DHOFAR GENERATING COMPANY – IPO Note

22 July 2018

Offer Price (OMR)	**0.259**
Fair Value (OMR)	**0.286**
Upside to Offer Price	***10.4%***

We recommend "**SUBSCRIBE"** for the IPO of **Dhofar Generating Company (DGC)**. The fair value of the company comes out to be **OMR 0.286/share**, implying an upside of 10.4% to the IPO price of OMR 0.259/share. DGC has been offered at 2018 and 2019 P/Bv multiple of 1.2x and 1.3x, respectively and offers dividend yield of 6.95%.

Synopsis:

- **Largest power company in the Dhofar governorate:** The Company is the largest operating power plant in the Dhofar Power System (DPS), with an installed power capacity of 718 MW which represents approximately 61.74% of the power capacity demand in the Dhofar Power System. The term of the DGC PPA is currently the longest for any operating project in the market with the majority of the other agreements expiring 7-10 years earlier. Therefore, the uncertainty regarding PPA renewal and liberalization of the market are minimal compared to other listed power companies.

- **Dhofar power demand to grow in coming years:** The peak demand of the Dhofar Power System is expected to grow from 505MW in 2017 to 735MW in 2023 as per the Oman Power and Water Procurement Company (OPWP). Given the power generation capacity of the Dhofar Power System other than the plant is only 445MW, which is below the projected peak demand, the operation of the plant is crucial for meeting the electricity demand in the Dhofar region. The Company is also the only power producer in DPS that has an Open Cycle Gas Turbine (OCGT) plant connected to the system. OCGT plants are crucial to meet short term peak demands, as the plant is able to start-up and shut down very fast and at a much more economical and efficient manner compared to a Combined Cycle Gas Turbine (CCGT) plants.

- **Revenue to grow at a CAGR of 2% during 2018-22:** During 2018-22, revenue of the company is expected to grow at a CAGR of 2%. Power capacity charge is expected to witness CAGR of 1%, while electric energy charge and fuel charge is expected to grow at a CAGR of 4% and 4%, respectively. Revenue of the company is expected to grow from OMR 46.3mn in 2018 to OMR 46.6mn in 2019, growth of 1%. Power capacity charge is expected to witness a growth of 1% while electric energy charge and fuel charge is expected to grow by 1.5% each, respectively.

- **Profitability will drop if plant efficiency goes down:** Although, DGC is a purely electricity producing company, but its topline includes a pass through item which is revenue from fuel charge and the same item gets deducted from the operational cost but not the exact amount because of plant efficiency. The company expects positive contribution from this segment, rising from OMR 291k in 2018 to OMR 387k in 2022. In case, the plant efficiency drops in any year, it will affect the estimated profitability.

- **Cash sweep obligation:** The financing agreements provide for a cash sweep obligation. The project account provisions set out in the Common Terms Agreement direct the operating revenues generated by the project to be paid from project accounts in a strict order of priority to meet operating costs and debt service requirements. The cash sweep obligation which will commence from the 31st July 2021 requires that 95% of the free cash available after the operating cost and debt service requirements have been met for the for prepayment of debt. On or before the commencement of the cash sweep, the Company can elect to disapply the cash sweep obligation and instead opt to provide letters of credit for amounts that increase over time as specified in the financing agreements.

Hettish Karmani
Head of Research
h.karmani@u-capital.net
Tel: +968 2494 9034

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +968 2494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

If the Company does not elect to disapply the cash sweep obligations provided for by the common terms agreement (CTA), this means that the Company's ability to pay dividends will be impacted during the period of cash sweep as operating revenues may only be paid into the dividend distribution account once the Company's prepayment obligation from the cash sweep has been satisfied.

- **Equity to pick post 2027:** In the five year forecast provided by the Company, equity is estimated to drop as the Company is paying more than its net income which is reducing its retained earnings – in turn equity. However, as per our estimates, we believe post 2027, Company would be making enough and would not require to take anything from their retained earnings and thereafter the equity will rise.

- **Term loans secured against interest rate fluctuations:** In accordance with the CTA, the Company is required to enter into interest rate hedging agreements to cap the Company's exposure to fluctuating interest rates. This requirement covers the term loans. At the end of 1Q18, amount of OMR 90.8mn (USD 235.8mn) was covered under this agreement for the term loans. The hedging agreements cap the Company's exposure to fluctuating interest rates. The Company releases a portion of the hedging arrangements in line with the repayment of the term loans.

- **Tax expense risk:** Consequent to entering the Power Purchase Agreement (PPA) in December 2013, it was determined that the arrangement relating to the original plant fell within the scope of a lease under the interpretation of (International Financial Reporting Interpretations Committee) IFRIC 4. As a result, the original plant was considered to be a finance lease under International Accounting Standards (IAS) 17 and adopted while preparing the IFRS financial statements. Similarly, the Company follows the finance lease treatment while preparing tax returns under the Oman Income Tax Law. Tax Years 2013 to 2015 are currently under assessment. There is a risk that Secretariat of General for Taxation (SGT) may disregard the financial lease treatment and suggest to use operating lease treatment. However, the Company believes that the risk of SGT disallowing the finance lease treatment is low.

- **Debt service coverage ratio:** Any fall in the DSCR, at any calculation date, below the ratio of 1.05:1 will constitute an event of default under the CTA. The DSCR threshold for distribution of dividends has been set at 1.10:1. In certain specified cases, where a default is capable of remedy, the CTA permits a cure period. As of date, the Company is not in default under any of the Finance Documents or any other material financing arrangements.

- **Dividend yield of 6.95%:** The company offers dividend yield of 6.95% over the next five-year period which is significantly above the dividend yield of MSM at 5.5% and above the risk free rate of Oman at 6.0% (Yield on 10-year Oman Government International Bond 2027) and also above the power sector average dividend yield of 5.8%. Even at our fair value of OMR 0.286/share, the dividend yield of the company comes out to be 6.3%.

- **Fair value of OMR 0.286/share offers an upside of 10.4%:** DGC is a decent dividend play with steady revenues over the PPA. We recommend **"SUBSCRIBE"** for the IPO of Dhofar Generating Company. The fair value of the company comes out to be OMR 0.286/share, implying an upside of 10.4% to the IPO price of OMR 0.259/share. DGC has been offered at 2018 and 2019 P/Bv multiple of 1.2x and 1.3x, respectively.

	2018e	2019e	2020e	2021e	2022e
Revenue, OMR mn	46.3	46.6	47.6	48.2	49.7
Net Profit, OMR mn	0.18	1.46	2.10	2.42	2.89
EPS, OMR	0.001	0.007	0.009	0.011	0.013
DPS, OMR	-	0.018	0.018	0.018	0.018
BVPS, OMR	0.217	0.205	0.197	0.191	0.187
Dividend Yield @ offer price (%)	0.0%	6.9%	6.9%	6.9%	6.9%
Dividend Yield @ FV (%)	0.0%	6.3%	6.3%	6.3%	6.3%
P/E (x)	318.0	39.3	27.4	23.8	19.9
Book Value (OMR)	0.217	0.205	0.197	0.191	0.187
Price to Book (x)	1.2	1.3	1.3	1.4	1.4

Source: IPO Prospectus & U Capital Research

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +968 2494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

DDM Valuation

We have valued this company on dividend discount model and we have gone beyond the PPA period to estimate dividends as we believe the Company income will rise substantially once debt repayments are over.

