Musandam Power Company SAOG

Under transformation

Offer price (Phase 1 Investors): RO 0.260 to RO 0.325 per share

Outlook: Subscribe at lower end of price band

GULF BAADER CAPITAL MARKETS S.A.O.C.

Musandam Power Co (MPC) – *Exposure in Strategic Power asset, Attractive dividend at lower end of price band…*

Outlook: Subscribe at lower end of price band ***IPO Rating: Above Average*** ***12 Month Fair Value: 0.303***

- Well-Established contractual framework with long term Power Purchase Agreement (PPA- expires by 23rd Jan 2032).
- Stable cash flows until end of PPA (15 years); Life of the plant is estimated to be 40 years.
- Post PPA valuation to remain critical; Higher value embedded beyond PPA.
- Near term dividend yield attractive at 10.6% levels (lower end of the price band) as against comparable sector average of 8-9%.
- Caveat remain on lower level of dividends post 2023E depending upon available free cash flow.
- Local Institutional demand to dictate final pricing in Phase 1; Retail demand in Phase 2 to be tested amid dull market conditions.

Well established contractual framework with steady cash flow: Oman remain as the forerunner of private power and water projects in the region with proven contractual agreement. MPC operates under similar procurement arrangement and contractual framework adopted by other IPPs. MPC has a well-established contractual framework for a 15-year period, providing steady cash flow stream, within the PPA, the company receives capacity charges based on the availability of the plant, without seeing the load dispatched as output to the gird. This provides stable and reliable cash flows during the PPA period (till Jan 2032) of the project to shareholders.

Strategic Asset in Musandam region: MPC has a contracted capacity of c. 120.7 MW and remain as the only independent power plant servicing the electricity demand of the Musandam Power System (MPS). Given the strategic importance of the Governate in Oman, unlike other IPPs, the Plant was awarded on “closed procurement” basis to Oman Oil Company SAOC (Govt entity) and LG International (LGI). MPC has strategic importance within Musandam Power System, we do consider this as a critical point for the continuation of MPC operations beyond PPA to cater to the demand requirements in MPS.

Robust experience of founders and LTSA agreement: The project founders of MPC include Oman Oil Company (wholly owned by the Government of Oman) and LGI (global player). The founder shareholders have a strong track record and experience of implementing large and complex projects in Oman, GCC and globally. As per the prospectus, Oman Oil and LGI, will remain as major shareholders in MPC after the IPO, providing comfort to the IPO shareholders. In addition, WMU has been appointed as the operator under the O&M Agreement and LTSA provider. MPC has a comprehensive LTSA for a period of 15 years covering the guarantee of output and gross heat rate with the OEM through WMU.

Key risks covered under PPA: Under a 15-year NGSA signed between MPC and Ministry of Gas (MoG), procures and deliver natural gas requirements over the PPA period. If PPA is extended, the NGSA will automatically be extended. As per the PPA, any increase in the price of natural gas charged by MoG would be directly passed through to OPWP, this remain supportive to operating margins.

No LDs/ Litigations and Cash Sweep: As per the prospectus, MPC was scheduled to achieve Plant COD by 18 Dec 2016 but due to delay by the EPC Contractor and delay in RAECO grid readiness, the COD was delayed by 6 months. After negotiations, MPC and the EPC Contractor entered into a Settlement Agreement dated 20th Dec 2018. Post this settlement, the company doesn’t have any pending litigations or regulatory proceedings, providing comfort to the IPO shareholders. In addition, the financing agreement of MPC does not impose any mandatory cash sweep mechanism, this provide comfort to the IPO shareholders in terms of dividends.

Outlook- Strategic asset exposure in Musandam region: We recommend a **subscribe** rating for the IPO for the long-term investors at the lower end of the price band, who are looking at an exposure in a strategic asset in Musandam region with PPA, Government shareholders and estimated dividend yield of above 10% levels. We would assign an above average rating for the issuance with the issue price offering better risk-adjusted returns at the lower end of the price band with no concerns on cash sweep and litigations.

Based on our valuation methodologies, we have arrived at weighted fair value of RO 0.303 for Musandam Power Co, an upside of 17% from the lower end of the price band offered to Phase 1 investors. We recommend subscribing the issue at the lower end of the price band. We believe the equity risk reward in MPC is compensated at the lower end of the price band (Dividend yield above 10%). The dividend yield is not well-compensated to the investors at the upper price band (8.6% levels). Musandam Power Co offers higher dividend yield of 10.6% on the IPO pricing (lower price band) which remain attractive as compared to the other companies in MSM due to longer PPA, no cash-sweep and no litigation claims. The attractiveness of the issuance comes from the immediate dividends post listing, this would support the offer price post listing till the date of first dividend payment. **We expect the local institutional demand to remain in the Omani utilities sector** with longer PPA, stable cash flows and higher dividend yield. MPC offers an opportunity to invest in a Strategic Power asset with a key Government entity being one of the promoter shareholders.

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Table 1: Term Sheet

Offer Details	
Date of Registration	18-Nov-2014
Paid up Capital	RO 7.039 million divided into 70.390 million shares with nominal value of RO 0.100 per share
No. of Shares offered	**28.156 million (40% of the capital)**
Offer Price- Phase 1	**RO 0.260 to RO 0.325 per share**
Purpose of IPO	To comply with obligations of Project Founders Agreement (PFA)
Selling Shareholders	**Oman Oil Facilities Dev. Co LLC (OOFDC),** **LG International Corp (LGI) and** **Oman Energy Trading Co Ltd (OETCL)**
Persons Eligible	Omani and Non-Omani Individual and Juristic Persons
Persons Prohibited	Sole Proprietorship Establishments
	Trust Accounts
	Multiples Applications
	Joint Applications
Proposed Allocation	In case of oversubscription, for the purpose of allocating the Phase I Offer Shares between the eligible investor groups Phase I Applicants: 14.078 million offer Shares, being 50% of the Offer, on a pro-rata basis to investors who have bid at or above the Offer Price
Minimum Subscription	Phase I Applicants- 200,100 Offer Shares and in multiples of 100 Shares thereafter
	Phase II Applicants- 1,000 Offer Shares and in multiples of 100 Shares thereafter.
Maximum Subscription	Phase I Applicants- 2.8156 million Offer Shares, representing 10% of the Offer
	Phase II Applicants- 200,000 Offer Shares
Estimated total expenses	**RO 818,000**
Offer Expenses Collected	RO 56,312 (excess would be borne by selling shareholders)
Phase 1 Offer opening	3-Nov-2019
Phase 1 Offer closing	**7-Nov-2019**
Phase 2 Offer opening and closing	To be announced after close of Phase 1
CMA Approval of proposed allotment	To be announced after close of Phase 1
Listing of the offer shares with MSM	To be announced after close of Phase 1
Issue Manager	Bank Muscat SAOG
Collection Banks	Bank Muscat, Ahli Bank, NBO, Bank Dhofar
Collection Brokers	Gulf Baader Capital Markets (GBCM), U-Capital, United Securities
Auditors	Deloitte & Touche (ME) & Co LLC
Legal Advisor	Al Busaidy, Mansoor Jamal & Co Barristers& Legal Consultants
Independent Market Advisor	IPA Advisory Limited, United Kingdom

Source: IPO Prospectus, GBCM Research

Table 2: Share Holding Pattern - Pre-IPO

Shareholder Name	No. of Shares	% of Total
Oman Oil Facilities Dev. Co LLC (OOFDC)	49,202,610	69.9%
LG International Corp (LGI)	21,117,000	30.0%
Oman Energy Trading Co Ltd (OETCL)	70,390	0.1%
Total Shares	**70,390,000**	**100.0%**

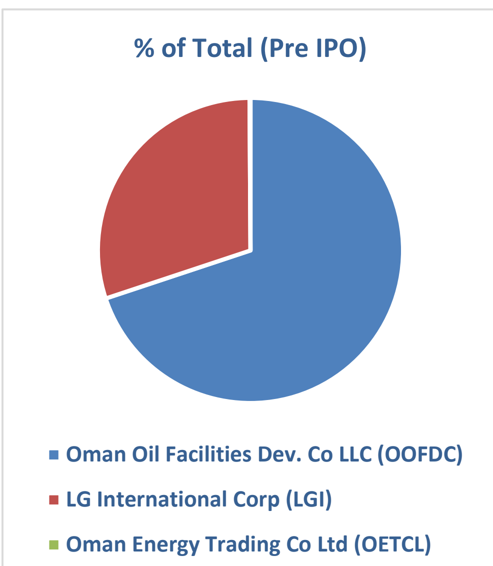
Source: IPO Prospectus, GBCM Research

Table 3: Share Holding Pattern - Post IPO

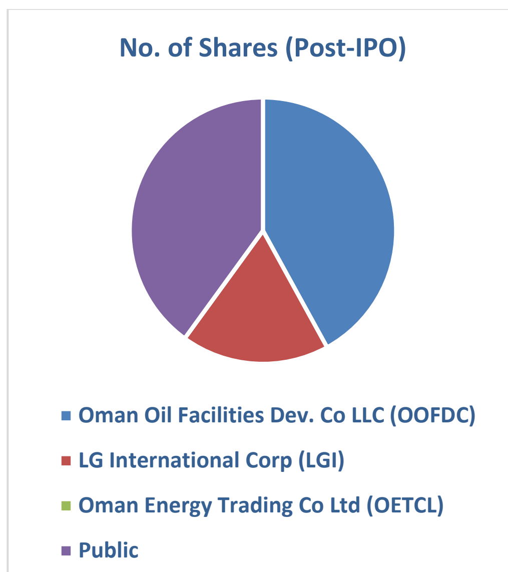
Shareholders	Offer Shares in IPO	No. of Shares (Post-IPO)	% of Total (Post IPO)
Oman Oil Facilities Dev. Co LLC (OOFDC)	19,638,810	29,563,800	42.0%
LG International Corp (LGI)	8,446,800	12,670,200	18.0%
Oman Energy Trading Co Ltd (OETCL)	70,390	-	0.0%
		28,156,000	40.0%
Total Shares	**28,156,000**	**70,390,000**	**100%**

