



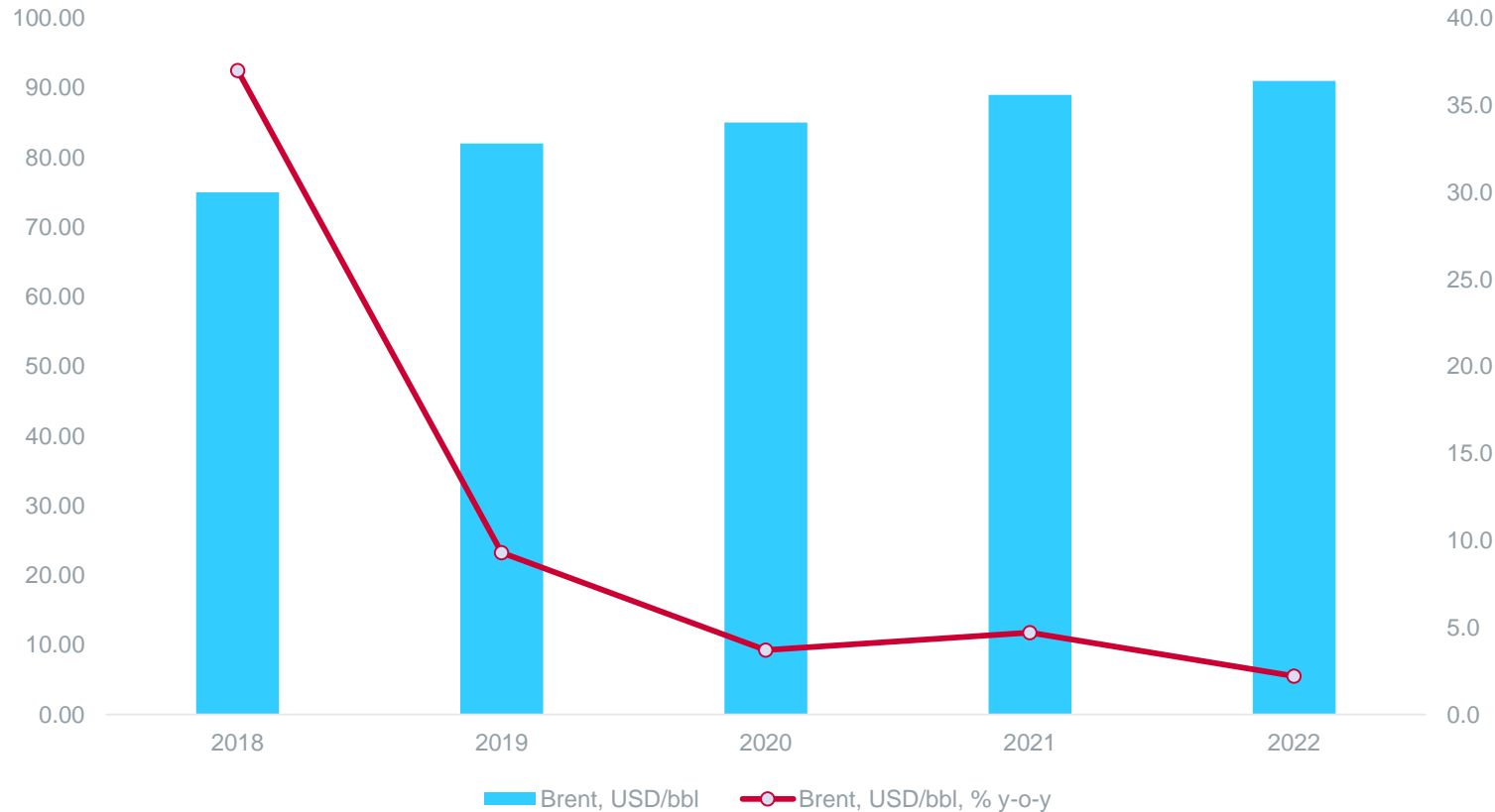
MENA Market Outlook

CATME, October 2018

David Lee, Infrastructure Analyst

Global: Oil Price Outlook

Brent Price, USD per bbl (LHS) & Y-O-Y Growth, % (RHS)



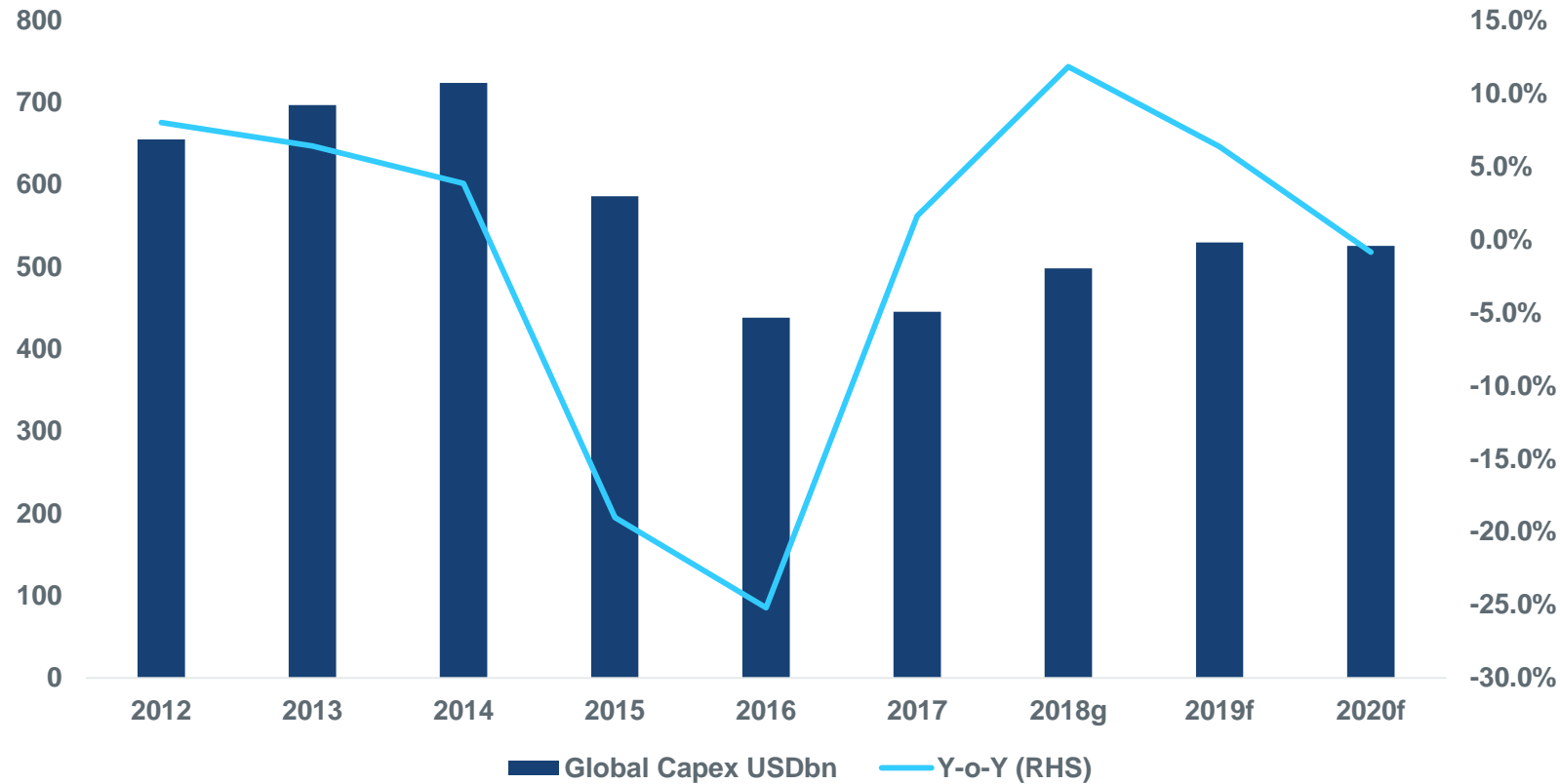
f = Fitch Solutions forecast. Source: Bloomberg, Fitch Solutions

Short-Term factors informing our positive oil price outlook:

- **Economic Growth:** On the demand side, we continue to expect strong economic growth in key demand markets like the US and China, with the latter announcing stimulus plans to counteract the fallout from the nascent trade war.
- **Supply Outages:** From a supply perspective, we anticipate short-term supply losses in Iran, Venezuela, and Angola. Iranian supply will be constrained by the return of sanctions, while mismanagement and natural decline rates will plague Angola and Venezuela.

