MIDDLE EAST

Energy and Infrastructure Market Trends and Outlook

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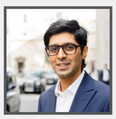

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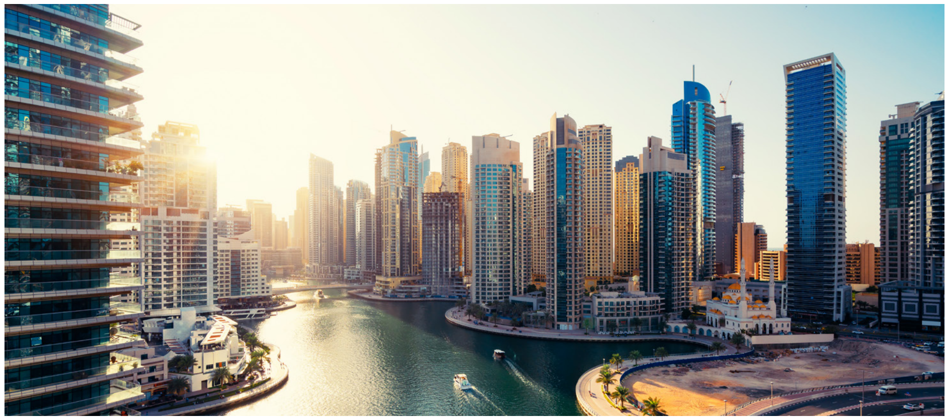
The unprecedented combination of the COVID-19 pandemic and the current depressed state of oil prices – indeed, the COVID-19 pandemic has exacerbated the lower oil price environment in certain respects – has accelerated the momentum of the Middle East's ongoing energy transition and increased the region's focus on the need to attract inward investment into infrastructure investments. The privatisation of infrastructure assets (whether through the procurement of public-private partnerships to build and operate new infrastructure projects or by disposing of a minority interest in a key infrastructure asset) has been galvanised by the current oil price and by governments' inabilities, especially within the Gulf Cooperation Council (GCC) countries, to support generous subsidies and large budgets by relying upon a once dominant oil industry. These unprecedented developments have made the Middle East a particularly appealing investment destination for investors that are hungry for long-term, stable yield assets.



ENERGY TRANSITION – A NEW DAWN?

While the belief persists that the GCC, and, more acutely, the Middle East, remains in the nascent stages of the global energy transition, the region is expected to invest approximately US$180B in renewable energy and the wider energy transition in the run-up to 2025, an increase of up to eighteen times current spending. This investment occurs alongside the addition of up to 57GW of solar and wind capacity up to that date, the advent of robotics and artificial intelligence as key elements of the region's new "smart cities" (e.g., the Saudi NEOM project), the development of green hydrogen – the potential of which remains, on a global level, relatively untapped – increased grid integration, and the development of battery storage projects, which are included as part of combined generation/storage projects.

> **"The Middle East could potentially invest US$180B—an increase of 1800%—in renewable energy and the wider energy transition in the run-up to 2025."**

GREEN HYDROGEN'S UNTAPPED POTENTIAL

Created using renewable power, green hydrogen (and its revolutionary potential to help the world meet the ever increasing challenges of climate change) have been a hot topic of discussion concerning 2020 technology and the energy transition. With its relatively untapped potential on the global scale, the Middle East has undertaken considerable strides in embracing the potential of green hydrogen as the new oil. It is currently anticipated that demand for green hydrogen will account for up to 37% of global oil production in 2050. The biggest promoter for the potential of green hydrogen in the Middle East has been NEOM in Saudi Arabia. In 2020, NEOM signed an agreement with ACWA Power and Air Products to develop the world's largest green hydrogen project, which, once operational, is expected to supply 650 tonnes of green hydrogen per day.

Oman and the UAE are similarly engaged in studying the technical and commercial potential of utilising green hydrogen to diversify their economies away from oil dependency. The UAE recently announced that Masdar, Abu Dhabi's renewable energy development company, is collaborating with the Abu Dhabi National Oil Company and Air Liquide, among others, to develop hydrogen mobility solutions, including the installation of solar-powered hydrogen fuelling stations.

Given the potential for green hydrogen to displace reliance on hydrocarbon products, it is expected that many more similar projects will be developed and financed in the Middle East over the coming years.

LARGER PROJECTS; LOWER TARIFFS

As of 2020, a number of large, utility-scale wind and solar power projects have come to market at hitherto unparalleled low tariffs. In April 2020, the Al Dhafra Project received the world's lowest solar tariff at 1.35¢/kWh. This represents nearly a 40% drop on the tariff set by the Noor Abu Dhabi project in 2017.

Increased competition between a number of investors in the Middle East's renewable energy projects has led to some of the lowest tariffs in the world, and this trend is set to continue with new projects anticipated to be even larger and, in defiance of common convention, to receive even lower tariffs. This has contributed to a large number of new projects in the renewable energy sector, including new large, utility-scale wind and solar projects anticipated in 2020 and 2021 in Saudi Arabia, Qatar and the UAE.

RENEWED FOCUS ON INFRASTRUCTURE

COVID-19 and the depressed oil prices have highlighted that the Middle East's economic outlook is contingent on the increased development and privatisation of infrastructure assets. Q1 2020 saw the GCC achieve 6,722 active projects with a combined value of more than US$3.1 trillion, with expectations of an increased emphasis on infrastructure spending over the coming years. Promising public-private partnership legislations across the region, as well as the long-term stable returns on offer through infrastructure investments, continue to increase investors' confidence in Middle East infrastructure as an investment destination.

PRIVATISATION OF KEY INFRASTRUCTURE

This increased emphasis on attracting a diverse mix of investors has been demonstrated by a number of privatisations of state infrastructure assets, such as the Abu Dhabi National Oil Company's disposal of a 49% stake in its gas pipelines for US$20.7B in June 2020 to an international consortium comprised of Global Infrastructure Partners, Brookfield Asset Management, Ontario Teachers' Pension Plan Board, Singapore's sovereign wealth fund GIC, and NH Investment & Securities.

More recently, Abu Dhabi National Oil Company sold a 49% interest in its real estate business to an Apollo-led Consortium that was advised by Milbank. Furthermore, Saudi Arabia has, after much anticipation, unveiled the first of its many privatisations that will be coming to market under the umbrella of "*Vision 2030*."

GRAND PROJECTS AND SMART CITIES

Beyond infrastructure privatisations, the region's ambitions in building the cities of the future seem to remain unchanged: development on the Saudi NEOM project is already largely underway, with Kuwait's Silk City, Bahrain's Bahrain Bay and Oman's Duqm Port in close pursuit. Qatar's hosting of the 2022 FIFA World Cup continues to strengthen its construction sector, with the market's value expected to surpass US$40B by 2024.