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

The core business activities of **Musandam Power Co (MPC)** are to develop, own and operate the Power Plant, a dual fuel reciprocating engine-based power generation facility with a contracted power capacity of about 120.7 MW, located in Musandam, Oman. The Plant comprises of 15 Wartsila 34DF dual fuel reciprocating engines, running primarily on gas but capable of switching to fuel oil if necessary. The plant has been in commercial operation since 17 June 2017. The dual fuel reciprocating engine-based power generation facility in the Plant is a proven technology that has been implemented globally on numerous projects. The efficient 34DF engines can reliably operate in high humidity and ambient temperatures that can reach 50 degrees Celsius in the region. The **'Smart Power Generation'** plant requires almost no water for cooling, which was an important consideration in the selection process. Total project cost is OMR 90.3 million (USD 235 million).

MPC generates revenues through 15-year term PPA with Oman Power and Water Procurement (OPWP), which is like other Independent Power Projects (IPP) in Oman. The power produced from the Plant is entirely contracted to OPWP and used to meet growing power demands of Musandam Governorate during the term of the PPA and beyond. **From the commercial operations date (COD), MPC is required to make available electricity generating capacity of 120.7 MW and sell the electrical energy output exclusively to OPWP.** In return, the company receives a tariff covering capacity charges, electrical energy charges and fuel charges from OPWP. The capacity charge is payable for each hour during which the Plant is available, and OPWP is obliged to pay capacity charges, regardless of whether or not such capacity is dispatched.

Purpose of the offer

The Selling Shareholders are undertaking the IPO to comply with their obligations under the Project Founders Agreement (PFA), which require them, amongst other things, to make at least 40% of the Issued and Paid-Up Share Capital of Musandam Power available for public subscription and to list such Shares on the MSM. **The PFA requires the Project Founders, within four years from the incorporation of MPC, to offer 40% of the shares of Musandam Power to the public.**

Accordingly, the selling shareholders are offering 28.156 million shares (40% of Issued and Paid-Up Share Capital) of MPC. The company has the requisite approvals from PAEW pursuant to Article 13 of the Sector Law. Musandam Power has advised AER of sale of 40% of Issued and Paid-Up Share Capital through an IPO.

Use of proceeds of the offer

The shares offered do not represent an issuance of new shares. **The offer shares represent the selling/ divestment of a part of the shares currently held by the selling shareholders.** The proceeds of the offer shall therefore accrue to the selling shareholders in the ratio of shares offered. The offer price includes an amount equal to the offer expenses of RO 0.002 per share, which will be used to meet part of the expenses incurred by MPC in relation to the offer and any excess shall be borne by the selling shareholders.

Plant Details

Musandam Power Company (MPC) is the first independent power plant in the Musandam Governorate. The Plant is a dual fuel powered plant with natural gas as primary fuel and fuel oil as alternative fuel. The reciprocating engine power generation plant with a contracted power capacity of c. 120.7 MW and is located on a coastal site within Musandam Governorate. MPC has signed a long-term NGSA with the MoG to secure supply of the fuel over the contracted PPA period. The output of the plant is connected to RAECO grid through 132 kV line built by RAECO and serves the Musandam Power System. **The plan commenced full commercial operations since 17 June 2017.**

In Musandam, historically electricity demand was met through small diesel-powered plants operated by RAECO. In 2011, OPWP appointed advisors to conduct a feasibility study to develop a new gas-fired power plant. Based on recommendations from special committee, **Oman Oil Company SAOC (Quasi- Government) was selected as the lead developer for the plant in a 'closed' procurement process**. Oman Oil Company SAOC signed its shareholders agreement with LG International (5 March 2015) for the purpose of building and operating the Plant.

WMU, a leading global corporation which manufactures and services power sources and other equipment in the energy and marine markets is the EPC Contractor and O&M contractor (5-year Agreement). In addition, MPC has signed a 15-year LTSA with WMU to ensure long term operating performance of the Plant.

MPC's 120.7 MW capacity plant comprises of 15 Wartsila 34DF reciprocating engines. These dual-fuel units use natural gas as the main fuel and fuel oil as back-up fuel. The plant could meet the dynamic load demand in Musandam Governorate, responding to load variations between 10 MW and 120.7 MW. The plant has capability to operate in high humidity and extreme temperatures of up to 50 degrees Celsius.

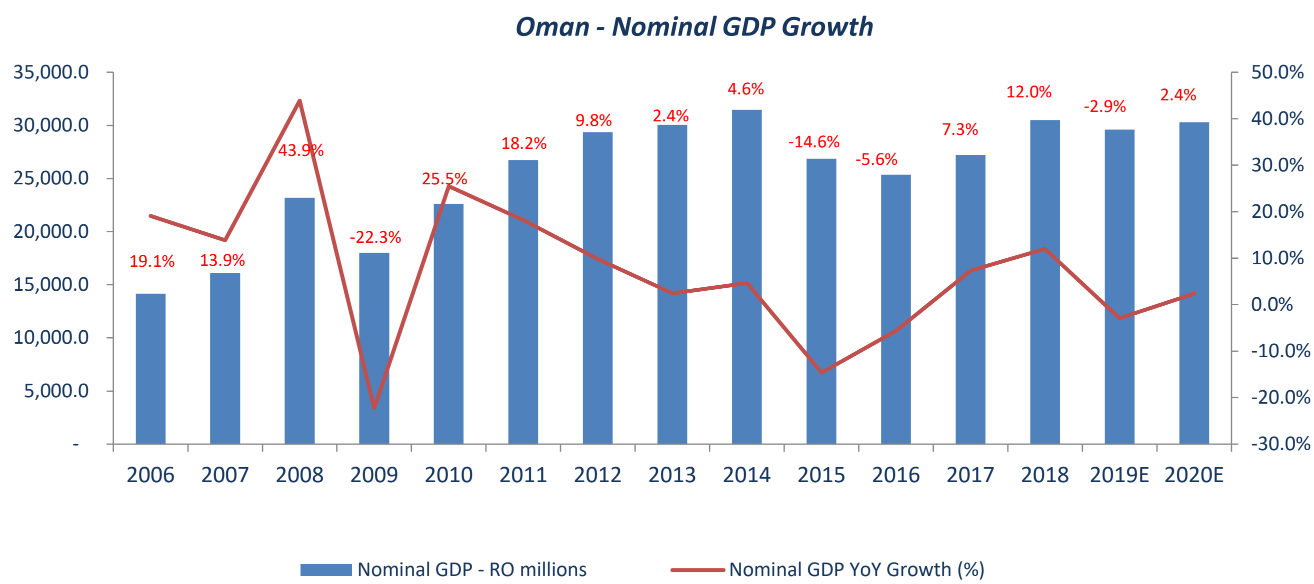
The technology used (reciprocating engines) is well suited for flexible peaking and intermediate generation of Musandam Governorate. This technology offers competitive heat rates, multi-shaft reliability, industry leading ramp rates and start up times to compete in ancillary services markets. The plant's ability to run in different load demand with reliable performance enabled it to be the most flexible power plant that can handle island mode in the Musandam 132kV grid.

The effective date of MPC under the PPA (15 years contract), being 12 July 2015. However, due to delay in testing by RAECO, the PPA expiry has been extended to 23 January 2032.

Oman Economic Outlook…

Real GDP to reveal growth in 2020: As per IMF, the real GDP of Oman is estimated to increase 3.7% in 2020E from flattish trend in 2019 amid increase in non-oil activities which is projected to grow 1% in 2019E and 2.5% in 2020E. The emphasis given by the Government towards diversification theme (Tanfeedh initiatives) is expected to raise non-oil GDP growth over the medium term. The Government has taken several efforts to increase non-oil revenue (increase in tax rates and non-oil income) and decline in non-critical expenses, which would lower the fiscal deficit levels to c. 7% of GDP over the next two years. The IMF forecasts Oman's fiscal break-even oil price to be around USD 87.6 per barrel in 2020 as compared with US$ 99.5 per barrel in 2018. The external (current account) break-even oil price is estimated to lower to US$ 72.2 per barrel in 2020 as compared to US$ 78.3 per barrel in 2018.

