



QATAR CONSTRUCTION SECTOR OVERVIEW 2020

15 March 2020

CONSTRUCTION SECTOR OVERVIEW COVERING THE PERIOD 2016 TO 2029



INTRODUCTION

This construction sector overview (“**Overview**”) has been prepared by Consulting HAUS LLC and seeks to compare published data from international sources such as Fitch Solutions (“**FS**”) to data released from the Planning and Statistics Authority (“**PSA**”) and information gathered via primary market interviews with a cross section of market participants in Qatar.

After assessing the various sources of data, and taking into consideration the primary market research, the Overview concludes upon the market outlook for the construction sector in the coming years.

Users of the Overview are encouraged to undertake their own independent research before making any business-related decisions based on the content of the Overview. Furthermore, the Overview does not consider the potential impact of COVID-19 as no data is yet available. In the event you would like any support in dealing with the impact(s) of COVID-19 on your business, please contact your local Consulting HAUS LLC representative today.

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AN INTRODUCTION TO CONSULTING HAUS LLC

CONSULTING HAUS LLC IN QATAR

Established a little over a year ago, Consulting HAUS LLC has emerged as Qatar's only boutique corporate finance firm with a focus on supporting SMEs and large corporates. During the first year of operations we oversaw the successful delivery of several strategic engagements including:

- The provision of project management services to the founding board of a bank;
- Supporting successful Tawteen applicants to prepare detailed market, technical and financial feasibility studies;
- Undertaking a number of high-profile valuation assignments including PPA and intangible asset valuations;
- Being appointed as sell-side advisors to a number of companies including a market leading manufacturing company and one of the newest most technologically advanced health centers in Qatar; and
- Restructuring a group of gyms, following which an investor was found to support an expansion plan.

In 2019, we also implemented our virtual CFO services which are specially aimed at supporting SMEs to improve performance, manage cash and drive value.

In 2020, our focus will remain on maximizing the value of our clients' businesses by providing hands on support and being seen as an extension to our clients' management teams.



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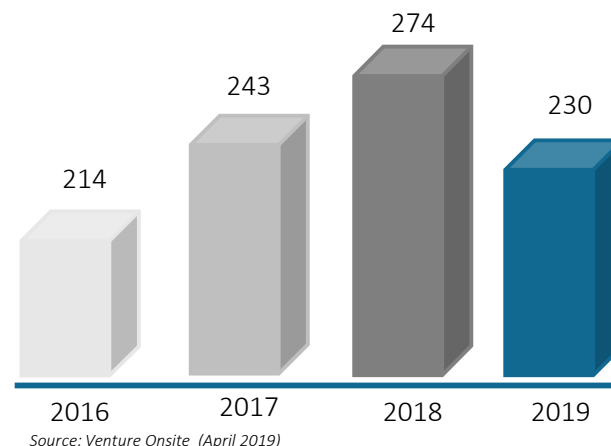
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THE OUTLOOK FOR QATAR'S CONSTRUCTION SECTOR POINTS TO MODERATE GROWTH ACROSS THE NEXT DECADE, WITH A SHARP DECLINE IN ACTIVITY OCCURRING IN THE TWO YEARS FOLLOWING FIFA2022