Key Assumptions:

- *Risk Free Rate: 5.9% (Yield on 10yr Oman Government International Bond)*
- *Risk Premium: 7.0% (US Risk Premium taken as OMR is pegged to USD)*
- *Beta: 0.6*
- *Terminal Growth Rate: Since we have gone for the whole useful years of plant operations, we do not need growth rate for our calculation*
- *~90% payout ratio post PPA and once legal reserves reach 1/3rd of capital.*
- *Semi Annual dividend payments (February and August) as per Prospectus.*

Dividend Discount Model - Useful Life

	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033-45e	2046-58e
Dividends (OMR mn)	-	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.50	4.50	162.37	272.51
Discounted Dividends (OMR mn)	-	3.64	3.31	3.01	2.74	2.50	2.27	2.07	1.88	1.71	1.56	1.42	1.29	1.32	1.20	22.46	11.16
Total Value (OMR mn)	63.5																
Number of Shares (mn)	222.2																
Fair Value, OMR/share	**0.286**																

Source: U Capital Research

Sensitivity Analysis

		Risk Premium (%)				
		6.0%	**6.5%**	**7.0%**	**7.5%**	**8.0%**
Risk Free Rate (%)	**3.9%**	0.431	0.410	**0.391**	0.373	0.356
	4.9%	0.364	0.348	**0.332**	0.318	0.305
	5.9%	**0.311**	**0.298**	**0.286**	**0.275**	**0.264**
	6.9%	0.269	0.259	**0.249**	0.240	0.231
	7.9%	0.235	0.227	**0.219**	0.211	0.204

Source: U Capital Research

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +968 2494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

PEER Group Analysis

Name	CMP	M.Cap	PE	PBV	ROE	ROA	Dividend Yield
	(OMR)	(OMR mn)	(x)	(x)	(%)	(%)	(%)
SEMBCORP SALALAH POWER & WAT	0.225	214.8	14.88	2.32	15.6%	4.2%	5.8%
SHARQIYAH DESALINATION CO SA	2.515	24.6	15.43	1.78	11.5%	2.0%	-
AL KAMIL POWER CO	0.386	37.2	18.00	1.24	6.9%	5.8%	6.5%
AL SUWADI POWER	0.116	82.9	10.25	1.00	9.8%	2.8%	6.9%
AL BATINAH POWER	0.116	78.3	9.30	1.04	11.2%	3.1%	6.3%
PHOENIX POWER CO SAOC	0.118	172.6	13.46	1.04	7.8%	2.1%	5.1%
ACWA POWER BARKA SAOG	0.780	124.8	11.96	2.28	19.0%	6.4%	5.8%
SMN POWER HOLDING SAOG	0.600	119.8	15.69	4.08	26.0%	3.4%	5.5%
SOHAR POWER CO	0.115	25.4	5.73	1.02	17.8%	3.0%	-
MUSCAT CITY DESALINATION CO	0.136	21.2	15.79	1.39	8.8%	1.2%	6.6%
SECTOR		**901.4**	**12.65**	**1.54**	**12.2%**	**3.1%**	**5.8%**
DHOFAR GENERATING COMPANY - 2019e	***0.259***	***57.6***	***39.30***	***1.30***	***3.2%***	***0.6%***	***6.9%***

Source: Bloomberg & U Capital Research

Data as of 19 July 2018

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman l CR No. 1279406 l Tel: +968 2494 9000 l Fax: +968 2494 9099 l Email: info@u-capital.net l Web: www.u-capital.net

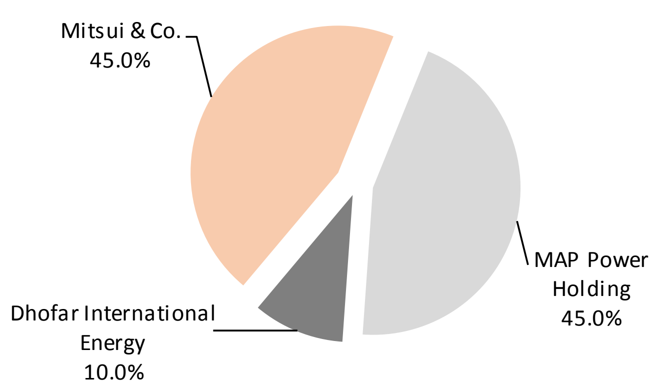
Dhofar Generating Company

Dhofar Generating Company was registered as a closed joint stock company in the Sultanate of Oman in 2001. The operations of the Company are governed by the provisions of "the Law for the Regulation and Privatization of the Electricity and Related Water Sector" promulgated by Royal Decree 78/2004. The principal activity of the Company is electricity generation under a license issued by the Authority for Electricity Regulation, Oman.

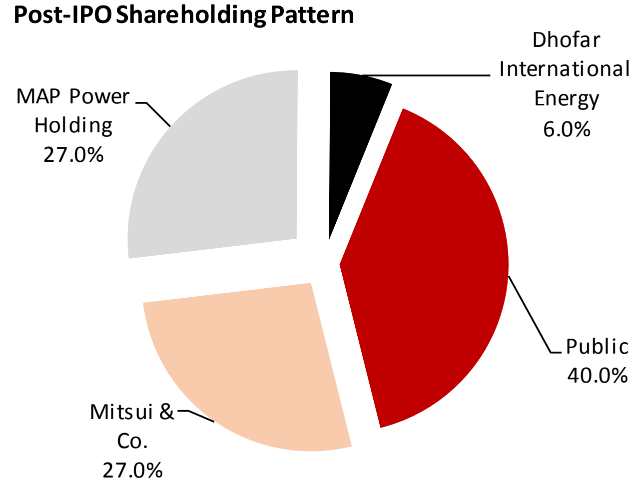
The ultimate investors include International Company for Water and Power Projects (ACWA Power), Mitsui & Co., Ltd., and Dhofar International Development & Investment Holding Company S.A.O.G (DIDIC). ACWA Power through its wholly owned subsidiary MAP Power Holding Company Limited and DIDIC through its wholly owned subsidiary Dhofar International Energy Services.