Graph 3: ***Oman Nominal GDP Growth Trend***



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

Focus on Diversification and Priority Projects: The Government continued to focus on priority project spending with investments in Airports, Seaports, Industrial Zones, Roads, Power and allied Infrastructure. The 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 ensure stable economic activity over the medium term. The Government has taken several steps to improve the investor sentiments through National Programme for Enhancing Economic Diversification (Tanfeedh) which targets manufacturing, tourism, transport and logistics, mining and fisheries and does follow up on critical projects.

Key developments in Oman post introduction of Foreign Inv. Promotion, Private-Public-Partnership (PPP), Bankruptcy and Privatization laws to remain positive over long term. The Government payments to contractors and other private sector players to remain critical and improvement of cash cycle would kick-start emerging economic growth.

Jan to Aug 2019 Fiscal Deficit lowered 25% YoY: As per official data, in terms of Oman's Public Finance, the total fiscal deficit YTD (end Aug 2019) has declined 25% YoY to RO 1.38 billion as compared to deficit of RO 1.83 billion during the same period last year amid increase in non-oil income (increased 28% YoY) and decline in non-priority expenses (Total expenses remained flattish YoY). Daily average oil production of Oman during Jan-Aug 2019 remained at 971K barrels a day, while the average oil price during the year (Jan to Aug 2019) has declined to USD 64.6/ barrel as compared to USD 67.2/ barrel during the same period in 2018, decrease of 3.9% YoY.

During Jan-Aug 2019, the current expenditure has increased by 1.9% YoY amid increase in interest expenses and higher civil ministries expenses. The investment expenditure has declined by 11.3% YoY. On the other hand, the participation and support expenses has increased 18% YoY. The provisional numbers include expenses under settlement worth RO 550 million during the period. Since June 2019, Oman's monthly average fiscal deficit has revealed an increasing trend due to lower oil prices. During Aug 2019, the public finance revealed a deficit of RO 340 million which is higher than average monthly fiscal deficit since beginning 2019 of c. RO 170 million. **The Government has introduced National Program for Fiscal Balance (Tawazun) which is expected to fast-track fiscal consolidation by cutting spending and improving revenue collection.**

Table 4- Oman Public Finance data (Jan- Aug 2019 Vs Jan- Aug 2018)

Oman Public Finance- In RO Million	Jan to Aug 2019	Jan to Aug 2018	YoY – In absolute	YoY (%)
Revenues	**7,138.8**	**6,676.5**	**462**	**6.9%**
1) Net Oil Revenues - 1	4,059.9	4,019.4	41	1.0%
2) Gas Revenues	1,207.4	1,198.6	9	0.7%
3 Other Revenues	1,871.5	1,458.5	413	28.3%
Expenditure	**8,517.5**	**8,509.2**	**8**	**0.1%**
Current Expenditure	**5,920.1**	**5,807.3**	**113**	**1.9%**
i) Defence & National Security	2,115.5	2,201.1	(86)	-3.9%
ii) Civil Ministries	2,814.1	2,729.5	85	3.1%
iii) Interest on Loans	385.7	364.0	22	6.0%
iv) Oil Production Expenditure	218.0	215.8	2	1.0%
v) Gas Production Expenditure	386.8	296.9	90	30.3%
Investment Expenditure	1,521.8	1,715.7	(194)	-11.3%
i) Civil Ministries	705.9	807.8	(102)	-12.6%
ii) Oil Production Expenditure	511.0	502.3	9	1.7%
iii) Gas Production Expenditure	304.9	405.6	(101)	-24.8%
Participation and Support to Private Sector	526.0	446.0	80	17.9%
Actual Expenses under Settlement - 2	549.6	540.2	9	1.7%
Fiscal Surplus (+) / Deficit (-)	**(1,378.7)**	**(1,832.7)**	**454**	**-24.8%**

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

1. Net revenues after the transfer to Reserve funds. 2. Expenditure incurred but not distributed to various expenditure items

Oman Power sector – An Introduction

Oman's power system in divided into four main systems namely the Main Interconnected System (MIS), the Dhofar Power System (DPS), the Duqm Power System and the **Musandam Power System**. The MIS comprises of eleven 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).

Development of Spot Market 2020

In 2020, OPWP plans to launch the region's first wholesale electricity spot market. It will drive further efficiency improvements and provide a means for generation capacity that is not contracted to OPWP to sell power into the national grid. In the Main Interconnected System, **the major developments include the start of the Spot Market in 2020, completion of the 400 kV North-South Interconnect to the Duqm Power System in 2023, the continuing push for Renewable Energy (RE) projects driven by economics and focus on Demand Response.**

The North-South Interconnect will stimulate development of the Special Economic Zone of Ad Duqm and development of RE projects in Al Wusta. New solar, wind, and waste-to-energy projects will contribute 16% of electricity production by 2025.

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 enough power generation resources are available to meet licensed electricity suppliers' demands.

Musandam Power System (MPS)- Electricity Demand Projections

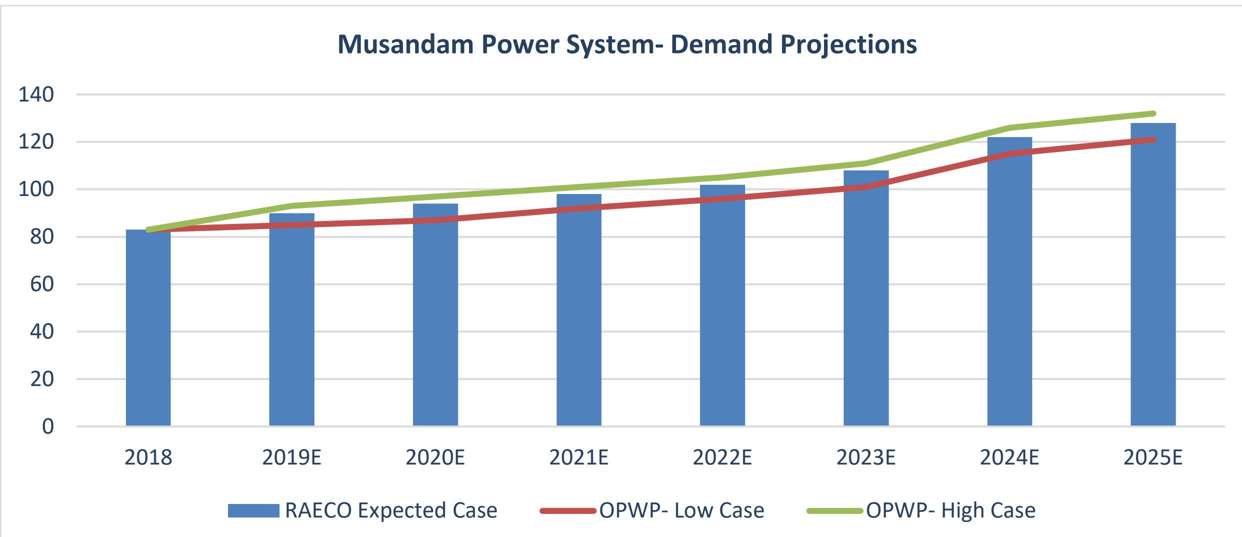
The Musandam Governorate is in the northern-most region of the Sultanate of Oman, it is an exclave of Oman, separated from the rest of the country by the United Arab Emirates. As per official data, the total population in Musandam is estimated at around 45,155, which is expected to reveal steady growth going forward.

According to OPWP latest seven-year statement, based on RAECO expected demand forecast, peak demand in MPS is estimated to increase from 83 MW in 2018 to 128 MW in 2025, revealing annualized growth of 6.4%. On the low case scenario, the annualized growth rate lowered to 5.5% for peak demand to 121 MW in 2025. While on the **high case scenario based on increase in bulk consumers, tourism and fishery activities, peak demand is projected to reveal annualized growth of 6.9% to 132 MW in 2025.**

As per OPWP statement, RAECO owns and operates power stations distributed near to load centers in the Musandam Governorate. They are all diesel-fired generators, with combined installed capacity of about 83 MW. Musandam IPP commenced operation in 2017 operated by a consortium led by Oman Oil Company under a PPA with OPWP. The IPP is providing net firm capacity of 123 MW using reciprocating engines fueled primarily by natural gas.

