Dhofar Generating Company SAOG

Under transformation

Offer price: RO 0.259 ***Outlook: Subscribe (Long Term), Neutral (Short Term)***

شركة ظفار لتوليد الكهرباء
Dhofar Generating Company

الخليجية بادر لأسواق المال ش.م.ع.م
GULF BAADER CAPITAL MARKETS S.A.O.C.

***Dhofar Generating Co (DGC) –** Strategic asset exposure in Dhofar region, fairly priced issuance…*

Outlook: Subscribe (LT), Neutral (ST) ***IPO Rating: Average*** ***12 Month Fair Value: 0.274***

- Well-defined contractual framework with long term Power Purchase Agreement (PPA- expires by 1st Jan 2033)
- Stable cash flows until end of PPA; Life of the plant is estimated to be 40 years
- Caveat remain on lower dividends post 2022E
- Post PPA valuation remains critical, we have limited information provided in the prospectus to conclude
- Near term dividend yield higher at 6.9% levels as against comparable sector average of 6.26%.
- Local Institutional demand seen for the issuance; Retail demand to remain weak on subdued market conditions

Well established contractual framework with stable cash flow: Oman is the pioneer of private power and water projects in the GCC region with its proven contractual arrangement and attracting several international utility developers. DGC operates under similar procurement, ownership and contractual framework format adopted with the IPPs in Oman. The company has signed a long-term Power Purchase Agreement (PPA) with OPWP (15 Year PPA expires by 1st Jan 2033). The long term PPA with the well-established contractual framework ensures stable cash flow during the period based on plant availability irrespective of power demand.

Strategic Asset in Dhofar region: DGC owns and operates the Salalah II Independent Power Project (two power generation plants) with an aggregate contracted capacity of 718 MW located in Raysut, forming 62% of the total installed power capacity of Dhofar Power System (DPS). With the larger capacity, the plant has significant strategic and economic importance in the Dhofar Governate. The peak demand of the DPS is expected to grow from 505MW in 2017 to 735MW in 2023 as per the OPWP latest 7-year statement. With the peak demand continued to reveal stable growth, the power generation of DGC becomes critical to meet the electricity demand in the Dhofar region. The investment in the company provides exposure to the strategically important asset in Dhofar region.

Experienced founders and O&M agreement: DGC is promoted by qualified founding shareholders who have established presence and expertise in successfully implementing independent power plants globally. The founders are also the shareholders of the operator to ensure that the Plant is operated based on their experience and expertise. The key founders of DGC include Mitsui, ACWA Power and DIDIHC. The O&M agreement of DGC is structured in a manner that the major portion of the operating costs are fixed over the long term thereby protecting the company from operating cost fluctuations over the PPA period.

Major risks are covered under PPA: As per the agreement, any increase in the gas prices is a pass through to OPWP and has no impact on the margins of the company, which is positive during the contracted period. With regards to the recent changes in Oman tax law, **OPWP has officially acknowledged in Dec 2017 that the changes in Income Tax Law as a Buyer Risk Event** and that the related withholding tax (WHT) in interests, WHT on provision of services and increase in income tax would be compensable.

Cash sweep and mitigates: As per the management, the cash sweep would commence from 31st July 2021 and this would mean that 95% of the free cash available after the operating costs and the debt service requirements must be used for the debt prepayment. On or before the cash sweep date, the company could choose to disapply the cash sweep and provide letters of credit for amounts that increase over years as specified in financing agreements. **With the application of backstop DSRA arrangement, though the company would continue its dividend paying ability, we believe the dividends to decrease post 2022E.**

Outlook- Strategic asset exposure in Dhofar region, no listing gains expected: We recommend a **subscribe** rating for the IPO for the long-term investors who are looking at an exposure in a strategic asset in Dhofar region with long tenure PPA and estimated dividend yield of 6.9% levels. We would assign an average rating for the issuance with the issue price offering relatively lower risk-adjusted returns, concerns with regards to cash sweep, estimated lower dividends post 2022E and higher valuation post PPA period.

Based on our valuation methodologies, we have arrived at weighted fair value of RO 0.274 for Dhofar Generating Co. As per our view, the IPO pricing is closer to fair valuations of the company with no major upside seen on the listing. In addition, the company offers the lowest pre-IPO dividend yield (6.9%) among the Omani Utilities sector companies that have been listed in the local market over the past several years. **We expect the local institutional demand may remain especially in the Omani utilities sector with longer PPA and stable cash flows.** On the other hand, with relatively lower dividend yield on the offer price along with negative market sentiments, we don't expect major retail participation in the issuance. The local market is trading closer to 10-year lows coupled with weak sentiments and certain frontline stocks are offering dividend yield of c. 8% levels, we believe that the equity risk reward in the offer is not well-compensated to the investors in form of higher returns.

Index | ***Page No***

Table 1: Term Sheet

Offer Details	
Date of Registration	28-Feb-2001
Authorized share capital	RO 120 million
Paid up Capital	RO 22.224 million
No. of Shares offered	**88.896 million (40% of the capital)**
Offer Price	**RO 0.259** **(Nominal Value RO 0.100, Premium 0.157 bz, Expenses RO 0.002 bz)**
Purpose of IPO	To comply with obligations of Project Founders Agreement (PFA)
Selling Shareholders	Mitsui & Co. Middle East and Africa Projects Inv (M-MAP), MAP Power Holding Company Limited (MAP) and Dhofar International Energy Services LLC (DIES).
Persons Eligible	Omani and Non-Omani Individual and Juristic Persons
Persons Prohibited	Sole Proprietorship Establishments
	Trust Accounts
	Multiples Applications
	Joint Applications
Proposed Allocation	Category I – 57.7824 million shares or 65% of offer
	Allocation on a pro-rata basis
	Category II – 31.1136 million shares or 35% of offer
	Allocation on a pro-rata basis
Minimum Subscription	Category I – 1,000 shares and multiples of 100
	Category II - 100,100 shares and multiples of 100
Maximum Subscription	Category I - 100,000 shares
	Category II – 8.8896 million shares (10% of offer)
Estimated total expenses	**RO 734,770 (about 3.19% of total offer proceeds)**
Offer Expenses Collected	RO 177,792
Offer opening	1-July-18
Offer closing	**30-July-18**
Notification to CMA on subscription	8-Aug-18
CMA Approval of proposed allotment	9-Aug-18
Listing of the offer shares with MSM	**15-Aug-18**
Issue Manager	Bank Dhofar SAOG
Global Coordinator and Bookrunner	EFG Hermes UAE Limited
Collecting Banks	Bank Muscat, OAB, NBO, Bank Dhofar, Bank Sohar & Ahli bank
Auditors	Ernst & Young
Legal Advisor	Al Busaidy, Mansoor Jamal & Co
Independent Market Advisor	K4K Training & Advisory S.L.

Source: IPO Prospectus, GBCM Research

Table 2: Share Holding Pattern - Pre-IPO

Shareholder Name	No. of Shares	% of Total
M-MAP	100,008,000	45.0%
MAP	100,008,000	45.0%
DIES	22,224,000	10.0%
Total	**222,240,000**	**100.0%**

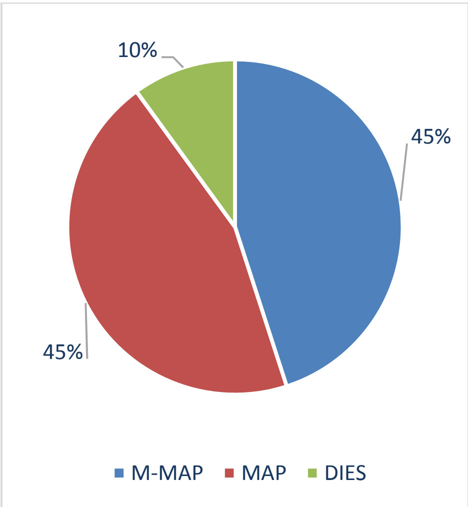
Source: IPO Prospectus, GBCM Research

Table 3: Share Holding Pattern - Post IPO

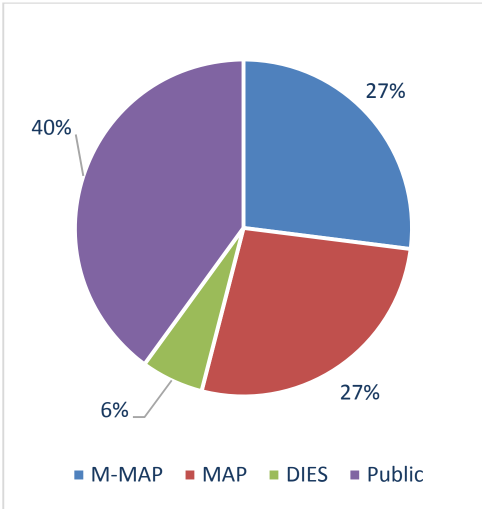
Shareholder Name	No. of Shares	% of Total
M-MAP	60,004,800	27.0%
MAP	60,004,800	27.0%
DIES	13,334,400	6.0%
Public	88,896,000	40.0%
Total	**222,240,000**	**100.0%**

Source: IPO Prospectus, GBCM Research

Graph 1: Pre-IPO Shareholding



Graph 2: Post IPO Shareholding



Source: IPO Prospectus, GBCM Research

Background of the IPO

About the company

Dhofar Generating Co (DGC) own and operate the Salalah II Independent Power Project, which comprises of two power generation plants, the Original Plant and the New Plant, with total contracted capacity of 718 MW located in Raysut, Dhofar Governorate. The Original Plant with 273 MW capacity, has been in commercial operation since 2003. The New Plant, with capacity of 445 MW has been in operation since 1 January 2018. DGC is the largest power supplier in the Dhofar Governorate, with its total contracted power capacity representing approximately 62% of the total contracted capacity in the Dhofar Power System.

