Rail equipment market withstands oil price plunge

Helmut Scholze and Andreas Schwilling, Roland Berger

LAST autumn, Unife and Roland Berger published the sixth World Rail Market Study which predicts further investments in rail systems and stable growth for the world market for rail equipment (infrastructure, train control rolling stock and services) of 2.6% per year until 2021. In the last decade, the Middle East with its emerging new mainline and mass transit systems was a contributor to this growth. But what will the future market developments look like in light of the low oil price?

According to our calculations for the latest issue of the study, the total market volume for rail systems in the Middle East (focused on Egypt, Iran, Israel, Oman, Qatar, Saudi Arabia, and UAE) amounted to approximately €3.4bn per year in 2013-15. The market was driven by major metro projects in Riyadh and Doha as well as the Lusail Light Rail Project in Doha. In the mainline segment, Israel Railways constructed new lines and purchased freight locomotives.

Especially in the mainline segment, we have observed the suspension of several projects linked to the GCC Railway Project due to budgetary constraints resulting from the low oil price. In late January 2016, Etihad Rail announced the cancellation of the tendering of stage 2 of its network development consisting of 628km of new lines in the UAE from the Saudi Arabian border to the border of Oman. Consequently, Oman Rail suspended tendering for phase 1 of its network to link the line coming from the UAE with the port of Sohar.

As a result, GCC transport ministers decided at a meeting in April 2016 to move the deadline for the completion of the GCC railway network back by three years to 2021.

In mass transit, however, there were no significant interruptions or suspension of projects. For example the metro systems in Abu Dhabi, Jeddah, Medina and Riyadh have made further progress in implementation.

We expect the countries in the Middle East to invest further in rail systems despite some of the setbacks seen in the past year. As Figure 1 shows, this will lead to a significant growth of more than 9% per year in the rail equipment market. The main driver of this growth will be Iran, Israel and UAE while the largest market, Saudi Arabia, will stay flat at its current high volume.

Economic impluse

In Iran, the lifting of the UN sanctions in early 2016 has created a special economic impulse. The first contracts for the construction of high-speed lines from Tehran to Mashhad and from Tehran to Isfahan have been signed. Significant investments in urban systems are expected, for example the purchase of additional vehicles for the Tehran, Tabriz and Shiraz metros, as well as LRVs for Isfahan, Hamedan and Kish. In addition, the new high-speed lines will create demand for new rolling stock, locomotives for Iranian Islamic Republic Railways (RAI), and coaches for Raja Passenger Train Company. We expect the market volume for rail equipment to more than triple to about €1.4bn per year between 2019 and 2021.

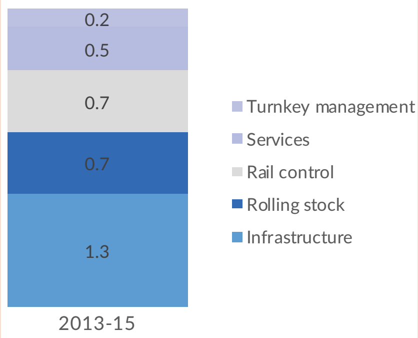
In Israel the light rail systems in Jerusalem will be extended and construction is underway on a new network in Tel Aviv. Israel Railways will also make significant purchases of new multiple units and coaches.

In the UAE, the new Abu Dhabi metro and light rail system as well as the extension of the Dubai metro are the largest projects. The 15km extension of the Dubai metro Red Line with the Expo 2020 site is well advanced. Construction of the $US 2.9bn project was awarded to a consortium led by Alstom, which will supply 50 trains, Acciona, Spain, and Gulermack, Turkey.

The €1.7bn market in Saudi Arabia will remain steady at its high level. The metro projects in Jeddah, Mecca and Medina will be implemented.

> "We expect the countries in the Middle East to invest further in rail systems despite some of the setbacks seen in the past year.

Rail systems market volume 2013-2015 (€)



Expected market growth (CAGR %)

	2013-15	2019-21
Turnkey management	1	1.5
Services	3	3.5
Train control	5.5	6
Rolling stock	22	22.5
Infrastructure	2	2.5
Overall	**9**	**9.5**

The design of the Saudi Land Bridge linking Riyadh to Jeddah is also proceeding. In Egypt, modernisation of a metro line and a large order for new metro vehicles is expected in Cairo.

As to the suspended GCC Railway project, the individual member states are currently assessing the continuation of the project as well as domestic alternatives. For example, Oman Rail is now weighing up plans for the development of a domestic heavy-haul line that will transport minerals from Thumrait to Duqm Port. Tentative plans presented by Oman Rail envisage a 605km line which will be subject to a more robust set of construction standards compared with the standards specified for the wider national rail network which will be integrated with the GCC Rail System.

This plan underlines the efforts by Oman Rail to refocus network development in the short term on domestic logistics priorities due to continuing fiscal challenges.

In terms of market segments, rolling stock will experience by far the largest growth, followed by train control. Infrastructure will grow only slightly as it has been on a comparatively high level. Across all countries, the increasing number of vehicles in operation is also expected to lead to significant increases in the services segment. Accordingly, the market volume of maintenance contracts will see a steep rise in the years to come and will become a mid-term focus for suppliers. **IRJ**