The Musandam IPP provide enough capacity to secure all three demand scenarios through 2024 under the Expected Case and up to 2023 under the High Case scenario. For the year 2025, the RAECO diesel generator will continue to be available to provide additional capacity to cover any remaining capacity requirements during peak demand periods. **Based on our views, we see Musandam Power IPP as an important and strategic asset catering to the electricity demand in Musandam Power System.**

Graph 4: Electricity Demand Projections – MPS



Source: OPWP, GBCM Research

<u>Table 5: Find below the table with the contracted capacity for MPS</u>

Peak Demand (In MW)	**2018**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Contracted Capacity								
RAECO Plants	83	83	83	83	83	83	83	83
Musandam IPP	123	123	123	123	123	123	123	123
Total Contact Capacity	**206**	**206**	**206**	**206**	**206**	**206**	**206**	**206**

Source: OPWP, GBCM Research

Investment Rationale

Well-Established contractual framework

Musandam Power Co (MPC) has signed a 15-year PPA with OPWP which expires in January 2032. Oman has several power generating companies with the history of operating in similar models with OPWP, a Government entity with strong track record of contractual payments. MPC has a well-established contractual framework for a 15-year period, providing steady cash flow stream, with the PPA, the company receives capacity charges based on the availability of the plant, without considering the load dispatched as output to the gird. **This provides stable and reliable cash flows during the PPA period (till Jan 2032) of the project to shareholders.**

Robust experience of the founder shareholders

The project founders of MPC include Oman Oil Co (wholly owned by the Government of Oman) and LG International (LGI, global player). The founder shareholders have a strong track record and experience of implementing large and complex projects in Oman, GCC and globally. As per the prospectus, Oman Oil Co and LGI, will remain as major shareholders in MPC after the IPO, with a collective holding of 60%, providing comfort to the IPO shareholders.

Strategic Asset in Musandam

MPC has a contracted capacity of c. 120.7 MW and remain as the only independent power plant servicing the electricity demand of the Musandam Power System (MPS). Given the strategic importance of the region, as per the prospectus, unlike other IPPs in Oman, the Plant was awarded on “closed procurement” basis to Oman Oil Company SAOC (Govt entity) and LGI. Due to the reason being the relatively small size of the Musandam Power System and the strategic importance of this Plant within Musandam Power System, IPA (independent advisory) anticipates the continuation of single buyer approach by OPWP in Musandam Governorate post PPA. **We do see this as a critical point for the continuation of MPC operations beyond PPA to cater to the demand requirements in MPS.**

Flexible Plant with competitive heat rate and flexibility

Amid exceptional requirements of Musandam Governorate, the plant has used WMU’s reciprocating engines. These engines are designed to be used in dual fuels, both natural gas and fuel oil, to operate at extreme temperatures of up to 50°C, to deliver stable performance in highly humid conditions, to operate at very competitive heat rates, to have flexibility of fast start-up and shutdown and switch over between gas and Fuel Oil operation seamlessly. **The state-of-the-art plant design is best suited to the island like mode of operations of the Musandam Power System and has low water requirement for cooling**. As per the management, the plant is designed to provide flexibility to effectively handle the load variations on a cost-effective manner.

Operating at highest reliability till inception

As per the IPO prospectus, MPC has achieved excellent operating performance parameters since the COD with a Plant reliability of 99.9% which demonstrate efficient plant operations. As per the project agreements, MPC has been guaranteed to be available at 98% time in Summer and in Winter excluding scheduled unavailability. The PPA allows for scheduled unavailability during Winter (maximum 15%). In the projections, the company has assumed that the Plant will have forced outages of not more than 2% of operating time. **With the proven technology and scheduled maintenance cycle, we believe MPC could operate at its highest reliability levels.**

Experienced Operator with long term LTSA

WMU has been appointed as the operator under the O&M Agreement and LTSA provider. WMU's parent company, Wartsila Corporation, is a global leader in smart technologies and complete lifecycle solutions for the energy and marine markets with a long history and global market share. The operator of the Plant is WMU, pursuant to the 5-year O&M Agreement till June 2022 with an option for further extension. MPC has a comprehensive LTSA for a period of 15 years covering the guarantee of output and gross heat rate with the OEM, via WMU. **LSTA is valid till 15 Jun 2030 (15 years) or 70,000 Engine running hours on the applicable Power unit (each reciprocating engine unit and all ancillary components and generator equipment).**

Long term agreement support fuel supply and risk of price increase during PPA

Natural gas remain as the primary fuel used by MPC and the same is supplied under a 15-year NGSA entered into by the Company and Ministry of Gas (MoG), which is responsible for the procurement and delivery to the Plant of all of its natural gas requirements over the PPA period. If PPA is extended, the NGSA will automatically be extended. **As per the PPA, any increase in the price of natural gas charged by MoG would be directly passed through to OPWP, this remain supportive to the operating costs and margins of the company.**

No Litigated Damages and Litigation

As per the prospectus, MPC was scheduled to achieve Plant COD by 18 Dec 2016 but due to delay by the EPC Contractor and delay in RAECO grid readiness, the COD was delayed by 6 months, and the actual Plant COD was achieved on 17 June 2017. As per the PPA, OPWP imposed MPC delay liquidated damages in the amount of RO 4.525 million for the period covering 18 Dec 2016 until 16 June 2017. In 2017, OPWP deducted the same amount from invoices submitted to it by MPC as against liquidated damages.

After negotiations, MPC and the EPC Contractor entered into a Settlement Agreement dated 20th Dec 2018. Under the terms, the EPC Contractor agreed to compensate MPC an amount of USD 11.1 million (c. RO 4.27 million) for the delay liquidated damages and incurred losses due to delay in commissioning of the Project. In addition, WMU agreed to reduce fixed payment under LTSA by USD 2.1 million (c. RO 0.807 million) by way of a pro-rata reduction to monthly fee payable over 3 years from 1 Jan 2019. **Post this settlement, the company doesn't have any pending litigations or regulatory proceedings, providing comfort to the IPO shareholders.**

Debt Financing- No Cash Sweep mechanism

MPC has entered into financing agreements with bank muscat SAOG, for an aggregate amount of about RO 84.25 million (c. $ 219.04 million) subject to the terms of the Facilities Agreement (July 2015). The Term Facility has a tenor of 15 years which is extendable by a period of up to 5 years. In addition, the loan facilities of MPC are denominated in OMR and hence the company does not require any hedging requirements to protect against exchange rate movements.

Table 6: Details of repayment schedule of senior facilities are given in the table below

Senior facility loans	**2019**	**2020**	**2021**	**2022**	**2023**	
At 1st Jan- Senior facility loan	70,763	67,358	63,789	60,057	56,439	
Less: Repayments	(3,405)	(3,569)	(3,731)	(3,618)	(3,248)	
At 31st Dec (gross)	**67,358**	**63,789**	**60,058**	**56,439**	**53,191**	
less: Deferred finance charges	(1,090)	(1,090)	(1,090)	(1,090)	(1,090)	
add: amortization of deferred finance charges	290	351	412	474	536	
At 31st Dec (net)	**66,558**	**63,050**	**59,380**	**55,823**	**52,637**	
less: Senior facility loan- current portion	(3,569)	(3,731)	(3,618)	(3,248)	(3,457)	
Senior facility loan- non-current portion	**62,989**	**59,319**	**55,762**	**52,575**	**49,180**	
Repayment Schedule (Senior Facilities)	**Payable during**					**Payable after**
	2019	**2020**	**2021**	**2022**	**2023**	**2023**
In OMR (000s)	3,407	3,569	3,731	3,618	3,248	53,191

Source: IPO Prospectus, GBCM Research

The facilities agreement of MPC does not impose any mandatory cash sweep mechanism in respect of the repayment of the Facilities, this would in turn provide comfort to the IPO shareholders in terms of continuous dividend payment. On the other hand, **the term facility's repayment schedule includes a balloon component of 27.8% (about RO 23.4 million) of the principal drawn down under the term facility.** The balloon part must be repaid by 17 Dec 2031, subject to any deferral permitted under the terms of the Facilities Agreement

In addition, under the terms of facility agreement, MPC has provided the entire DSRA amount through cash. During 2018, as permitted under the terms of the facilities agreement, an amount of RO 3.483 million, which was held in cash in the DSRA, was released to MPC **and the obligation to maintain the cash DSRA was suspended for so long as the undertakings from Oman Oil Co and LGI remain in place.**

Value in the post PPA period

As per IPA study, the company could generate cash flows in the post PPA period and there would be significant value embedded in the post-PPA period. IPA study reveal that the capacity of existing plants and new builds in the Musandam Power System will not be enough to cover demand. In addition, the size of the MPS and its strategic importance, IPA expects the continuation of the single buyer approach by OPWP. The base case average annual EBITDA projected by IPA for MPC from the expiry of the PPA period to 2056 is c.RO 12.8 million. **As per our view, on a worst-case scenario there would be a PPA extension along with reduction in tariffs post PPA and the EBITDA may reveal a decline from its estimated average levels of RO 8.1 million till PPA, this risk could reduce the value beyond PPA.**

Steady Dividend stream provides comfort

Post IPO, the shareholders are expected to receive a stream of cash flows in the form of dividends during the term of the Project (five-year projections as disclosed) and for the post PPA period. The cash dividends are estimated to be declared twice in a financial year, subject to the terms of the facilities agreement. The first dividend post IPO would be paid in Dec 2019. Thereafter dividend would be paid twice every year in March and September.