DGC generates its revenues pursuant to a 15-year term (from the SCOD of the New Plant) PPA with Oman Power and Water Procurement Co (OPWP), which is indirectly wholly-owned by the Government. The power capacity and electricity output from the Plant is entirely contracted to OPWP and used to meet the growing electricity demand of the Dhofar Power System (DPS) during the term of the PPA and beyond.

Natural Gas is supplied to the Company by MOG pursuant to the NGSA. DGC has entered into the ECA to secure connection to the Transmission System over the contracted PPA period. The electricity is delivered to Oman Electricity Transmission Co's (OETC) substations adjacent to the Plant. The operator of the Project is Dhofar Operations & Management Company LLC, a company owned and controlled by the Founders.

Purpose of the offer

The Selling Shareholders of the company are undertaking the IPO to comply with their obligations under the PFA, which require them to make 40% of the shares available for public subscription and to list such shares on the MSM within four years from the completion of the acquisition of the shares in DGC, which occurred on 4th of June 2015.

Use of proceeds of the offer

The Offer Shares do not represent an issuance of new shares by the company. The Offer Shares represent the divestment of a part of the shares currently held by the selling shareholders. The proceeds of the Offer (including the premium) shall therefore accrue to the Selling Shareholders in the ratio of Shares offered.

The Bzs 2 per Share collected towards the Issue Expenses will cover a portion of the expenses incurred in relation to the IPO. If the actual Issue Expenses are less than the amount collected from the successful Applicants, the surplus will be retained by the Company and credited to its reserves.

Plant Details

The Plant is located outside of Salalah in Oman, in Raysut. The facility comprises the Original Plant which entered commercial operations in 2003 and the New Plant which entered full commercial operations on 1 January 2018.

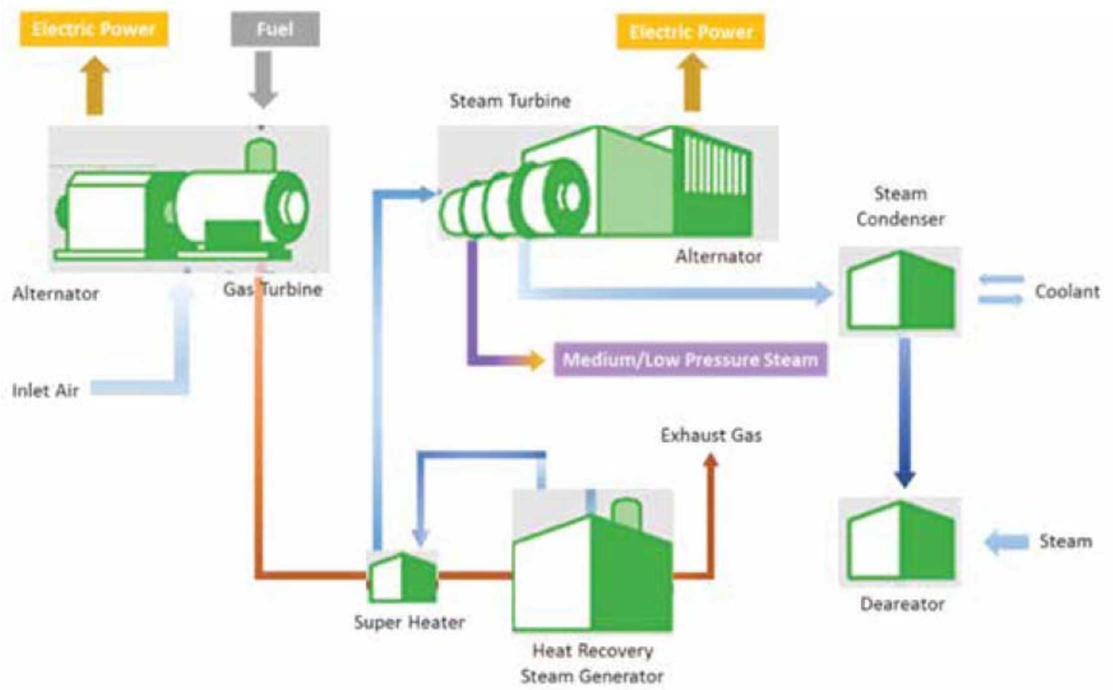
The Original Plant consists of eight 6B.03 open-cycle gas turbines (GT), namely:

- Six General Electric PG6581 B gas turbines (commissioned in May 2003)
- One General Electric LM2500 aero-derivative gas turbine,
- One General Electric PG6561 B gas turbine.

The New Plant consists of 2 blocks each block contains 2 Gas turbines, 2 HRSG and 1 Steam turbine with net capacity of 222.65 MW. This comprises of:

- Four 6FA.03 GTs,
- Four triple pressure HRSGs and
- Two M D(G) 50 steam turbine (ST).

Chart 1- Plant Power Generation Details



Source: IPO Prospectus

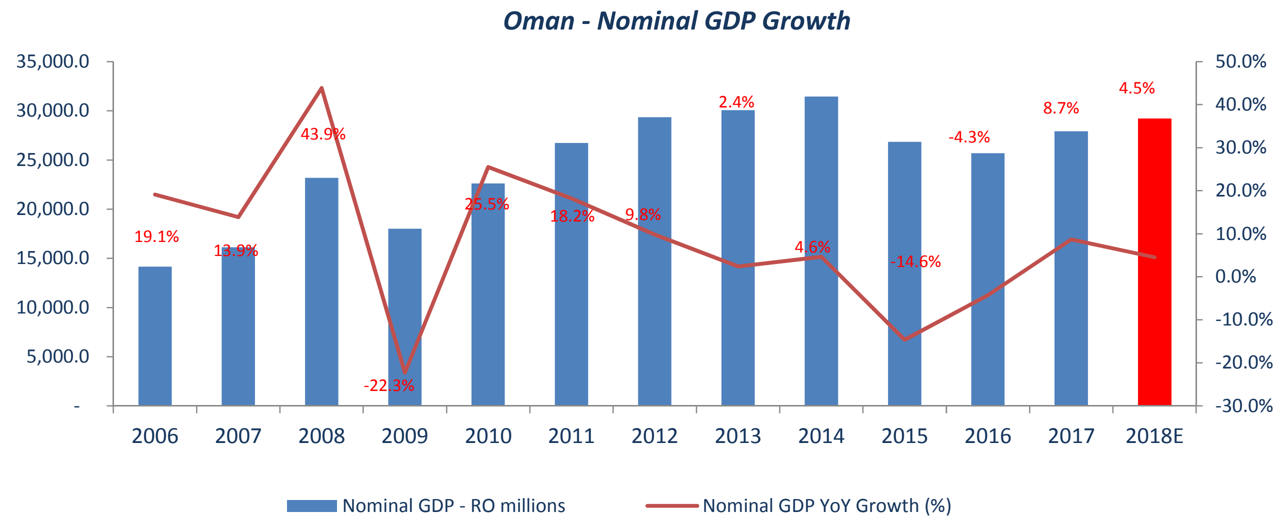
Capacity of a Plant is defined as the total electrical power (MW), which can be delivered by the power plant under specific environmental conditions. The contractual capacity of the Company under the PPA is c. 273 MW for the Original Plant and c. 445MW for the New Plant. As per the project agreements, the plant shall be available for 100% time in Summer and 85% time in Winter.

Oman Economic Outlook…

Real GDP to reveal stable growth: As per the IMF, Oman economy (real GDP) is estimated to increase 2.1% in 2018E and about 4.2% in 2019E amid increase in non-oil activities and the recovery of oil prices. The efforts taken by the Government towards diversification and the completion of major infrastructure projects are expected to raise non-oil GDP growth to about 4% over the medium term as compared to growth of 2% in 2017. The Government has taken efforts to increase non-oil revenue (increase in tax rates and introduction of VAT/ Excise duties) and showing intent towards lowering expenses, this would lower the fiscal deficit levels to c. 5% of GDP over the next two years.

The IMF forecasts Oman's fiscal break-even oil price to lower to US$ 77.1 per barrel in 2018 as compared with US$ 80.5 per barrel in 2017. The external (current account) break-even oil price is estimated at US$ 84.1 per barrel in 2018 as compared to US$ 81.5 per barrel in 2017, this remain as the highest in the GCC region.

Graph 3: *Oman Nominal GDP Growth Trend*



Source: National Center for Statistics and information, GBCM Research Estimates

Thrust given on Diversification and Priority Projects: The Government planned priority project spending continued with investments in Roads, Airports, Seaports, Industrial Zones, Power and allied Infrastructure. The Government focus is shifting towards income generating projects aiming towards achieving economic diversification objectives. Key sectors include Industrial Projects, Development of Townships, Ports, Fisheries, Mining & Minerals and Tourism Projects.

