

SPEND TRENDS

Contax's Capex Corner: Emerging trends in the energy project landscape within the GCC

As the GCC energy market picks up steam with major announcements by governments and project owners, we explore the trends that have shaped the industry in the first eight months of 2012. Between January and August 2012, US \$125bn worth of new projects were announced in the GCC while US\$ 57bn worth of projects were awarded (Figure 1). Saudi Arabia and the UAE combined accounted for c.81% and c.83% of all the new announcements and project awards made in the year respectively.

Within Saudi Arabia and the UAE, the sectors of oil and gas production and petrochemicals accounted for over c.50% of all project awards in 2012. Kuwait on the other hand saw 63% of its awards made in the power generation sector. The largest project awarded in 2012 was the US\$3bn Jazan Power and Desalination Plant in Jazan, Saudi Arabia.

Looking deeper into the projects announced in the two markets, we notice that Saudi Arabia has primarily (c.46%) focused on projects within the oil & gas production sector while the UAE has announced the majority (c.80%) of its projects within the alternative energy sector. The largest project announced

ABOUT THE AUTHOR

Kalpesh Ramwani is a Business Analyst at Contax Partners. To further discuss how the Business Advisory Team can help you understand the project landscape, the potential realisation rates and likelihood to proceed tiers for your projects, the full set of opportunities open to you and the best strategy/ approach to ensure the opportunities are successfully secured, please contact Ann-Marie Carbery Antoun: AnnMarie.Carbery@contax-partners.com.



Upstream oil and gas production, power generation and renewable energy projects, by sector, accounted for 70% of all project awards within the GCC.

in Saudi Arabia was Saudi Aramco's US\$ 25bn Red Sea Off-Shore Development Project, whilst the US\$ 35bn Solar Park announced by DEWA (Dubai Electricity and Water Authority) was the largest project announced in the UAE in the first eight months of 2012.

Most of the new projects announced in 2012 are in line with the long-term plans that the GCC governments have set for themselves. A closer look at the award dates of the announced projects reveals that only c.30% of the announced projects are likely to be awarded in

either 2012 or 2013, while most of the large scale projects are expected to begin development in the next 3-4 years.

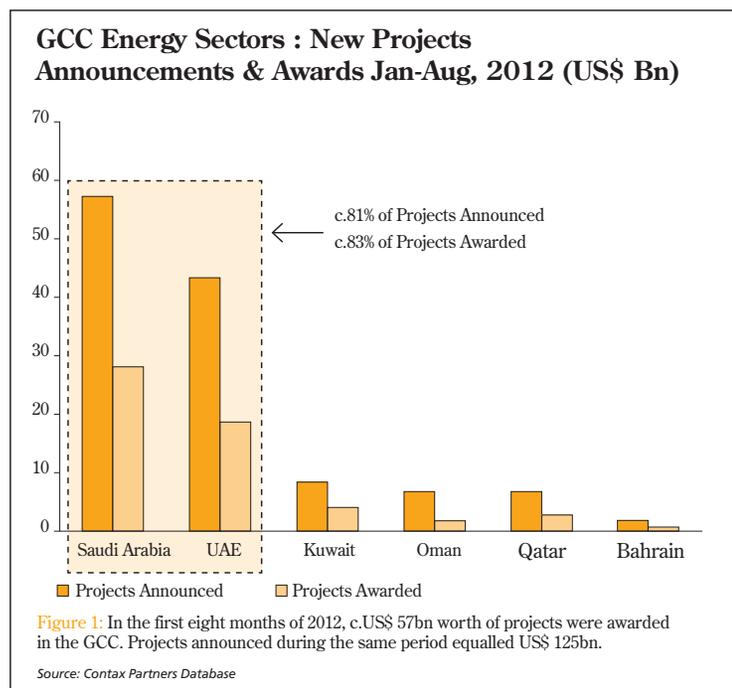
A sector wise breakdown of announced projects shows that alternative energy, followed by oil & gas production and power will account for 70% of all projects (Figure 2). While the oil and gas production sector and power have historically been the focus sectors within the GCC, alternative energy has gained prominence within the region over the last few years. Secondary sectors that will see a fair share of investments in the coming years include: metals and waste and water, which account for 7% and 5% of announced projects respectively.