Global: Oil & Gas Capex

Global CAPEX, USDbn (LHS) & Y-O-Y Growth, % (RHS)

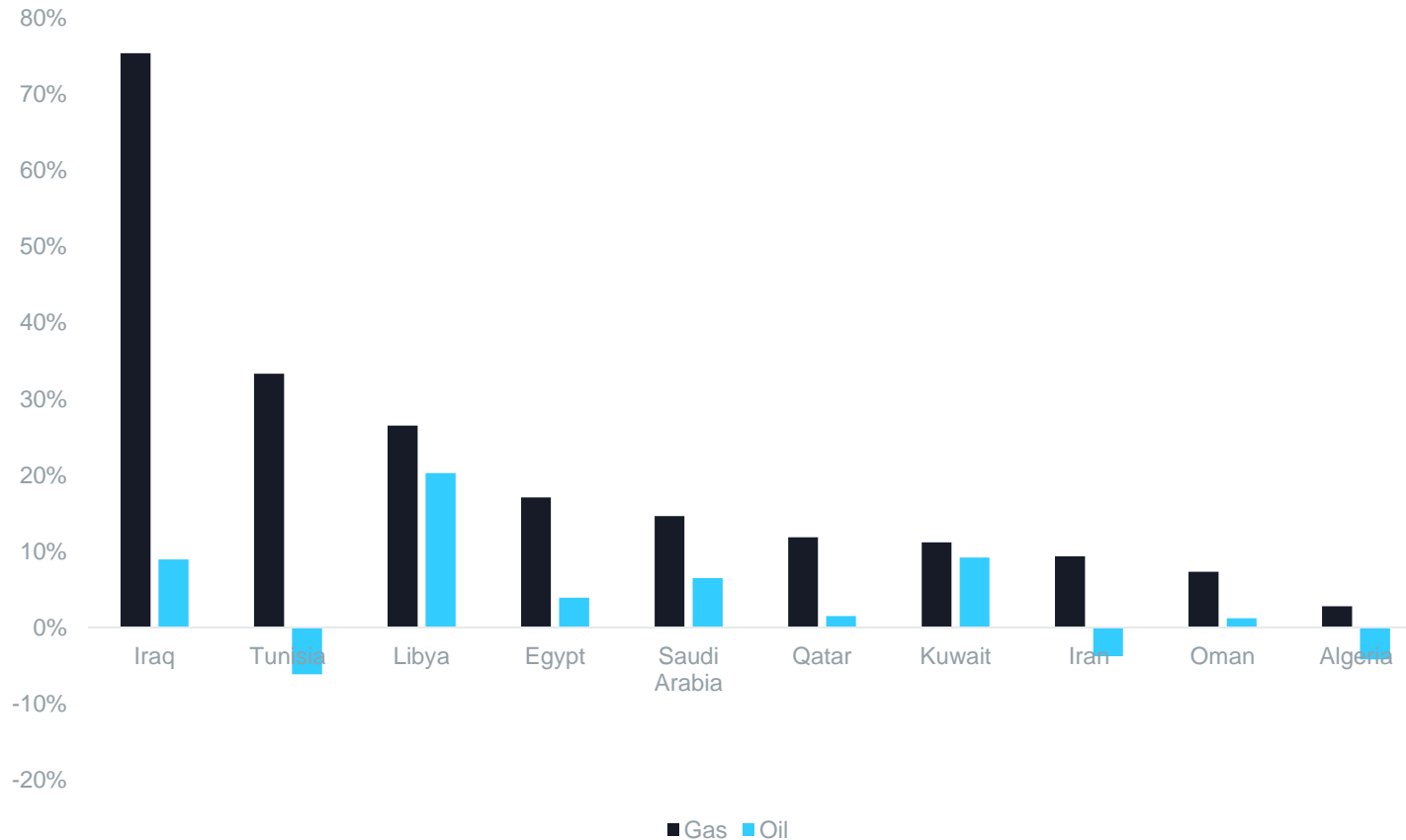


f = Fitch Solutions forecast. Source: Bloomberg, Fitch Solutions

- The sharp drawback in industry capex through the oil downcycle will manifest as a **lack of new project completions in the next two to three years.**
- **The existing project pipeline is almost exhausted**, and investment into legacy brownfield capacity is weak, exposing underlying decline rates
- Investment into natural gas infrastructure globally will expand due to pricing dynamics and environmental concerns