Key ongoing projects include Liwa Plastics Industries Complex (LPIC) ($6.4 billion), Duqm Development Projects ($20 billion), Duqm Refinery with Kuwait Oil Co, Duqm China Industrial Zone ($10 billion), Utility projects ($3 billion) and Tourism projects ($2 billion) is estimated to keep economic activity over the next three years. The Government has taken steps to improve the business sentiments through its National Programme for Enhancing Economic Diversification (Tanfeedh) which targets manufacturing, tourism, transport and logistics, mining and fisheries under the 2016 to 2020 plan and does follow up on critical projects. The establishment of new Public-Private-Partnership (PPP) Framework and Foreign Investment Promotion law to open the economy and solve the funding challenges and attract investments.

Jan to May 2018 Deficit lowered on increase in oil prices: As per the CBO data, in terms of Oman's Public Finance, the total fiscal deficit YTD (end May 2018) has declined 46% YoY to RO 1.1 billion as compared to deficit of RO 2.04 billion during the same period last year amid improvement in oil prices (oil revenue increased 34.8% YoY, Gas revenues has increased 17.4% YoY and non-oil revenues increased by 5.5% YoY). Daily average oil production of Oman during Jan-April 2018 remained at 967K barrels a day, like the figures reported in the same period of last year. Average oil price during the year (Jan to May 2018) has increased to USD 63/ barrel as compared to USD 51.6/ barrel during the previous year, an increase of 22% YoY.

During Jan-May 2018, the current expenditure has increased by 12.5% YoY amid increase in interest expenses, oil & gas production costs and higher civil ministries expenses. The investment expenditure has increased marginally by 1.1% YoY. On the other hand, the subsidies have declined 41% YoY. The provisional numbers include expenses under settlement worth RO 352 million during the period, this would be disbursed later and accounted appropriately. **Since H2 2017, Oman's monthly average fiscal deficit has revealed a declining trend.** During May 2018, the public finance revealed a deficit of RO 287.5 million which is higher than the average monthly fiscal deficit during the last six months (Nov 2017 to April 2018) of c. RO 145 million. We estimate the deficit levels to lower during the coming months amid gain in oil prices and lowering expenses as compared to the previous year.

Table 4- Oman Public Finance data (Jan- May 2018 Vs Jan- May 2017)

Oman Public Finance- In RO Million	Jan to May 2018	Jan to May 2017	YoY – In absolute	YoY (%)
Revenues	**4,092.0**	**3,322.2**	**770.0**	**23.2%**
1) Net Oil Revenues - 1	2,382.0	1,766.7	615.0	34.8%
2) Gas Revenues	682.7	581.6	101.0	17.4%
3 Other Revenues	1,027.3	973.9	53.0	5.5%
Expenditure	**5,187.7**	**5,357.5**	**(170.0)**	**-3.2%**
Current Expenditure	3,575.8	3,179.2	397.0	**12.5%**
i) Defence & National Security	1,371.5	1,351.4	20.0	1.5%
ii) Civil Ministries	1,745.1	1,585.6	160.0	10.1%
iii) Interest on Loans	179.5	68.8	111.0	160.9%
iv) Oil Production Expenditure	128.2	86.5	42.0	48.2%
v) Gas Production Expenditure	151.5	86.9	65.0	74.3%
Investment Expenditure	**1,070.8**	**1,059.0**	**12.0**	**1.1%**
i) Civil Ministries	548.2	618.5	(70.0)	-11.4%
ii) Oil Production Expenditure	274.0	190.1	84.0	44.1%
iii) Gas Production Expenditure	248.6	250.4	(2.0)	-0.7%
Participation and Support to Private Sector	189.5	319.3	(130.0)	-40.7%
Actual Expenses under Settlement - 2	**351.6**	**800.0**	**(448.0)**	
Fiscal Surplus (+) / Deficit (-)	**(1,095.7)**	**(2,035.3)**	**940.0**	**-46.2%**

Source: Ministry of Finance, GBCM Research, * Provisional,

1. Net revenues after the transfer to Reserve funds. 2. Amount already allocated but not yet disbursed

Oman Power sector – An introduction

Oman's power and desalinated water supply in divided into two main systems namely the Main Interconnected System (MIS) and the Dhofar Power System. The MIS extends throughout the Governorates of Muscat and Buraimi, and most of the Governorates of Al Batinah North, Al Batinah South, Ad Dakhiliyah, Ash Sharqiyah North, Ash Sharqiyah South and Ad Dhahirah regions. The MIS comprises of 13 power generation facilities, owned and operated by separate companies; the 400/220/132 kV transmission grid, owned and operated by Oman Electricity Transmission Co. (OETC); and three distribution networks, owned and operated by Muscat Electricity Distribution Co. (MEDC), Mazoon Electricity Co. (MZEC) and Majan Electricity Co. (MJEC).

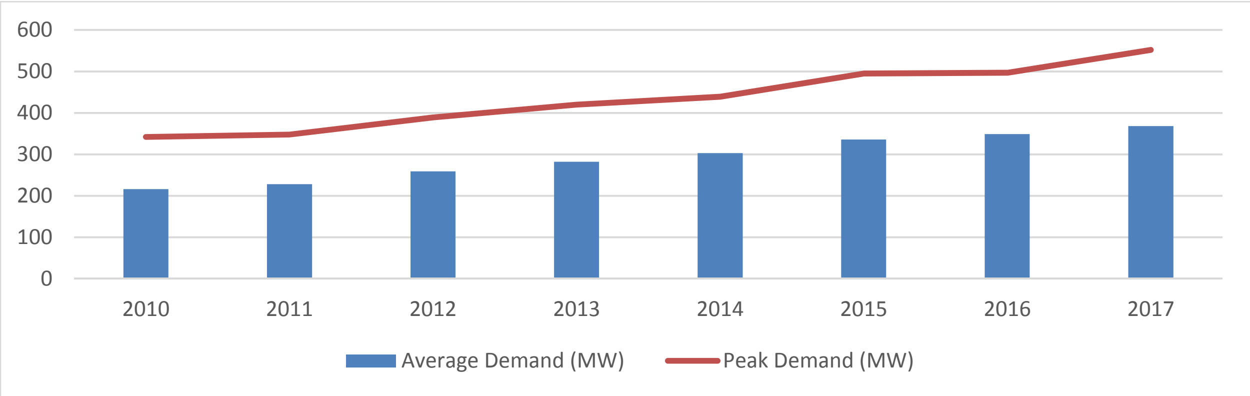
The three distribution network operators also act as "licensed electricity suppliers", supplying existing and new electricity customers in their respective service areas. The MIS is interconnected with the power system of Petroleum Development Oman (PDO), and with the power system of the Emirate of Abu Dhabi and other Member States of the GCC Interconnection Authority via the Abu Dhabi Interconnect.

OPWP's role is to aggregate the power and desalinated water requirements of licensed electricity suppliers and water departments, and to economically procure the required power and desalinated water in bulk from generation/production facilities connected to the MIS and water transmission systems. OPWP is required to ensure sufficient power generation resources are available to meet licensed electricity suppliers' demands.

Electricity Demand Projections for Dhofar Region

According to OPWP, based on the latest 7-year study, the electricity demand for the Dhofar region, **under the expected demand scenario, peak demand to reveal annualized growth of about 6% per year, from 550 MW in 2017 to 810 MW in 2024.** Energy consumption is projected to grow from 3.2 TWh (corresponding to 368 MW average demand) in 2017 to 5.1 TWh (578 MW average demand) in 2024, with an average increase of 7% per year. The High Case scenario has peak demand growth of 8% per year and energy growth of 9% per year. The Low Case scenario projects annual energy and peak demand growth of 5% and 4% per year respectively.

Graph 4: Historical Electricity Demand - DPS



Source: OPWP, GBCM Research

Table 5: Find below the table with the demand projections for DPS under different scenarios

	Actual 2017	2018	2019	2020	2021	2022	2023	2024	Average Growth %
Expected Demand									
Average Demand	370	390	410	480	510	520	560	580	7%
Underlying demand	280	290	310	320	340	360	370	390	5%
Bulk loads	90	100	100	160	170	170	190	190	11%
Annual Energy (TWh)	**3**	**3**	**4**	**4**	**4**	**5**	**5**	**5**	**7%**
Peak Demand (MW)	**550**	**570**	**600**	**680**	**710**	**740**	**790**	**810**	**6%**
Change from 2017-2023 Statement (MW)	45	34	32	53	46	16	25	-	
Low Case Demand									
Average Demand	370	380	390	450	470	480	520	530	5%
Underlying demand	280	290	300	310	320	330	340	350	3%
Bulk loads	90	90	90	140	150	150	180	180	10%
Annual Energy (TWh)	**3**	**3**	**4**	**4**	**4**	**4**	**5**	**5**	**5%**
Peak Demand (MW)	**550**	**560**	**580**	**650**	**670**	**690**	**730**	**740**	**4%**
Change from 2017-2023 Statement (MW)	56	42	38	61	55	29	42	-	
High Case Demand									
Average Demand	370	420	460	530	570	610	660	680	9%
Underlying demand	280	310	330	340	370	390	420	440	7%
Bulk loads	90	120	140	190	210	210	240	240	15%
Annual Energy (TWh)	**3**	**4**	**4**	**5**	**5**	**5**	**6**	**6**	**9%**
Peak Demand (MW)	**550**	**620**	**660**	**750**	**800**	**840**	**900**	**950**	**8%**
Change from 2017-2023 Statement (MW)	23	46	41	22	(5)	(23)	(24)	-	

Source: OPWP, GBCM Research

Sources of Power for Dhofar region

The DPS has two gas-fired power plants in operation, and a wind energy plant that is under construction. There is a reserve sharing arrangement with PDO via the 132-kV transmission connection. OPWP's generation portfolio in DPS includes the two plants that provide guaranteed capacity and a PPA with the wind farm to provide non-firm energy.