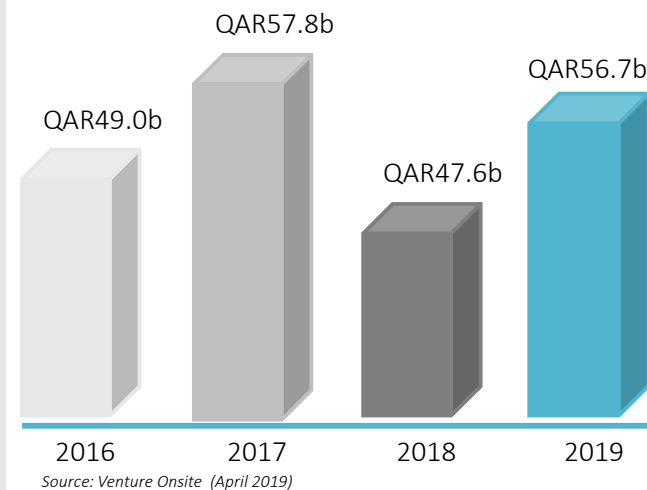
OVERVIEW

- Ever since the blockade imposed by K.S.A, U.A.E, Bahrain and Egypt in June 2017 (the “**Blockade**”), Qatar has been determined to diversify its economy, establish new global trading relationships and become less vulnerable to similar threats and risks, which may occur in the future. As a result, the implementation of the initiatives outlined in the Qatar National Vision 2030 (“**QNV2030**”) have been accelerated.
- There has been a clear focus on expanding the agriculture sector (to improve food security), the manufacturing sector (with initiatives such as Tawteen which aims to localize Qatar Petroleum’s supply chain) and lastly, the construction sector as the country continues to invest in key infrastructure and other construction related projects.
- According to the latest data published by the PSA, the construction sector’s contribution towards overall GDP in 2019 is estimated at 15.8% (up from 14.0% in 2018) and is projected to increase by a further 1.75 percentage points in 2020. This is in contrast to the views of FS who reported that the construction sector’s contribution to overall GDP in 2019 stood at 14.0% and this is expected to decrease to 13.8% in 2020. Unlike the PSA who assume continued market growth, FS report that the construction sector contracted by c.4.1% in 2019 with a minimal amount of growth (c.0.7%) being expected in 2020.
- Based on our discussions with market participants, the general view is that the overall number of projects released into the market reduced in 2019 with Q1 to Q3 being slow quarters. Q4 showed signs of improvement, particularly with the release of a number of ‘mega’ projects such as the Hamad International Airport expansion (valued at QAR6.6b) and the Lusail Commercial Boulevard (valued at QAR2.1b). The feeling of increased market activity has continued into the early part of 2020, however, with only a few months past, no significant conclusions can be drawn.
- Based on our analysis, and following the market contraction in 2019, we predict that the construction sector will return to growth in 2020 and 2021 with growth in 2021 surpassing that of 2020 as the country gears up to host the FIFA World Cup 2022 (“**FIFA2022**”).
- The adjacent graph (top-right) details the number of awarded projects in each year from 2016 to 2019. The data supports the feedback received from the market participants interviewed, particularly in relation to 2019 where the number of awarded projects was less than in 2017 and 2018.
- It is important to note that while the number of projects awarded provides an indication on market activity, it does not have a direct correlation to the value of the overall construction sector as it does not capture the size of the projects in monetary value.

NUMBER OF PROJECTS AWARDED (2016 – 2019)

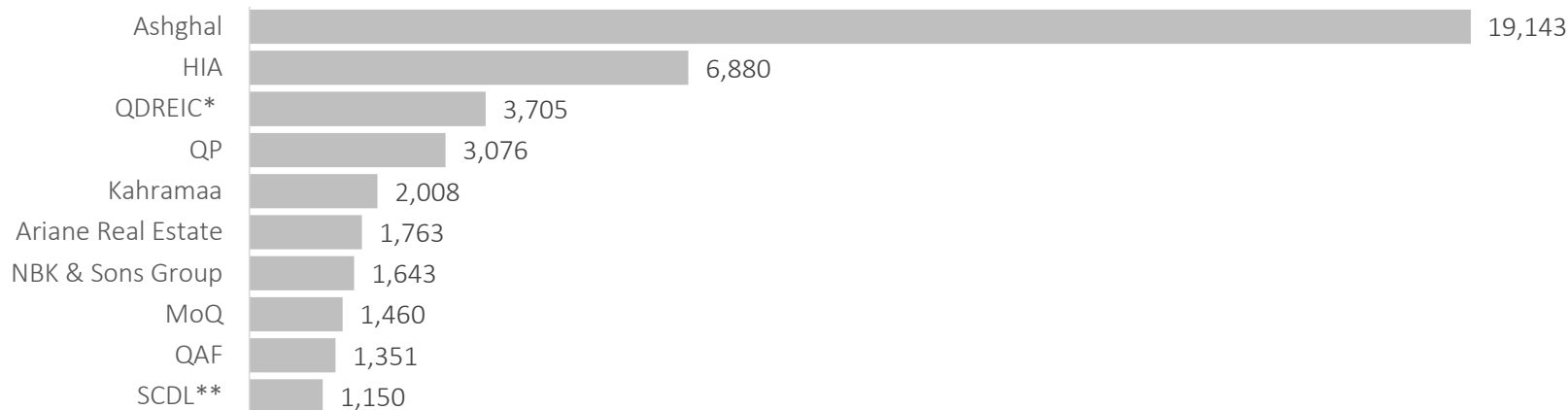


VALUE OF PROJECTS AWARDED (2016 – 2019)