Table 7: Details of estimated cash dividend payments for the next five years given below.

Expected Dividend Announcement Date	Total Dividends (OMR millions)	Dividend Per Share (In Baizas)
Dec 2019	1.944	27.6
Mar 2020	0.972	13.8
Sep 2020	0.972	13.8
Mar 2021	0.972	13.8
Sep 2021	0.972	13.8
Mar 2022	0.972	13.8
Sep 2022	0.972	13.8
Mar 2023	0.972	13.8
Sep 2023	0.972	13.8

Source: IPO Prospectus, GBCM Research

The shareholders of the IPO would be paid dividends immediately after listing in Dec 2019 to an extent of 27.6 baizas per share. Based on the IPO price band, the dividend yield works out to be 8.6% to 10.6% levels. **The IPO shareholders could be receiving dividends worth 55.2 baizas over the next 12 months, the prevailing higher dividend yield on holding the stock post listing would provide comfort to the institutional shareholders.**

Beyond the term of the PPA

Based on an independent report, the management of the company expects that MPC will operate beyond the term of the PPA and the same would be utilized to meet the forecasted long-term Power demand in Musandam Governorate. After expiry of the PPA, the term will either be extended or, if the power market in Oman is liberalized during this period like MIS, the power produced will be sold into a merchant market.

As per IPA study, under various scenarios after expiry of the PPA, annual and peak demand for electricity is expected to grow at CAGR of c. 5% to 852 GWh and 186 MW in 2032 (MPC PPA to expire). Based on this demand, MPC generation would be utilized post expiry of the PPA, since the capacity of existing plants and new builds in Musandam Governorate will not be enough to cover demand. Hence **the study reveal MPC has potential value after the expiry of the contract**. Despite the introduction of liberalized market in MIS (Spot 2020), the study says that the size of the Musandam market and strategic importance of MPC would continue the single buyer approach by OPWP.

IPA expects the long-term supply for the Musandam Power System to be met by natural gas fired reciprocating engines as the Plant, supplemented by diesel-fired internal combustion plants. The financial outcome for the Project in the post-PPA period to the end of its technical lifetime was calculated by IPA as given in the table below. *(Source: IPO Prospectus)*.

Table 8: Post PPA Scenarios

Year	Cost Savings to Single Buyer EBITDA (USD million)	Cost Savings to Single Buyer EBITDA (RO million)
2032	26.17	10.1
2037	28.89	11.1
2042	31.9	12.3
2047	35.22	13.5
2052	38.88	15.0
Total	838.13	322.4
Average	**33.52**	**12.9**

Source: Prospectus, GBCM Research

The 15-year term of PPA expires well before end of expected useful life of 40 years. Hence, a substantial part of the value is expected to be realized beyond the PPA. As per IPA, the base case average annual EBITDA projected by IPA for the Company from the expiry of the PPA period to 2056 is c. RO 12.9 million. Therefore, based on the results of the IPA study, MPC is expected to remain economically useful in the post-PPA period.

We believe the post PPA risk to remain in terms of the changes in market dynamics, competition, regulations and macro-economic factors. We believe the higher post PPA valuation is embedded to arrive at the fair value of the company.

Based on our dividend discount valuation during PPA term, we have arrived a fair value of about RO 0.175 to RO 0.195 (under different scenarios) and the post PPA value of the plant is about RO 0.150 to RO 0.190 (more than 50% value). This clearly reveal higher level of embedded value on post PPA scenario.

Table 9: 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.	**MPC has opted for key risk coverage Insurance to an extent of total insurable project value.** Covers interruption and/or interference with the insured business upon occurrence of any damage to the property insured against damage occurring during the period of this policy. War Terrorism and Political Violence Insurance are included. **The company has comprehensive LTSA for 15 years covering the guarantee of output and gross heat rate with the OEM, via WMU**
Technology Risks	Technological advances in power sector are evolving and new technologies may evolve in future which make the current technology of the Plant obsolete or uneconomical in future.	The plant is developed and designed based on the proven technologies and the equipment is supplied by reputed international supplies (WMU) WMU is the operator for the Plant and the LTSA provider. A substantive portion of the O&M risk is transferred by Musandam Power to WMU
Limited operating history	Commenced commercial operations on 17 June 2017 and has operated for 28 months (IPO). Accordingly, the investors have limited information with which to evaluate the operating performance of the Plant and its current or prospects or financial results and performance.	Key Shareholders Oman Oil Co SAOC and LGI have a proven track-record of owning and operating complex projects including power plants efficiently.
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.	Except for three existing power units, with capacity of c. 27 MW, the rest of the power units located in Musandam Governorate are expected to be at the end of their technical life. An independent study by IPA to assess the evolution of market structure and the value of the Company under various scenarios after the expiry of the PPA. **Therefore, IPA forecasts that the Plant will have value after the PPA expires.**

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. This, in turn, will result in passing-through effect of the changes in the Tax Law to OPWP under the PPA.
Increased O&M costs or capital expenditure	Operating the plant involves technical, legal, regulatory and other factors which are beyond control.	The risks faced by the Company in this respect are reduced as most the Plant's maintenance is being covered under the LTSA for 15 years with WMU, and hence risk of increased plant costs remains limited.
Dependence on OPWP as the sole customer	OPWP is sole purchaser of all electricity output from the Plant and from other licensed generation and production operators in Oman. As such, OPWP does not currently face any competition. If OPWP were to cease fulfilling its obligations under PPA, MPC would not be able to sell the Plant's capacity and output to another purchaser. The introduction of competition in Oman or the change of OPWP's role in the sector could have a material effect on the business, results of operations and financial condition of MPC, including the market price of the Shares.	Musandam Power earns its revenues under the long term PPA. The capacity charges paid by the OPWP covers the investment costs, fixed O&M expenses and financing costs and taxes. Capacity revenues are based on availability and are not dependent on actual energy dispatched. OPWP has strong track record of timely payments. **Musandam Power is the only IPP servicing the electricity demand of the Musandam Governorate**.
Transactions with related parties	MPC is involved in and dependent on certain related party transactions with its shareholders and companies controlled by some of its shareholders.	The Company has put in place certain policies for dealing with conflicts of interest and intends to abide by applicable laws and regulations relating to transactions with related parties and mitigate any risk related to related party transactions.
Risk associated with fuel supply and fuel price risks within the PPA period	Natural gas is the primary fuel for Plant and is supplied by Musandam Gas Plant through pipeline built & commissioned by MPC during construction and handed over to MoG for O&M of the pipeline as per provision of NGSA. The Plant completely relies on natural gas supply from Musandam Gas Plant.	**NGSA with the MoG goes in tandem with PPA mitigating fuel supply risk.** MPC is not exposed to a fuel price risk as the fuel cost is passed through to OPWP. NGSA provides shield against cost escalation due to use of fuel oil in the event of natural gas disruption by assuring payment for incremental fuel costs without any maximum limit and operating cost up to OMR 7.5 million per annum.

De-pegging or adjustment in Omani Rial/US Dollar peg	MPC as part of its operation makes certain payments to its vendors in US Dollars. As at the date of this Prospectus, the Omani Rial remains pegged to the US Dollar. Any such de-pegging could have an adverse or beneficial effect on financial condition of Musandam Power	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.
Adverse change in Interest rates	MPC is funded substantially through long term loans therefore any changes in the interest rates could impact its profitability. As per the current financing agreement, Musandam Power's interest cost on term loan is fixed for a certain period and is expected to be reset after the period.	Musandam Power's Term Facility and other facilities are OMR denominated which negates requirement for using hedging instrument. Facilities Agreement provides for protection against unfavorable movement in interest rate by capping the interest rate at a certain rate (subject to market disruption clause) for the term of the debt facility.
Dividend policy may not be fulfilled	Payment of dividends will be made considering sufficient distributable reserves and liquidity in order to ensure Musandam Power's operational needs and/or business growth are not limited by the unavailability of funds, as well as known contingencies and compliance with funding facility covenants. Dividend payments are not guaranteed. 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 based on free cash available, at any time and for any reason, not to recommend dividends. Further, any dividend policy, to the extent implemented, will significantly restrict MPC cash reserves and may adversely affect its ability to fund unexpected capital expenditures, as well as the ability to make interest and principal repayments on its outstanding term loan facilities.
Deadline Non-Compliance for Listing under PFA	PFA states that listing of the Offer Shares must occur within a period of four years commencing from the date of incorporation of the Company, i.e. on or before 19 November 2018.	Under the PPA, there are no consequences for failure to meet the deadline in the PFA, except that OPWP is entitled to terminate the PPA if there is a repudiation by Project Founders (or any of them) of the PFA. However, none of the Project Founders have repudiated or expressed their intention to repudiate the PFA and all Project Founders are committed to undertake the IPO.