- Salalah IWPP- Capacity of 445 MW. The Salalah IWPP is a CCGT plant comprising five gas turbines and two steam turbines located in the Mirbat/Taqah region and began operation in 2012.

- Salalah II IPP- Capacity of 718 MW. Located in Raysut, the facility comprises of eight OCGT units with a total capacity of 276 MW and six CCGT units (two blocks of 2 GTs and 1 ST each) with a total capacity of 445 MW.

- Dhofar I Wind IPP: Installed capacity of 50 MW. The project is under construction near Harweel, for completion in 2020. OPWP has a PPA with the operator, RAECO.

Table 6: Find below the table with the details of sources of Power for Dhofar

Project Name	Contracted Capacity	Contract Type	Project Company	Project Status	Technology	Contract Expiry
Salalah IWPP	445 MW 68,000 m3/d	PWPA	Sembcorp Salalah Power & Water Co. (SAOC)	Operational	CCGT Natural gas fired (Fuel oil as back-up)	2027
Salalah II IPP	718 MW	PPA	Dhofar Generation Co. (SAOC)	Operational	OCGT CCGT Natural gas fired (Fuel oil as secondary fuel and back-up)	**2033**
Dhofar I wind IPP	50 MW	PPA	RAECO	Under construction	Wind Turbine	2033

Source: OPWP, GBCM Research

Future development plans for Dhofar region

OPWP has no plans to procure new gas-fired generation capacity for the DPS, but the plans have been made for additional Renewable Energy (RE) development. As per the OPWP, the Dhofar region has excellent potential for wind energy development. OPWP plans to develop a second wind energy farm for COD in 2022, with capacity of 150 MW. The timing or capacity of the project are subject to a study of grid security impacts. As per the report, when the North-South Interconnect project is completed to Dhofar, OPWP expects to develop more wind energy projects in the DPS.

Renewable Energy (RE) 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. Most of these projects are expected to be 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 on approval of transmission projects and site allocations.

Other Non-firm resources under contract

In addition to the contracted capacity, OPWP has contracts with several other generation sources, although these contracts are not for firm capacity commitments. They include:

- The 220-kV interconnect with the UAE (Abu Dhabi) power system at Mahadha;
- The 132-kV interconnect with the PDO power system at Nizwa; and
- The surplus generation of industries (and other parties) with captive power generation facilities.

Introduction of Demand Response

As per the OPWP report, the introduction of Demand Response (DR) could provide a significant and cost-effective resource towards reducing capacity requirements. OPWP has set a target to achieve a 100 MW capacity contribution from DR by 2024. OPWP conducted a preliminary proof-of-concept trial at one site in 2016, reducing demand by 25 MW during the peak period. In 2018, OPWP plans to identify DR potential in more customer segments, assess compensation options, and begin to develop verification protocols and contracting approaches. Demonstration trials would recommence in 2019. OPWP expect to launch the DR program for commercial operation in 2020.

Creation of Spot market by 2020

According to OPWP, the development of the electricity spot market is progressing on schedule. AER has approved the detailed market rules in 2017, with the understanding that certain technical annexes would be finalized during implementation of the IT systems. OPWP has begun procurement of the Market Management System, and is staffing the Market Operator organization, which will be within OPWP. **The market is scheduled to begin operational trials in 2019 and commercial operation in 2020.** The electricity spot market will operate alongside the existing system of long-term PPAs and PWPAs.

OPWP expects that the spot market will increase competition in Oman's power generation market and make available additional capacity that might otherwise not be readily accessible through the existing P(W)PA procurement channel.

There have been preliminary indications of interest from some existing and prospective industrial plants to participant in the market as generators, but these may not be confirmed until the market begins operation. OPWP expects that some existing plants participating in the Power 2022 procurement may join the spot market if they are not awarded new P(W)PAs, considering that the capacity requirement from Power 2022 is less than the current aggregate capacity of these plants. **OPWP plans to assess the capacity contribution of spot market participants coming out of the Power 2022 initiative after new P(W)PA awards have been made**.

*** Industry Outlook sourced from OPWP latest 7-year outlook report*

Investment Rationale

Stable cash flows over the PPA period

Dhofar Generating Co (DGC) is among the private sector power generating projects operating in Oman with a well-defined contractual framework. Oman is the pioneer of private sector power and water projects in the GCC region with its proven contractual arrangement and has attracted several international IWP/IPP/IWPP developers. DGC operates under similar well-structured procurement, ownership and contractual framework formats adopted by the IPPs in Oman.

DGC has signed a long-term Power Purchase Agreement (PPA) with OPWP (15 Year PPA expires by 1st Jan 2033). The long term PPA has a well-established contractual framework that ensures stable cash flow to the company during the period based on the plant availability irrespective of the power demand. **The power capacity charges form about 98% of total non-fuel revenues under the PPA are paid by OPWP regardless of the actual electricity delivered to the grid.** The agreement structure ensures stable cashflow to the company over the PPA period.

Strategic asset in Dhofar region

DGC owns and operates the Salalah II Independent Power Project, which comprises of two power generation plants, the Original Plant and the New Plant, with an aggregate contracted capacity of 718 MW located in Raysut, Dhofar Governorate. This forms about 62% of the total installed power capacity of Dhofar Power System (DPS). With the larger capacity, the plant has significant strategic and economic importance in the Dhofar Governate.

The peak demand of the DPS is expected to grow from 505MW in 2017 to 735MW in 2023 as per the OPWP's latest 7-year statement. With the peak demand continued to reveal stable growth, the power generation of DGC becomes critical to meet the electricity demand in the Dhofar region. **As per the company, DGC is the only power producer in DPS that has an OCGT plant (Original Plant) connected to the system.** The OCGT plants are crucial in meeting short term peak demands, as the plant can start-up and shut down at shorter time in a more economical and efficient manner compared to CCGT plants.

Efficient New plant with long term Operations & Management (O&M)

The efficiency of the plant is measured in terms of the amount of heat required to produce one unit of power. As per the prospectus, **the New Plant of DGC has a competitive thermal efficiency of about 53.7%, equivalent to a heat rate of 6,705 KJ/kWh, this would in turn enable the plant to secure higher revenues under the PPA.** With the higher level of fuel efficiency, the consumption of natural gas would be lower, to produce the same amount of power, making the plant more affordable to buy power in an environment of increasing gas prices.

The O&M contract is maintained by NOMAC Oman (operator managed by same shareholders of DGC), a subsidiary of NOMAC (responsible for 19 major projects regionally and worldwide). The O&M agreement of DGC is structured in a manner that allows a major portion of the operating costs are fixed over the long term, insulating the company from operating cost fluctuations over the PPA period.

Strong promoter background

DGC is promoted by experienced founding shareholders who have well-established presence and expertise in successfully implementing independent power plants globally. The founders are also the shareholders of the operator ensuring that the Plant is operated under their experience and expertise. The key founders of DGC include Mitsui (based in Japan), ACWA Power (based in Saudi Arabia) and DIDIHC (based in Oman).

Fuel Price risk mitigated by PPA

The primary fuel used by the Company is natural gas and the company has entered into a Natural Gas Sale Agreement (NGSA) with the Ministry of Gas towards the procurement and delivery of the entire natural gas requirements over the 15-year PPA period. **As per the agreement, any increase in the gas prices is a pass through to OPWP and has no impact on the margins of the company**, which is positive during the contracted period. In the case of PPA extension, the NGSA would be extended in line with the PPA.

Project completed on time with no LDs

DGC is one of the few utility projects that achieved its scheduled commercial operations date (new plant) on 1st Jan 2018 as per the plan. As per the prospectus, the company is not subject to any outstanding liquidation claims (LDs), litigations or other regulatory proceedings. This would mean the dividend outflow projected could remain stable with caveats seen on any operational issues.

Recent changes in Oman Tax Law and its impact

During 2017, the Omani Tax Law was amended by Royal Decree 9/2017 with the increase in corporate tax from 12% to 15% and the introduction of withholding tax (WHT) on payments made to foreign persons due to fees for provision of services, dividends on shares and interest. These changes have created uncertainties among the Omani Utility sector companies. The company has notified to OPWP on the change in tax law and the terms referred in the PPA.

OPWP has officially acknowledged in Dec 2017 that the changes in Income Tax Law as a Buyer Risk Event and that the related WHT in interests, WHT on provision of services and increase in income tax would be compensable. However, there are discussions between OPWP and the company on the applicability of withholding tax on certain cost elements**. The financial forecasts in the prospectus assumes that the company is in a neutral position**, and any negative outcome would have material impact to the financials and its ability to pay dividends. As per the company, the actual corporate tax payment would commence from 2028E.

