ExportReady DISCOVER | SEV Hellenic Federation of Enterprises

SECTORAL REPORT

Kuwait

Sector: Infrastructure

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ExportReady Sponsor Eurobank

Contents

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1. Sector Overview

1.1 Market Overview

The short-term outlook for Kuwait's construction industry is cautiously optimistic with growth expected to return to the market after a sharp downturn in 2020. There is, however, ongoing risk from the Covid-19 pandemic due to elevated case numbers in Q121 and the remaining public health restrictions, including barriers to foreign entry, which will impact on the labour market. Longer term, growth is expected to improve as the country pursues the Kuwait Vision 2035 development programme aimed at diversifying the economy and reducing the reliance on the oil sector

1.2 Latest Developments

The construction and infrastructure market saw significant disruption in 2020 as Covid-related public health restrictions delayed active developments and slowed investment. It is estimated an overall industry value contraction of 8.0% in 2020, and for 2021 it is forecasted moderate growth of 2.3%.

Over the remainder of the forecast period, which this quarter has been extended to 2030, it is projected average growth of 3.1%, taking construction industry value to a total of USD5.8bn by the end of the forecast period.

The residential and non-residential building is a key source of growth, making up almost 85% of industry value in 2021. Solid growth is expected in the sector over the forecast period, supported by ongoing investments in Kuwait's oil and gas sector as well as longer-term developments such as the South Saad Al Abdullah New City project.

The transport sector is also the target of significant public investment, with ports in particular the current focus of expansion plans. it is forecasted upside risk for the transport sector stem from Kuwait's plans to develop a national railway network, although progress on the project remains very limited.

Slowest growth is expected in the energy and utilities infrastructure sector. Kuwait's existing power capacity is sufficient to meet consumption demands and without a viable framework for private investors there are few incentives to develop new capacity.

Table 1: Construction – Infrastructure Industry Data (Kuwait 2020-2030)

CONSTRUCTION AND INFRASTRUCTURE INDUSTRY DATA (KUWAIT 2020-2030)											
Indicator	**2020e**	**2021f**	**2022f**	**2023f**	**2024f**	**2025f**	**2026f**	**2027f**	**2028f**	**2029f**	**2030f**
Construction industry value, KWDbn	1.2	1.3	1.3	1.4	1.4	1.5	1.6	1.6	1.7	1.8	1.9
Construction industry value, real growth, % y-o-y	-8.0	2.3	3.0	3.3	3.3	3.2	3.2	3.1	3.1	3.0	3.0
Construction industry value, % of GDP	3.2	3.0	2.9	2.9	2.9	2.9	2.9	2.9	3.0	3.0	3.0

Source: Central Bank of Kuwait, Fitch Solutions

1.3 SWOT Analysis

Strengths

- With a large oil production capacity and significant sovereign wealth reserves, Kuwait has room to weather economic difficulties.
- Government plans billions of dollars of investment as part of a generous social infrastructure, transport and power spending programme.
- Tighter integration within the Gulf Cooperation Council will make Kuwait a more enticing investment prospect.

Weaknesses

- A lengthy and difficult tendering process, heavy bias in favour of Kuwaiti firms, and a lackluster competitive landscape.
- Political dysfunction often precludes the effective disbursement of infrastructure outlays.
- OPEC-led supply restrictions and cuts to capex will continue to serve as a drag on infrastructure spending.
- Poor operating environment, with excessive red tape, lengthy project delays and previous problems paying contractors.
- The global Covid-19 pandemic will constrict funding, disrupt supply chains and delay construction works.

Opportunities

- The approval of the USD100bn five-year development plan paves the way for investment across the construction sector.
- Reforms in public-private partnership (PPP) regulations will catalyse an uptick in the number of PPP tender opportunities.
- The new Kuwait Direct Investment Promotion Authority is set to streamline business application and licensing in a one-stop shop.
- Kuwait's plan to develop a megacity (Silk City) will boost economic growth and provide major upside to the construction sector forecasts.

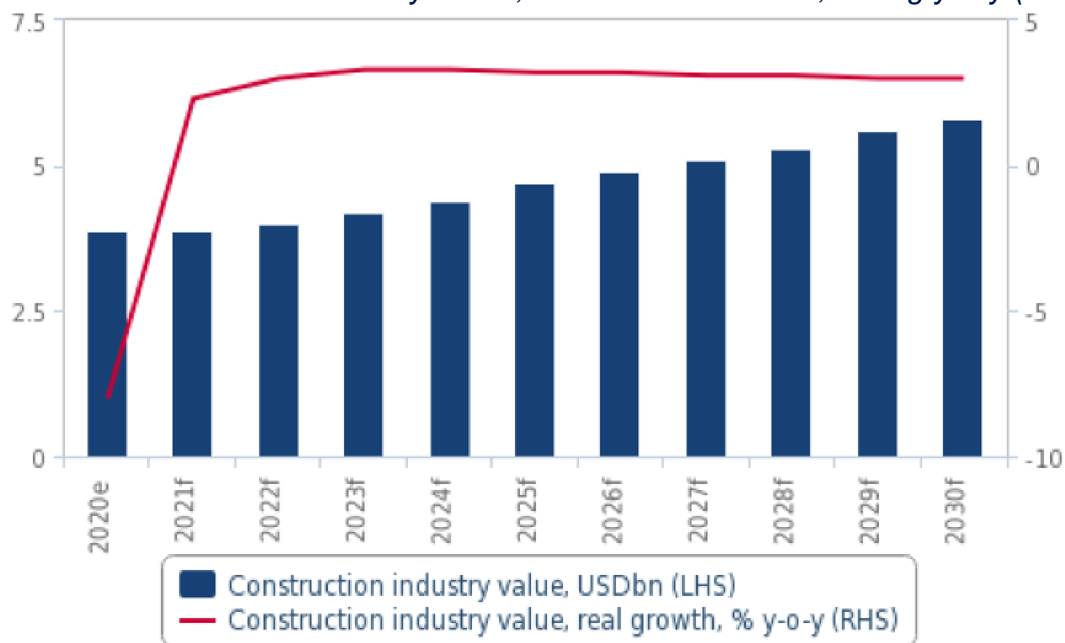
Threats

- More stringent labour market regulations, in line with Kuwaitisation and high labour costs will further weaken Kuwait's appeal to foreign investors.
- Continued lack of private investment may result in a period of extended stagnation as investors look elsewhere for returns.
- Lower oil prices and revenue are likely to spur fiscal consolidation and weaken investor sentiment, impacting negatively on non-oil activity.