MENA: Oil & Gas

Production % Change Between 2018 & 2022

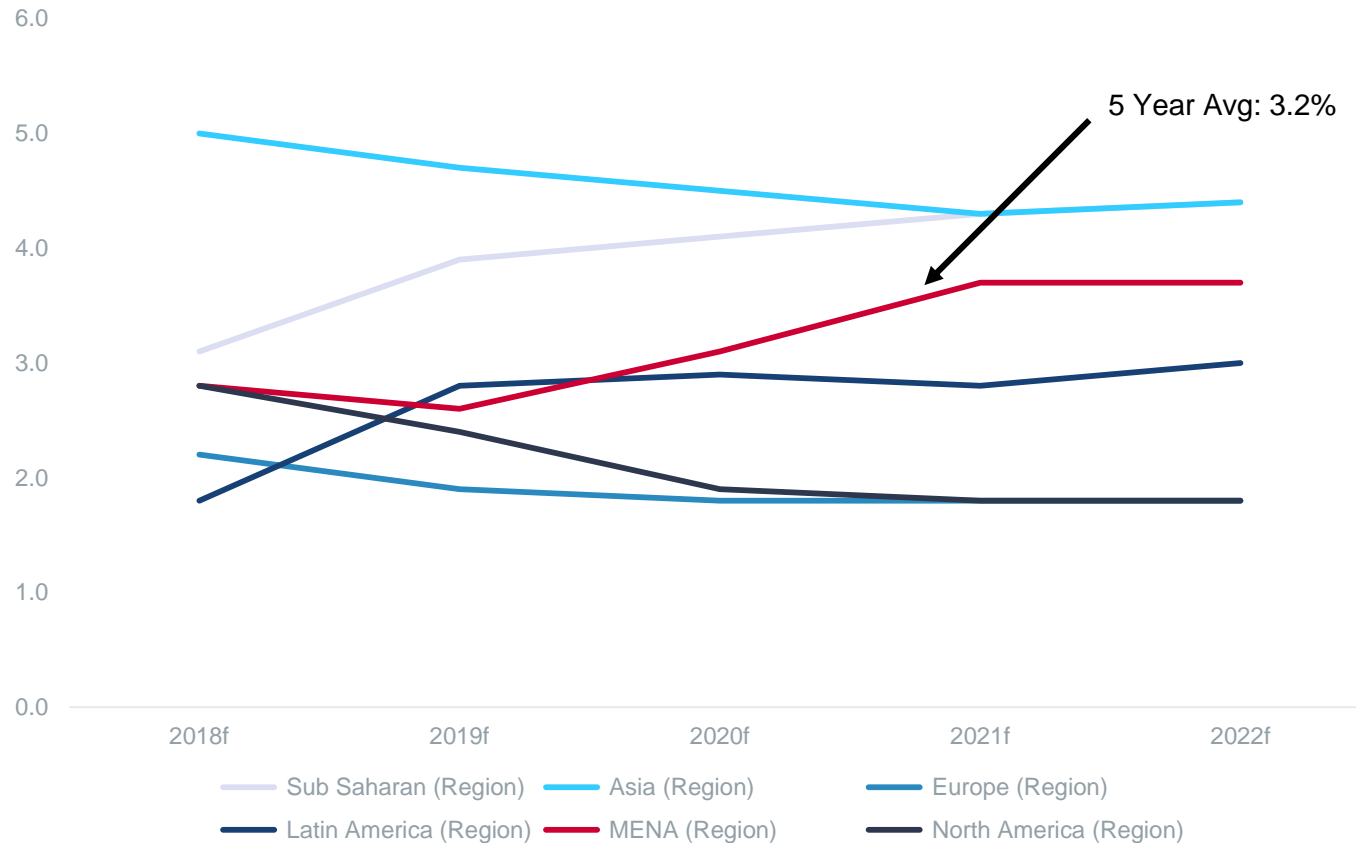


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- In light of the aforementioned lack of CAPEX investment, oil production will rise at a relatively tepid rate, due mostly to countries tapping spare capacity to capitalise on higher prices.
- Natural gas production will rise at a more rapid rate, as countries look to accommodate growing populations and the commensurate increase in demand for electricity in the coming years

MENA: Economic Outlook

Real GDP Growth, % Y-o-Y

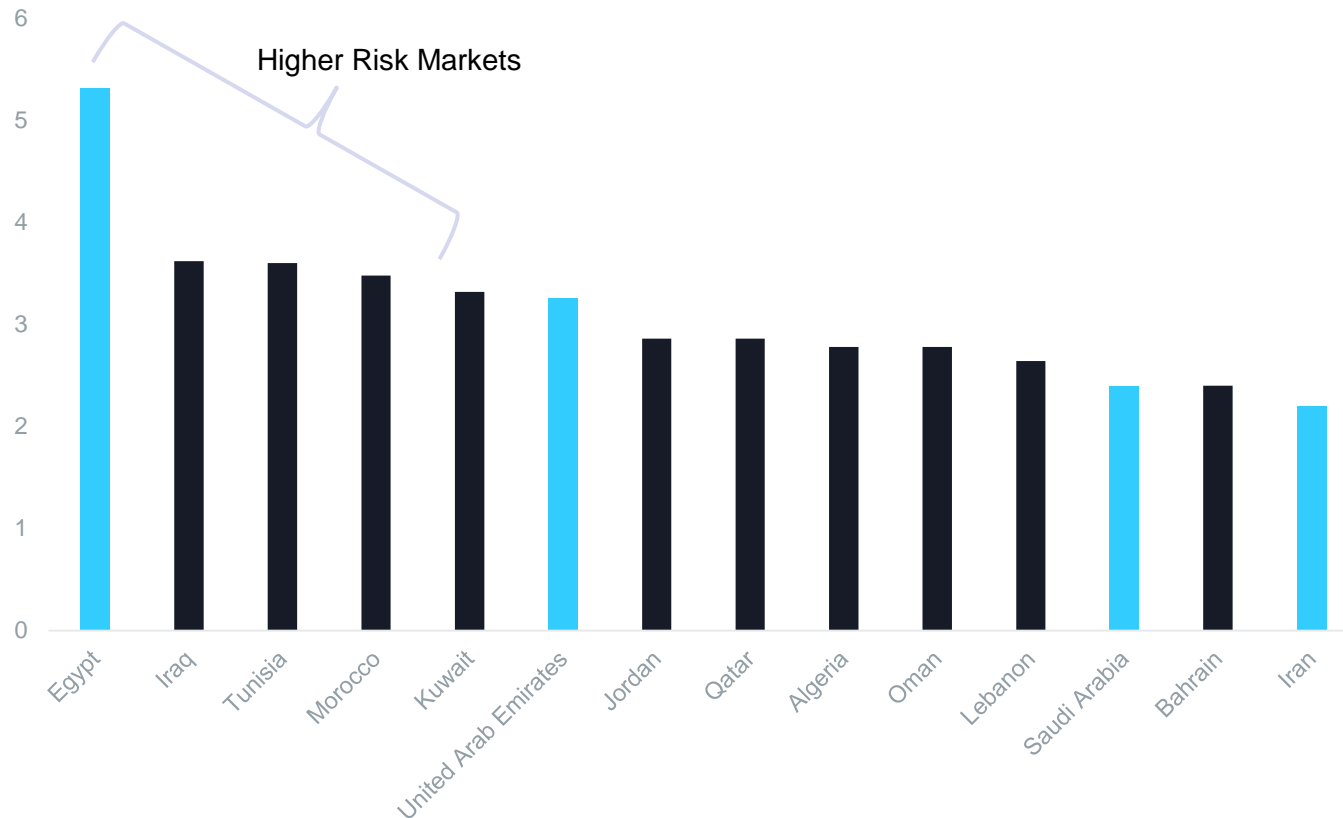


f = Fitch Solutions forecast. Source: Fitch Solutions, National Sources

- MENA is forecast to outperform more developed regions in the Americas and Europe, but lag behind Asia and Sub-Saharan Africa
 - Higher oil prices are the key factor informing the upward trajectory of MENA's growth forecast.
 - Economic diversification initiatives have gained significant traction in the region, particularly in the GCC
 - Poor economic growth in markets like Libya, Syria, Lebanon, and Yemen (all of whom are characterised by either conflict or significant political uncertainty) will act as a drag on regional growth.

MENA: Country Risk

2018f – 2022f: Average Real GDP Growth, % Y-o-Y

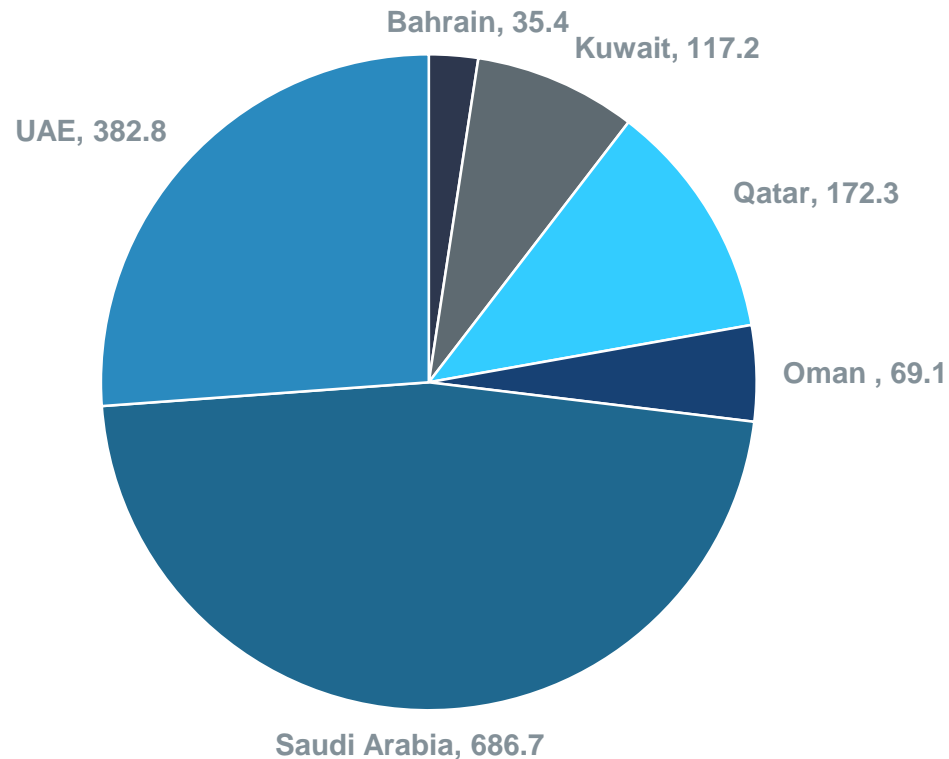


f = Fitch Solutions forecast. Source: Fitch Solutions, National Sources

- In both **Saudi Arabia** and the **UAE**, real GDP growth will increase over the coming quarters as higher oil prices enable increased government spending and contribute to improved economic confidence.
- Real GDP growth is set to accelerate in Egypt as exports and investment pick up, boosted by the country's fast-expanding gas sector. Non-hydrocarbon investment and consumption will recover more gradually, as inflation and interest rates remain relatively elevated
- The re-imposition of US nuclear-related sanctions will substantially weaken **Iran's** economy, and further fuel popular discontent inside the Islamic Republic. A severe, multi-year depression and resultant political destabilisation appear unlikely to occur