Shareholding Pattern

Pre-IPO Shareholding Pattern



Post-IPO Shareholding Pattern



Source: IPO Prospectus

Agreement

The concession agreement, to which DGC was a party, was terminated effective 1 January 2014. Accordingly, from 1 January 2014, the Company was granted a generation license by the Authority for Electricity Regulation (AER) for the electricity generation business. The Company entered into a PPA in December 2013 with OPWP to sell the available capacity of electricity. The PPA was subsequently amended in January 2014. A second amending agreement to the PPA was signed in April 2015 which became effective in June 2015 after completion of all requirements under the terms of the agreement. The amended agreement envisions the construction of a new 445MW power plant and sets the PPA term of the existing 276MW power plant and new plant for a period of 15 years from the scheduled commercial operation date of the new plant. The scheduled commercial operation date was achieved in January 2018.

Date	Event
May 2014	Request for Proposal issued by OPWP
28 October 2014	Bid submission by the Founders
18 March 2015	Issuance of Letter of Award
19 April 2015	Execution of the PPA Amendment
	Execution of the Share Purchase Agreement
25 August 2015	Financial Arrangement Completed
1 January 2018	COD achieved
1 January 2033	Expiry date of PPA

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman l CR No. 1279406 l Tel: +968 2494 9000 l Fax: +968 2494 9099 l Email: info@u-capital.net l Web: www.u-capital.net

Financial Performance & Outlook

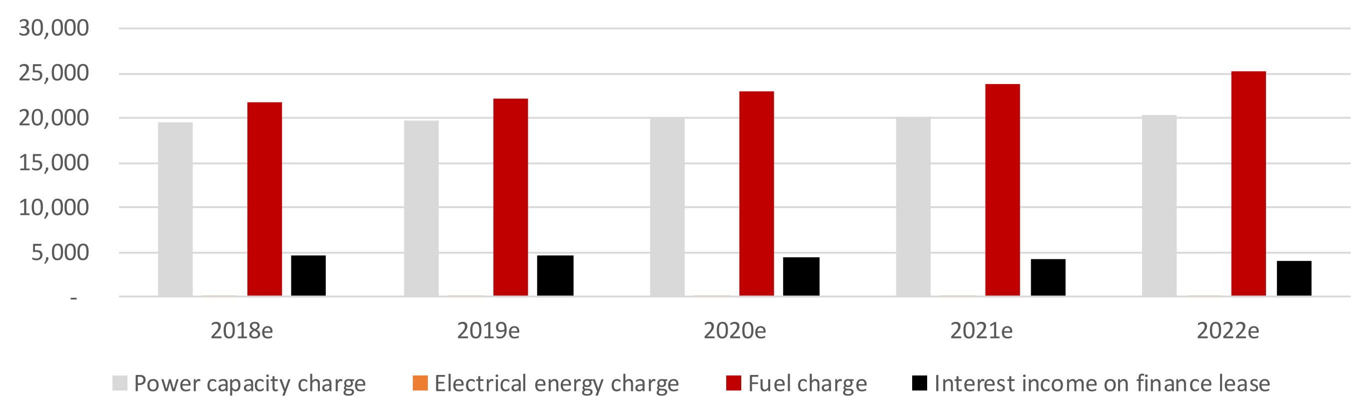
Stable and less volatile revenue model

The Company is the largest operating power plant in the Dhofar Power System, with an installed power capacity of 718 MW which represents approximately 61.74% of the power capacity demand in the Dhofar Power System as per OPWP's 7-year statement (2017-2023). The peak demand of the Dhofar Power System is expected to grow from 505MW in 2017 to 735MW in 2023 as per the OPWP's 7-year statement (2017-2023). Given the power generation capacity of the Dhofar Power System other than the plant is only 445MW, which is below the projected peak demand, the operation of the Plant is crucial for meeting the electricity demand in the Dhofar region.

Plant	Operating Capacity (MW)	Share of Total Capacity (%)
Sembcorp Salalah	445	38.3%
Dhofar Generation Company	718	61.7%
Total	1,163	100%

Under the PPA, the Company receives the power capacity charges from OPWP for the demonstrated power capacity of the Plant. These charges are designed to cover fixed costs, including fixed operating and maintenance costs, debt service, insurance costs, taxes, spare parts, connection fees and return on capital. The power capacity charges, which comprise of 98% of total non-fuel revenues under the PPA, are payable by OPWP regardless of whether the actual output of the Plant is dispatched by OPWP, and regardless of whether the Company is instructed by OPWP to deliver electricity. This means that, subject to certain limited exceptions, OPWP is obliged to pay power capacity charges to the Company for 100% of the guaranteed contracted power capacity of the plant, irrespective of whether or not electricity is actually dispatched.

Revenue Composition (OMR 000)



Source: IPO Prospectus

During 2018-22, revenue of the company is expected to grow at a CAGR of 2%. Power capacity charge is expected to witness CAGR of 1%, while electric energy charge and fuel charge is expected to grow at a CAGR of 4% and 4%, respectively.

Revenue of the company is expected to grow from OMR 46.3mn in 2018 to OMR 46.6mn in 2019, growth of 1%. Power capacity charge is expected to witness a growth of 1% while electric energy charge and fuel charge is expected to grow by 1.5% each, respectively.

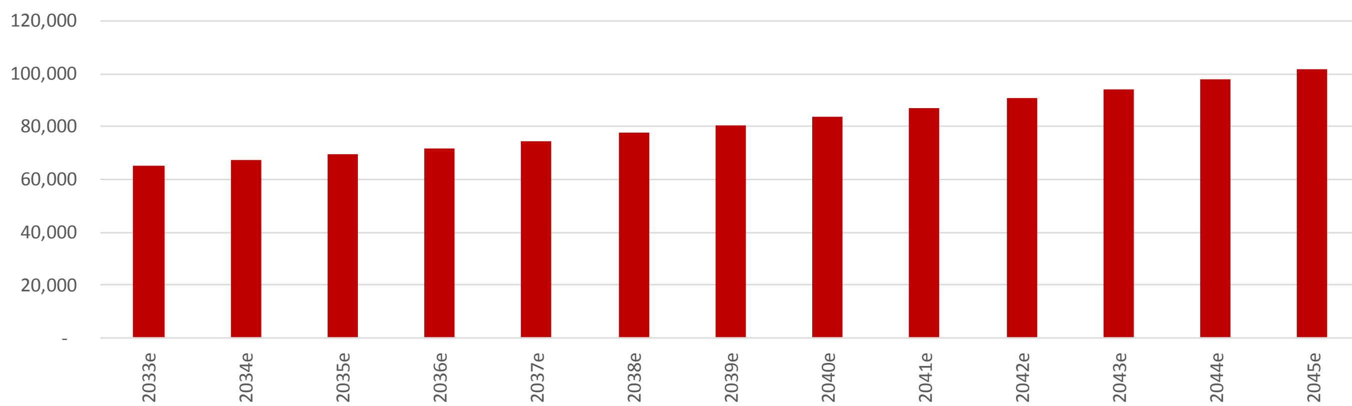
P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman l CR No. 1279406 l Tel: +968 2494 9000 l Fax: +968 2494 9099 l Email: info@u-capital.net l Web: www.u-capital.net

Revenue beyond the PPA period to grow at a CAGR of 4% (2032-57)

Company expects that the plant will operate well beyond the term of the PPA, and the Plant will be well-placed to meet the forecast long-term demand for power in the Dhofar Power System. After the expiry of the term of the PPA, the PPA will either be extended or, if the power market in Oman is liberalized during this period, the power produced by the Plant will be sold into a merchant market.

