

Kuwait: Project awards relatively weak in 2Q19 but rise sharply in 3Q19

Highlights

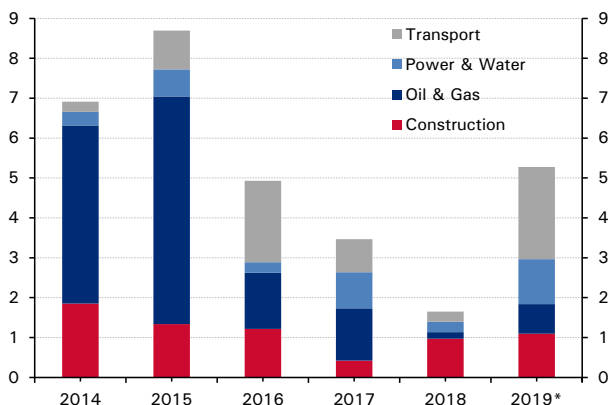
- Project awards slowed to KD 450 million in 2Q19, but have risen sharply in the first two months of 3Q to KD 1.4 billion.
- Transport sector awards have risen to a three-year high of KD 1.2 billion in 3Q.
- First-half awards totaled a less-than-expected KD 1.2 billion, hindered by extensions and prolonged bid negotiations.
- An improvement is expected in 2H19 based on the relatively strong awards of 3Q and decent volume of planned projects in 4Q.

Project awards disappoint in 1H19 regain traction in 3Q

After a relatively weak year for projects in 2018, awards picked up in 1Q19 (KD 700 million), but slowed to only KD 450 million in the second quarter, with overall first half awards much lower than previously expected. Nonetheless, some delayed projects have been rolled over into the second half of the year, with expected 2H awards having risen to about KD 4.2 billion according to the most recent estimates from MEED. This brings total 2019 project awards estimate to around KD 5 billion (previously KD 4 billion), the strongest since 2015, and comes amid a pressing need to deliver on key development plan projects. (Chart 1.)

▶ **Chart 1: Annual project awards**

KD billion, *estimate,

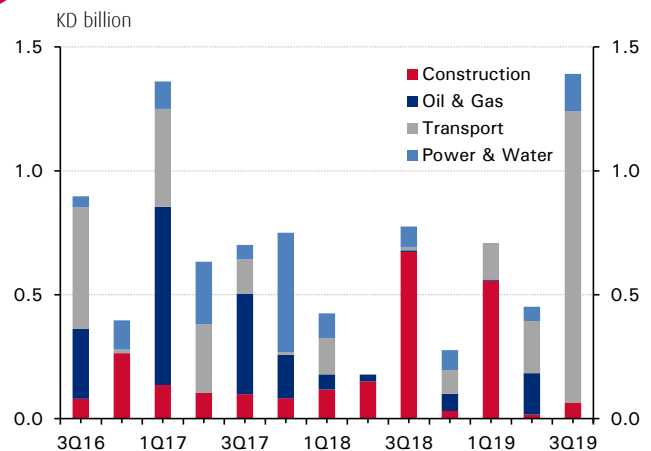


Source: MEED projects, as of September 1.

Indeed, the pace of awards has risen sharply so far in 3Q19 (as of Sept.1), with KD 1.4 billion awarded out of an estimated KD 2.7 billion for the quarter. (Charts 2 & 3.) The strong performance so far in Q3 means that the outlook for 2019 is better than we

had previously anticipated, but cancellations and delays in project implementation remain a downside risk.

▶ **Chart 2: Quarterly project awards**



Source: MEED projects, as of September 1

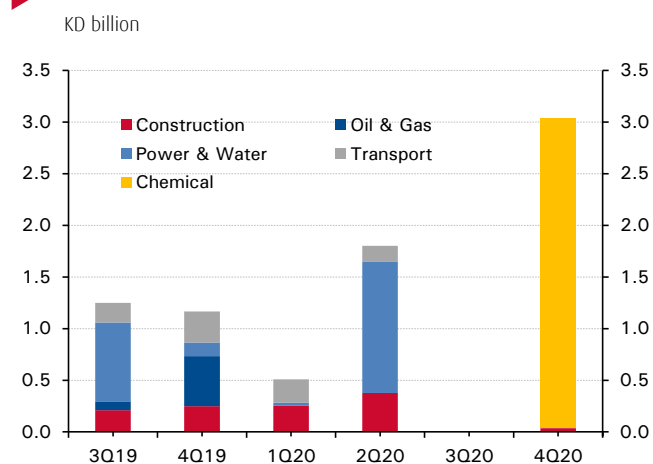
First half awards were dominated by the construction (KD 573 million) and transport sectors (KD 360 million) mainly on account of a few megaprojects, the largest of which were the PAHW Jahra and Sulaibiya low cost housing city (KD 430 million) and the MPW regional road south project (KD 285 million). As for the second half of the year, awards are expected to come mostly from the transport sector, in addition to large planned projects in the power/water sector (Chart 5).

Transport

Transport sector awards in 2Q19 amounted to KD 210 million, a 40% rise from 1Q and versus no awards in 2Q18. (Chart 2.) The pickup in transport awards likely resulted from pressing needs as the country's transport and infrastructure maintenance were

becoming more overdue. Despite this, only two contracts pertaining to the Ministry of Public Work's (MPW) Regional Road South Project were awarded in 2Q19. The urgency however became much more apparent in 3Q19, with most overdue awards finally coming to fruition. The quarter saw KD 1.2 billion in transport sector awards, the highest since 2Q16, and likely to rise as the quarter comes to an end. Looking forward, the sector could see more modest activity, with several medium-sized projects scheduled for later this year and early 2020. This includes MPW's - Sheikh Jaber Al Ahmed Al Sabah Road Improvement (KD 105 million) and four parts of the Northern Regional Road at a combined value of KD 444 million. Both projects are still under bid evaluation.