1.4 Structural Trends

2021: Growth Returning But Will Remain Subdued: Kuwait's construction industry saw an estimated 8.0% decrease in value in 2020, as the negative impact of Covid-19 and the collapse in oil prices constricted funding, disrupted supply chains and delayed construction works. A strict lockdown, which was among the longest in the world, and the introduction of OPEC production cuts, weighed heavily on the economy and resulted in the delays and cancellations of a number of construction projects. Growth is expected to return to the Kuwaiti construction industry in 2021, as activity recovers from the pandemic-related disruption to post growth of 2.3% y-o-y.

Graph 1: Construction Industry To See Tepid Recovery In 2021
Kuwait - Construction Industry Value, USD & Real Growth, % chg y-o-y (2020-2030)



Source: Source: Central Bank of Kuwait, Fitch Solutions

Against the weak macroeconomic backdrop, it is believed that the authorities will look to cut down on capital spending over the medium term. Given that the vast majority of projects are publicly financed, it is expected that this will weigh on growth in the construction sector. Indeed, capital expenditure has tended to miss government targets by wide margins in recent years. The average implementation rate of the capital expenditure budget has been approximately 75% over the last five years, weighed down by recurrent disputes between the government and the legislature, as well as red tape. Construction delays have already been noted at flagship projects in the country. It is predicted an economic growth to pick up in 2021 on the back of a gradual ramping up of oil production and favourable base effects for non-oil activity. In line with this, construction industry value will increase by 2.3% in 2021. It should be noted that the return to growth will be gradual as the government continues to suffer from fiscal constraints and the industry continues to see disruption due to the ongoing pandemic and global travel restrictions.

2022-2030: Economic Diversification Plans Lend Support to Growth: The government's aim to diversify its economy and promote the country as a logistics hub, in line with Kuwait Vision 2035, will offer long-term support to growth in the construction sector. It is forcasted annual average growth in construction industry value of 3.1% between 2022 and 2030. Infrastructure investment forms a key component of its Kuwait Vision 2035 diversification programme and will therefore likely remain resilient. The government's Kuwait Vision 2035 initiative aims to transform Kuwait from a petro-state to a financial, logistics and trade hub by 2035.
Despite a protracted period of lower oil prices, over the last five years the government has allocated spending of over USD100bn on infrastructure projects, hospitals, power stations and more than 100,000 residential housing units. This also includes major hydrocarbon projects like the first phase of the Lower Fars heavy-oil project costing USD4.2bn. Plans to build Silk City also appear to be moving forward - the government has recently unveiled plans to build an international airport, rail network, and logistics and industrial hub as part of the first phase of the mega project. These strong ambitions are reflected in Kuwait's infrastructure pipeline, which has a large share of projects still at planning stages compared to the rest of the Gulf Cooperation Council (GCC).

Ports And Industrial Infrastructure Key Drivers Of Growth
Industrial Construction: Despite nascent efforts at diversifying its economic base, Kuwait remains overwhelmingly reliant on the export of oil. Industrial projects centred upon the hydrocarbon sector will remain a focal point of government investment into infrastructure. It should be mentioned the USD13bn Al-Zour refinery project, which is being constructed by a consortium including Daewoo (South Korea) and Sinopec (China), as an example of an oil-related industrial project that will be instrumental in driving growth over the near term. Further upside in the industrial space is provided by the Kuwaiti goal of increasing annual petrochemical production to 16mn tonnes by 2040, which will necessitate additional investment.

Ports: Expanding the nation's port capacity is a central aspect of the government's ambition to diversify the economy by establishing Kuwait as a regional trading and logistics hub. Value creation in the port infrastructure space will be dominated by the Mubarak Al-Kabeer port, a USD10.5bn project currently being constructed by Hyundai (South Korea) among others.

2. Transport Infrastructure

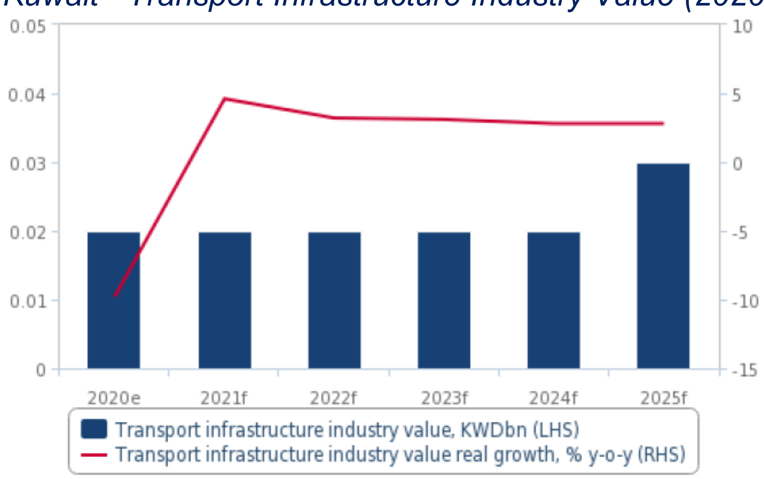
2.1 Overview

Kuwait's transport infrastructure sector is expected to see a more rapid return to growth in 2021 in comparison with the energy and utilities infrastructure and construction sectors. Several large-scale port and railway projects are under construction, and while the Covid-19 pandemic caused significant delays in 2020, it is expected that growth will resume over 2021. There is some short-term risk from the government's weaker fiscal stance over the coming quarters, as transport infrastructure projects in Kuwait are heavily reliant on public funding.