MENA: GCC In Focus

GCC - Individual States' Nominal GDP, USDbn (2017)



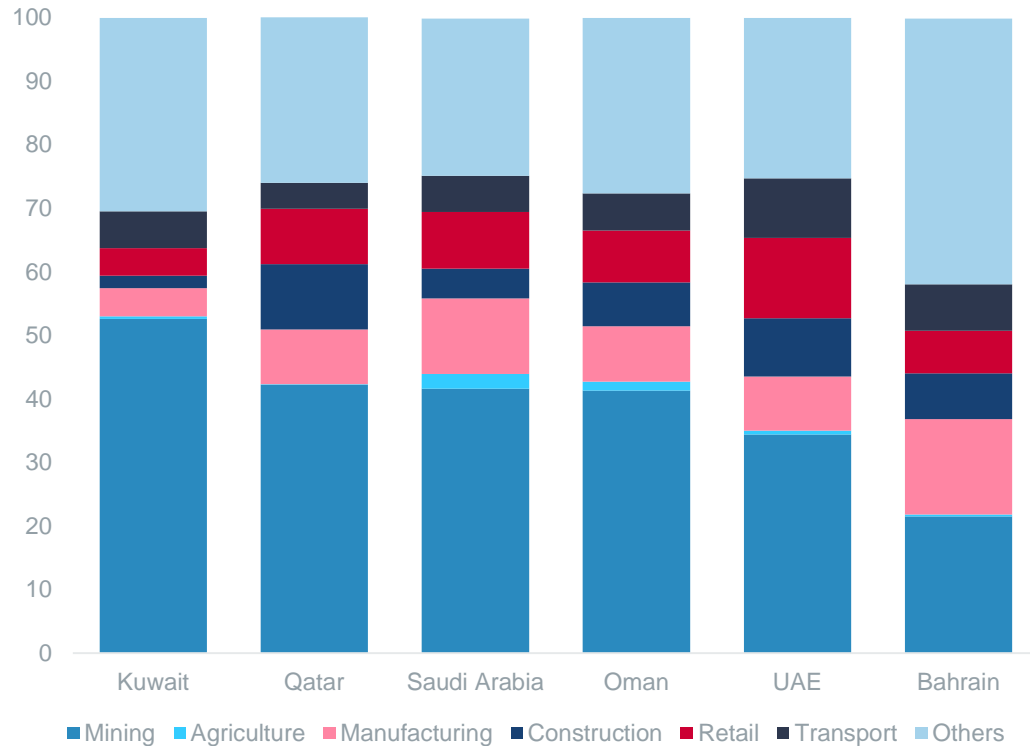
Source: Fitch Solutions, Respective Central Banks

- **Limited scope for closer intra-bloc cooperation** in the years ahead:
 - Boycotting states will remain sceptical of Qatar and its stance on political Islam.
 - Qatar, Kuwait, Oman will continue to see the larger, more assertive Saudi Arabia as a potential threat to independence.
- **'Two-speed' GCC likely to emerge:**
 - Saudi Arabia and UAE to focus more on bilateral cooperation (backed by Bahrain).
 - Qatar, Kuwait, Oman to seek stronger, more diverse extra-regional ties.
- **Weak cooperation and simmering tensions will weigh on stability and competitiveness** vis-à-vis other regions - potentially deterring foreign investment.

GCC: Diversification Need

Hydrocarbons Still The Predominant Growth Driver

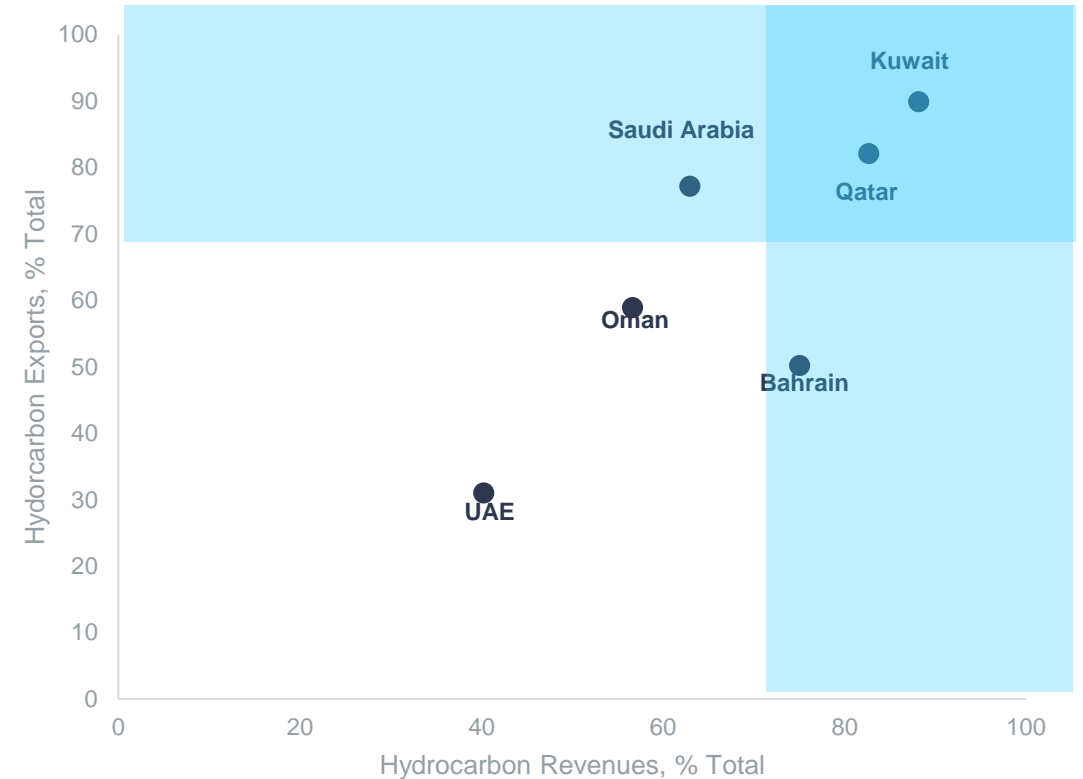
GCC – GDP by sector, %



Note: Data from 2016 (last available for region). Mining predominantly comprised of oil and gas
Source: UN, Fitch Solutions

Fiscal Revenues And Exports Also Relatively Undiversified

GCC - Oil Exposure



Note: Data from 2017 or last available. Source: Trade Map, National Sources, UN, Fitch Solutions