Hence we had to extend our estimation beyond the PPA period and we conservatively believe that the revenue of the company during 2032-57 will increase at a CAGR of 4%.

Revenue (OMR 000)

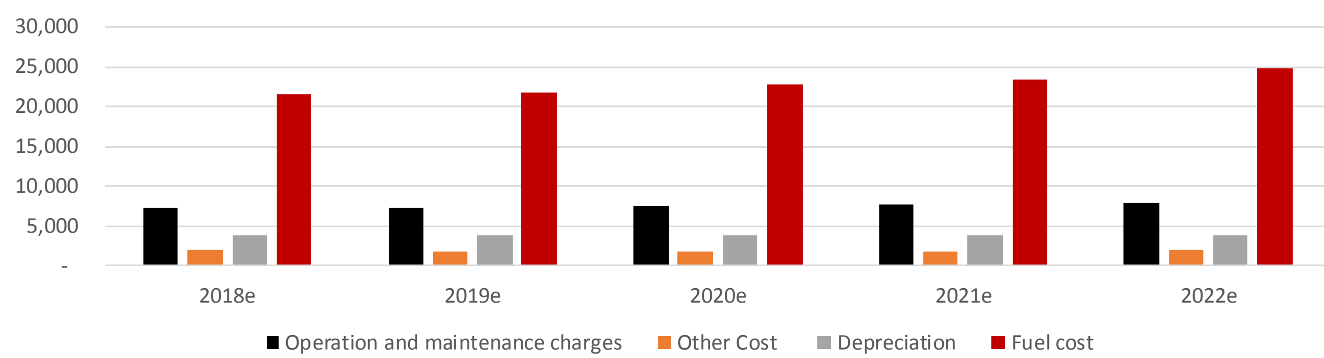


Source: U Capital Research

Operating cost to remain in check

Company's operating cost comprises operation and maintenance, fuel charge and other variable expense. During 2018-22, operating cost is expected to grow at a CAGR of 3.0%. Within operating cost, operation and maintenance charge is expected to witness CAGR of 2% while fuel charge which is a pass on item is expected to witness CAGR of 4%.

Cost Composition (OMR 000)



Source: IPO Prospectus

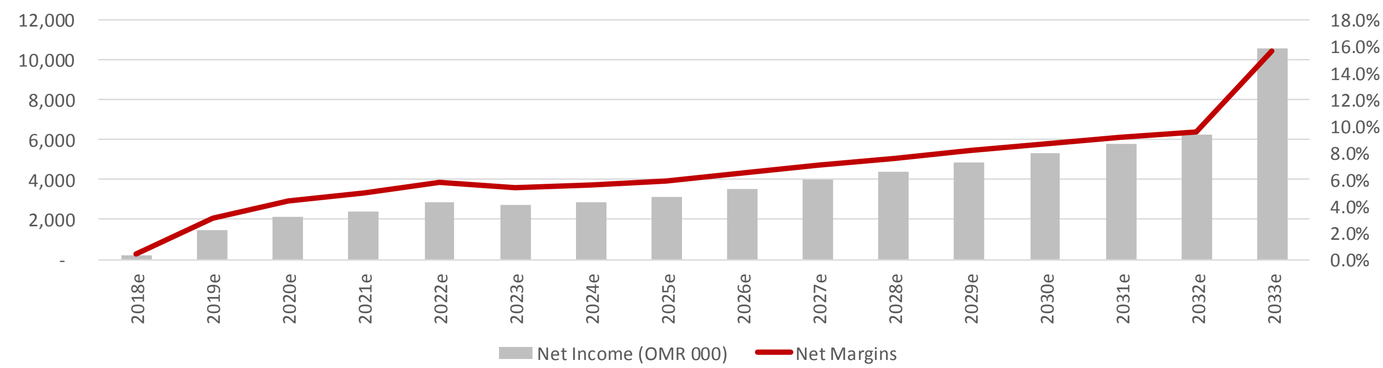
P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman l CR No. 1279406 l Tel: +968 2494 9000 l Fax: +968 2494 9099 l Email: info@u-capital.net l Web: www.u-capital.net

Loan repayment by the end of PPA period to increase net income and net margins

During 2015, the Company entered into financing agreements with a consortium of international banks and Omani banks, for an aggregate amount of approximately OMR 168.5mn (USD 438.1mn). The CTA requires at least 75% of the debt under the USD commercial facility agreement to be hedged at the time of financial close.

Common Term Agreement the term loan facility comprises of:

Tranche	Currency	Total facility	Interest rates	Final repayment date
1	RO	72,999,959	4.6%	31 December 2032
2	USD	248,271,000	1.4% + LIBOR per annum	31 December 2032



Source: U Capital Research

This loan is repayable in 31 semi-annual instalments starting from July 2018 and ending in 2032, which will drive company earnings higher in the post PPA period. Net profit is estimated to jump from OMR 6.2mn in 2032 to OMR 10.5mn in 2033 and is estimated to go higher in the absence of financial charges. Net margins during 2018-32 are expected to average around 6.2% while the same during 2033-57 are expected to average at 16%.

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman l CR No. 1279406 l Tel: +968 2494 9000 l Fax: +968 2494 9099 l Email: info@u-capital.net l Web: www.u-capital.net