Long term financing with principal hedging and cash flow protection during PPA

As part of project financing, DGC has entered into a long-term financing agreement through Senior Facilities and loans from its shareholders. As per the prospectus, the major portion of the senior financing is hedged as per the CTA. **With regards to USD denominated loans, the company has entered into interest rate swap agreements with banks which fixed the interest rate of 95% of USD loans over the first ten years of operations**.

In respect to OMR denominated loans, the interest rate has been fixed for the first five years from the date of the CTA until 8th July 2020. Post this, the local banks have a mechanism to reset the interest rate for the next five years, subject to cap of 6.5% per annum. In addition, the prospectus states that the increase in interest expenses on OMR loans is structured to result in principal repayments to be contractually deferred after the loan term so that the amount of debt service paid to the local lenders would remain the same. **These deferred principal repayments (term out repayment) would be payable in six equal instalments, three years after the end of PPA term**. DGC has mentioned that the interest rate change in OMR loans would not impact the cash flows available to the shareholders during the PPA term.

As per the management, total debt worth RO 32 million would be remaining in the balance sheet at the end of the PPA on assumptions of interest rate increase, cash sweep and other factors.

Issue of Cash Sweep and its mitigates

The finance documents for the Senior Facilities of DGC include a cash sweep mechanism like few of the other listed power companies in Oman. As per the management, **the cash sweep would commence from 31st July 2021** and this would mean that 95% of the free cash available after the operating costs and the debt service requirements must be used for the debt prepayment. On or before the cash sweep date, the company can choose to disapply the cash sweep and provide letters of credit for amounts that increase over the years as specified in the financing agreements.

The option given to the Company to disapply the cash sweep by arranging equivalent amounts through letters of credit (LC), one of the first among the Omani Power companies. With the LC option being available the company could continue the dividend payments to its shareholders. With the company electing to disapply the cash sweep obligations and provide letter of credit, the excess cash may be paid to a distribution account to meet the dividend obligations to its investors. On the other hand, if the company chooses not to disapply the cash sweep obligations then the ability to pay dividends would be impacted starting 2021.

With the application of backstop DSRA arrangement, though the company would continue its dividend paying ability, we believe the dividends to decrease post 2022.

Beyond the term of the PPA

As per the management, the plant is expected to operate well beyond the term of the PPA, and the plant would be well-placed to meet the forecasted long-term demand for power in the DPS. After the expiry of the PPA, either the agreement could be extended or, the Power market in Oman could be liberalized with the output being sold into a merchant market. The plant life is assumed to be 40 years.

DGC has appointed an International consultant K4K on behalf of the investors to ascertain the cash flows post PPA period. As per the study, in line with the draft Oman Energy Master Plan 2040, there would be an increase in new capacity builds to meet the growing power demand. OPWP's strategy is to procure power capacity which comes at economically lower costs. For DGC, the financial outcome for the Project in the post-PPA period to the end of its technical lifetime was calculated identically under both the single buyer and liberalized market methodology as given below.

Table 7: Post PPA Scenarios

Calendar Year	Figures in USD 000s				
	Cost Savings to the Single Buyer (a)	Salalah 2 OCGT (b)	Salalah 2 CCGT (c)	Total (d=b+c)	Liberalized market difference to Single Buyers e=d/a-1
2033-37	83,844	25,903	56,701	82,604	-1.48%
2038-42	92,380	29,856	62,296	92,152	-0.25%
2043-47	68,174	-	68,403	68,403	0.34%
2048-52	75,328	-	75,057	75,057	-0.36%
2053-57	87,505	-	86,434	86,434	-1.22%
Total (2033-57)	**2,036,957**	**278,904**	**1,745,141**	**2,024,045**	**-0.63%**
Average (2033-57)	**81,478**	**11,156**	**69,806**	**80,962**	

Source: Prospectus, GBCM Research

Value in the post PPA period

As per K4K study, there is an estimation of significant value for DGC in the post-PPA period. This is because that K4K anticipates that the Plant's useful life is 40 years which is longer than the PPA period and the capacity of existing plants and firm new builds in the Dhofar Power System will not be sufficient to cover demand thereafter. **The base case expected average annual EBITDA (based on 2018 prices) by K4K for the Company from the expiry of the PPA period to 2057 is USD 80.89 million.** Therefore, based on the results of the K4K study, DGC is expected to remain economically useful in the post-PPA period. We believe the post PPA risk to remain high in terms of the expected changes in the market dynamics, competition, regulations and other macro-economic factors. **We believe the higher post PPA valuation is embedded to arrive at the fair value of the company.**

Table 8: Risks and Concerns…

Key Risks	**Impact**	**Mitigates**
Operational risk	The operational risks remain as key aspect for the power sector companies which may prevent from performing its obligations under the PPA, thereby impacting the revenue.	The Plant underwent various acceptance tests and performance tests (prior to CoD) to ensure that it can deliver the required capacity. **The O&M agreement ensures that the operator is incentivized to maintain the highest possible plant performance through a bonus/ penalty mechanism** DGC has taken out adequate **insurance policies** against property damage/machinery breakdown, business interruption, terrorism and/or sabotage and public/products liability.
Technology Risks	The company does not foresee any adverse impact of modern technology developments on its future operations during the term of the PPA and as such the technology risk is considered low.	The new plant is developed and designed based on the proven technologies and the equipment is supplied by reputed international supplies. The future developments in technology may render the Plant outdated and uneconomical.
Post PPA risk	The 15-year term of the PPA expires before the Plant reaches its expected useful life of 40 years. Consequently, a substantial part of the value is expected to be realized beyond the PPA term.	K4K, as the independent professional adviser, has evaluated the value of the Company for the period post PPA, considering the risks of different market environments into account.
Changes in Omani Tax Law	The corporate tax rate being raised from 12% to 15% effective 1st Jan 2017 and expanding the categories of payments made to foreign persons, which attract withholding tax to include payments on account of fees for provision of services, dividends on shares and interest.	**The PPA provides that any change of law shall constitute a Buyer Risk Event** and change of law has been defined under the PPA to include any amendment to or modification of applicable laws in force at the date on which the PPA came into effect (22 June 2015).
Increased O&M costs or capital expenditure	Operating the plant involves technical, legal, regulatory and other factors which are beyond control.	Most of the operating and maintenance costs are contracted for 15 years with the Operator, the risk of increased O&M costs for the Plant remain limited.

Dependence on OPWP as the sole customer	DGC revenue is generated from the power capacity payments and the power output payments by a single buyer, OPWP. PPA termination or failure to extend PPA could have adverse effect on the business operations and financial conditions	The capacity charges paid by the OPWP covers the investment costs, fixed O&M expenses and financing costs and taxes. **OPWP as an off-taker has good track record of timely payments.**
Transactions with related parties	DGCI is involved in and dependent on certain related party transactions with its shareholders and companies controlled by some of its shareholders. The company has entered into the O&M agreement with the Operator which is a company currently owned by the founders, to manage all aspects of the O&M of the Plant	The Company has certain policies in place dealing with conflicts of interest and intends to abide by applicable laws and regulations relating to transactions with related parties. The Operator and the O&M agreement has been scrutinized by external parties at the tendering and financing phases of the development of the project.
Risk associated with fuel supply and fuel price risks within the PPA period	With the entire operations of the Plant is dependent on natural gas, failure to secure natural gas or any fluctuations in natural gas prices could generally disrupt the operations	This risk is mitigated throughout the PPA period as the term of the NGSA with MOG goes in tandem with the PPA.
De-pegging or adjustment in Omani Rial/US Dollar peg	There can be no assurance that the Omani Rial will not be de-pegged in the future or that the existing peg will not be adjusted in a manner that adversely or beneficially affects the Company.	**If the Omani Rial is unpegged, the PPA provides for adjustment of the tariff linked to the USD – OMR exchange rate.** Any such de-pegging could have an adverse or beneficial effect on the financial condition of the company.
Dividend policy may not be fulfilled	Future dividends would be made considering distributable reserves and liquidity to ensure operational needs and business growth are not limited by unavailability of funds, as well as the known contingencies and compliance with any funding facility covenants. In case of breach of debt covenant, the company would not be able to pay dividends, which remain critical to the IPO shareholders.	Dividend payments are not guaranteed, and the Board may decide, in their absolute discretion, at any time and for any reason, not to recommend dividends. **As per the CTA, the cash sweep would apply on 95% of available cash flow (from 31st July 2021), unless the company choose to provide letters of credit in increasing amounts over time according to the schedule or refinance the loans before cash sweep, the company could continue dividend payments.**

Source: IPO Prospectus, GBCM Research

Valuation Methodology 1: Dividend Discount Model (DDM) Valuation Methodology

Projections till 2022E, as stated in prospectus

With steady free cash flow and stable cash generation ability, we have chosen to value the company based on the Dividend Discount Model (DDM). In this model, we have assumed dividends as mentioned in the IPO prospectus from 2018E to 2022E (assuming cash sweep would be disapplied through backstop arrangement). We have used Cost of Equity of 8.2% in our model. For our cost of equity calculations, we have used market risk premium of 3% and BETA of 0.726 taken based on the comparable listed players in Oman. On the basis of these assumptions, **we have arrived at fair value of RO 0.253 for Dhofar Generating Co.**

Table 9: DDM Valuation

(In RO 000s)	Feb-19	Aug-19	Feb-20	Aug-20	Feb-21	Aug-21	Feb-22	Aug-22	Feb-23	Aug-23
Dividends	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Present Value of Div.	1,908	1,834	1,764	1,695	1,630	1,567	1,507	1,449	1,393	1,339
Terminal Value		59,898								
Present value of TV		40,101								
Fair Value		56,188								
Fair Value per share (In RO)		**0.253**								

Source: IPO Prospectus, GBCM Research Estimates

Sensitivity analysis reveal a fair value range between RO 0.216 to RO 0.260 levels on different assumptions of Cost of Equity and terminal growth rates post 2022E.