2.2 Latest Developments
A sharp downturn in oil revenues combined with extensive public health restrictions due to Covid-19 led to an estimated 9.8% contraction in transport infrastructure industry value in 2020. The market is expected to bounce back relatively rapidly, however, with growth of 4.6% in 2021 outperforming the wider construction industry. Based on the current project pipeline, it is expected growth in the transport infrastructure sector to average 3.2% per annum over the remainder of the forecast period through to 2030.

2.3 Structural Trends
2021-2030: Several Major Government Backed Developments: Kuwait's transport infrastructure sector is expected to grow by 4.6% y-o-y in 2021, recovering from a significant contraction of 9.8% in real terms in 2020. Some growth momentum will be maintained over the remainder of the forecast period, averaging 3.2% per annum between 2022 and 2030, as major projects in the pipeline progress. Kuwait's transport infrastructure growth has significant room to run, as investment powers robust growth from a low base. Short-term value creation in Kuwait's transport space will be concentrated in the country's port and airport sub-sectors, while Kuwait's planned national railway project offers long-term upside. A positive view is underpinned by Kuwait's increasing ability to attract private capital via its improving public-private partnership framework in service of its wider ambition of establishing the country as a regional trade and logistics hub. The government's Kuwait 2035 initiative aims to transform Kuwait from a petro-state to a financial, logistics and trade hub by 2035.
An optimistic view towards Kuwait's transport sector is underpinned by a robust project pipeline, with Key Projects Database (KPD) indicating that nearly 70% of total project value currently under construction is concentrated in the transport space. Plans to build Silk City also appear to be moving forward and provide major upside to transport infrastructure forecasts - the government has recently unveiled plans to build an international airport, rail network, and logistics and industrial hub as part of the first phase of the mega project.

Graph 2: Trade Ambitions Spurring Healthy Transport Growth
Kuwait - Transport Infrastructure Industry Value (2020-2025)



Source: Central Bank of Kuwait, Fitch Solutions

Roads To Expand Modestly: With just four projects currently under construction according to our KPD, the road and bridge sub-sector will be a limited driver of short-term growth. As the country lacks a rail network, Kuwait relies exclusively on roads for its overland transport needs, which means that its existing road network is relatively well developed. That said, the government has initiated a number of high-value causeway projects that will sustain growth in the country's road sub-sector and augment its existing network, including the USD875mn Al-Jahra Road Upgrade Project and the USD150mn First Ring Road Project. However, the most prominent road project, the USD3bn Sheikh Jaber Al-Ahmad Al-Sabah Causeway, was completed in May 2019, and there is little in the way of major project activity to sustain growth in the sub-sector over the latter stages of the forecast period.

Foreign investors are finding opportunities in the roads and bridges sub-sector. In August 2020, a consortium between China First Highway Engineering and Combined Group Contracting Company won a new road contract in Kuwait valued at around KWD88.9mn (USD290.6mn). The project, to be developed south of Kuwait City, includes the construction of new roads as well as the maintenance of roads, bridges and rainwater sewage networks. The contractor will also deliver work in the area where King Faisal bin Abdul Aziz Road, Damascus Road and 5th Ring Road are located.

Railway Sector Offers Some Upside: There is an optimistic forecast that Kuwait's national rail project will be realised in part - specifically, those elements which support the improvement of Kuwait's internal logistics capacity. Kuwait at present lacks a national network or railway infrastructure of any kind, and with Kuwait's ambition to position itself as a regional trading hub (anchored by ongoing construction at the USD10.5bn Mubarak Al-Kabeer port project), it is expected that the establishment of supporting infrastructure, of which rail will be a central part, will remain a central priority for the government in the coming years.

It must be noted that the project's progress would bolster an already robust transport sector construction pipeline. An optimistic forecast with regard to the project's eventual realization, it has to do with the gradual improvements in Kuwait's bureaucratic and regulatory environment over the past year. Central to the country's improvement over the last few years has been the passage of a 2015 law streamlining the tendering process and introducing a raft of new tax benefits and exemptions meant to attract foreign investment into Kuwait's public infrastructure sector. Furthermore, Kuwait's USD7bn metro rail project has been approved, which provides upside to sector growth. The 160km Kuwait Metro Rail system, which will be built over five phases, is expected to include 68 stations.

The Gulf Cooperation Council (GCC) has also long proposed to create a regional railway network, the GCC Railway Network, which, once completed, would connect Kuwait, through Saudi Arabia, to the UAE and Oman, with branches linking Bahrain and Qatar. The original proposed completion date for this project was 2018, but in 2017, the committee of ministers of transport of the GCC announced that this was being pushed back to 2023. Recent oil price weakness has negatively impacted the construction sector growth outlook for oil-reliant GCC countries, with governments in the region increasingly forced to scale back their ambitious infrastructure plans in light of falling oil-related tax revenue. It is expected that the planned GCC regional railway will be subject to additional delays (if not outright cancellation) that will render its estimated year of completion impractical.

Airport Investment Accelerating: Heightened project activity surrounding Kuwait International Airport provides that the airport sub-sector will play a larger role in driving transport growth in the coming years. Currently, the USD4.3bn Phase 2 of the expansion project is under construction by Turkey's Limak Construction, while the tender for the USD551mn Phase 3 was issued in December 2020. The expansion of the airport will increase capacity to 13mn passengers per year in the first phase, which will be expanded to 25mn in later phases. The 130,000sq m new terminal will have four levels above the ground and one underground. Kuwait, however, is not alone among GCC countries in its ambition to establish itself as a regional trade and transport hub. The expansion of Kuwait International Airport is set against a backdrop of surging airport project development in the GCC region as regional economies seek to diversify their economic base away from hydrocarbon extraction. Stiff regional competition may ultimately cause the project to be downscaled in the future, as it remains unclear whether structural demand dynamics align with the project's ambitious scope of tripling passenger capacity.