GOVERNMENTAL AND SEMI-GOVERNMENTAL COMPANIES ARE THE LARGEST SPENDERS IN THE CONSTRUCTION SECTOR

TOP 10 CLIENTS BY VALUE OF PROJECTS AWARDED (QARm.) - 2019

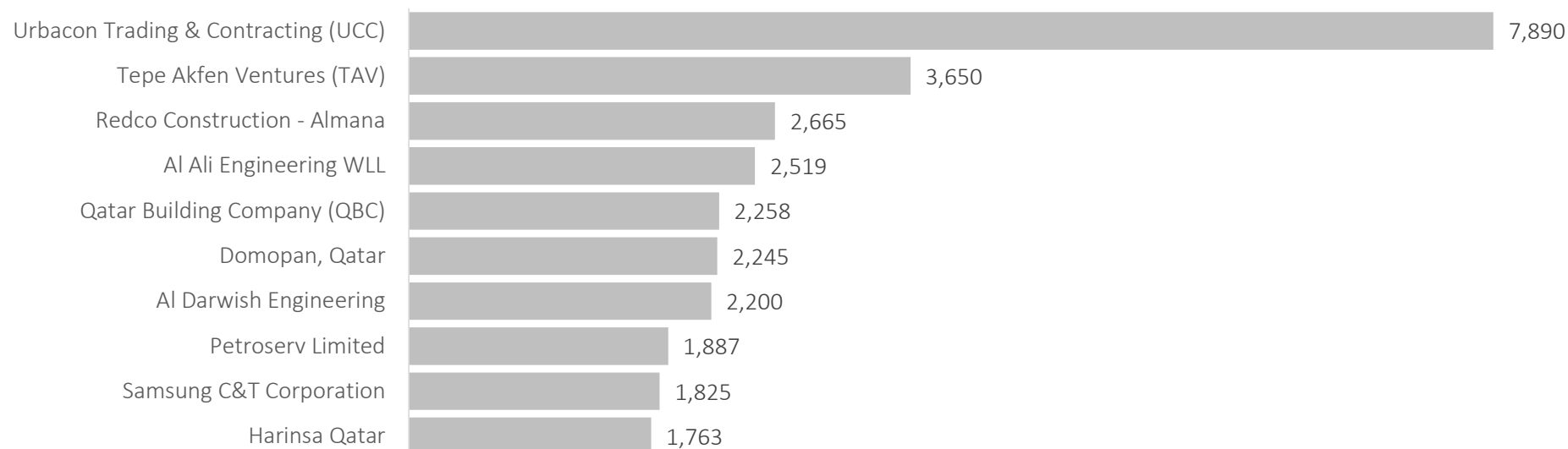


*QDREIC: Qatar Diar Real Estate Company.

**SCDL: Supreme Committee for Delivery and Legacy

Source: Venture Onsite (April 2019)

TOP 10 CONTRACTORS BY VALUE OF PROJECTS AWARDED (QARm.) – 2019



Source: Venture Onsite (April 2019)

REFORMS IN FOREIGN PRIVATE INVESTMENTS AND ECONOMIC DIVERSIFICATION AIDED THE CONSTRUCTION SECTOR, HOWEVER, THE BLOCKADE AND RELIANCE ON IMPORTS ARE SUBSTANTIAL OBSTACLES



STRENGTHS

- The large hydrocarbons revenues have allowed the government to develop ambitious and well-funded development plans such as those outlined in QNV2030.
- Construction of large-scale transport infrastructure projects is underway which will ease the strain on existing infrastructure.
- The involvement of large foreign firms in the construction of residential/non-residential and infrastructure projects, underline the attractiveness of the market.
- The ability to set-up foreign private companies through a range of investment mechanisms, in addition to low taxes, has attracted numerous private foreign companies.



WEAKNESSES

- Heavy reliance on imported construction materials and foreign workers has resulted in many project delays and price inflation in the wake of the Blockade.
- The processes for project management are not mature which is leading to project implementation delays.
- A lack of private sector investment leaves the sector vulnerable to declines in government spending. This appears to have been the case in 2019 which is supported by the views of the market participants and FS. The government is trying to encourage more private participation, an example of which is the various PPP initiatives that have been released in the last couple of years.



