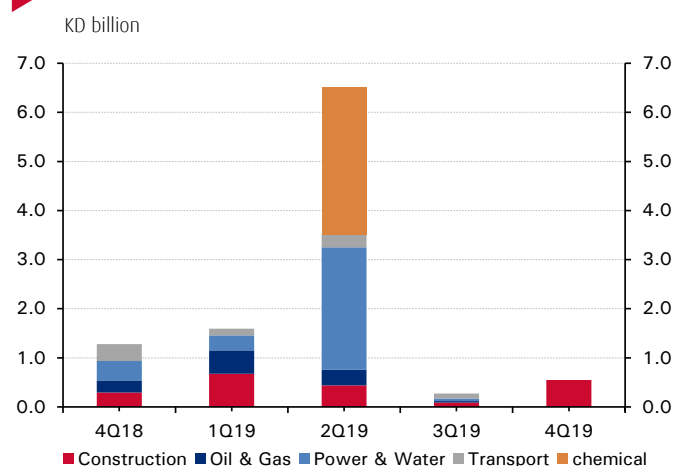
The transport sector saw no awards in 3Q18, but has had the second highest project awards in 2018 to date at just under KD 300 million in total, which is still low compared to a quarterly average of KD 660 million in 2017. The awards were due to a number of large road works taking place in Q1, including the PAHW South al Mutla City major infrastructure works, and the Ministry of Public Works (MPW) – Public Authority for Roads and Transport (PART) regional road south project. However, awards did not proceed on schedule in the following quarters, and this is likely due to the ongoing restructuring of PART due to a revision of its mandate. A number of road projects have already been cancelled or put on hold, and no transport projects were awarded after 1Q18. Provided there are no further technical/legal delays, awards could pick-up in coming quarters, with KD 1.1 billion provisionally planned in 4Q18, and KD 510 million in 2019. However, we may not see much progress until the review of the PART mandate is complete.

Oil, gas and chemicals

The chemical sector, having been dormant for about 13 years, should see some renewed activity next year. A KD 3 billion chemical project (Al-Zour Petrochemical Complex) is in the pre-qualification stage, and contributes nearly half of expected awards in 2019 (scheduled for Q2). The tendering of this project was delayed from 2018 due to a setback relating to the redesign of the KD 5.1 billion Al-Zour oil refinery, to which it is linked. The redesign came after a decision by the Ministry of Electricity and Water (MEW) to use gas oil rather than fuel oil as originally planned for power generation. This in turn has delayed the execution of the petrochemical complex, which is to be integrated with the refinery. Further setbacks are due to delays in the construction of the KD 255 million supply pipeline

tendered in 2014, but cancelled in 2017 according to MEED. We also expect KD 500 million in oil and gas projects to be awarded in the remainder of 2018, and an additional KD 820 million to be awarded in 2019, well above the KD 105 million awarded so far this year.

Chart 3: Planned projects



Source: MEED projects, as of October 1

Power and Water

Power and water project awards stood at KD 155 million year-to-date (up to end of 3Q18), but could rise to KD 277 million by the end of the year, due to a number of projects planned for the fourth quarter. Although a drop from the KD 900 million awarded in this sector in 2017, power and water projects are expected to pick up strongly in 2019, with KD 2.9 billion in planned awards. All awards this year took place in Q1. Some setbacks include the delayed North Zour IWPP, due to a contractual dispute between the Kuwait Authority for Partnership Projects (KAPP) and private investors regarding project finance technicalities as well as the delay of the Borsa Kuwait listing and IPO originally scheduled for earlier this year. Key upcoming water and power projects include KAPP - Al Zour North IWPP Phases 2 & 3 and the KAPP - Nuwaiseeb Power and Water Desalination Plant, with a combined value of KD 1.4 billion, and the MEW- Kuwait Institute for Scientific Research (KISR) Shagaya renewable energy complex, budgeted at KD 300 million. The challenging nature of PPP projects however could result in further award delays in this sector.

Head Office

Kuwait

National Bank of Kuwait SAKP
Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2011
Fax: +965 2259 5804
Telex: 22043-22451 NATBANK
www.nbk.com

International Network

Bahrain

National Bank of Kuwait SAKP
Zain Branch
Zain Tower, Building 401, Road 2806
Seef Area 428, P. O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait SAKP
Bahrain Head Office
GB Corp Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Arab Emirates

National Bank of Kuwait SAKP
Dubai Branch
Latifa Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O.Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait SAKP
Abu Dhabi Branch
Sheikh Rashed Bin Saeed
Al Maktoom, (Old Airport Road)
P.O.Box 113567, Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia

National Bank of Kuwait SAKP
Jeddah Branch
Al Khalidiah District,
Al Mukmal Tower, Jeddah
P.O. Box: 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

Jordan

National Bank of Kuwait SAKP
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297, Shmeisani,
Amman 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

Lebanon

National Bank of Kuwait
(Lebanon) SAL
BAC Building, Justinien Street, Sanayeh
P.O. Box 11-5727, Riad El-Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

Iraq

Credit Bank of Iraq
Street 9, Building 187
Sadoon Street, District 102
P.O. Box 3420, Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

Egypt

National Bank of Kuwait - Egypt
Plot 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26149300
Fax: +20 2 26133978

United States of America

National Bank of Kuwait SAKP
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom

National Bank of Kuwait
(International) Plc
Head Office
13 George Street
London W1U 3QJ
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

National Bank of Kuwait
(International) Plc
Portman Square Branch
7 Portman Square
London W1H 6NA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7486 3877

France

National Bank of Kuwait
(International) Plc
Paris Branch
90 Avenue des Champs-Elysees
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore

National Bank of Kuwait SAKP
Singapore Branch
9 Raffles Place # 44-01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China

National Bank of Kuwait SAKP
Shanghai Office
Suite 1003, 10th Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

NBK Capital

Kuwait

NBK Capital
38th Floor, Arraya II Building, Block 6
Shuhada'a street, Sharq
PO Box 4950, Safat, 13050
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904 / 5

United Arab Emirates

NBK Capital Limited - UAE
Precinct Building 3, Office 404
Dubai International Financial Center
Sheikh Zayed Road
P.O. Box 506506, Dubai
UAE
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Associates

Turkey

Turkish Bank
Valikonagl CAD. 7
Nisantasi, P.O. Box. 34371
Istanbul, Turkey
Tel: +90 212 373 6373
Fax: +90 212 225 0353