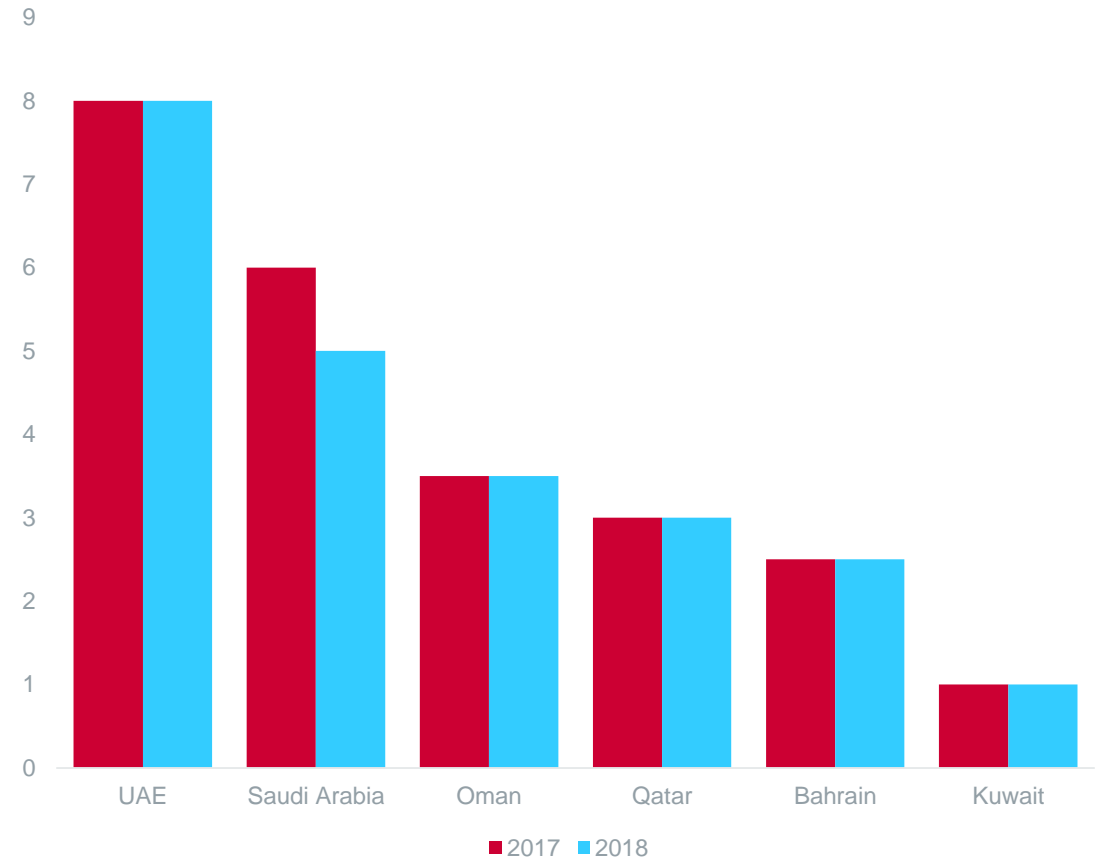
GCC: Diversification Progress

GCC – Diversification Scorecard

Country	Diversification Score	Core View
UAE	8.0	First mover advantage in several sectors, strong business environment. Political willingness to reform means that the UAE will maintain its competitive advantage over its neighbours.
Saudi Arabia	5.0	Saudi Arabia was late to diversify, but is now showing a strong commitment to reform. In addition, the country has a strong potential to develop a number of sectors, including tourism and manufacturing
Oman	3.5	Oman has a lot of potential in the logistics and tourism sector, but reforms are moving at a relatively slow pace, especially given strained financial resources. Questions of succession present longer-term risks to diversification.
Qatar	3.0	Qatar is using the FIFA World Cup as a catalyst for diversification, and has undertaken a number of reforms of the business environment. However, limited progress seen in terms of developing non-hydrocarbon sectors outside construction
Bahrain	2.5	Bahrain is comparatively more diversified but still highly reliant on hydrocarbons to drive exports and revenues. Rising competition from neighbours and increasing entertainment options in Saudi Arabia could cut into its competitive advantage. Fiscal vulnerabilities limit the government's ability to support diversification
Kuwait	1.0	One of the least diversified economies in the region. Political willingness to reform is virtually absent given continued clashes between the executive and legislative branches.