Ports A Bright Spot: The ongoing construction progress surrounding the USD10.5bn Mubarak Al-Kabeer port on Bubiyan Island, the government's centerpiece in its strategy to establish Kuwait as a regional trading and logistics destination, will offer some key support to value growth in the transport sector over the near term. Furthermore, it is expected eventual completion of the project to galvanise the development of ancillary industrial and road and rail infrastructure, as trade activity increases. The project has created some tensions, with the proposed construction threatening to spark a diplomatic row between the country and neighbouring Iraq, which is also developing a major port.

The Mubarak al Kabir port initiative was launched in 2011 and should substantially increase domestic handling capacity, adding 3.6mn containers of capacity. There are four key stages of the project, including dredging to allow access for super tankers and the construction of 24 berths. The port will be linked to the aforementioned GCC Rail Network, which is expected to enhance its competitive stance against Iraq's new port development.

In May 2020, Kuwait Port Authority signed a memorandum of understanding (MoU) with the Public Authority for Industry (PAI) for the design and construction of an industrial port in southern Kuwait. The MoU also covers a joint study for the project. PAI will be responsible for the design, construction and operation of the new port after studies are sanctioned. Kuwait Port Authority will select and supervise industrial activities. A final agreement will be signed after getting approval from the boards of both authorities.

Table 2: Kuwait Major Transport Infrastructure Projects

Project Name	Value (USD mn)	Size	Unit	Companies	Construction	Status
Mubarak Al-Kabeer Port, Bubiyan Island	10,500	10,500	TEU	China Harbour Engineering Company[Construction]{China}, Hyundai Engineering and Construction Co[Construction]{South Korea}, Ministry of Public Works (Kuwait)[Sponsor]{Kuwait}, Royal Haskoning[Construction]{Netherlands}, Galfar Engineering & Contracting[Construction]{Oman}, AECOM[Consultant/Project Management]{US},Ministry of Public Works (Kuwait)[Sponsor]{Kuwait}	2030	Under construction
Kuwait National Railroad Project	10,000	575	km	Kuwait Authority for Partnership Projects[Sponsor]{Kuwait}	NA	Under construction
Kuwait International Airport Expansion - Terminal 2 (T2), Kuwait City	4,261	25	million passengers per year	Ministry of Public Works (Kuwait)[Sponsor]{Kuwait}, National Bank of Kuwait[Financier]{Kuwait}, Kharafi Group[Construction]{Kuwait}, OTIS[Equipment]{US}, Foster & Partners[Design/Architect]{UK}, Limak Holdings[Construction]{Turkey}, Kuwait Finance House[Financier]{Kuwait}, Advanced Construction Technology Services[Consultant/Project Management]{Lebanon}, Arup Group[Consultant/Project Management]{UK}, Gulf Consult[Consultant/Project Management]{Kuwait}, NACO Netherlands Airport Consultants[Consultant/Project Management]{Netherlands}, Ineco[Consultant/Project Management]{Spain}	2022	Under construction

Fahaheel Expressway (Road 30) Expansion Project	3,000	38	km	Khatib & Alami[Consultant/Project Management]{Lebanon}, Kuwait Public Authority for Roads & Transportation[Sponsor]{Kuwait}	2024	At planning stage
Kuwait National Railroad - Phase I, Nuwaiseeb-Kuwait City Line	1,979	111	km	Kuwait Authority for Partnership	NA	At planning stage

Source: Fitch Solutions Infrastructure Key Projects Database

3. Energy and Utilities

3.1 General Overview

The energy and utilities infrastructure sector in Kuwait is expected to post a modest recovery in 2021, growing by 1.2% after an estimated contraction of 6.1% in 2020. However, there are highlighted some upside risk to potential investment opportunities in the sector over the years to come as the government is looking to privatise key developments.

3.2 Latest Developments

After contracting by an estimated 6.1% in 2020 due to the Covid-19 pandemic and related downturn in investment, it is forecasted growth in the energy and utilities infrastructure sector of 1.2% in 2021.

A modest project pipeline means that is expected growth in the sector to remain fairly weak over the remainder of the forecast period, increasing by an annual average of 1.9% between 2022 and 2030. Overall, growth will underperform the wider construction market over 10-year forecast period.

A potential bright spot for the sector has been highlighted by the government's plans to issue a tender for the design consultancy of the planned Nuwaiseeb power and water desalination plant. Despite the expectation the project to be slow in coming to fruition, there is an indication that opportunities for private investment in the sector could improve.