OPPORTUNITIES

- The government aims to diversify its economy away from the oil sector by developing healthcare, education, tourism, ports and roads.
- Hosting FIFA2022 will continue to result in considerable contracts across the construction and infrastructure sectors.
- Iran is developing as an alternative to the GCC as a source of building materials with materials such as cement being increasingly sourced from Iran.
- The government is in the early stages of assessing how to increase FDI and the possibility of un-restricted 100% foreign ownership across all sectors may soon become a reality.



THREATS

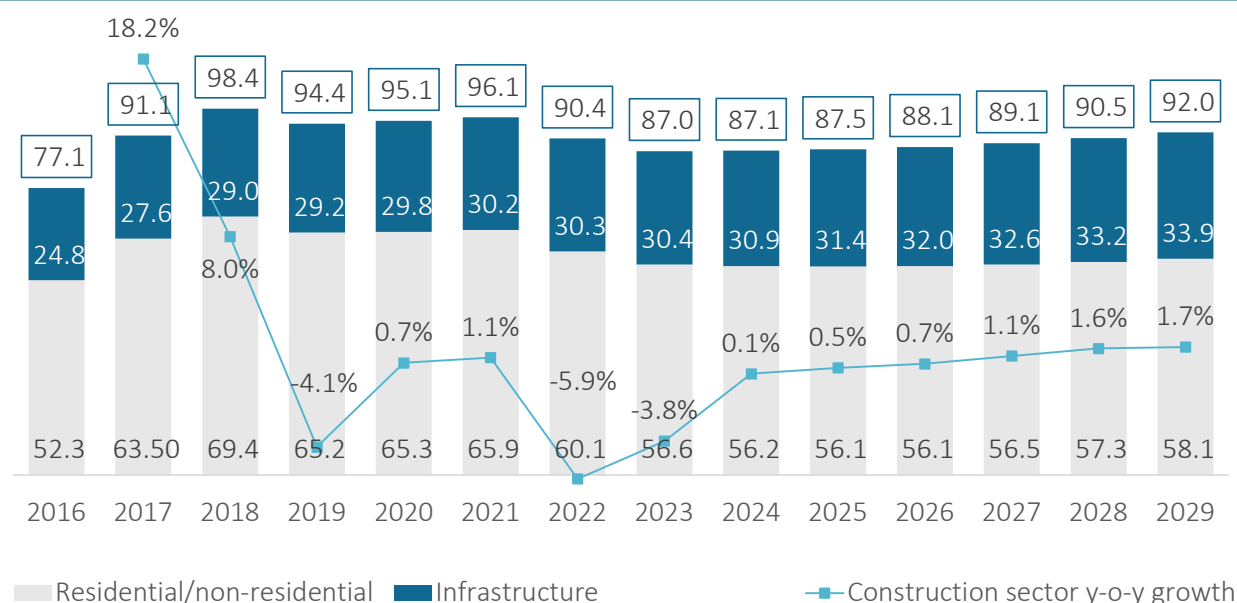
- The Blockade resulted in the closure of land borders and the suspension of exports. The rift between the GCC could worsen with negative implication on the construction sector.
- The potential break-up of the GCC could jeopardize long-term plans to invest in regional transport integration.
- Oil price fluctuations have magnified effects on government spending which in turn affects the construction market. However, due to healthy financial reserves, Qatar is expected to be able to deal with fluctuation better than other GCC countries.
- Regional security threats are heightened owing to GCC involvement in the conflicts in Iraq, Syria, Yemen and Libya.

ACCORDING TO FS, THE CONSTRUCTION SECTOR WILL WITNESS OVERALL NEGATIVE GROWTH BETWEEN 2019 AND 2023 WITH AN ASSOCIATED CAGR OF -2.0%