Note: Scores out of 10. Source: Fitch Solutions

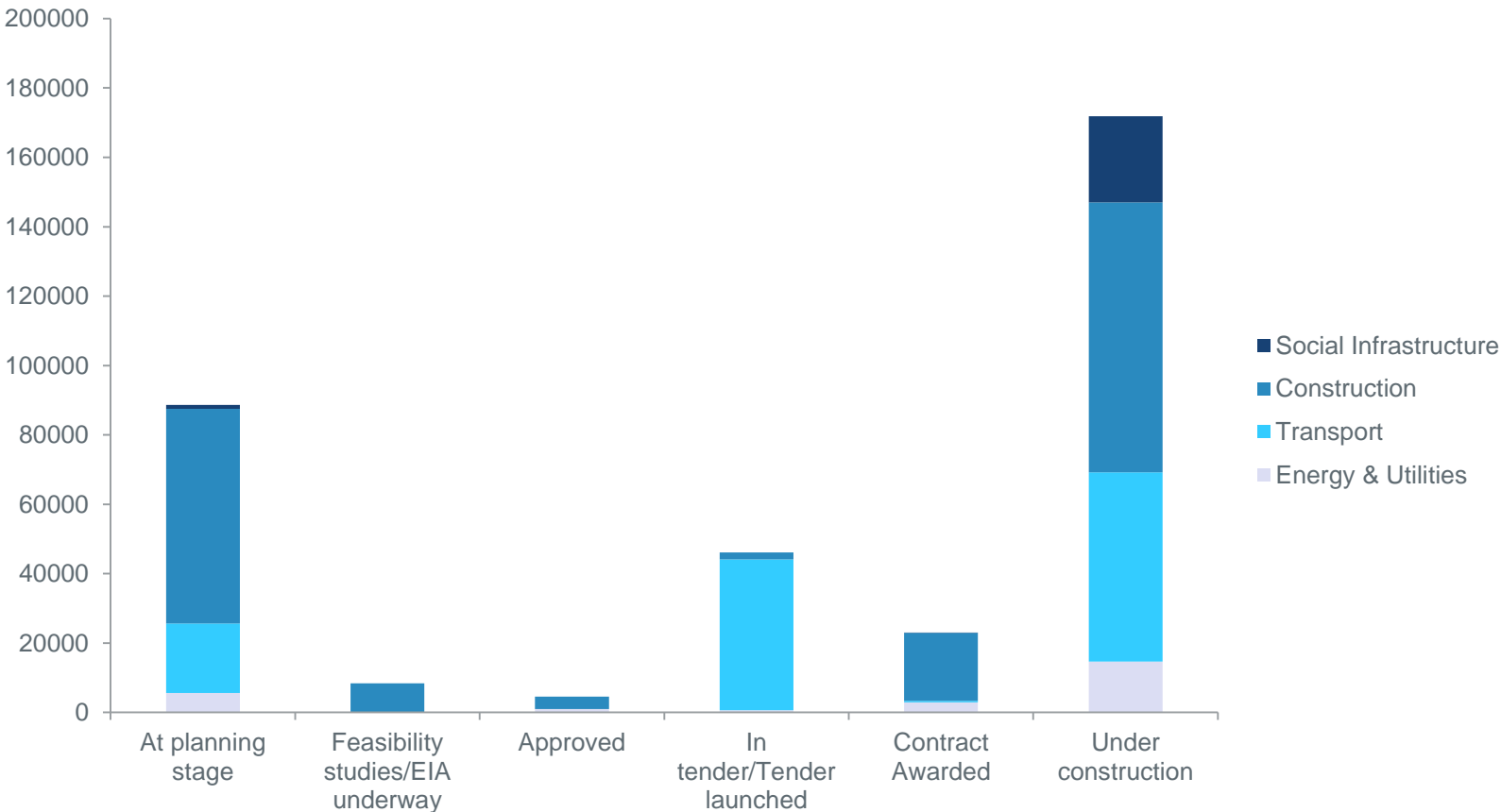
GCC – Diversification Scores



Source: Fitch Solutions

Infrastructure: Saudi Arabia

Saudi Arabia – Project Pipeline By Stage and Sector, USDmn



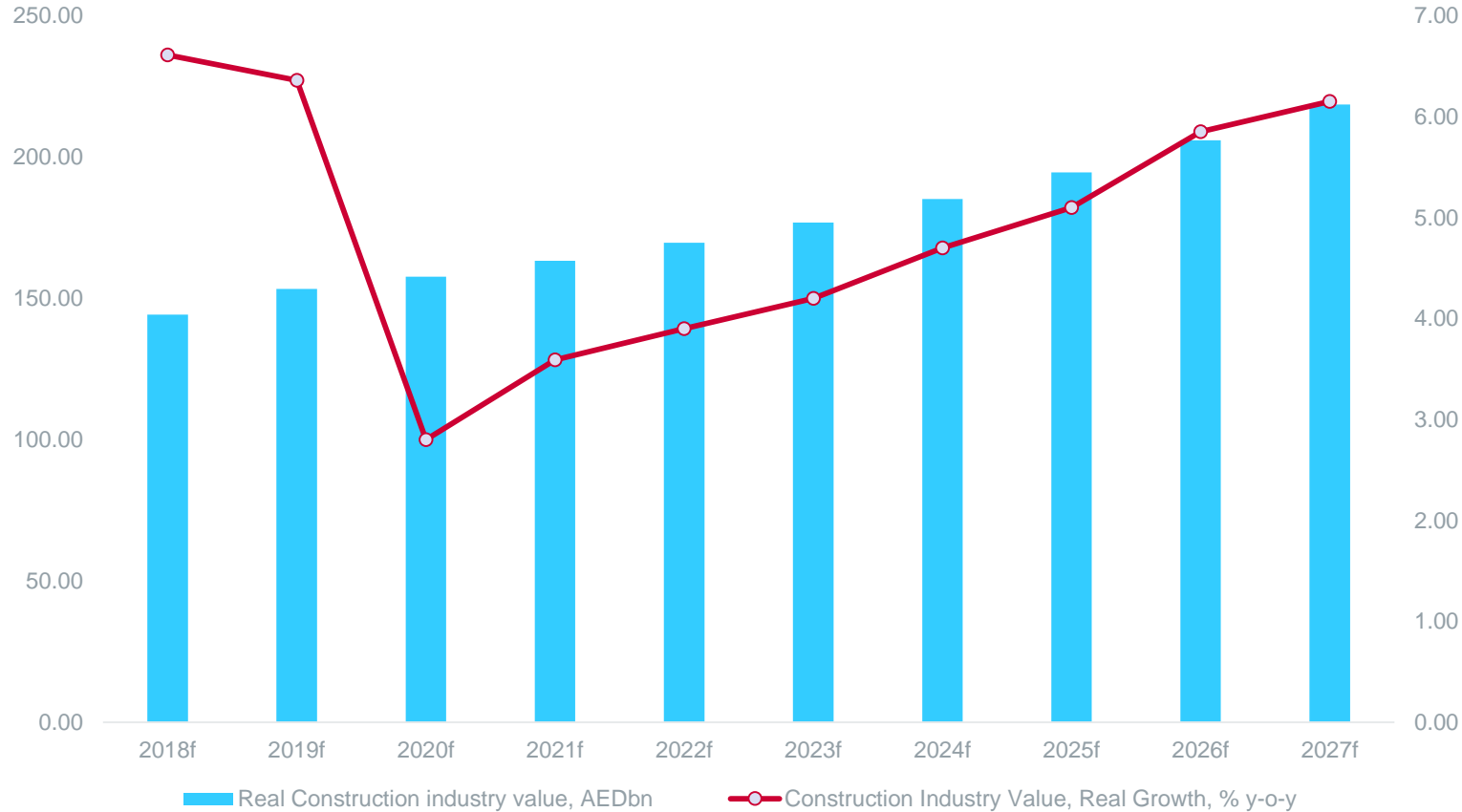
Source: Fitch Solutions Key Projects Database

Key Trends

- We forecast Saudi Arabia’s construction sector to enjoy annualised average **growth of 6.3% over the next five years**. Extremely diverse project pipeline compared to regional peers.
- Vision 2030 will drive significant investment inflows into the Kingdom’s commercial infrastructure sector – **but overall Vision 2030 is overly ambitious, as nascent private sector still not up to the task.**
- Saudi Arabia focus on investing in **petrochemical capacity** in response to growing demand as the country seeks to leverage cheap feedstock and lessen its economic reliance crude oil exports.
- Transport sector will focus **on port and rail infrastructure to boost logistics and trade capacity** and promote internal connectivity, respectively.

Infrastructure: UAE

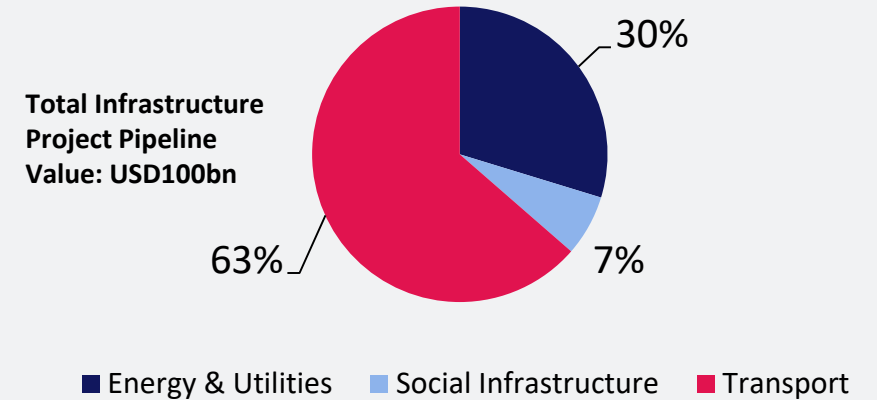
Construction Sector Value, AEDbn (LHS) & Y-O-Y Growth, % (RHS)



f = Fitch Solutions forecast. Source: Fitch Solutions, National Sources

Key Trends

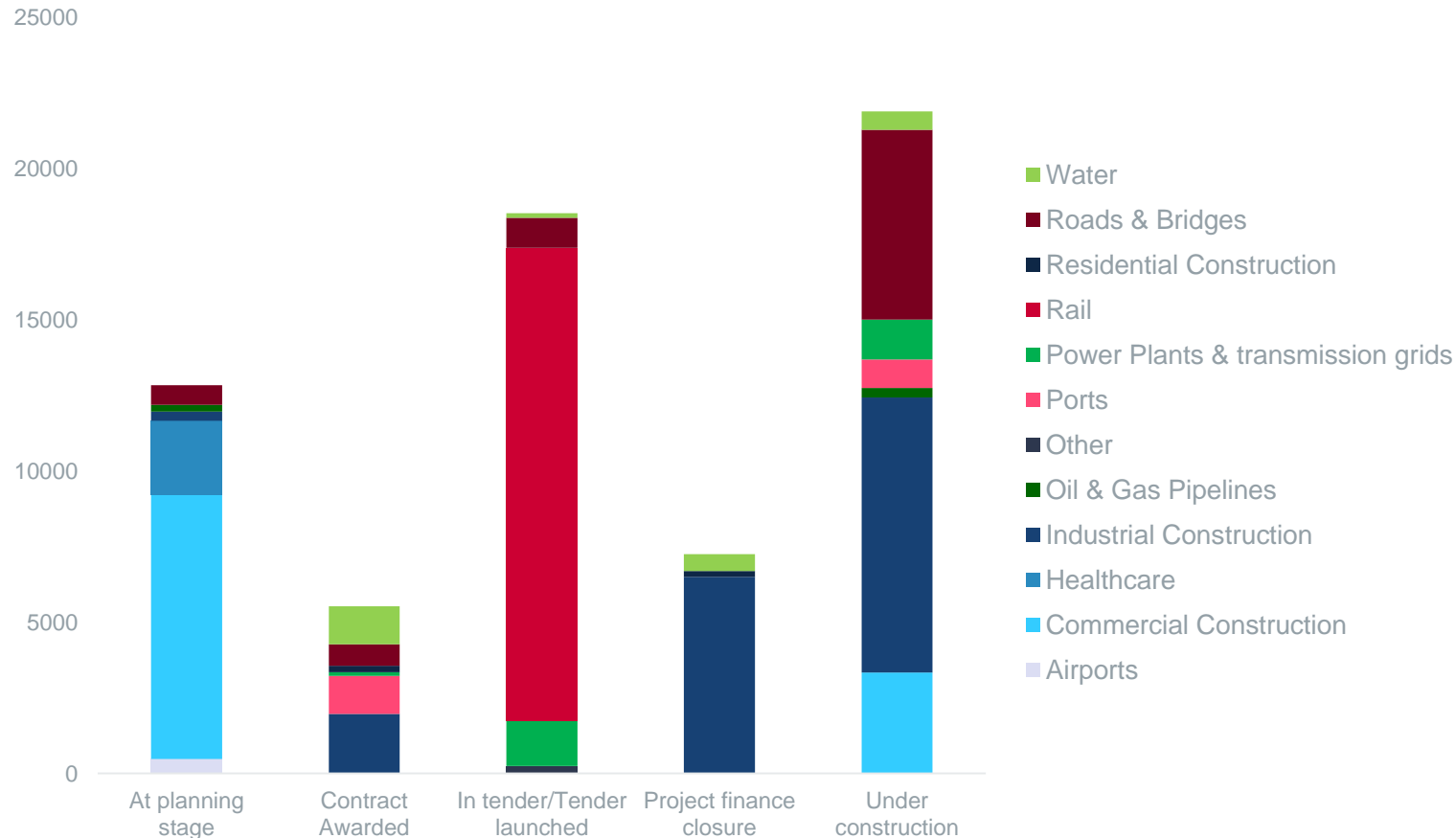
- Dubai to outperform Abu Dhabi: World Expo 2020 a catalyst.
- Abu Dhabi still good source of infrastructure opportunities, supported by Sovereign Wealth Fund.
- Transport outperforming sector, especially rail.
- Post 2020 – slowdown as project pipeline slimmer.