Source: IPO Prospectus, GBCM Research

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

Projections till 2023E, as stated in prospectus

Amidst estimated stable free cash flow and steady cash generation ability of the company during PPA, we have chosen to perform our valuations based on the Dividend Discount Model (DDM). In this model, we have assumed cash dividends as mentioned in the IPO prospectus from 2019E to 2023E. We have used higher Cost of Equity of 10.3% in our model due to the perceived increase in risk among the investors. For our cost of equity calculations, we have used market risk premium of 5% and BETA of 0.870, based on our inhouse risk valuation model. Based on these assumptions, **we have arrived at fair value of RO 0.299 for Musandam Power Co.**

Table 10: DDM Valuation

(In RO 000s)	Dec-19	Mar-20	Sep-20	Mar-21	Sep-21	Mar-22	Sep-22	Mar-23	Sep-23
Dividend Per Share (In RO)	0.028	0.014	0.014	0.014	0.014	0.014	0.014	0.014	0.014
Dividends	1,943	971	971	971	971	971	971	971	971
Present Value of Div.	1,912	933	888	845	804	766	729	694	661
Terminal Value	18,779								
Present value of TV	12,780								
Fair Value	21,016								
Fair Value per share (In RO)	**0.299**								

Source: IPO Prospectus, GBCM Research Estimates

Sensitivity analysis reveal a fair value range between RO 0.272 to RO 0.351 levels on different assumptions of Cost of Equity and terminal growth rates post 2023E.

Table 11: DDM - Sensitivity Analysis

		Cost of Equity			
Sensitivity Analysis		**9.8%**	**10.3%**	**10.8%**	**11.5%**
Growth	**0.0%**	0.315	**0.299**	**0.289**	0.272
	0.5%	0.325	**0.308**	**0.297**	0.279
	1.0%	0.337	**0.318**	**0.306**	0.287
	1.5%	0.351	0.329	0.316	0.295

Source: GBCM Research Estimates

Methodology 2: Based on Dividend Yield adjustments, post listing

Table 12: **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 Desal.	2018	19.3X	0.116	0.156	34%	8.0%	6.0%
Dhofar Generating Co	2018	1.37X	0.225	0.211	-6.2%	8.0%	8.5%

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 till Muscat City Desalination (Dec 2017/ Jan 2018) and adjusted for 6-6.5% dividend yield post listing. The last IPO in the sector- Dhofar Generating Co (DGC) which came during Q3 2018 received lack luster response (only 1.37X subscription) and the issue had to revise the price downward (to 8% yield) and extend the IPO by two weeks. **DGC saw its share price decline of 6.2% on listing (refer above table), implying weak market conditions.**

In terms of secondary market, we have seen sharp correction in share prices over last two years across the power sector companies in MSM with dividend yield adjusting to about 8% to 10% levels. This is mainly on the back of uncertainties on Spot market 2022, Cash Sweep in several companies and increase in Oman Sovereign yield (USD) to about 6% (10 year, on a risk-free basis). Added, the local market- Muscat Securities Market (MSM) is trading closer to its 14-year lows amidst weak sentiments and volumes. Overall market dividend yield is closer to 7% and certain frontline stocks are offering dividend yield of > 8% levels, we believe the equity risk reward in MPC is compensated well at the lower end of the price band (Dividend yield above 10%). The dividend yield is not well-rewarded to the investors at the upper end (c. 8.6% levels). **Musandam Power Co offers the one of the highest dividend yields of 10.6% on the IPO pricing (lower end of band) which remain attractive as compared to the other companies in MSM due to longer PPA, no cash-sweep and no litigation claims.**

Assuming a 9% dividend yield post listing (on 2019E dividends), our fair value works out to be RO 0.307.

Table 13: Weighted Fair Value at RO 0.303

	Fair Value	Weight
DDM Methodology - 2019-2023E Estimates	0.299	40%
Sustainable Div. Yield Adjustment- 9%	0.307	60%
Weighted Fair Value	**0.303**	
Issue Price (lower end of price band)	0.260	
Upside	***16.7%***	

Source: GBCM Research Estimates

Our 12M Weighted Fair Value of Musandam Power Co works out to be RO 0.303, an upside of 17% from the lower band of the issue price offered to Phase 1 investors. We recommend subscribing the issue at the lower end of the price band.

Table 14: Oman Power Sector Comparison- Latest Valuations

			2018			2019E			2020E			
Omani Utilities Sector Cos	**Closing Price**	**Market Cap (In RO 000s)**	**PE**	**PBV**	**Div. Yield**	**PE**	**PBV**	**Div. Yield**	**PE**	**PBV**	**Div. Yield**	**PPA/PWPA Expiry**
Independent Power Plants	**31-Oct-19**											
United Power @@	2.400	4,800	15.5	0.6	52.1%		0.9	0.0%	-	0.9	0.0%	2020
Al Kamil Power	0.300	28,875	12.0	1.0	8.3%	8.6	0.9	13.3%	12.0	1.0	13.3%	2021
Al Batinah Power	0.070	47,242	5.2	0.6	12.1%	5.8	0.6	10.0%	5.8	0.5	10.3%	2028
Al Suwadi Power	0.070	50,008	5.6	0.6	12.9%	6.1	0.6	10.0%	6.1	0.5	10.3%	2028
Phoenix Power ~~	0.075	109,695	8.5	0.6	6.9%	8.8	0.6	6.9%	8.8	0.6	7.3%	2029
Dhofar Generating Co	0.191	42,448	95.5	0.8	9.4%	23.9	0.9	9.4%	19.1	0.9	9.4%	2032
Combined Power and Water Plants												
ACWA Power Barka **	0.664	106,240		2.3	2.3%	16.6	2.1	0.0%	16.2	1.9	3.8%	2021
Sohar Power ^^	0.074	16,355		0.7	0.0%		0.7	0.0%	12.3	0.7	0.0%	2022
SMN Power ^^	0.071	14,174	1.8	0.4	26.8%	2.0	0.4	0.0%	2.3	0.3	0.0%	Rusayl- 2022/ Barka- 2024
Sembcorp Salalah	0.123	117,412	9.1	1.1	9.9%	8.7	1.1	8.5%	9.0	1.1	8.5%	2027
Independent Water Plant												
Sharqiyah Desalination ***	0.289	28,264	29.9	1.7	6.9%	16.6	1.8	5.5%	17.1	1.7	5.2%	2036
Muscat City Desalination	0.103	16,022	14.7	1.0	9.3%	11.4	1.0	7.8%	11.4	0.9	7.8%	2034
Sector Average- (Cos with PPA beyond 2027)					**10.1%**			**8.8%**			**8.9%**	
Sector Average- weighted		**581,536**	**13.9**	**1.1**	**8.6%**	**10.8**	**1.1**	**6.5%**	**11.0**	**1.0**	**7.3%**	
Sector Average- Simple			19.8	1.0	13.1%	10.9	1.0	6.0%	10.0	0.9	6.3%	
Median					**9.4%**			**7.4%**			**7.6%**	

Source: Company Report, GBCM Research Estimates

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

Derating of Oman Utility Sector and prevailing higher dividend yield…

As per our research, estimated average Oman Utilities sector (including companies that have PPA beyond 2026) dividend yield for 2019E and 2020E works out to be c. 8.8-8.9% levels as compared to the estimated dividend yield of c. 10.6% for Musandam Power at lower end of the price band and c. 8.6% at the upper end of the offer price. At the current levels (post recent correction), the key utility sector companies are offering higher dividend yield. We saw selling pressure in key sector stocks during the last 24 months due to lower dividends, market uncertainties and increase in Oman sovereign yield. In addition, we saw lack of interest from foreign and regional investors amid macro weakness, market volatility and rising interest rate environment.

The dividend payout ratio of MPC remains at about 80% levels during the projected years given in prospectus (2019-2023E). At the end of 2023E, as per the IPO projections, the cash balance available is at minimal of RO 168K. Assuming average EBITDA of RO 8.1 million during 2023-2032E and annual debt payment (including interest) of about RO 6.6 million, the balance free cash flow available would be an average of RO 1.5 million (about RO 0.020 per share). In addition, the company would need to pay actual tax payment starting from 2027, which would also lower the available cash.

Based on the above points, we estimate the average divided per share to lower to about RO 0.018 to 0.020 per share post the IPO projections. The current draw down from existing cash reserves is the key reason for higher dividends during initial years. The risk remains in the form of increase in interest rates, higher operational costs due to unscheduled outages and tax outflows could lower dividends during the PPA.