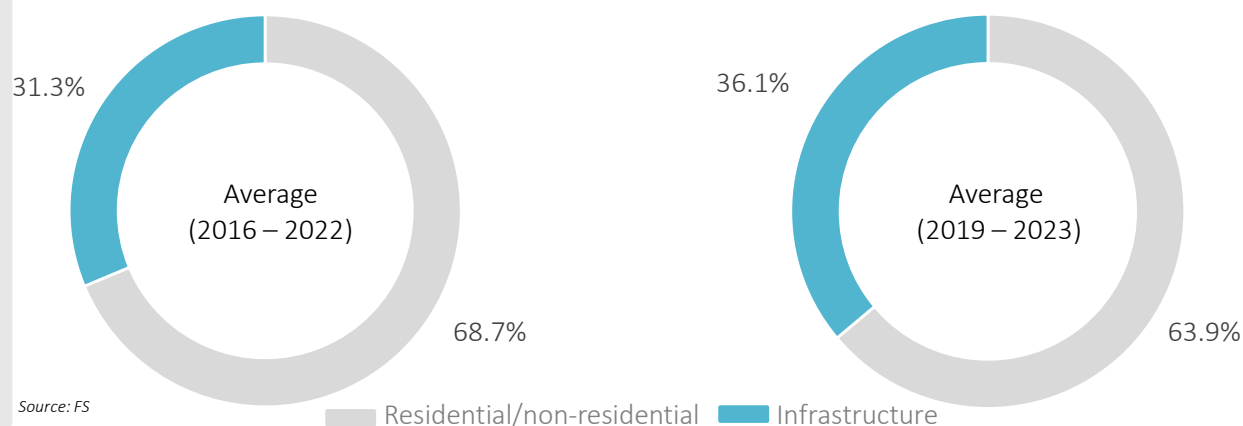
CONSTRUCTION SECTOR: FS VIEW

- After the construction sector witnessed continued and significant growth in the last decade, the sector is expected to see a sharp correction over the coming years as projects associated with hosting the FIFA2022 are completed.
- 2019 witnessed the first negative growth in the period under review and despite FIFA2022 being less than 2 years away, minimal growth is projected in the years leading up to 2022.
- A further contraction is anticipated after the event as infrastructure and other 'mega' projects in the residential/non-residential sub sectors conclude.
- The annual growth rates are projected to witness marginal improvements after 2023 with an associated CAGR of 0.9% between 2023 and 2029.
- Post 2022 the infrastructure sub sector is expected to be driven by energy and utility projects. Furthermore, a healthy pipeline of wastewater and desalination plants exists to maintain fresh water supply.
- The inner Doha re-sewage implementation strategy project will be conducted in 15 phases with a total investment of QAR9.9b is expected to drive growth for this sub sector.
- Despite the government's efforts to diversify the economy by initiating and supporting social, educational, health and industrial projects, this is unlikely to be sufficient to sustain the levels of growth witnessed by the construction sector over the last decade.

FS CONSTRUCTION SECTOR GROWTH: 2016 - 2028 (QARb.)



CONSTRUCTION SUB-SECTOR BREAKDOWN



THE RESIDENTIAL/NON-RESIDENTIAL SUB-SECTOR IS EXPECTED TO WITNESS NEGATIVE GROWTH WHILE THE LESS VULNERABLE INFRASTRUCTURE SUB-SECTOR WILL REMAIN RELATIVELY STABLE

