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

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

![Chart showing annual awarded and planned projects for different sectors from 2012 to 2019.](chart1)

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 Sulaihiya Low Cost Housing city, and the Kuwait Armed Forces Hospital, valued at KD 510 million each.
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.

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 Boursa 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.