Financial Statements

Income Statement															
	IPO Prospectus Projections					U Capital Research Projections									
OMR 000	**2018e**	**2019e**	**2020e**	**2021e**	**2022e**	**2023e**	**2024e**	**2025e**	**2026e**	**2027e**	**2028e**	**2029e**	**2030e**	**2031e**	**2032e**
Revenue	46,317	46,614	47,557	48,229	49,662	50,537	51,726	53,068	54,657	56,296	57,985	59,725	61,517	63,362	65,263
Cost of Sales	(34,633)	(34,874)	(35,999)	(36,951)	(38,623)	(39,782)	(40,975)	(42,204)	(43,471)	(44,775)	(46,118)	(47,501)	(48,926)	(50,394)	(51,906)
Gross Profit	**11,684**	**11,740**	**11,558**	**11,278**	**11,039**	**10,755**	**10,751**	**10,864**	**11,186**	**11,522**	**11,867**	**12,223**	**12,590**	**12,968**	**13,357**
G & A Expenses	(829)	(772)	(768)	(780)	(770)	(832)	(851)	(873)	(900)	(926)	(954)	(983)	(1,012)	(1,043)	(1,074)
Operating Profit	**10,855**	**10,968**	**10,790**	**10,498**	**10,269**	**9,924**	**9,899**	**9,991**	**10,287**	**10,595**	**10,913**	**11,241**	**11,578**	**11,925**	**12,283**
Finance costs	(7,441)	(7,274)	(7,153)	(7,137)	(6,915)	(6,715)	(6,515)	(6,315)	(6,115)	(5,915)	(5,715)	(5,515)	(5,315)	(5,115)	(4,915)
Profit Before Tax	**3,414**	**3,694**	**3,637**	**3,361**	**3,354**	**3,209**	**3,384**	**3,676**	**4,172**	**4,680**	**5,198**	**5,726**	**6,263**	**6,810**	**7,368**
Taxation	(3,233)	(2,231)	(1,536)	(946)	(460)	(481)	(508)	(551)	(626)	(702)	(780)	(859)	(939)	(1,022)	(1,105)
Profit After Tax	**181**	**1,463**	**2,101**	**2,415**	**2,894**	**2,727**	**2,877**	**3,124**	**3,546**	**3,978**	**4,418**	**4,867**	**5,323**	**5,789**	**6,263**
Starting Balance	29,927	30,090	27,185	25,076	23,249	21,854	20,308	18,897	17,709	16,901	16,481	16,458	16,838	17,629	18,338
Transfer to Legal Reserve	(18)	(146)	(210)	(242)	(289)	(273)	(288)	(312)	(355)	(398)	(442)	(487)	(532)	(579)	(626)
Impact of IFRS 16	-	(222)	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,500)	(4,500)
Retained Earnings	**30,090**	**27,185**	**25,076**	**23,249**	**21,854**	**20,308**	**18,897**	**17,709**	**16,901**	**16,481**	**16,458**	**16,838**	**17,629**	**18,338**	**19,475**

Source: IPO Prospectus & U Capital Research

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +968 2494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Balance Sheet					
OMR 000	**2018e**	**2019e**	**2020e**	**2021e**	**2022e**
Property, plant and equipment	159,056	155,078	151,123	147,175	143,252
Finance lease receivable	54,514	52,056	49,391	46,498	43,361
Right to use asset	-	4,290	3,994	3,698	3,402
Total non-current assets	**213,570**	**211,424**	**204,508**	**197,371**	**190,015**
Inventories	5,893	5,893	5,893	5,893	5,893
Finance lease receivable	2,266	2,458	2,666	2,892	3,137
Trade receivables	4,186	4,159	4,255	4,349	4,514
Cash and cash equivalents	5,920	5,148	4,320	3,293	2,290
Total current assets	**18,265**	**17,658**	**17,134**	**16,427**	**15,834**
TOTAL ASSETS	**231,835**	**229,082**	**221,642**	**213,798**	**205,849**
Share capital	22,224	22,224	22,224	22,224	22,224
Legal reserve	185	331	541	783	1,072
Retained earnings	30,090	27,185	25,076	23,249	21,854
Changes in fair value of hedge	(4,331)	(4,145)	(3,961)	(3,786)	(3,612)
TOTAL EQUITY	**48,168**	**45,595**	**43,880**	**42,470**	**41,538**
Long term loan	152,513	145,339	138,215	130,811	123,256
Fair value of the cash flow hedge	5,095	4,877	4,660	4,454	4,250
Provision for decommissioning cost	6,109	6,318	6,535	6,759	6,991
Provision for major maintenance	1,378	1,360	1,380	1,301	1,336
Lease liability	-	4,566	4,316	4,057	3,790
Deferred tax liability - net	5,794	8,057	9,627	10,605	11,094
Total non-current liabilities	**170,889**	**170,517**	**164,733**	**157,987**	**150,717**
Long term loan	7,090	7,363	7,305	7,575	7,716
Trade and other payables	5,688	5,607	5,724	5,766	5,878
Total current liabilities	**12,778**	**12,970**	**13,029**	**13,341**	**13,594**
TOTAL LIABILITIES	**183,667**	**183,487**	**177,762**	**171,328**	**164,311**
TOTAL EQUITY AND LIABILITIES	**231,835**	**229,082**	**221,642**	**213,798**	**205,849**

Source: IPO Prospectus & U Capital Research

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +968 2494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Cash Flow Statement					
OMR 000	**2018e**	**2019e**	**2020e**	**2021e**	**2022e**
Profit before tax	3,414	3,694	3,637	3,361	3,354
Depreciation	3,983	3,978	3,954	3,948	3,923
Amortization of right to use asset	-	296	296	296	296
Finance cost	7,441	7,274	7,153	7,137	6,915
Interest income on finance lease	(4,731)	(4,554)	(4,361)	(4,153)	(3,927)
	10,107	**10,688**	**10,679**	**10,589**	**10,561**
Working capital changes	451	(2)	5	5	1
Finance lease instalments	6,819	6,819	6,819	6,819	6,819
Cash generated from operations	**17,377**	**17,505**	**17,503**	**17,413**	**17,381**
Plant and equipment – payment	(13,835)	-	-	-	-
Major maintenance - payment	(3,107)	(59)	(21)	(121)	-
Net cash used in investing actives	**(16,942)**	**(59)**	**(21)**	**(121)**	**-**
Net financing costs	(5,849)	(6,886)	(6,697)	(6,755)	(6,542)
Payment against lease liability	-	(242)	(250)	(259)	(267)
Proceeds from long term loan	13,016	-	-	-	-
Repayment of long term loan	(4,244)	(7,090)	(7,363)	(7,305)	(7,575)
Dividends paid	-	(4,000)	(4,000)	(4,000)	(4,000)
Cash generated from financing activities	**2,923**	**(18,218)**	**(18,310)**	**(18,319)**	**(18,384)**
Net Change in Cash	**3,358**	**(772)**	**(828)**	**(1,027)**	**(1,003)**
Cash Balance Previously	2,562	5,920	5,148	4,320	3,293
Cash Balances at the End	**5,920**	**5,148**	**4,320**	**3,293**	**2,290**

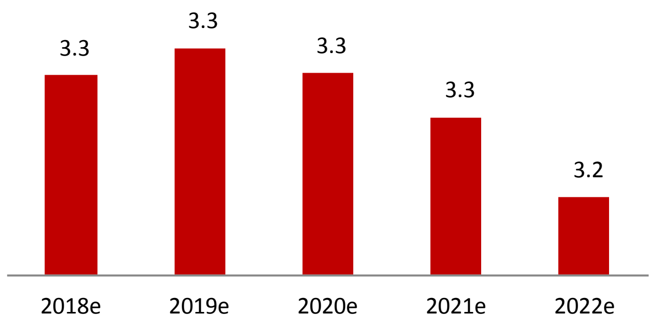
Ratio Analysis					
	2018e	**2019e**	**2020e**	**2021e**	**2022e**
Gross Margin - %	25.2%	25.2%	24.3%	23.4%	22.2%
Operating Margin - %	23.4%	23.5%	22.7%	21.8%	20.7%
Net Margin - %	0.4%	3.1%	4.4%	5.0%	5.8%
ROE - %	0.4%	3.2%	4.8%	5.7%	7.0%
ROA - %	0.1%	0.6%	0.9%	1.1%	1.4%
Debt to Equity (x)	3.31	3.35	3.32	3.26	3.15
EPS (OMR)	0.001	0.007	0.009	0.011	0.013
Book Value (OMR)	0.217	0.205	0.197	0.191	0.187
P/E (x)	318.0	39.3	27.4	23.8	19.9
P/Bv (x)	1.2	1.3	1.3	1.4	1.4
DPS (OMR)	-	0.018	0.018	0.018	0.018
Dividend Yield (%)	-	6.95%	6.95%	6.95%	6.95%