The attractiveness of the issuance comes from the immediate dividends post listing, this would support the offer price post listing till the date of first dividend payment. **We expect the local institutional demand to remain in the Omani utilities sector with longer PPA, stable cash flows and higher dividend yield. MPC offers an opportunity to invest in a Strategic Power asset with Government entity as one of the key shareholders.**

Table 15: Income Statement Highlights

Income Statement Highlights (RO 000s)	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
			Estimates				
Capacity (In KW)	120,700	120,700	120,700	120,700	120,700	120,700	120,700
Revenue/ KWh (In RO)	0.0088	0.0156	0.0220	0.0257	0.0272	0.0276	0.0283
YoY (% Chg)		*77.5%*	*40.8%*	*16.8%*	*5.9%*	*1.8%*	*2.2%*
Plant Load Factor- GBCM Estimated			50.0%	50.0%	50.0%	50.0%	50.0%
Capacity Charges/ KWh (In RO)	0.0069	0.0106	0.0103	0.0104	0.0104	0.0105	0.0106
YoY (% Chg)		*54.9%*	*-3.5%*	*0.9%*	*0.6%*	*0.4%*	*1.0%*
Energy Charges	885	1,858	2,266	2,452	2,638	2,680	2,724
Capacity Charges	7,264	11,250	10,851	10,947	11,016	11,056	11,170
Other Charges	1,143	3,388	10,110	13,737	15,071	15,499	15,976
Revenue	**9,292**	**16,496**	**23,227**	**27,136**	**28,725**	**29,235**	**29,870**
YoY (% Chg)		*77.5%*	*40.8%*	*16.8%*	*5.9%*	*1.8%*	*2.2%*
Fuel Cost	2,193	3,763	10,110	13,737	15,071	15,499	15,976
Operating and Maintenance costs	1,715	3,251	3,642	3,866	4,088	4,177	4,265
Other operating costs (inc. Insurance)	311	805	660	689	704	714	727
Operating Costs	**4,219**	**7,819**	**14,412**	**18,292**	**19,863**	**20,390**	**20,968**
YoY (% Chg)		*85.3%*	*84.3%*	*26.9%*	*8.6%*	*2.7%*	*2.8%*
Gross Profit	**5,073**	**8,677**	**8,815**	**8,844**	**8,862**	**8,845**	**8,902**
YoY (% Chg)		*71.0%*	*1.6%*	*0.3%*	*0.2%*	*-0.2%*	*0.6%*
Management Staff and Labour	177	326	349	362	375	389	403
Admin and General Exp	14	51	234	238	241	245	247
Consultants/ Auditors	127	89	105	106	107	109	110
Provision against other receivables		115					
General & Admin expenses	**318**	**581**	**688**	**706**	**723**	**743**	**760**
YoY (% Chg)		*82.7%*	*18.4%*	*2.6%*	*2.4%*	*2.8%*	*2.3%*
EBITDA	**4,755**	**8,096**	**8,127**	**8,138**	**8,139**	**8,102**	**8,142**
YoY (% Chg)		*70.3%*	*0.4%*	*0.1%*	*0.0%*	*-0.5%*	*0.5%*
Depreciation	1,593	1,808	1,995	2,005	1,999	2,000	2,000
EBIT	**3,162**	**6,288**	**6,132**	**6,133**	**6,140**	**6,102**	**6,142**
YoY (% Chg)		*98.9%*	*-2.5%*	*0.0%*	*0.1%*	*-0.6%*	*0.7%*
Finance Costs	**1,877**	**3,303**	**3,448**	**3,173**	**2,997**	**2,998**	**3,442**
Profit before Tax	**1,285**	**4,735**	**2,727**	**2,990**	**3,158**	**3,104**	**2,700**
YoY (% Chg)		*268.5%*	*-42.4%*	*9.6%*	*5.6%*	*-1.7%*	*-13.0%*
Taxation	(588)	(1,014)	(685)	(450)	(475)	(467)	(406)
Profit after tax	**697**	**3,721**	**2,042**	**2,540**	**2,683**	**2,637**	**2,294**
YoY (% Chg)		*433.9%*	*-45.1%*	*24.4%*	*5.6%*	*-1.7%*	*-13.0%*

Source: IPO Prospectus, GBCM Research

Table 16: Balance Sheet Highlights

Balance Sheet Highlights (RO 000s)	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
					Estimates		
Property, Plant and Equipment	87,957	75,706	73,866	71,870	69,879	67,889	65,898
Capital work in progress	-	-					
Other receivables	-	466	494	254			
Total non-current assets	**87,957**	**76,172**	**74,360**	**72,124**	**69,879**	**67,889**	**65,898**
YoY (% Chg)	*47.8%*	*-13.4%*	*-2.4%*	*-3.0%*	*-3.1%*	*-2.8%*	*-2.9%*
Current assets							
Inventories	1,580	3,386	3,386	3,386	3,386	3,386	3,386
Trade and other receivables	867	2,548	2,794	2,958	3,023	3,044	3,069
Cash and cash equivalents	5,046	7,056	1,346	1,143	958	580	168
Total current assets	**7,493**	**12,990**	**7,526**	**7,487**	**7,367**	**7,010**	**6,623**
YoY (% Chg)	*-1.1%*	*73.4%*	*-42.1%*	*-0.5%*	*-1.6%*	*-4.8%*	*-5.5%*
Total Assets	**95,450**	**89,162**	**81,886**	**79,611**	**77,246**	**74,899**	**72,521**
YoY (% Chg)	*42.3%*	*-6.6%*	*-8.2%*	*-2.8%*	*-3.0%*	*-3.0%*	*-3.2%*
Equity and Liabilities							
Capital and reserves							
Share Capital	7,039	7,039	7,039	7,039	7,039	7,039	7,039
Legal reserve	197	442	647	902	1,172	1,437	1,667
Retained earnings	1,590	3,797	1,310	1,651	2,120	2,548	2,668
Total Equity	**8,826**	**11,278**	**8,996**	**9,592**	**10,331**	**11,024**	**11,374**
YoY (% Chg)	*NM*	*27.8%*	*-20.2%*	*6.6%*	*7.7%*	*6.7%*	*3.2%*
Non-current liabilities							
Equity bridge loan	-						
Senior facility loan-non-current	60,513	66,495	62,989	59,319	55,762	52,575	49,180
Provision for assets retirement obligation	3,979	152	168	185	203	222	243
Provision for end of service benefits	6	6					
Deferred tax liability (net)	337	1,602	2,287	2,736	3,211	3,678	4,085
Total non-current liabilities	**64,835**	**68,255**	**65,444**	**62,240**	**59,176**	**56,475**	**53,508**
YoY (% Chg)	*63.4%*	*5.3%*	*-4.1%*	*-4.9%*	*-4.9%*	*-4.6%*	*-5.3%*
Current liabilities							
Loan from shareholders	6,539	3,067					
Equity bridge loan	-						
Trade and other payables	12,333	3,090	3,064	3,260	3,368	3,427	3,464
Senior facility loan- current	2,549	3,407	3,569	3,731	3,618	3,248	3,457
Working capital loan			773	738	723	715	708
Amount due to related parties	368	65	40	50	30	10	10
Total Current liabilities	**21,789**	**9,629**	**7,446**	**7,779**	**7,739**	**7,400**	**7,639**
YoY (% Chg)	*-19.5%*	*-55.8%*	*-22.7%*	*4.5%*	*-0.5%*	*-4.4%*	*3.2%*
Total liabilities	**86,624**	**77,884**	**72,890**	**70,019**	**66,915**	**63,875**	**61,147**
YoY (% Chg)	*29.8%*	*-10.1%*	*-6.4%*	*-3.9%*	*-4.4%*	*-4.5%*	*-4.3%*
Total equity and liabilities	**95,450**	**89,162**	**81,886**	**79,611**	**77,246**	**74,899**	**72,521**
YoY (% Chg)	*42.3%*	*-6.6%*	*-8.2%*	*-2.8%*	*-3.0%*	*-3.0%*	*-3.2%*