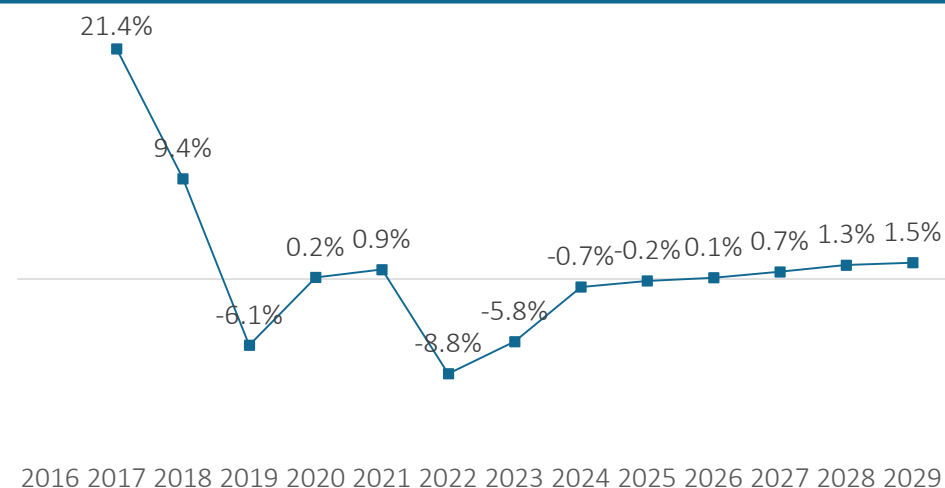
RESIDENTIAL/NON-RESIDENTIAL OVERVIEW

- The numerous new sporting stadiums, retail offices, developments and housing projects have been a major source of growth in the sub-sector in preparation for FIFA2022. However, the thin project pipeline to replace completed project means the future growth of the residential/non-residential sub-sector is unlikely to match that of the prior years.
- Furthermore, projects that are not linked to FIFA2022 such as the Lusail Golf Residential Development (QAR17.9b), the Hilton Beach Resort (QAR14.2b) and the Doha Festival City project (QAR6.6b), are also nearing completion.
- Despite the QNV2030, there is little evidence to support that there is a healthy enough pipeline to replace these projects, which leads to an anticipated market contraction of 8.8% in 2022 and a modest CAGR of 0.5% between 2023 and 2029.

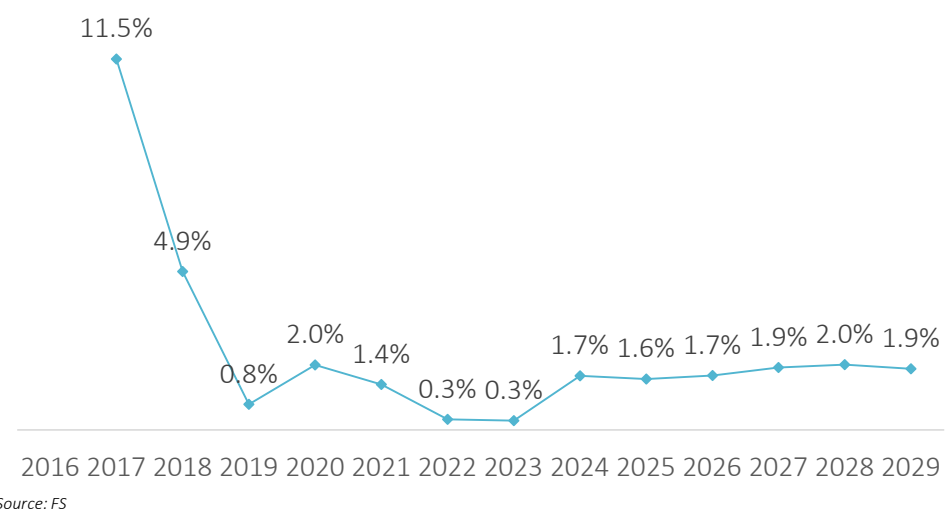
INFRASTRUCTURE OVERVIEW

- Qatar is developing its non-oil sector including infrastructure development in areas such as transportation and power and water plants.
- The infrastructure sub-sector is expected to have a larger contribution to the construction sector post 2022 as this sub-sector is not as closely linked to FIFA2022 as the residential/non-residential sub sector.
- The projected CAGR between 2023 and 2029 is estimated at 1.8% with no market contractions expected but rather a slowdown in historical growth rates.
- Projects such as the Sharq crossing with an estimated investment of QAR43.7b, the QAR12.7b Long Distance Rail and numerous desalination plants and wastewater management projects, are expected to be the main drivers for the continued growth of this sub sector in the post FIFA2022 era.

FS-RESIDENTIAL/NON-RESIDENTIAL GROWTH RATE



FS INFRASTRUCTURE GROWTH RATE



FS GROWTH RATES SEEM TO BE REFLECTIVE OF THE CURRENT MARKET SENTIMENT



CONCLUSION ON FS GROWTH RATES

Based on primary market interviews with construction and construction related companies, the FS growth rates seem to be reflective of the general market sentiment. Whilst certain companies have witnessed continued growth in the last several years, the level of growth has typically been on a downward trajectory.

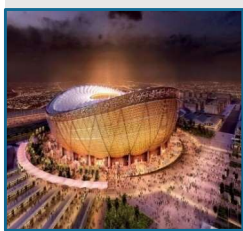
Almost all market participants interviewed cited 2019 as being one of the toughest years in recent times based on their view that the value of public spending has been lower than in the past. In the wake of a thin pipeline of projects announced, market participants are pragmatic on their view of market growth until 2022 and beyond.