Source: IPO Prospectus & U Capital Research

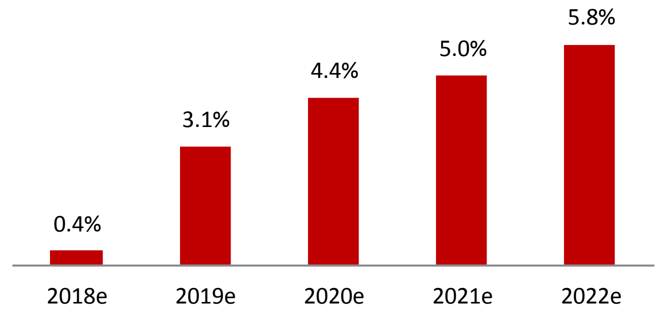
P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +968 2494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

CHART GALLERY

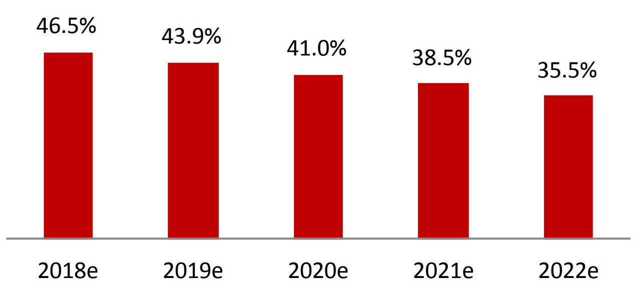
Debt to Equity (x)



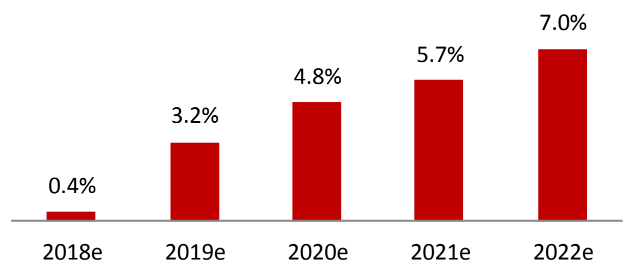
Net Margins (%)



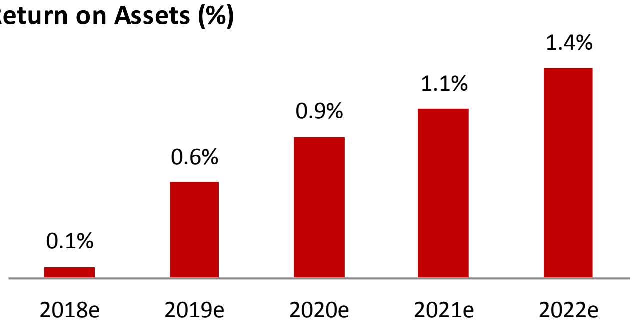
EBITDA Margins (%)



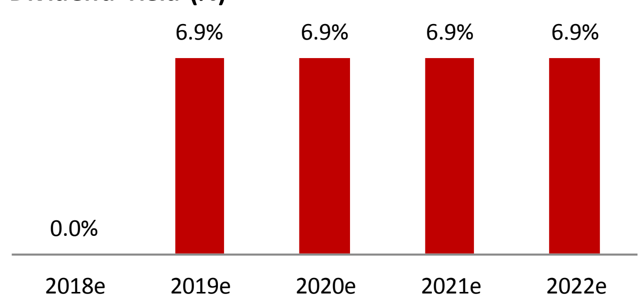
Return on Equity (%)



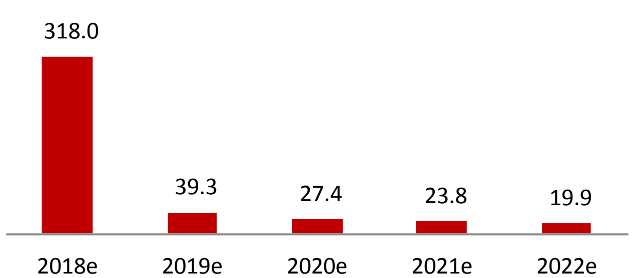
Return on Assets (%)



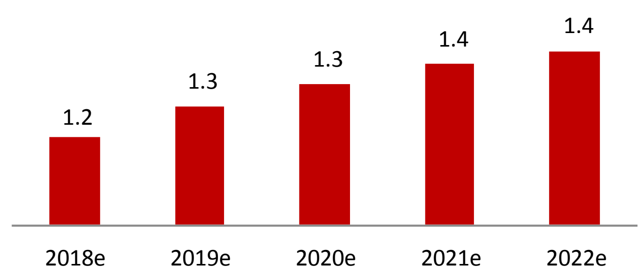
Dividend Yield (%)



PE (x)



PBv (x)



Source: IPO Prospectus & U Capital Research

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +968 2494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

APPENDIX

GENERAL INFORMATION ON THE OFFER

Offer Opening Date	1 July 2018
Offer Closing Date	30 July 2018
Nominal value of Shares	Bzs 100 per Share
Offer Price	Bzs 259 per Offer Share
Purpose of the Offer	The Selling Shareholders are undertaking the IPO to comply with their obligations under the PFA, which require them, amongst other things, to make 40 percent of the Shares available for public subscription and to list such Shares on the MSM.
Financial Year	Commences on 1 January and ends on 31 December each year.
Authorized Share Capital	OMR 120,000,000 divided into 1,200,000,000 Shares with a nominal value of Bzs 100 per Share.
Issued and Paid-Up Share Capital	OMR 22,224,000 divided into 222,240,000 Shares with a nominal value of Bzs 100 per Share.
Number of Shares offered for subscription	88,896,000 Offer Shares at a price of Bzs 259 per Offer Share
Prohibitions on subscription	The following Applicants shall not be permitted to subscribe to the Offer: • Sole proprietorship establishments: The owners of sole proprietorship establishments may only submit Applications in their personal names. • Trust accounts: Customers registered under trust accounts may only submit Applications in their personal names. • Multiple Applications: An Applicant may not submit more than one Application. • Joint Applications: Applicants may not submit applications in the name of more than one individual (including on behalf of legal heirs). All such Applications will be rejected without contacting the Applicant.
Names of Selling Shareholders and number of Shares being sold	• M-MAP: 40,003,200 Shares, representing 45 percent of the Offer Shares. • MAP: 40,003,200 Shares, representing 45 percent of the Offer Shares. • DIES: 8,889,600 Shares, representing 10 percent of the Offer Shares.
Percentage of the total issued and paid-up share capital on Offer	40% of the Issued and Paid-Up Share Capital of the Company.
Persons eligible for the Offer Shares	The subscription will be open to Omani and non-Omani individuals and juristic persons who have their accounts with the Muscat Clearing, as on the date of / or during the Subscription Period.
Minimum limit for subscription by each Applicant	• Category I Investors: 1,000 Offer Shares and in multiples of 100 Shares thereafter. • Category II Investors: 100,100 Offer Shares and in multiples of 100 Shares thereafter.
Maximum limit for subscription by each Applicant	• Category I Investors: 100,000 Offer Shares. • Category II Investors: 8,889,600 Offer Shares, equivalent to ten percent of the Offer.