Source: IPO Prospectus, GBCM Research

Table 17: Cash Flow Highlights

Cash Flow Statement Highlights (RO 000s)	2017	2018	2019	2020	2021	2022	2023
			Estimates				
Cash flow from operating activities							
Net profit before tax	1,285	4,735	2,727	2,990	3,158	3,104	2,700
Adjustment for non-cash items							
Finance costs	1,877	3,303	3,348	3,093	2,921	2,921	3,365
Asset retirement obligation- unwinding of discount	207	(196)	9	8	7	10	10
Provision for impairment of other receivables		115					
Amortization of deferred financing charges	68	63	62	62	62	62	62
Depreciation	1,593	1,809	1,994	2,000	1,994	1,995	1,995
Operating cash flow before working capital adj.	**5,030**	**9,829**	**8,140**	**8,153**	**8,142**	**8,092**	**8,132**
YoY (% Chg)	*NM*	*95.4%*	*-17.2%*	*0.2%*	*-0.1%*	*-0.6%*	*0.5%*
Inventories	(1,580)	(92)	-	-	-	-	-
Trade and other receivables	2,558	1,170	(279)	79	190	(21)	(24)
Trade and other payables	(148)	(9,239)	(146)	197	112	59	44
Amounts due to related parties	363	(303)	(25)	10	(20)	(20)	-
Net cash from/ (used in) operating activities	**6,223**	**1,366**	**7,690**	**8,439**	**8,424**	**8,110**	**8,152**
YoY (% Chg)	*114.6%*	*-78.0%*	*463.0%*	*9.7%*	*-0.2%*	*-3.7%*	*0.5%*
Cash flow from investing activities							
Payment for purchase of PPE/ Capital WIP	(21,833)	(7)	-	-	-	-	-
Net cash from/ (used in) investing activities	(21,833)	(7)	-	-	-	-	-
Cash flows from financing activities							
Issue of Share capital							
Loan from shareholders							
Receipt/ Repayment of equity bridge and facility loan							
Receipt of senior facility loan	24,250	10,253					
Repayment of senior facility loan	(2,437)	(3,475)	(3,405)	(3,569)	(3,731)	(3,618)	(3,248)
Movement in restricted cash	(3,468)	3,468					
Finance costs paid	(1,877)	(3,303)	(3,377)	(3,094)	(2,918)	(2,918)	(3,365)
Deferred financing costs							
Shareholder loan Principal repayments			(3,067)	-	-	-	-
Working capital Drawdown		1,500	773	(35)	(16)	(8)	(7)
Repayment of working capital loan		(1,500)					
Repayment of shareholder loan		(3,477)					
Dividend Payment			(4,324)	(1,944)	(1,944)	(1,944)	(1,944)
Net cash used in financing activities	**16,468**	**3,466**	**(13,400)**	**(8,642)**	**(8,609)**	**(8,488)**	**(8,564)**
YoY (% Chg)	*-14.5%*	*-79.0%*	*-486.6%*	*-35.5%*	*-0.4%*	*-1.4%*	*0.9%*
Net increase in cash and cash equivalent	858	4,825	(5,710)	(203)	(185)	(378)	(412)
Cash and cash equivalents at the beginning of year	721	1,579	7,056	1,346	1,143	958	580
Cash and cash equivalents at the end of year	**1,579**	**6,404**	**1,346**	**1,143**	**958**	**580**	**168**
YoY (% Chg)	*119.0%*	*305.6%*	*-79.0%*	*-15.1%*	*-16.2%*	*-39.5%*	*-71.1%*

Source: IPO Prospectus, GBCM Research

Table 18: Ratio Analysis – Lower end of Price Band (RO 0.260)

	Actuals						
Key Ratios (Price assumed @ RO 0.260)	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
			Estimates				
Margins (%)							
Gross Profit Margin (%)	54.6%	52.6%	38.0%	32.6%	30.9%	30.3%	29.8%
EBITDA Margin (%)	51.2%	49.1%	35.0%	30.0%	28.3%	27.7%	27.3%
Operating Margin (%)	34.0%	38.1%	26.4%	22.6%	21.4%	20.9%	20.6%
PAT Margin (%)	7.5%	22.6%	8.8%	9.4%	9.3%	9.0%	7.7%
Per Share Ratio (in RO)							
EPS	0.010	0.053	0.029	0.036	0.038	0.037	0.033
Book Value	0.125	0.160	0.128	0.136	0.147	0.157	0.162
Cash Dividend per share		0.034	0.028	0.028	0.028	0.028	0.028
EV Per Share	1.177	1.196	1.186	1.139	1.090	1.045	1.005
Equity Valuation - at Issue Price							
P/E	26.3	4.9	9.0	7.2	6.8	6.9	8.0
P/BV	2.1	1.6	2.0	1.9	1.8	1.7	1.6
Div. Yield	-	13.0%	10.6%	10.6%	10.6%	10.6%	10.6%
Div. Payout		63.9%	95.1%	76.5%	72.4%	73.7%	84.7%
Enterprise Valuation							
EV/ Sales	8.9	5.1	3.6	3.0	2.7	2.5	2.4
EV/ EBITDA	17.4	10.4	10.3	9.9	9.4	9.1	8.7
EV/ EBIT	26.2	13.4	13.6	13.1	12.5	12.1	11.5
Return Ratios							
Return on Equity - RoE	7.9%	33.0%	22.7%	26.5%	26.0%	23.9%	20.2%
Return on Avg. Equity - RoAE	15.2%	37.0%	20.1%	27.3%	26.9%	24.7%	20.5%
Return on Assets - RoA	0.7%	4.2%	2.5%	3.2%	3.5%	3.5%	3.2%
Return on Avg. Assets - RoAA	0.9%	4.0%	2.4%	3.1%	3.4%	3.5%	3.1%
Activity and Efficiency Ratios							
Days of Inventory		328	122	90	82	80	77
Days Receivables		56	44	40	38	38	38
Days Payables		144	78	65	62	61	60
Cash Conversion cycle		241	89	65	59	56	55
Liquidity ratio							
Current ratio	0.3	1.3	1.0	1.0	1.0	0.9	0.9
Leverage ratio							
Debt/ Equity ratio	7.9	6.5	7.4	6.6	5.7	5.1	4.6

Source: IPO Prospectus, GBCM Research

Table 19: Ratio Analysis – Upper end of Price Band (RO 0.325)

	Actuals						
Key Ratios	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
			Estimates				
Margins (%)							
Gross Profit Margin (%)	54.6%	52.6%	38.0%	32.6%	30.9%	30.3%	29.8%
EBITDA Margin (%)	51.2%	49.1%	35.0%	30.0%	28.3%	27.7%	27.3%
Operating Margin (%)	34.0%	38.1%	26.4%	22.6%	21.4%	20.9%	20.6%
PAT Margin (%)	7.5%	22.6%	8.8%	9.4%	9.3%	9.0%	7.7%
Per Share Ratio (in RO)							
EPS	0.010	0.053	0.029	0.036	0.038	0.037	0.033
Book Value	0.125	0.160	0.128	0.136	0.147	0.157	0.162
Cash Dividend per share		0.034	0.028	0.028	0.028	0.028	0.028
EV Per Share	1.242	1.261	1.251	1.204	1.155	1.110	1.070
Equity Valuation - at Issue Price							
P/E	32.8	6.1	11.2	9.0	8.5	8.7	10.0
P/BV	2.6	2.0	2.5	2.4	2.2	2.1	2.0
Div. Yield		10.4%	8.5%	8.5%	8.5%	8.5%	8.5%
Div. Payout		63.9%	95.1%	76.5%	72.4%	73.7%	84.7%
Enterprise Valuation							
EV/ Sales	9.4	5.4	3.8	3.1	2.8	2.7	2.5
EV/ EBITDA	18.4	11.0	10.8	10.4	10.0	9.6	9.3
EV/ EBIT	27.7	14.1	14.4	13.8	13.2	12.8	12.3
Return Ratios							
Return on Equity - RoE	7.9%	33.0%	22.7%	26.5%	26.0%	23.9%	20.2%
Return on Avg. Equity - RoAE	15.2%	37.0%	20.1%	27.3%	26.9%	24.7%	20.5%
Return on Assets - RoA	0.7%	4.2%	2.5%	3.2%	3.5%	3.5%	3.2%
Return on Avg. Assets - RoAA	0.9%	4.0%	2.4%	3.1%	3.4%	3.5%	3.1%
Activity and Efficiency Ratios							
Days of Inventory		328	122	90	82	80	77
Days Receivables		56	44	40	38	38	38
Days Payables		144	78	65	62	61	60
Cash Conversion cycle		241	89	65	59	56	55
Liquidity ratio							
Current ratio	0.3	1.3	1.0	1.0	1.0	0.9	0.9
Leverage ratio							
Debt/ Equity ratio	7.9	6.5	7.4	6.6	5.7	5.1	4.6

Source: IPO Prospectus, GBCM Research

Key Abbreviations used in the report

- MPC/ Musandam Power/ the company- Musandam Power Co
- PPA - Power Purchase Agreement
- PFA- The Project Founder's Agreement dated 15 March 2015
- Scheduled COD / SCOD- The Scheduled Commercial Operation Date of the Plant under the PPA, being 18 December 2016
- OEM-
- EPC- The turnkey Engineering, Procurement and Construction contract dated Nov 2015
- Facilities Agreement- Facilities Agreement dated 1 July 2015 between Musandam Power Company SAOC and bank muscat SAOG.
- GDP- Gross Domestic Product
- LTSA- Reciprocating Engine Long Term Services Agreement between MPC and WMU
- OEM/ Wartsila- Wartsila Corporation
- OETCL- Oman Energy Trading Company Limited.
- OOFDC- Oman Oil Facilities Development Company LLC
- WMU- Wärtsilä Muscat LLC, a 100% subsidiary of Wärtsilä Corporation
- DSCR - Debt Service Coverage Ratio
- DSRA- Debt Service Reserve Account
- IPO - The initial public offering of the Offer Shares pursuant to the Offer.
- IPP - Independent Power Producer
- MW - Megawatts
- MOF - The Ministry of Finance of the Sultanate of Oman.
- MOG - The Ministry of Oil & Gas
- MOH - The Ministry of Housing.
- MIS - The Main Interconnected System
- NGSA - The Natural Gas Sales Agreement dated 12 July 2015
- O&M Agreement - The Operation and Maintenance Agreement dated 16 June 2015
- PPA - The Power Purchase Agreement
- RAECO - Rural Area Electricity Company SAOC
- 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

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