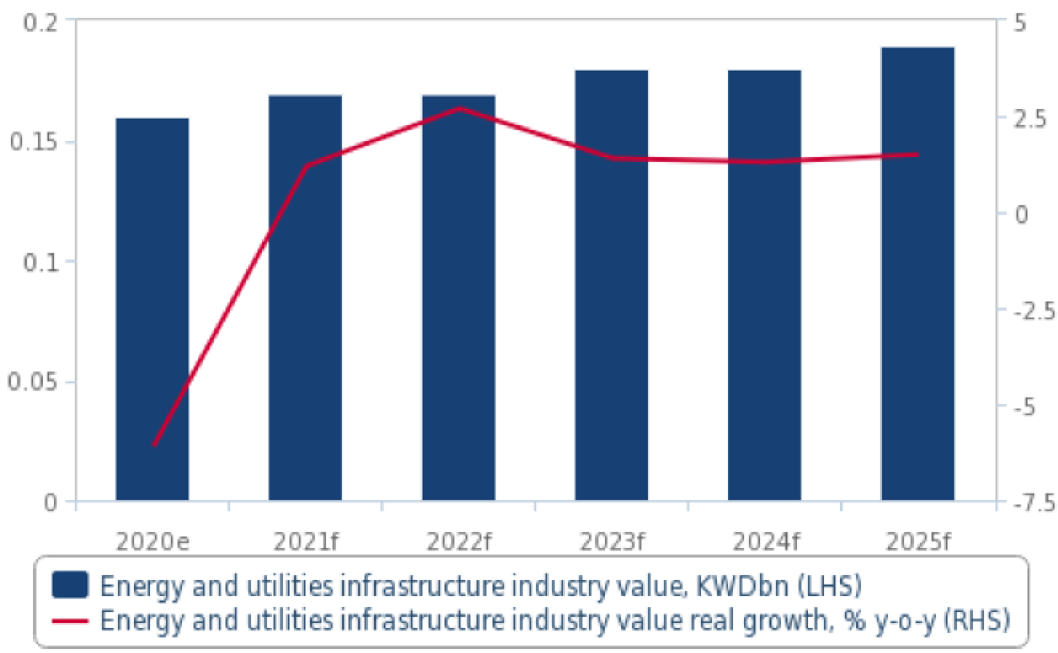
The Kuwaiti government has announced that the cancelled 1.5GW Dabdaba solar power project (which was cancelled in the wake of the Covid-19 pandemic in July 2020) would be merged into the 1.5GW third phase of the Shagaya solar power project. The merger will be overseen by the Kuwait Authority for Partnership Projects (KAPP), which reportedly plans to invite bids for the merger's consultancy contract and alterations to the project's documentation.

3.3 Structural Trends

2021-2030: Modest Market Outlook: Weaker export revenue, a decline in business activity and a national lockdown all decreased electricity demand significantly through 2020, particularly from commercial and industrial users.

The fall in global oil prices and OPEC-mandated cuts will continue to suppress growth in the hydrocarbon sector and undermine investment into oil and gas pipeline infrastructure. It is seen a growing risk of operational disruption and rising operational costs at upstream facilities as the coronavirus outbreak escalates. Offshore operations may be particularly at risk, with confined working environments and living spaces providing additional challenges to avoid transmission. As a result it is predicted modest short-term growth of 1.2% y-o-y in real terms in 2021. Growth will remain weak and underperform the country's wider construction market over the remainder of the forecast period. It is forecasted annual average growth of 1.9% between 2022 and 2030, compared with average growth of 3.3% per annum in the wider construction market, as a legacy of regulatory uncertainty, poor project execution and limited demand weigh on the sector's growth prospects. That said, some bright spots in the sector remain, including in the gas power, renewable energy and desalination segments. Furthermore, the sector will continue to benefit from moderate levels of investment inflow in light of the government's goal of diversifying away from oil for power generation, in order to conserve the fuel for export, and aims to develop electricity links to neighbouring countries.

Graph 3: Utility Infrastructure Growth To Remain Weak
Kuwait - Energy & Utilities Infrastructure Industry Value & Real Growth (2020-2025)



Source: Central Bank of Kuwait, Fitch Solutions

Gas-Fired Power Project Pipeline Fairly Robust: Thermal power is the primary source of electricity in Kuwait, accounting for an estimated 99.8% of electricity generated in 2020. Oil remains the country's most prominent source of power and is estimated to have accounted for 65.5% of its total output in 2020. However, it is expected that Kuwait will boost the use of natural gas in place of oil for power production over the medium-to-long term as the government attempts to free up more of the country's oil reserves for export.

The most recent significant addition to the power market was the 1.5GW first phase of the Az-Zour gas-fired power plant, which was approved by the government back in 2010. The USD2.5bn plant was scheduled to start operations in June 2012. However, delays during the tendering process, caused mainly by political gridlock in parliament, saw the project fall significantly behind schedule. The facility started generating electricity in December 2015 and the project reached full completion in November 2016, which boosted natural-gas generation by 13.8% in 2017. The facility's capacity is scheduled for further expansion, with a new 263MW Siemens industrial steam turbine to convert the project to a combined-cycle power plant. Plans are now in place for the construction of the second and third phases of the Az-Zour power plant. The new developments will add a combined 2.7GW of thermal capacity to the grid. In October 2016, the Kuwait Authority for Partnership Projects (KAPP) and the country's Ministry of Electricity and Water (MEW) short-listed two teams for the project. The project covers development, design, engineering, construction, ownership, operation, maintenance and transfer of a power and desalination plant. The ministry, pursuant to a 25-year Energy Conversion and Water Purchase Agreement, will buy power and water from the plant. While the tender was withdrawn in August 2017, delaying the project, it was relaunched in December 2018 when the government issued a request for proposals and is expected to attract investor interest because of the expanding use of public-private partnerships (PPPs). The relaunched tender combined phases two and three into a singular project with a 2.7GW gas-fired combine cycle power plant and desalination plant with a capacity of 165mn imperial gallons per day. However, in late 2019 the KAPP was delaying its tender for transaction advisory services, halting plans to sell off part of the Az-Zour North 2 and 3 and Al-Khiran projects.

In light of growing demand for gas, Kuwait will increasingly look to liquefied natural gas (LNG) imports. KNPC is currently building a new onshore LNG import terminal at Al-Zour, which was due for completion in March 2021. The project includes the construction of a regasification facility, storage tanks and marine facilities. A Hyundai-led consortium has been awarded a contract for the 11mtpa facility. The terminal will replace the smaller Golar's Igloo floating storage regasification unit (around 4.0mtpa of regasification capacity). LNG will then feed the proposed power plant expansions.

Risks in Kuwait's power infrastructure space are skewed to the downside, as a poor track record in executing big-ticket infrastructure projects, coupled with a below-average project risk environment, threaten the realisation of the aforementioned projects. That said, following the passing of a parliamentary bill allowing increased privatisation in the power sector, there is reason to hope that Kuwait's energy sector may have turned a crucial corner. For the first time, private companies can hold a stake in Kuwait's power sector and facilitate the channelling of foreign capital expertise into the sector.