Source: IPO Prospectus

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman l CR No. 1279406 l Tel: +968 2494 9000 l Fax: +968 2494 9099 l Email: info@u-capital.net l Web: www.u-capital.net

OMAN POWER SECTOR

The Oman power system is divided into three regional systems, partially connected via interconnectors:

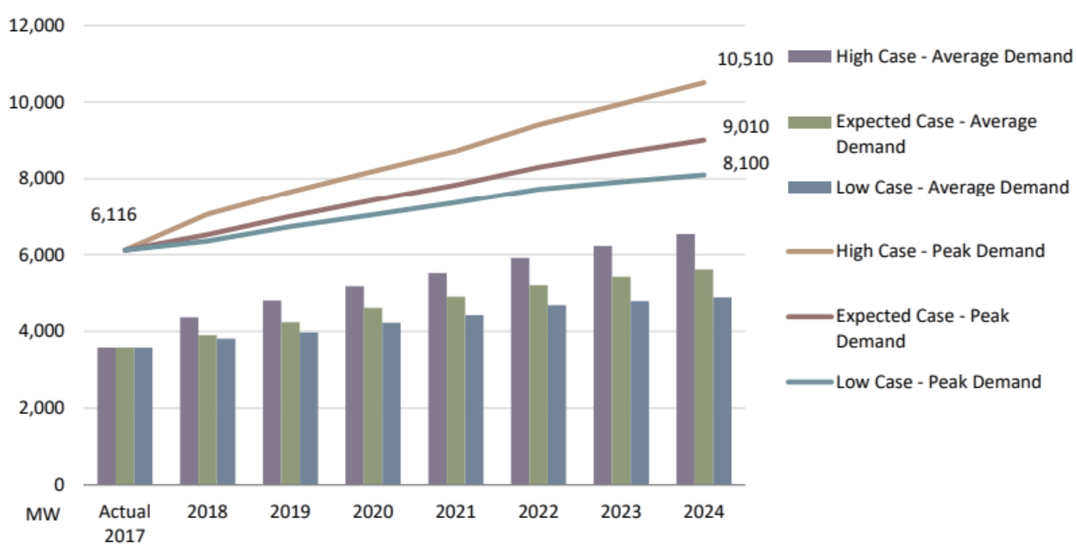
- The Main Interconnected System (MIS), which is the largest part of the system and covers the northern area of Oman.
- The Dhofar Power System, located in the Dhofar Governorate, of which the Plant's capacity constitutes approximately 62%. of the power capacity as at the date of this Prospectus; and
- The Rural Areas Electricity System, operated by RAECO, which serves the rest of Oman

Demand for Electricity

In the MIS, peak demand is expected to grow at about 6% per year, from 6,116 MW in 2017 to 9,010 MW in 2024. It includes an estimate of the impact of cost reflective tariffs that were introduced to large consumers in January 2017. Energy consumption is expected to grow at 7% per year.

High and Low demand scenarios are also considered. The Low Case projects 4% annual growth in peak demand, to be 8,100 MW in 2024, about 900 MW below expected demand. The High Case projects 8% annual growth and peak demand at 10,510 MW in 2023, exceeding expected demand by about 1, 500 MW.

In Dhofar, peak demand is expected to grow at 6% per year, from 552 MW in 2017 to 810 MW in 2024. The Low Case considers 4% growth, reaching 740 MW by 2024, about 70 MW below expected demand. The High Case projects 8% per year growth to 950 MW in 2024, exceeding expected demand by about 140 MW.



Contracted Capacity

OPWP's present portfolio of contracted capacity in Oman comprises long-term contracts with 2 plants under construction, 13 operational plants, of which 11 are in the MIS and of which 2 (including Dhofar Generating Company) are in the Dhofar Power System. Total contracted capacity is 8,399 MW.

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +968 2494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Project	Contract Type	Power Capacity	Plant Type	Plant Owner	Contract Expiry	System
Ghubrah	PWPA	475 MW	OCGT MSF Desalination Natural gas-fired	Al Ghubrah Power and Desalination Co. SAOC@	2018	MIS
Rusail	PPA	687 MW	OCGT Natural gas-fired	Rusail Power Co. SAOC (*)	2022	MIS
Wadi Jizzi	PPA	325 MW	OCGT Natural gas-fired	Wadi Al-Jizzi Power Co. SAOC@	2018	MIS
Manah	PPA	273 MW	OCGT Natural gas-fired	United Power Co. SAOG (*)	2020	MIS
Al Kamil	PPA	282 MW	OCGT Natural gas-fired	Al Kamil Power Co. SAOG (*)	2021	MIS
Barka I	PWPA	435 MW	CCGT MSF Desalination Natural gas-fired	ACWA Power Barka SAOG (*)	2021	MIS
Sohar I	PWPA	590 MW	CCGT MSF Desalination Natural gas-fired	Sohar Power Co. SAOG (*)	2022	MIS
Barka II	PWPA	679 MW	CCGT RO Desalination Natural gas-fired	SMN Barka Power Co. SAOC (*)	2024	MIS
Sohar II	PPA	745 MW	CCGT Natural gas-fired	Al Batinah Power Co. SAOG (*)	2028	MIS
Barka III	PPA	745 MW	CCGT Natural gas-fired	Al Suwadi Power Co. SAOG (*)	2028	MIS
Sur	PPA	2,000 MW	CCGT Natural gas-fired	Phoenix Power Co. SAOG (*)	2029	MIS
Ibri (u/c)	PPA	1,509 MW	CCGT Natural gas-fired	Ad Dhahirah Generation Company SAOC (**)	2034	MIS
Sohar III (u/c)	PPA	1,710 MW	CCGT Natural gas-fired	Shinas Generating Company SAOC (**)	2034	MIS
Salalah I	PWPA	445 MW	CCGT RO Desalination Natural gas-fired	Sembcorp Salalah Power & Water Co. SAOG (*)	2027	Dhofar Power System
Salalah II	PPA	718 MW	OCGT/CCGT RO Desalination Natural gas-fired	Dhofar Generating Company SAOG (under transformation) (**)	2032	Dhofar Power System

* Company listed or whose holding company is listed on the Muscat Stock Market.
** Company required to be listed on the Muscat Stock Market in the future
@ Government owned
u/c under construction

Power Generation Requirements

In the MIS, the major developments include an ambitious development program for renewable energy (RE) projects, a 400 kV transmission connection to the PDO System and Ad Duqm, and procurement of the Sultanate's first Clean Coal independent power producer (IPP). The transmission connection to PDO and Ad Duqm is expected to be available by 2023. This will further stimulate development of the Special Economic Zone of Ad Duqm and development of RE projects in Al Wusta."