Table 10: DDM - Sensitivity Analysis

		Cost of Equity			
Sensitivity Analysis		**8.0%**	**8.2%**	**8.8%**	**9.0%**
Growth	**0.5%**	0.235	0.229	0.214	0.207
	1.0%	**0.246**	**0.240**	**0.223**	**0.216**
	1.5%	**0.260**	**0.253**	**0.233**	**0.225**
	2.0%	0.275	0.267	0.245	0.237

Source: GBCM Research Estimates

Methodology 2: Based on Dividend Yield adjustments, post listing

Table 11: **Find below the table with the details of previous IPOs in Oman and the adjusted dividend yield**

Company name	Year	Subscription (X)	Issue Price (In RO)	Listing Price (In RO)	Listing Gains (%)	Div. Yield- Pre-listing*	Div. Yield- Adj post listing
ACWA Power	2004	17.0X	0.990	1.810	83%	13.0%	6.6%
Sohar Power	2008	20.0X	1.370	1.950	42%	8.8%	6.2%
SMN Power	2011	1.2X	3.520	3.620	3%	10.8%	10.5%
Sharqiyah Desalination	2013	13.1X	1.063	3.127	194%	31.1%	10.6%
Sembcorp Salalah	2013	8.4X	1.590	2.000	26%	7.7%	6.1%
Al Suwadi Power	2014	10.3X	0.130	0.161	25%	7.8%	6.3%
Al Batinah Power	2014	10.3X	0.128	0.162	26%	7.8%	6.2%
Phoenix Power	2015	18.0X	0.110	0.150	36%	7.4%	5.5%
Muscat City Desalination	2018	19.3X	0.116	0.156	34%	8.0%	6.0%

Source: Company Report, GBCM Research, * subsequent full year dividend yield post listing

In our second valuation methodology, we have reviewed the historical utilities sector IPOs in Oman and their listings in the secondary market. We have assumed an appropriate dividend yield adjustment to arrive at the fair value of the company. The utility sector IPO saw strong listing gains and adjusted for 6-6.5% dividend yield immediately post listing (refer above table). In addition, most of the Utility sector companies in Oman revealed listing gains of more than 25% except for SMN Power (meager 3% gains) which got listed in weak market conditions.

In addition, Oman's Sovereign yield has increased with Oman 2027 (USD Eurobonds) and Oman Government Bonds (56th local Issue, 10 year) offering yield closer to 6% (on a risk-free basis). With the Muscat Securities Market (MSM) trading closer to its 10-year lows along with weak sentiments and certain frontline stock are offering dividend yield of c. 8% levels, we believe the equity risk reward in DGC is not well-compensated to the investors in the form of higher returns. **Dhofar Generating Co offers the lowest dividend yield (c. 6.9%) on the IPO pricing as compared to the other companies that have been listed on the MSM over the past several years.**

Assuming a 6.25% dividend yield post listing (on 2018E dividends), our fair value works out to be RO 0.288.

Table 12: Weighted Fair Value at RO 0.274

	Fair Value	Weight
DDM Methodology - 2018-2022E Estimates	0.253	40%
Sustainable Div. Yield Adjustment	0.288	60%
Weighted Fair Value	**0.274**	
Issue Price	0.259	
Upside	***5.8%***	

Source: GBCM Research Estimates

Our 12M Weighted Fair Value of Dhofar Generating Co works out to be RO 0.274, an upside of 6% from the issue price

Table 13: Oman Power Sector Comparison- Latest Valuations

			2017			2018E		
Omani Utilities	**Closing Price**	**Market Cap (In RO 000s)**	**PE**	**PBV**	**Div. Yield**	**PE**	**PBV**	**Div. Yield**
Independent Power Plants								
United Power @@	3.440	6,880	4.3	1.3	43.6%	7.6	1.1	0.0%
Al Kamil Power	0.380	36,575	23.8	1.2	4.2%	15.2	1.2	6.6%
Al Batinah Power	0.119	80,312	16.1	1.0	6.2%	10.6	1.0	6.4%
Al Suwadi Power	0.115	82,157	13.3	0.9	7.0%	9.2	0.9	6.8%
Phoenix Power ~~	0.115	168,199	9.0	1.0	5.6%	9.2	1.0	4.8%
Combined Power and Water Plants								
ACWA Power Barka **	0.780	124,800	13.9	2.0	5.8%	11.5	1.9	2.6%
Sohar Power ^^	0.118	26,079	11.8	0.8	0.0%	6.9	0.7	0.0%
SMN Power ^^	0.600	119,784	16.9	3.1	5.7%	11.9	2.8	3.2%
Sembcorp Salalah	0.225	214,778	19.5	1.9	4.6%	15.3	1.9	6.0%
Independent Water Plant								
Sharqiah Desalination ***	2.515	24,597	-	1.9	0.0%	24.6	1.8	0.0%
Muscat City Desalination	0.136	21,155	-	1.4	0.0%	17.7	1.4	7.1%
Sector Average- (Excluding Cos with exceptional items)								**6.26%**

Source: Company Report, GBCM Research Estimates

^^ Dividends impacted due to Cash Sweep, ~~ Lower dividends due to LD settlement, *** Issues with Claims, **Impact of higher tax to lower dividends, @@ BOOT project with estimated lower dividends

Estimated average Oman Utilities sector (excluding companies that have lowered dividends due to exceptional items) dividend yield for 2018E works out to be c. 6.26% levels as compared to the estimated dividend yield of c. 6.9% for Dhofar Generating Co at the offer price. At the current levels (post recent correction), the major companies in the sector are offering a dividend yield that ranges between 6% and 7% levels. We saw selling pressure in key sector stocks during the last 12 months due to lower dividends estimated due to WHT and other market uncertainties. The investor interest has considerably reduced in these stocks amid increased market volatility and rising interest rate environment.

As per our view, the dividend payout ratio remains high in the case of DGC during the initial years (average c. 200% over 2019-2022E) with the draw down from existing cash reserves; this is the major reason for higher dividends. The risk remains in the form of increase in interest rates of local borrowings, application of cash sweep and any other operational costs/ unscheduled outages, which could lower earnings and impact dividends.

Due to relatively lower dividend yield on the offer price coupled with negative market sentiments, we don't expect major retail participation in the issuance. On the other hand, local institutional demand may remain especially in the Omani utilities sector with relatively longer PPA (15-year period) and stable cash flows.

Outlook- Strategic asset exposure in Dhofar region, no major listing gains seen…

DGC's long term PPA with a well-established contractual framework ensures stable cash flows to the company during the period based on the plant availability irrespective of the power demand. DGC operates about 62% of the total installed power capacity in Dhofar Power System (DPS) and with the larger capacity, the plant has significant strategic and economic importance in the Dhofar Governate. DGC is promoted by experienced founding shareholders who have well-established presence and expertise in successfully implementing independent power plants globally. DGC is one of the few utility projects which achieved its scheduled commercial operations date (new plant) on 1st Jan 2018 as planned. As per the prospectus, the company is not subject to any outstanding liquidation claims (LDs), litigations or other regulatory proceedings.

We recommend a subscribe rating for the IPO for the long-term investors who are looking at exposure in low beta utility sector companies with long tenure PPA and estimated dividend yield of c. 6.9% levels at the issue price. We would assign an **average** rating for the issuance primarily due to the issue price offering relatively lower risk-adjusted returns, concerns with regards to cash sweep, estimated lower dividends post 2022E and the higher valuation contribution post PPA period.

Based on our valuation methodologies, we have arrived at a weighted fair value of RO 0.274 for DGC. As per our view, the IPO pricing is closer to fair valuations of the company with limited upside seen on listing. In addition, the company offers the lowest pre-IPO dividend yield among the Omani Utilities sector companies which have been listed in the local market till date.