Renewable Energy Investment On The Rise But Targets Overly Ambitious: Kuwait aims to generate 15% of its electricity by developing a cumulative total of 4GW of solar and wind power capacity at the Shagaya Renewable-Energy Park by 2030. However, the country only began utilising solar power in late 2016, and currently only operates just over 100MW of capacity. It also must be noted that it is unclear whether the government's stated commitment to these goals will be maintained. In order to achieve its ambitious renewables targets, the government has allocated an area of 100sq km in the west of the country to develop the 4GW Al-Shagaya Renewable Energy Park.

The project is being overseen by the KNPC under the Ministry of Electricity and Water, with technical advisory roles fulfilled by the Kuwait Institute for Scientific Research. In early 2019, Spain-based engineering and construction company TSK brought online the 50MW solar power project, marking the completion of Shagaya's first phase. The KNPC planned to develop the 1.5GW second phase of the Shagaya Renewable-Energy Park solar project in Dibdibah. The 32sq km facility, expected to cost USD1.2bn, was expected to save 5.2mn barrels of oil and offset carbon emissions by 1.3mn tonnes a year.

By July 2019, the project's construction tender was underway and expected to be awarded by the end of the year. Completion was scheduled for 2023 and would be solely comprised of solar photovoltaic cells. However, Kuwaiti authorities cancelled the project in early-mid 2020 due to the detrimental economic impacts of the Covid-19 pandemic and simultaneous collapse in global oil prices. The 1.5GW third and 1GW fourth phase of the Shagaya Renewable-Energy Park are still in planning phases, with the third phase only scheduled for completion by 2026.

Water Infrastructure To Address Growing Stress: After power plants, it is expected water infrastructure to br the next key driver of value growth in Kuwait's energy and utilities sector. Growth in water projects in Kuwait will be driven by necessity, as a growing population, climate change and high levels of depletion in the country's water reserves combine to render Kuwait one of the most water-stressed countries in the world in 2020, according to the World Resources Institute.

Desalination forms the country's primary means of securing the necessary supply of potable water, currently accounting for roughly 93% of all freshwater resources. Given the technically complex nature of constructing desalination plants (and to a greater degree, combined power and water projects), private sector partners with a proven track record in delivering desalination technology will remain the government's foremost option, making a PPP model a natural fit for developing the necessary water infrastructure base in the years to come.

Table3: Major Energy and Utilities Infrastructure Projects

Project Name	Value (USD mn)	Size	Unit	Companies	Construction	Status
Nuwaiseeb Power and Desalination Plant	2,500	6,000	MW	Kuwait Ministry of Electricity and Water[Sponsor]{Kuwait}	2030	At planning stage
Shuaiba South Power and	1,800	1,800	MW	Kuwait Ministry of Electricity and Water[Sponsor]{Kuwait}	2027	At planning stage

Desalination Plant, Shuaiba						
Al-Khiran Independent Water & Power Project, Phase-I, Al-Khairan	1,710	1,800	MW	Lahmeyer International[Consultant/Project Management]{Germany}, BNP Paribas[Consultant/Project Management]{France}, Kuwait Ministry of Electricity and Water[Sponsor]{Kuwait}, Kuwait Authority for Partnership Projects[Sponsor]{Kuwait}, Covington & Burling[Consultant/ Project Management]{US}, BNP Paribas[Consultant/Project Management]{France}	2030	At planning stage
Umm Al Hayman Waste Water Project, Al Asimah	1,700	182.5	mn cu m water per year	KfW IPEXBank[Financier]{Germany},Siemens Bank[Financier]{Germany}, Korea Development Bank[Financier]{South Korea}, Al Ahli Bank of Kuwait[Financier]{Kuwait}, Kuwait Authority for Partnership Projects[Sponsor]{Kuwait}, International Financial Advisors[Sponsor]{Kuwait}, Commercial Bank of Kuwait[Financier]{Kuwait}, DZ Bank[Financier]{Germany}, WTE Wassertechnik[Sponsor]{Germany }	2024	Under construction
Nuwaiseeb Power and Desalination Plant, Phase I	1,500	3,000	MW	Kuwait Ministry of Electricity and Water[Sponsor]{Kuwait}	2026	At planning stage

Source: Fitch Solutions Infrastructure Key Projects Database

4. Residential & Non-Residential Buildings

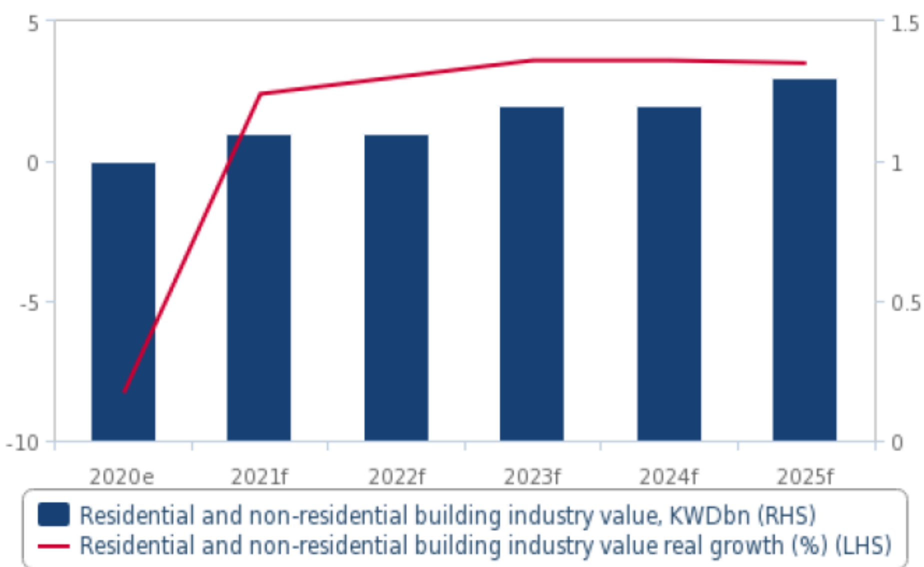
4.1 General overview

Kuwait's residential and non-residential building sector saw a decline in activity in 2020 as the Covid-19 pandemic disrupted active projects while the wider economic downturn impacted on investment. It is forecasted a modest recovery in 2021 as public spending capacity is under pressure from weaker oil revenue and private consumption rates are still subdued. Growth will improve slightly over the medium term, although this will remain one of the smaller regional markets.