Project developments through 2024 in the MIS are expected to include: (1) retirement of the Ghubrah and Wadi Jizzi plants in 2018; (2) completion of Sohar III IPP (1708 MW) and Ibri IPP (1508 MW) in 2019; (3) extension of the Manah PPA under new ownership in 2020; (4) launch of a demand response program to contribute capacity of 30 MW in 2020 and expanding to 100 MW by 2024; (5) addition of Ibri II Solar IPP (500 MW) in 2021; (6) launch of the spot market for

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +968 2494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

electricity trade in 2020; (7) at least 700 MW of capacity procured via the Power 2022 process as extensions to expiring P(W)PAs or as new capacity, whereas some plants with contracts expiring in 2022 may continue to operate, uncontracted, as participants in the spot market; (8) additional solar IPP projects will begin operation in 2022, 2023, and 2024; (9) a Waste-to-Energy IPP (about 50 MW) to begin commercial operation in 2022; and (10) the Power 2024 procurement process will provide for further P(W)PA extensions and/or new capacity in 2024.

In the DPS, the Salalah II IPP (445 MW) began commercial operation on schedule in January 2018. The first wind IPP (50 MW) is expected to begin commercial operation in 2020, to be followed by Dhofar II Wind IPP (150 MW) in 2023. Extension of the North-South 400 kV Interconnect to the DPS may also occur by 2024, subject to final regulatory approval, providing for greater grid security and improved utilization of generation resources.

In Ad Duqm, OPWP plans several projects to be completed within the forecast period, including (1) two separate wind IPPs of about 200 MW each for operation in 2023 and 2024, respectively, and (2) commercial operation of the first 600 MW block of the Duqm Clean Coal IPP as Early Power in 2024.These plans remain subject to final regulatory approval.

Musandam IPP (123 MW) began operation in May 2017. OPWP plans no further IPPs in Musandam during this period.

Procurement Activities

The main procurement activities for power in 2018 include: (1) Ibri II Solar IPP (RFP in Q2), (2) Power 2022, which includes the asset sale of Manah IPP (RFQ in Q3) and competition among both existing plants and new capacity bidders for new P(W)PAs (RFQ in Q1 for stage 1 and Q3 for stage 2), (3) Duqm Clean Coal IPP, if approved (RFQ in Q2), (4) Waste-to-Energy IPP, if approved (RFQ in Q4), and (5) Solar IPP 2022 (RFQ in Q4). Beyond 2018, future procurement initiatives include additional RE IPPs, and Power 2024.

Planned Contracts for Guaranteed Capacity

	2018	2019	2020	2021	2022	2023	2024
			Net MW [a]				
Manah IPP Sale/ New PPA	-	-	264	264	264	264	264
Power 2022	-	-	-	-	700	700	700
Power 2024	-	-					700
Duqm Clean Coal IPP (Export to MIS)[a]	-	-	-	-	-	-	490
TOTAL	**-**	**-**	**264**	**264**	**964**	**964**	**1,664**

[a] The Clean Coal IPP Early Power Capacity is 600 MW. The plant is expected to supply Duqm demand and export surplus capacity to MIS.

Renewable Energy Development

In December 2017, OPWP announced a tender for a 500 MW solar PV project to be located at Ibri. This is the first in a series of renewable energy (RE) IPP tenders that are planned to achieve the Government's target of 10% RE share of electricity generation by 2025.

OPWP's renewable energy development plan currently comprises solar, wind, and waste-to-energy (WTE) projects. OPWP plans to procure more than 2,600 MW of RE IPPs by 2025. The majority of these projects are expected to be located in the MIS and further south around Duqm, with their main market for generation in the MIS. The locations and type of RE projects will depend somewhat on approval of transmission projects and site allocations.

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman l CR No. 1279406 l Tel: +968 2494 9000 l Fax: +968 2494 9099 l Email: info@u-capital.net l Web: www.u-capital.net

	2018	2019	2020	2021	2022	2023	2024
				MW			
Ibri II Solar IPP	-	-	-	500	500	500	500
Solar IPP 2022	-	-	-	-	500	500	500
Solar IPP 2023	-	-	-	-	-	500	500
Solar IPP 2024	-	-	-	-	-	-	500
Wind IPP 2023	-	-	-	-	-	200	200
Wind IPP 2024	-	-	-	-	-	-	200
Waste to Energy 1	-	-	-	-	-	50	50
Total Capacity	**-**	**-**	**-**	**500**	**1000**	**1750**	**2450**
Capacity Contribution	**-**	**-**	**-**	**150**	**300**	**500**	**650**

Capacity Transactions with Other Power Systems

Energy trades or firm capacity purchases from neighboring power systems are important potential contingency resources. While no firm capacity transactions are currently in place, OPWP is finalizing arrangements with GCCIA to facilitate trade agreements with GCC interconnection authority (GCCIA) member states. The planned 400 kV North-South transmission interconnect, will facilitate joint resource planning and operations coordination between OPWP, OETC, PDO, and RAECo.

	2018	2019	2020	2021	2022	2023	2024
				MW			
SAC[a]	180	180	180	180	180	180	180
GCC Interconnection[a]	200	200	200	200	200	200	200
Demand Response	-	-	30	40	50	70	100
Spot Market[b]					TBD	TBD	TBD
Total Capacity	**380**	**380**	**410**	**420**	**430**	**450**	**480**

[a] Contributions from non-firm resources include the assessed capacity benefit of reserve-sharing arrangements with the GCCIA over the UAE interconnect (200 MW), and the power exchange with Sohar Aluminium (180 MW). This capacity contribution was approved by the AER in 2016.

[b] Spot Market capacity contribution will be evaluated following (Power 2022) procurement process

The information about Oman Power Sector has been derived from OPWP's 7-year statement (2018-24) issued in May 2018, OPWP's website and other public sources.

For detailed report, kindly refer to OPWP's 7-year statement on this link.

P.O.BOX 1137, PC 111 – CPO, Sultanate of Oman I CR No. 1279406 I Tel: +968 2494 9000 I Fax: +968 2494 9099 I Email: info@u-capital.net I Web: www.u-capital.net

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

Ubhar Capital SAOC (U Capital)

Website: www.u-capital.net
PO Box 1137
PC 111, Sultanate of Oman
Tel: +968 2494 9000
Fax: +968 2494 9099
Email: research@u-capital.net