Table 14: Income Statement Highlights

Income Statement- In RO 000s	2014	2015	2016	2017	2018	2019	2020	2021	2022
Power capacity charge	-	-	-	-	19,595	19,749	19,970	20,103	20,297
Fuel cost allowance	6,522	14,464	10,254	9,497	21,845	22,163	23,071	23,812	25,267
Fixed operation and maintenance allowance	3,340	1,988	4,815	4,897	-	-	-	-	-
Interest income on finance lease	3,988	4,889	923	920	4,731	4,554	4,361	4,153	3,927
Electrical energy allowance	1,136	617	80	73	146	148	155	161	171
Material adverse change event revenue	-	-	-	35	-	-	-	-	-
Revenue	**14,987**	**21,958**	**16,071**	**15,421**	**46,317**	**46,614**	**47,557**	**48,229**	**49,662**
YoY (% chg)					200.3%	0.6%	2.0%	1.4%	3.0%
Fuel cost	6,687	14,828	10,678	9,759	21,554	21,828	22,720	23,450	24,880
Operation and maintenance charges	915	1,958	3,428	3,569	7,210	7,321	7,516	7,714	7,924
Employee costs	941	460	246	223	776	741	778	802	833
Insurance	228	336	151	142	695	695	695	695	695
Transmission connection charges	115	115	106	63	342	70	71	71	72
Annual maintenance charges	124	66	76	76	-	-	-	-	-
Stores consumed	358	275	54	-	-	-	-	-	-
Other costs	43	35	32	39	-	-	-	-	-
Usufruct charges	-	-	-	-	133	-	-	-	-
Amortization of right to use assets	-	-	-	-	-	296	296	296	296
Operating Cost	**9,412**	**18,072**	**14,772**	**13,871**	**30,710**	**30,951**	**32,076**	**33,028**	**34,700**
YoY (% chg)		92.0%	-18.3%	-6.1%	121.4%	0.8%	3.6%	3.0%	5.1%
Gross profit	**5,575**	**3,886**	**1,299**	**1,550**	**15,607**	**15,663**	**15,481**	**15,201**	**14,962**
YoY (% chg)		-30.3%	-66.6%	19.3%	906.9%	0.4%	-1.2%	-1.8%	-1.6%
Administrative and general expenses	484	370	148	181	829	772	768	780	770
EBITDA	**5,092**	**3,516**	**1,151**	**1,369**	**14,778**	**14,891**	**14,713**	**14,421**	**14,192**
YoY (% chg)		-30.9%	-67.3%	19.0%	979.2%	0.8%	-1.2%	-2.0%	-1.6%
Depreciation	226	226	117	118	3,923	3,923	3,923	3,923	3,923
Operating Profit- EBIT	**4,866**	**3,290**	**1,034**	**1,252**	**10,855**	**10,968**	**10,790**	**10,498**	**10,269**
YoY (% chg)						1.0%	-1.6%	-2.7%	-2.2%
Finance cost	(610)	(675)	(1,202)	(1,010)	(7,441)	(7,274)	(7,153)	(7,137)	(6,915)
Reversal of provision no longer required	5,147	-	-	-	-	-	-	-	-
Unrealized gain on recognition of finance lease	22,990	-	-	-	-	-	-	-	-
Other income	-	-	6	8	-	-	-	-	-
Profit before tax	**32,393**	**2,616**	**(162)**	**250**	**3,414**	**3,694**	**3,637**	**3,361**	**3,354**
YoY (% chg)		-91.9%	-106.2%	-253.9%	1265.8%	8.2%	-1.5%	-7.6%	-0.2%
Income tax expense	(3,268)	(206)	(54)	(729)	3,233	2,231	1,536	946	460
Profit for the year	**29,125**	**2,409**	**(217)**	**(479)**	**181**	**1,463**	**2,101**	**2,415**	**2,894**
YoY (% chg)		-92%	-109%	121%	-138%	708%	44%	15%	20%

Source: IPO Prospectus, GBCM Research

Table 15: Balance Sheet Highlights

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Assets									
Non-current assets									
Finance lease receivable	52,682	51,789	58,868	56,780	54,514	52,056	49,391	46,498	43,361
Property, plant and equipment	3,959	34,249	86,775	148,075	159,056	155,078	151,123	147,175	143,252
Right to use asset	-	-	-	-	-	4,290	3,994	3,698	3,402
Total non-current assets	**56,641**	**86,039**	**145,643**	**204,855**	**213,570**	**211,424**	**204,508**	**197,371**	**190,015**
YoY (% chg)		51.9%	69.3%	40.7%	4.3%	-1.0%	-3.3%	-3.5%	-3.7%
Current assets									
Inventories	3,610	3,766	3,981	3,925	5,893	5,893	5,893	5,893	5,893
Finance lease receivable	1,691	1,210	2,000	2,088	2,266	2,458	2,666	2,892	3,137
Trade receivables	1,127	3,122	1,479	3,293	4,186	4,159	4,255	4,349	4,514
Advances and prepayments	373	413	175	264	-	-	-	-	-
cash and cash equivalents	5,769	5,983	1,447	2,562	5,920	5,148	4,320	3,293	2,290
Total current assets	**12,570**	**14,494**	**9,081**	**12,132**	**18,265**	**17,658**	**17,134**	**16,427**	**15,834**
Total assets	**69,211**	**100,533**	**154,725**	**216,988**	**231,835**	**229,082**	**221,642**	**213,798**	**205,849**
YoY (% chg)		45.3%	53.9%	40.2%	6.8%	-1.2%	-3.2%	-3.5%	-3.7%
Equity									
Share capital	500	500	500	500	22,224	22,224	22,224	22,224	22,224
Proposed increase in share capital	-	-	-	21,724	-	-	-	-	-
Legal reserve	167	167	167	167	185	331	541	783	1,072
Retained earnings	28,213	30,622	30,406	29,927	30,090	27,185	25,076	23,249	21,854
Changes in fair value of hedge	-	(2,185)	(2,376)	(4,444)	(4,331)	(4,145)	(3,961)	(3,786)	(3,612)
Total equity	**28,880**	**29,104**	**28,696**	**47,873**	**48,168**	**45,595**	**43,880**	**42,470**	**41,538**
YoY (% chg)		0.8%	-1.4%	66.8%	0.6%	-5.3%	-3.8%	-3.2%	-2.2%
Liabilities									
Non-current liabilities									
Long term loan	-	34,452	86,505	146,781	152,513	145,339	138,215	130,811	123,256
Shareholders loan	32,992	23,301	22,650	-	-	-	-	-	-
Fair Value of cash flow hedge	-	2,482	2,701	5,229	5,095	4,877	4,660	4,454	4,250
Provision for decommissioning cost	2,766	2,840	2,921	3,001	6,109	6,318	6,535	6,759	6,991
Provision for major maintenance	-	-	6,585	4,424	1,378	1,360	1,380	1,301	1,336
End of service benefit payable	18	6	21	54	-	-	-	-	-
Lease liability	-	-	-	-	-	4,566	4,316	4,057	3,790
Deferred tax liability	810	2,295	2,273	2,386	5,794	8,057	9,627	10,605	11,094
Total non-current liabilities	**36,586**	**65,377**	**123,656**	**161,875**	**170,889**	**170,517**	**164,733**	**157,987**	**150,717**
YoY (% chg)		78.7%	89.1%	30.9%	5.6%	-0.2%	-3.4%	-4.1%	-4.6%
Current liabilities									
Long term loans	-	-	-	3,793	7,090	7,363	7,305	7,575	7,716
Trade and other payables	1,352	5,662	2,323	3,292	5,688	5,607	5,724	5,766	5,878
Provision for tax	2,394	390	49	155	-	-	-	-	-
Total current liabilities	**3,746**	**6,052**	**2,373**	**7,239**	**12,778**	**12,970**	**13,029**	**13,341**	**13,594**
Total liabilities	**40,332**	**71,429**	**126,029**	**169,114**	**183,667**	**183,487**	**177,762**	**171,328**	**164,311**
Total equity and liabilities	**69,211**	**100,533**	**154,725**	**216,988**	**231,835**	**229,082**	**221,642**	**213,798**	**205,849**
YoY (% chg)		45.3%	53.9%	40.2%	6.8%	-1.2%	-3.2%	-3.5%	-3.7%