As commodity prices increase world over, GCC countries have started investing in mining activities in order to source metals locally while investments in waste and water facilities is part of the GCC's

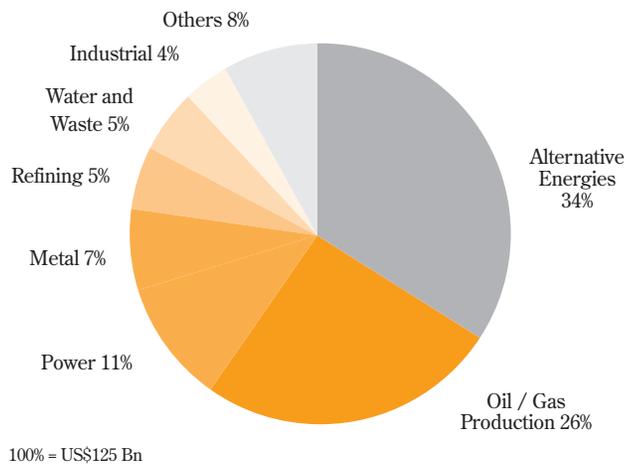
broader strategy to combat water shortages and provide safe drinking water in an energy efficient way to its ever increasing population.

A comparison of projects announced and projects awarded shows that while projects within alternative energy account for the largest share (c.34%) of the announced projects, the sector accounts for only c.5% of the projects awarded in 2012. Projects within the oil and gas production and petrochemicals sectors account for c.51% of all awarded projects, followed by power at c.17%. It is noticeable that across the board, all GCC countries are shifting focus towards higher margin products within the petrochemicals sector while also investing heavily in meeting their power consumption needs.

Between 2011 and 2012, we see that projects announced in 2012 are down by around c.50% (Figure 3).



**GCC Energy Project Announcements
Jan-Aug, 2012 (US\$ Bn)**



100% = US\$125 Bn

Figure 2: Off the US \$125 Bn worth of projects announced in the GCC in the first 8 months, there is a noticeable shift towards exploring alternative energy sources. Others includes: Fertilisers, Petrochemicals, Gas Processing, LNG, Oil and Gas Exploration, Mining

Source: Contax Partners Database

**GCC Project Announcements in Key Energy Sectors
Jan-Aug, 2011 Vs 2012 (US\$ Bn)**

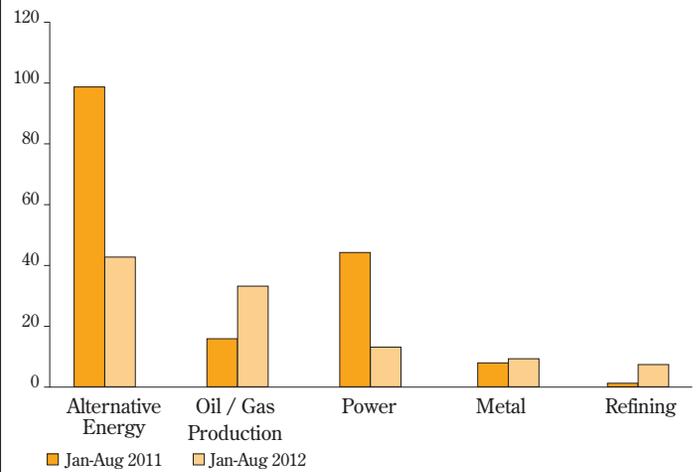


Figure 3: Nearly twice as many projects were announced in the first 8 months of 2011 as compared to 2012. Of the approx. US\$ 240bn projects announced in the first 8 months of 2011, c.42% was in alternative energy. While the trend has continued towards investments in alternative energy, the size of planned investments in the sector is nearly 50% of that in 2011.

Source: Contax Partners Database

Approximately US \$240bn worth of project CAPEX was announced in the first eight months of 2011, only US \$125bn were announced during the same time period in 2012. This might be due to the poor realisation rates of historical project announcements and governments focusing on awarding historical projects as opposed to announcing new ones.

In 2011, Saudi Arabia and Qatar accounted for c.75% of all announced projects in the first

eight months, whilst in 2012, the UAE has overtaken Qatar as the second largest market for announcements. In fact, Qatar has announced the second fewest projects this year - representing only c.US\$7bn in value compared to US\$43.5bn by the UAE. Other sectors of focus between 2011 and 2012 have not shifted much.

Alternative energy still represents the largest sector in terms of announcements in 2012; however, projects announced

are down c.130% compared to 2011. Other sectors that saw a substantial drop in projects announced in 2012 compared with 2011 include: petrochemicals (-c.475%) to US\$ 3.3bn; and power (-c.240%) to US \$13bn. Sectors that have seen a sharp rise in project announcements as compared with 2011 include: Fertiliser (+c.2000%) to US \$3.5bn, Refining (+c.365%) to US\$6.7bn and Industrial (+c.125%) to US\$5bn.

The data described here has immense significance for contractors and service providers pursuing opportunities in the region, and highlights the question: Are you focused on the right sectors and markets and how are you preparing yourself to take advantage of the upcoming trends? Having a good understanding of the historical awards and announcements would help companies better plan their business development and resource allocation process. **Oil&Gas**



Saudi Arabia and Qatar accounted for 75% of announced projects in 2011.



Refining recorded a 365% increase in project announcements last year.