CONSTRUCTION RELATED EXPENDITURE IS EXPECTED TO WITNESS A SMALL INCREASE IN 2020 AND 2021 DRIVEN BY THE FINALIZATION OF FIFA2022 PROJECTS

CONSTRUCTION PROJECTS

- An expansion of Hamad international Airport will see its capacity increase from 50 to 65 million passengers annually.
- Hamad Port's development would make the port one of the deepest in the region with the ability to handle 12 million containers annually.
- Expansion of the passenger terminal and connecting the airport to the train network (Doha Metro).
- Linking the country's hotspots together by train, or metro such as the residential areas to industrial ones and to essential hubs like Lusail City, Education City, and West Bay.
- Completion of a large number of dwellings in Lusail and buildings in the Pearl which is expected to accommodate more than 200,000 residents.
- Development of Msheirib Downtown Doha to become the financial hub and a tourist attraction.
- Completion of nine new shopping malls including North Gate Mall and Place Vendome, and planned construction of a large number of hotels to increase the tourist intake to over 20,000 by 2022.
- The government has boosted this sector further by the construction of a rehabilitation center: Naufar, at Hamad Medical City amounting to QAR557m, the Doha north sewage treatment plants serving 900,000 people, and upgrading the road's drainage systems with a value of c.QAR5.1b.

FIFA2022 STADIUMS



Lusail Stadium -
Under
construction



Al Bayt Stadium –
Est. completion
2020



Al Janoub
Stadium -
completed



Al Rayyan
Stadium – Est
completion 2021



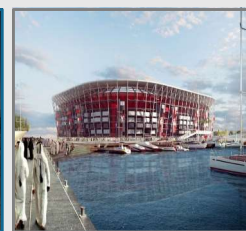
Khalifa
International
Stadium -
Completed