Source: IPO Prospectus, GBCM Research

Table 16: Cash Flow Highlights

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Cash flows from operating activities									
Profit before tax	32,393	2,616	(162)	250	3,414	3694	3637	3361	3354
Adjustments for:									
Depreciation on plant equipment	230	254	112	130	3,983	3,978	3,954	3,948	3,923
Amortization of right to use asset					-	296	296	296	296
Finance costs	610	675	1,202	1,010	7,441	7,274	7,153	7,137	6,915
Interest income on finance lease	(3,988)	(4,889)	(4,815)	(4,897)	(4,731)	(4,554)	(4,361)	(4,153)	(3,927)
Reversal of provision no longer required	(5,147)	-	15	33					
Unrealized gain on recognition of finance lease	(22,990)	-	-	-					
End of service benefit expense	18	(13)	-	-					
Operating cash flow before working capital	**1,125**	**(1,358)**	**(3,648)**	**(3,475)**	**10,107**	**10,688**	**10,679**	**10,589**	**10,561**
Inventories	(112)	(156)	(216)	57					
Trade and other receivables	(1,127)	(1,995)	1,723	(1,814)					
Trade and other payables	1,310	4,310	(3,356)	957					
Advances and prepayments	(373)	(39)	177	(89)					
Changes in working capital	(302)	2,119	(1,673)	(890)	451	(2)	5	5	1
	823	**762**	**(5,320)**	**(4,365)**	10,558	10,686	10,684	10,594	10,562
Finance lease instalments (power capacity payments) received	5,562	6,263	6,897	6,897	6,819	6,819	6,819	6,819	6,819
Tax during the year	-	(426)	(392)	(49)					
Net cash from operating activities	**6,385**	**6,598**	**1,185**	**2,482**	**17,377**	**17,505**	**17,503**	**17,413**	**17,381**
Cash flows from investing activities									
Major maintenance - payment	-	-	(1,315)	(2,318)	(3,107)	-59	-21	-121	0
Finance cost capitalized to capital -WIP	-	-	(2,763)	(4,147)					
Payments for plant and capital- WIP	(81)	(30,544)	(52,268)	(57,026)	(13,835)	-	-	-	-
Net cash used in investing activities	**(81)**	**(30,544)**	**(56,346)**	**(57,026)**	**(16,942)**	**(59)**	**(21)**	**(121)**	**-**
Cash flows from financing activities									
Repayment of shareholder loan	-	(9,691)	(650)	(926)					
Finance cost paid	(536)	(601)	(571)	(814)	(5,849)	(6,886)	(6,697)	(6,755)	(6,542)
Payment against lease liability					-	(242)	(250)	(259)	(267)
Net proceeds from long term loan	-	34,452	51,845	63,864	8,772	(7,090)	(7,363)	(7,305)	(7,575)
Dividends paid						(4,000)	(4,000)	(4,000)	(4,000)
Net cash from / (used in) financing	**(536)**	**24,161**	**50,624**	**62,124**	**2,923**	**(18,218)**	**(18,310)**	**(18,319)**	**(18,384)**
Net increase in cash and cash equiv.	**5,769**	**215**	**(4,537)**	**1,115**	**3,358**	**(772)**	**(828)**	**(1,027)**	**(1,003)**
Cash and cash equiv.- beginning of year	-	5,769	5,983	1,447	2,562	5,920	5,148	4,320	3,293
Cash and cash equiv.- end of the year	**5,769**	**5,983**	**1,447**	**2,562**	**5,920**	**5,148**	**4,320**	**3,293**	**2,290**

Source: IPO Prospectus, GBCM Research

Table 17: Ratio Analysis

Key Ratios	2014	2015	2016	2017	2018	2019	2020	2021	2022
Margins (%)									
Gross Profit Margin (%)	37.2%	17.7%	8.1%	10.1%	33.7%	33.6%	32.6%	31.5%	30.1%
EBITDA Margin (%)	34.0%	16.0%	7.2%	8.9%	31.9%	31.9%	30.9%	29.9%	28.6%
Operating Margin (%)	32.5%	15.0%	6.4%	8.1%	23.4%	23.5%	22.7%	21.8%	20.7%
PAT Margin (%)	194.3%	11.0%	-1.3%	-3.1%	0.4%	3.1%	4.4%	5.0%	5.8%
Per Share Ratio (in RO)									
EPS	5.825	0.482	-0.043	-0.096	0.001	0.007	0.009	0.011	0.013
Book Value	5.776	5.821	5.739	9.575	0.217	0.205	0.197	0.191	0.187
Cash Dividend per share	-	-	-	-	0.018	0.018	0.018	0.018	0.018
EV Per Share									
Equity Valuation - at Issue Price									
P/E	NM	NM	NM	NM	318.0	39.3	27.4	23.8	19.9
P/BV	NM	NM	NM	NM	1.2	1.3	1.3	1.4	1.4
Div. Yield	-	-	-	-	6.9%	6.9%	6.9%	6.9%	6.9%
Div. Payout	0.0%	0.0%	0.0%	0.0%	2210.1%	273.4%	190.4%	165.6%	138.2%
Enterprise Valuation									
EV/ Sales		1.4	5.4	9.7	4.6	4.4	4.2	4.0	3.8
EV/ EBITDA		8.5	75.0	109.0	14.3	13.8	13.5	13.4	13.1
EV/ EBIT		9.0	83.5	119.3	19.5	18.7	18.4	18.4	18.1
Return Ratios									
Return on Equity - RoE		8.3%	-0.8%	-1.0%	0.4%	3.2%	4.8%	5.7%	7.0%
Return on Avg. Equity - RoAE		8.3%	-0.8%	-1.3%	0.4%	3.1%	4.7%	5.6%	6.9%
Return on Assets - RoA		2.4%	-0.1%	-0.2%	0.1%	0.6%	0.9%	1.1%	1.4%
Return on Avg. Assets - RoAA		2.8%	-0.2%	-0.3%	0.1%	0.6%	0.9%	1.1%	1.4%
Activity and Efficiency Ratios									
Days Receivables	27	52	34	78	33	33	33	33	33
Days Payables	52	114	57	87	68	66	65	64	62
Cash Conversion cycle	-25	-62	-24	-9	-35	-34	-32	-31	-29
Liquidity ratio									
Current ratio	3.4	2.4	3.8	1.7	1.4	1.4	1.3	1.2	1.2
Leverage ratio									
Debt/ Equity ratio	1.1	2.0	3.8	3.1	3.3	3.3	3.3	3.3	3.2

Source: IPO Prospectus, GBCM Research

Key Abbreviations used in the report

- AER - The Authority for Electricity Regulation of Oman
- DGC- Dhofar Generating Co
- M-MAP- Mitsui & Co. Middle East and Africa Projects Inv,
- MAP- MAP Power Holding Company Limited
- DIES- Dhofar International Energy Services LLC
- PPA - Power Purchase Agreement
- CCGT - Combined Cycle Gas Turbine
- COD- The commercial operation date of the New Plant, being 1 January 2018.
- CTA - The Common Terms Agreement dated 8 July 2015 entered between, the Company and inter alia Mizuho Bank, Standard Chartered Bank (DIFC Branch), KFW IPEX Bank GMBH, Sumitomo Mitsui Banking Corporation (Brussels Branch), Sumitomo Mitsui Trust Bank, Limited (London Branch), bank muscat SAOG and Bank Dhofar SAOC.
- DPS- Dhofar Power System. The power system comprising of generating facilities, transmission grid and distribution network covering the city of Salalah and surrounding areas in the Governorate of Dhofar
- DIDIHC - Dhofar International Development & Investment Holding Company S.A.O.G.
- DSCR - Debt Service Coverage Ratio
- DSRA- Debt Service Reserve Account
- ESAs - The Electrical Supply Agreements between DPC and the Company dated 1 January 2014 for the Original Plant and to be executed for the New Plant in 2018.
- GCC - The Cooperation Council for the Arab States of the Gulf, comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.
- GT - Gas Turbine
- GW - Gigawatt
- IPO - The initial public offering of the Offer Shares pursuant to the Offer.
- IPP - Independent Power Producer
- IWPP - Independent Water and Power Producer
- kJ - Kilojoules
- km2 - Square kilometres
- kV - Kilovolts
- kW - Kilowatts
- MIGD - Million imperial gallons per day
- MW - Megawatts
- MOF - The Ministry of Finance of the Sultanate of Oman.
- MOG - The Ministry of Oil & Gas
- MOH - The Ministry of Housing formerly known as the Ministry of Housing Electricity and Water.
- MIS - The Main Interconnected System
- NGSA - The Natural Gas Sales Agreement dated 1 June 2015 between MOG and the Company
- NOMAC - First National Operation and Maintenance Company
- NOMAC Oman - First National Company For Operation & Maintenance Services LLC, the operation and maintenance sub-contractor to the Operator.

- O&M Agreement - The Operation and Maintenance Agreement dated 4 June 2015 between the Company and the Operator.
- OCGT - Open Cycle Gas Turbine
- OETC - Oman Electricity Transmission Company S.A.O.C.
- Operator - Dhofar O&M Company LLC
- PAEW - Public Authority for Electricity & Water of Oman
- PPA - The Power Purchase Agreement dated 31 December 2013 entered into between OPWP and the Company with the first amendment entered into on 1 January 2014 and second amendment on 19 April 2015.
- Founders - Mitsui & Co., Ltd, ACWA Power, and DIDIC
- RAECO - Rural Area Electricity Company SAOC
- Salalah II IPP - The Project
- SCOD - Scheduled COD - 1 January 2018, as defined in the PPA
- US$/USD - US Dollars, the lawful currency of the United States of America (USA).
- MEDC- Muscat Electricity Distribution Co.
- MZEC- Mazoon Electricity Co.
- MJEC- Majan Electricity Co.
- IMF – International Monetary Fund
- LDs- liquidation claims
- WHT - Withholding tax
- OMR - Omani Riyals
- MSM - Muscat Securities Market
- DDM - Dividend Discount Model

Stock Rating Methodology:

Buy - Upside more than 20%
Accumulate - Upside between 10% and 20%
Neutral - Upside or downside less than 10%
Reduce - Downside between 10% and 20%
Sell- Downside more than 20%
Not Rated - Stocks not in regular research coverage

LT- Long Term
ST- Short Term

Contact Details,

Equity Research	**Contact**	**Email**
Kanaga Sundar	(+968) 22350727	sundar@gbcmoman.net
Kumail Al Humaid	(+968) 22350720	kumail@gbcmoman.net
Institutional Broking		
Talal Al Balushi	(+968) 22350725	talal@gbcmoman.net
Abdullah Al Shamosi	(+968) 22350718	abdullah@gbcmoman.net
Ahmed Al Maawali	(+968) 22350719	almaawali@gbcmoman.net
Institutional Sales		
Hunaina Banatwala	(+968) 22350717	hunaina@gbcmoman.net