Infrastructure: Oman

Key Trends

Oman – Project Pipeline By Stage and Sector, USDmn



- Oman will be one of the fastest growing construction sectors globally, **with growth forecasted to average 9.9% on an annual basis from 2018 to 2022.**

- Logistics projects will be a key government focus. With a strategic geographical position outside of the Strait of Hormuz, we continue to see infrastructure investment pour into Oman’s SEZs at Salalah, Duqm, Sohar, and Al Mazunah.

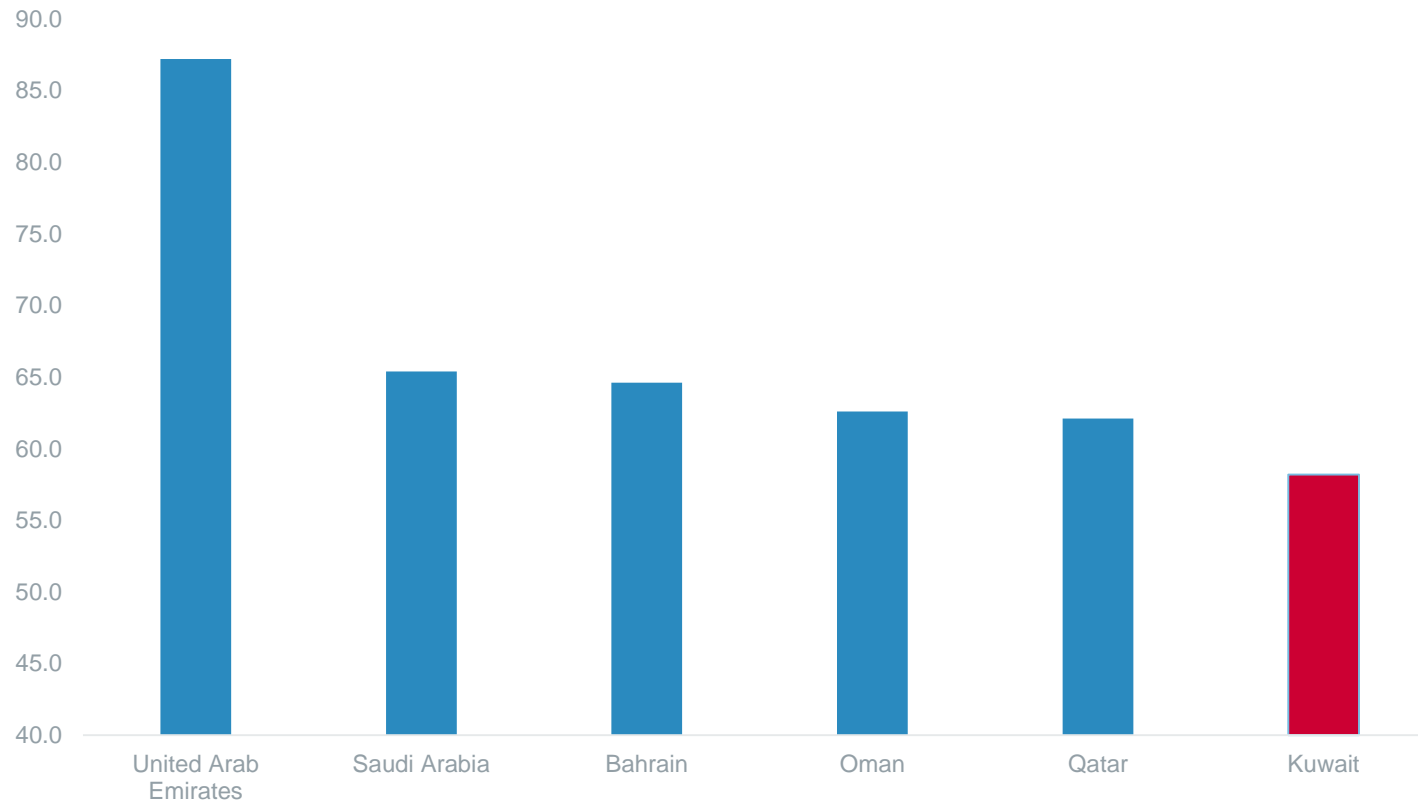
- Oman’s rail sector possesses the most upside, as the government looks set to tender the country’s first rail network in the coming years.

- Private, international capital will continue flowing into commercial and industrial projects, leveraging the country’s business friendly – regulatory environment.