Qatar Foundation
Stadium – Est.
completion 2020

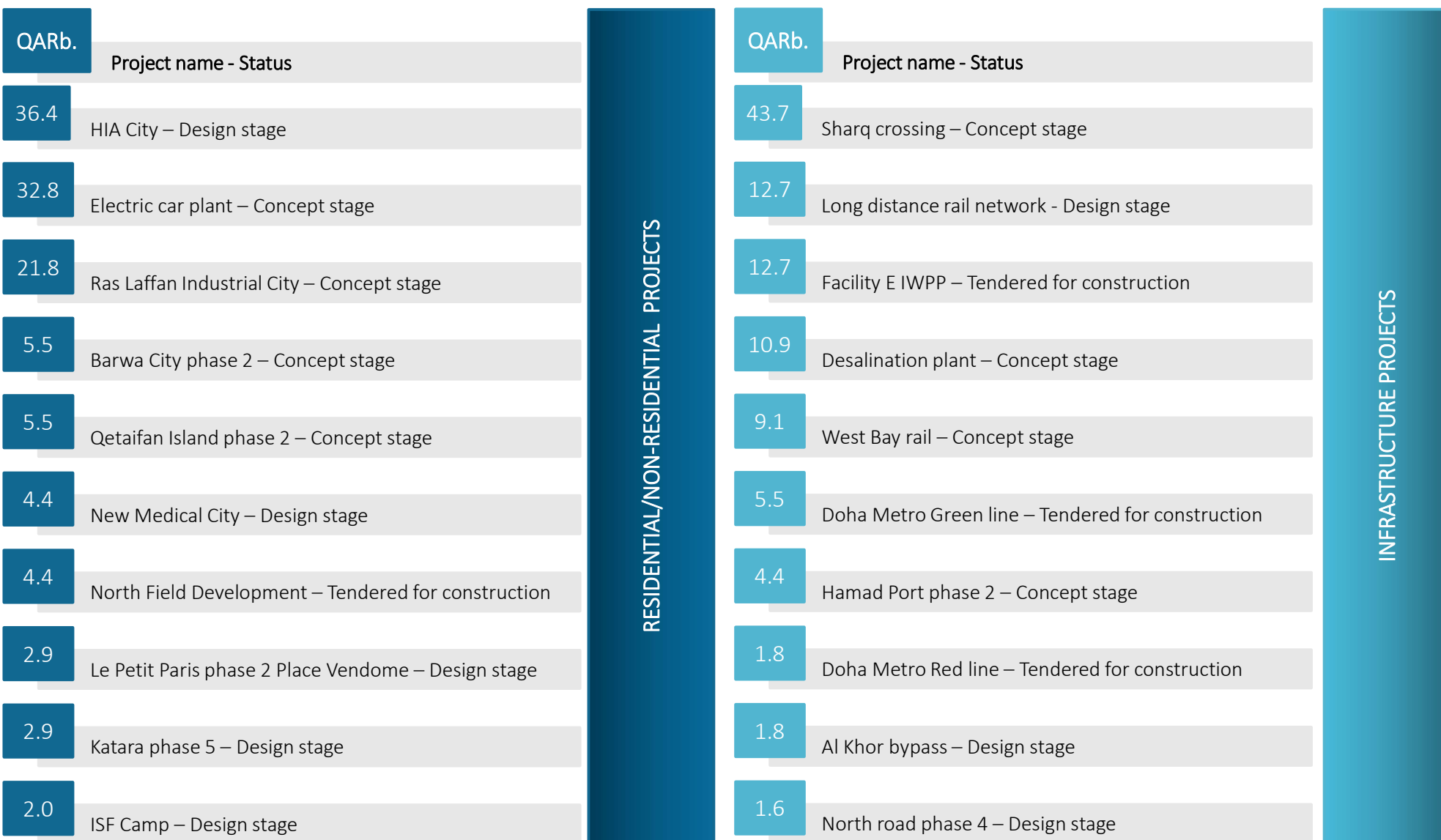


Al Thumama
Stadium – Under
construction



Ras Abu Abboud
Stadium– Under
construction

THE PROJECT PIPELINE FOR THE CONSTRUCTION SECTOR STILL CONTAINS A NUMBER OF 'MEGA' PROJECTS THAT WILL CONTINUE BEYOND 2022



PUBLIC SPENDING HAMPERED THE CONSTRUCTION SECTOR IN 2019 HOWEVER, EARLY SIGNS INDICATE THAT 2020 MAY WITNESS A SLIGHT RECOVERY

CONCLUSIONS

- The main source for construction spending is provided by governmental and semi-governmental entities such as Qatar Rail, Qatar Public Works Authority and QP which have been impacted by declining oil and gas prices,. Furthermore, the Blockade is aggravating the situation for the following reasons:
 - i. Increase in the price of raw materials;
 - ii. Project delays as a result of changes in the supply chain; and
 - iii. Public funds being directed towards eliminating negative impacts of the Blockade.
- The accumulation of the above-mentioned factors came into fruition during 2018 and 2019, with the market suffering from a lack of liquidity and a reduced amount of public spending on construction related projects targeted at boosting the economy.
- FIFA2022 has been one of the main drivers of the construction sector in the past few years, and despite the majority of the 'mega' projects under progress or complete, it is anticipated that there will be a upsurge in activity in the release of small to medium sized projects in 2020 and 2021 as the country applies the final touches before commencement of the tournament.
- Based on published sources, growth is projected to be minimal in 2020 and 2021 followed by a period of negative growth in 2022 and 2023 of -5.9% and -3.8% respectively.
- With oil and gas prices witnessing a free fall due to the COVID-19 outbreak and OPEC countries failing to reach a consensus on oil production regulation, the positive momentum of the construction sector carried over from Q4 2019 is likely to be negatively impacted which may result in the small projected growth of 0.7% in 2020 being reduced.
- It is likely that there will be a period of market adjustment in the coming years to adapt to the new reality of minimal/negative growth rates meaning smaller contractors will be at risk as they struggle to compete for projects. Based on the primary market interviews, signs of market consolidation are already being felt with profitability margins being on the decline as a result of fewer projects and increased competition.



QNV2030 AND THE CONTINUED GOVERNMENT SUPPORT FOR THE CONSTRUCTION SECTOR ARE EXPECTED TO PROP UP THE SECTOR POST FIFA2022



FINAL THOUGHTS

The construction sector witnessed several years of sustained growth which has encourage investors to enter the market. Several market participants interviewed state they have not seen any growth in the last few years quoting increased competition (which has resulted in a certain level of price cutting) and a lower number of projects being released as the main two causes.

Moving forward, Qatar still has a way to go to achieve QNV2030, however, the growth witnessed in the past is unlikely to be repeated especially in the construction sector as the market transitions from a period of sustained growth to a period of maturity. With the Blockade still in place, other geo-political risks on the rise and global disruption events such as the emergence of COVID-19, it appears that the level of growth predicted by FS are significantly more reasonable that their market outlook 12 months ago when significant growth was projected year on year until 2028.

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