2021-2030: Modest Growth Outlook: The Covid-19 pandemic caused significant disruption to the residential and non-residential building segment in 2020. The outbreak prompted the authorities to impose a series of restrictions, including strict limits on domestic travel, the closure of businesses and the shutting of international borders. With case numbers elevated in Q121, a night-time curfew remains in place and schools are not currently expected to reopen until September 2021. The country is, however, rolling out a vaccination programme which it hopes will allow more normal operating conditions to return by the end of the year. Activity in the residential construction market will be severely impacted by weak household consumption in 2021, while restrictions on business operations and Covid-19-related disruptions will also continue to weigh heavily on the non-residential construction market. There is a forecast for Kuwait's residential and non-residential buildings construction sector to grow by 2.4% in real terms in 2021, representing a weak recovery from the contraction in 2020, with downside risks remaining elevated given the ongoing uncertainty surrounding the duration and severity of the global pandemic.

Kuwait's residential and non-residential sector presents some considerable upside potential, with a construction pipeline heavily oriented towards projects yet to break ground. Industrial construction will retain its status as the clear outperformer within Kuwait's residential and non-residential building sector on the back of the country's all-important oil industry. The government's economic diversification plans will offer a measure of upside to project activity in the commercial space, while government-sponsored affordable housing schemes will be the key driver of residential development.

Graph 4: Modest Growth Through Medium Term
Kuwait - Residential & Non-Residential Building Industry Value & Real Growth (2020-2025)



Source: Central Bank of Kuwait, Fitch Solutions

Industrial Construction To Outperform: Despite Kuwait's highly publicised diversification programme, Kuwait Vision 2035, it is noted that oil-related infrastructure will retain a prominent place in the country's wider construction landscape. In particular, the ongoing USD16bn Al-Zour Oil Refinery Project will be a key driver of growth as the largest-value single project currently under construction in the country. In addition, the increased production of refined products, particularly products such as distillate and jet fuel, will increase the value of Kuwait's hydrocarbon production and boost GDP in real terms. Kuwait's petrochemical sector is also primed for growth. In December 2016, Kuwait's Petrochemical Industries Company announced a plan to increase the country's petrochemical production to 16mn tonnes by 2040, cementing our conviction that Kuwait's industrial sector will continue to play an outsized role in broader construction growth for the foreseeable future.

Kuwait Petroleum Corporation announced plans in 2018 to invest USD500bn on capital projects until 2040. However, the company is reportedly reassessing its 2018 plans, which presents a downside risk to the industrial construction forecasts. The investment was planned in downstream activities, specialty petrochemical facilities inside and outside Kuwait, as well as new gas-fired power plants, among others. The reassessment is driven by lower oil prices, Kuwait's reduced output as part of an OPEC deal and 'a re-evaluation of how best to spend the money.

Social Infrastructure: Education is emerging as a major new thrust of government policy and aligns with its goal of establishing the foundations of a modern, knowledge economy. Kuwait has the region's second-largest higher education building programme, which is centred on the USD3bn Sabah al-Salem University project. Latest reports from October 2020 show that the development is now due to be completed by September 2022. CSCEC Middle East, a unit of China State Construction Engineering Corporation, won a USD463mn contract to build academic support facilities at Sabah Al-Salem University City, a part of Kuwait University. The support facilities will be spread over an area of 213,000sq m. The facilities will cover six zones comprising an administrative staff club, a demonstration school, an academic building, an ancillary building and separate dormitories for boys and girls. The entire project will comprise 27 single projects. Once complete, the project will offer supporting services including catering services, postal services, printing services and administrative scientific research.

Commercial Sector To Expand In Line With Economic Diversification: Kuwait's ambitious economic diversification plans will also benefit the country's commercial sector, as the country seeks to boost tourism numbers. A variety of projects in the commercial space are currently moving forwards:

- Tamdeen Group has broken ground on the KWD250.0mn (USD825.1mn) Al Khiran Project, The New Pulse of Kuwait, at Sabah Al Ahmad Sea City, in Kuwait. The development, which will span 116,000sq m after completion, will be completed in two phases. The first phase, with mall construction work underway, includes a commercial and retail district with more than 80,000sq m of retail space and 250 commercial units.

It also includes construction of other leisure activities and services, such as Al Khiran Park. Construction of a marina with a capacity to accommodate more than 900 boats will also be carried out in phase one.

- InterContinental Hotels Group (IHG) signed a deal with local firm Bukhamseen Group to build and operate IHG hotels in Kuwait. Under the terms of the agreement, Bukhamseen Group has been granted countrywide exclusivity for six IHG brands for 10 years. The six IHG brands comprise InterContinental Hotels and Resorts, Crowne Plaza, Holiday Inn, Holiday Inn Resort, Holiday Inn Express andStaybridge Suites.
- The Amiri Diwan of Kuwait has awarded a KWD49.0mn (USD162.3mn) contract to local firm Bayan National Trading Company to design and build the Motor Town race circuit project in Orafjan.
- Kuwait's Tamdeen Group has begun a major expansion of its 360 Mall by developing the Sheikh Jaber Al Abdullah Al Jaber Al Sabah International Tennis Complex. The stadium will have a combined capacity of more than 7,600 people across two arenas. The expansion will also include developing retail space, multi-purpose indoor sports and entertainment facilities, a ballroom, health club and five-star hotel. The extension will increase the mall's footfall by at least 30% to more than 18mn visitors.