Chart 3: Planned projects*



Source: MEED projects, as of September 1, *excludes awarded projects

Construction

The construction sector witnessed a major contraction in 2Q19 with only KD 17 million in awards, much lower than previous quarters, with the slowdown likely stemming from deadline extensions and prolonged bid negotiations. The awards came from a single real estate project, the Al Andalus Mixed-use Tower. MEED figures suggest a mild pick-up in 3Q19 at KD 274 million in expected awards of which KD 64 million has already been awarded for the Public Authority for Housing and Welfare's (PAHW) Public Building in Mutlaa city. (Chart 3.) Looking forward, the construction sector's outlook seems modest with KD 1 billion in additional awards expected over the next three quarters to 2Q20, and setbacks are still possible, given recent trends. Planned projects of note include the PAHW Jaber Al Ahmed Township (J2 and J3) and Kuwait Authority for Partnership Projects (KAPP)/Kuwait Municipality's South Jahra Labour City with a combined value of KD 285 million, scheduled for September and December 2019 respectively.

Power and Water

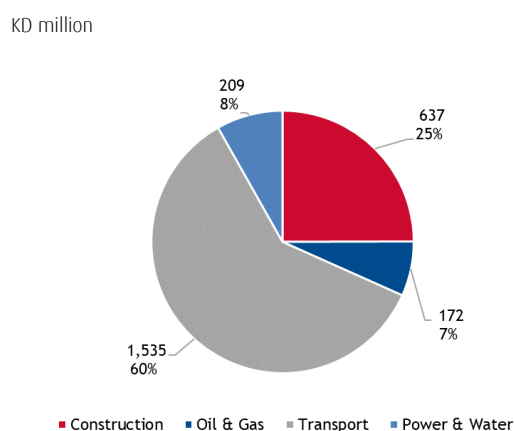
With large, power-intensive projects under execution in the other

sectors, and with a massive new petrochemical complex scheduled for 2H20, development in the power and water sector has become increasingly vital in meeting a rise in projected demand for utilities. The Ministry of Energy and Water expects demand for electricity to increase by 17 gigawatts by 2030. Yet, only two contracts worth KD 60 million were awarded in the second quarter, but a pick-up is expected during 3Q19 (KD 1 billion) and in 2Q20 (KD 1.2 billion) to implement large planned projects (Chart 3). This includes KAPP/MEW's - Al Khiran IWPP Plant (KD 1.0 billion) scheduled for May 2020 and KNPC's Al Dibdibah Solar PV Power Plant in Shagaya Renewable Energy Complex (KD 360 million) which will be one of the largest photovoltaic solar facilities in the region with a capacity of 1,500GWh of power per year, scheduled for September 2019.

Oil, gas and chemicals

Following slow progress in recent years, the oil and gas sector has regained momentum with KD 167 million in awards in 2Q19 and an additional KD 571 million in planned awards over 2H19. However, no further awards are expected in 2020, rendering a fairly weak outlook. Among the awards in 2Q19 was Kuwait Oil Company's (KOC) New Strategic Gas Export Pipeline from North Kuwait to MAA (KD 144 million) with L&T Hydrocarbons appointed as the main contractor. The project is expected to be completed in 2021. Notable upcoming projects in 2019 include KOC's 11 Patterns Well Hook-up and Associated Works (KD 108 million) and KOC's Jurassic Non Associated Phase 2: JPF 4 & 5 (KD 270 million) scheduled for November and December 2019. On a separate note, the under construction Al Zour refinery (KD 651 million) experienced setbacks in Q3. New IMO Maritime sulfur content rules limit sulfur content to 0.5%, while Al-Zour was originally planned to produce 1% sulfur heavy fuel. Nevertheless, expected completion is still on track for 2021.

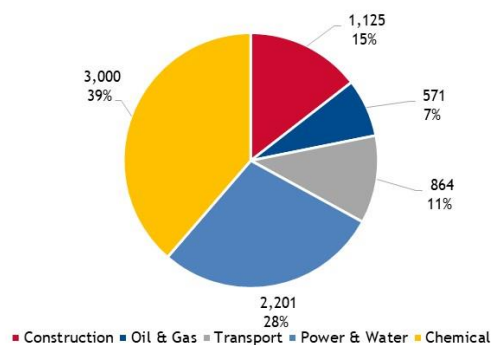
Chart 4: 2019 Awarded Projects Breakdown by Sector



Source: MEED projects, as of September 1

▶ Chart 5: 2019-2020 Planned Projects Breakdown by Sector

KD million



Source: MEED projects, as of September 1

▶ Table 1: 2H19 major planned projects

Project Name	Sector	Value (KD million)	Expected Award
KOC - Jurassic Non Associated Oil & Gas Reserves Expansion: Phase 2 (RFP2031266)	Gas	750	4Q-2019
KNPC - Al Dibdibah Solar PV Power Plant	Power	360	3Q-2019
KAPP/Kuwait Municipality - Kabd Municipal Solid Waste Project	Power	264	3Q-2019
MPW - Northern Regional Road (three parts)	Transport	264	3Q/4Q-2019
KAPP / Kuwait Municipality - South Al-Jahra Labour City	Construction	149	4Q-2019
MPW - Package 2: Landside Works (TENDER NO. 14/2017)	Transport	120	4Q-2019

Source: MEED projects, as of September 1

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