Source: Fitch Solutions Key Projects Database

Infrastructure: Kuwait

GCC – Regulatory Risk



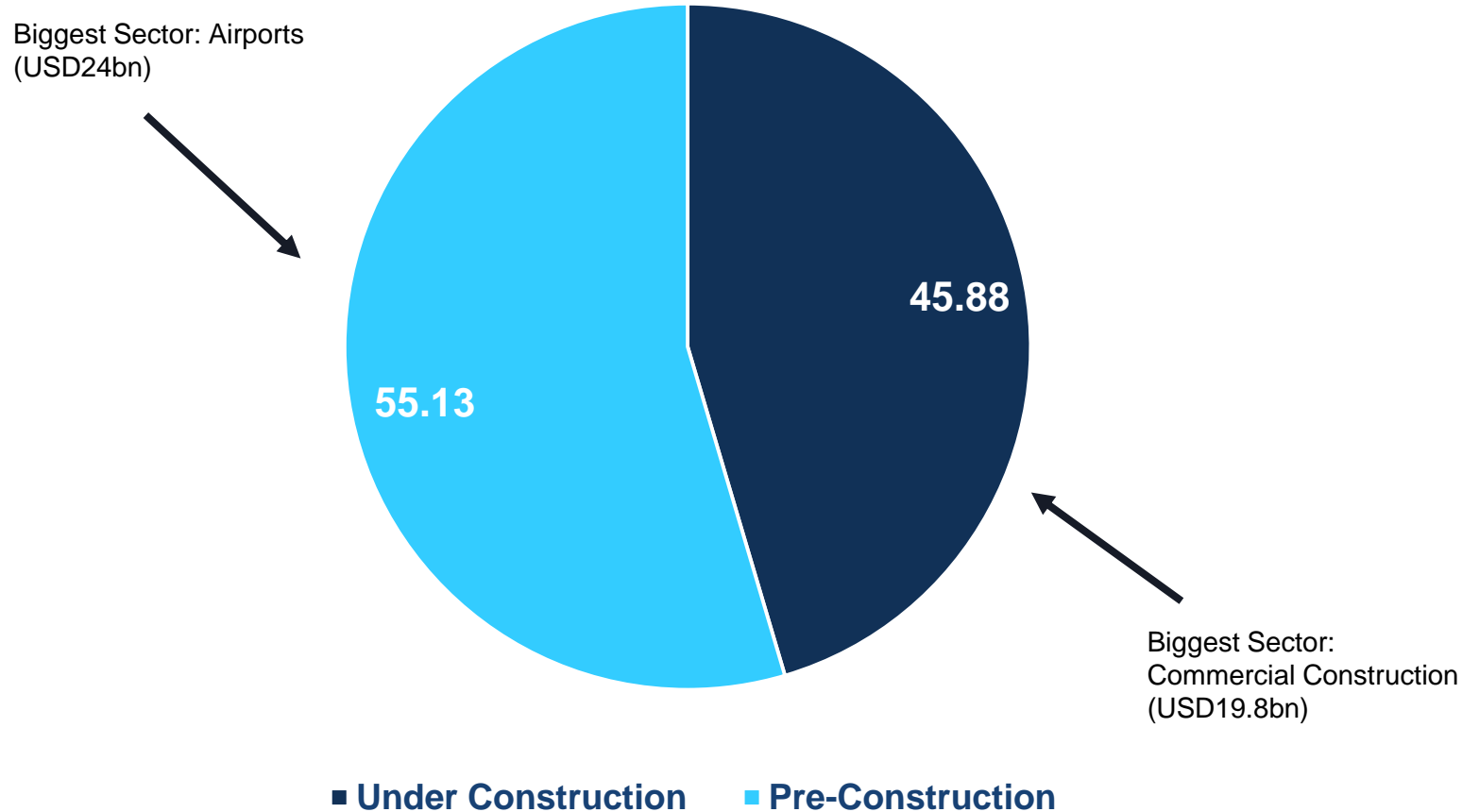
Source: Fitch Solutions Project Risk Index. Scores out of 100. Higher Scores = Lower Risk

Key Trends

- We expect that Kuwait will underperform its GCC peers, **with our forecast projecting annualised average growth of 4.2%**.
- The country's anticipated underperformance is largely predicated on continued regulatory and political uncertainty, which will impede the delivery of its infrastructure project pipeline.
- Kuwait is attempting to draw more private capital into its infrastructure sector, planning new SEZs, as well as announcing a road PPP programme, an airport PPP, and several high value IWPP PPP projects.
- Whether the private sector responds affirmatively is less clear, given the country's history of project delays and regulatory volatility.

Infrastructure: Qatar

Qatar - Project Pipeline Value By Status, USDbn



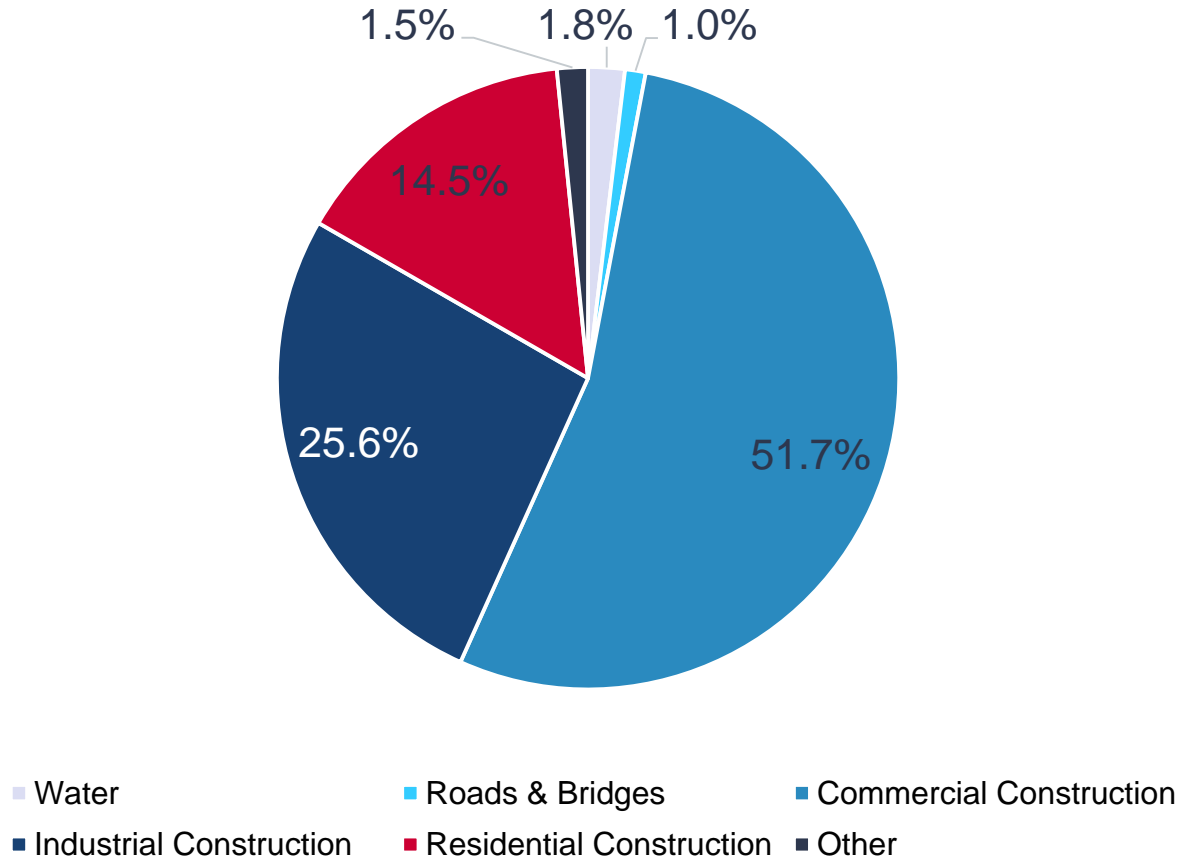
Source: Fitch Solutions Key Projects Database

Key Trends

- We remain bullish on Qatar's construction industry growth in 2018 and over the medium term.
- Although the majority of projects currently under construction are scheduled to be complete by 2020 in time for the World Cup, the total value of projects in pre-construction phases, will ensure that construction growth remains elevated, informing our positive long-term forecast of 10.3% y-o-y real growth on average to 2027.
- The supply of construction materials has not been adversely affected by the boycott, with Qatar now using other ports in the region for transshipment, notably in Oman, while the development of a new deep sea port in Doha will boost direct maritime supply chain links over coming years.

Infrastructure: Bahrain

Bahrain- Project Pipeline By Sector, %. Total Value: USD38bn



Source: Fitch Solutions Key Projects Database

Key Trends

- Bahrain's construction sector will expand at a healthy clip over the next five years. **Our forecast projects growth of 5.4% from 2018 – 2022.**
- Growth will primarily be driven by commercial, industrial, and residential projects, reflecting the country's urban geography and its already mature energy and transport infrastructure base.
- In light of persistent macroeconomic difficulties, risks to our construction view are skewed decisively to the downside.
- Bahrain's fiscal position remains precarious on the back of a multi-year period of lower oil revenues and a lack of fiscal reserves, raising the prospect that the government will not be able to spend at levels necessary to support its infrastructure development agenda.