5. Competition

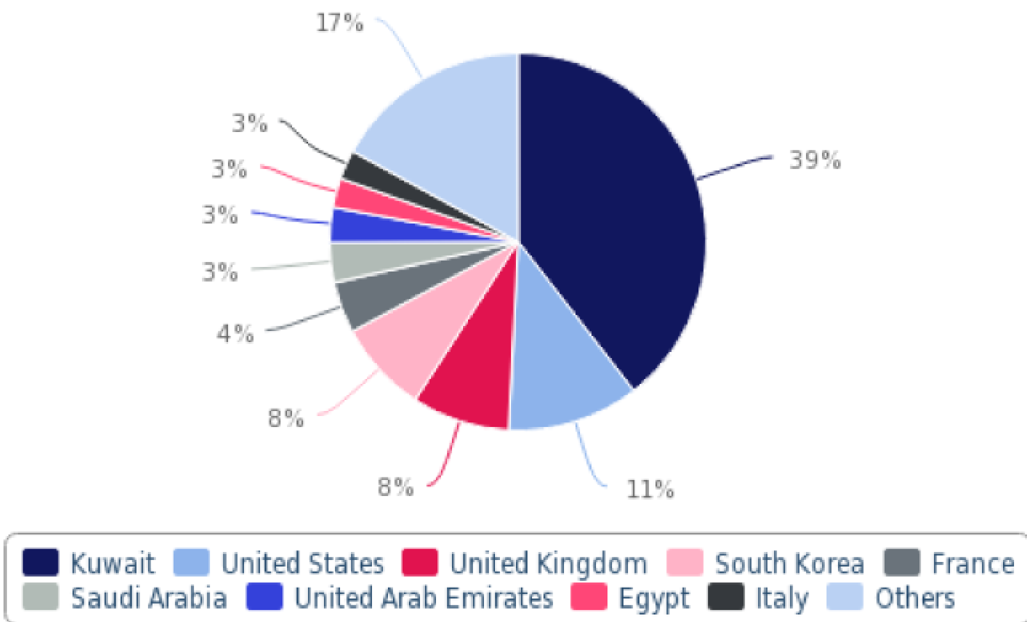
5.1 General Overview

It is expected that international companies will be the biggest beneficiaries of Kuwait's ambitious economic diversification programme as they possess the requisite technical and operational expertise to deliver infrastructure projects on the scale envisioned by the government. The country's revamped public-private partnership (PPP) framework offers an attractive avenue for international companies to invest in the country's infrastructure market.

Economic Diversification To Bolster International Firms' Presence: In 2010, Kuwait unveiled the first of a series of five-year development plans under the auspices of its larger Kuwait Vision 2035 initiative. The core objective is to diversify the country's economic base away from petroleum by transforming the nation into a regional trade and financial centre, through a wealth of large-scale infrastructure investments.

The scale of the planned infrastructure investment programme is well in excess of USD100bn, and given that the government has set a target for half of the projects to be delivered by the private sector, there is great anticipation for additional opportunities for foreign investors over the long term. Big-ticket projects like the planned USD10bn national railway are emblematic of its diversification drive, and given Kuwait's lack of existing rail infrastructure and attendant domestic expertise, it is expected the project will offer substantial scope for international firms to increase their exposure to the country's construction market.

Graph. 5: Construction Landscape Already Diverse
Kuwait - Market Share By Company Geography



Source: Fitch Solutions Key Projects Database

Improving PPP Environment Offers Further Upside For Foreign Investors: Asia-based companies have seized the high ground in Kuwait's budding PPP landscape, with a variety of firms securing key projects. Notable examples of this trend include South Korea-based Hyundai Engineering and Construction winning the contract for the Jaber Al Ahmad Al Sabah Bridge at a cost of USD3bn and the awarding of the contract for the Al-Abdaliyah Integrated Solar Combined-Cycle Plant on a design, build, finance, maintain and operate basis to Toyota Tsushu. The high level of Asian interest in the Kuwaiti PPP market is aptly demonstrated in the tendering process for the second phase of the Al Zour Independent Water and Power Project, with Kuwait's Ministry of Electricity and Water shortlisting eight firms including Korea Electric Power Corporation, Marubeni Corporation of Japan, Corporation, the Osaka Gas and National Industries Group Holding consortium, Mitsubishi Corporation, and Mitsui - the latter five firms being based in Japan.

Residential And Non-Residential Infrastructure In Focus: According to Fitch's Key Projects Database, domestic companies retain their highest market share in Kuwait's residential and non-residential building segment at 40%. It is expected this market share to erode in the coming years on the back of expansive plans to move up the hydrocarbon value chain, with Kuwait's Petrochemical Industries Company announcing a plan in December 2016 to increase the country's petrochemical production to 16mn tonnes by 2040. In delivering the technically complex infrastructure projects on the scale necessary to meet these aims, Kuwait is likely to harness the technical and operational expertise of international firms. It is seen that government tap the expertise of Amec Foster Wheeler in integrating the Olefins III Plant within the larger Al-Zour refinery (which was expected to come online in June 2020 but was delayed due to the Covid-19 pandemic; testing began in January 2021), the latter a wider USD13bn project involving an array of international firms like Daewoo (South Korea), Essar (India), Saipem (Italy), Hyundai (South Korea), and Fluor Corporation (US). More broadly, Kuwait's diversification drive into commercial infrastructure will offer substantial opportunities for global firms to assume design, consulting and project management roles, with Hill International (US), Royal Haskoning (Netherlands) and AECOM (US) the primary international players in the space currently.

6. Sources

- BMI Research, Fitch Group