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CREDIT OPINION
29 June 2021

Update

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RATINGS

Oman Power and Water Procurement Company SAOC

Domicile	Muscat, Oman
Long Term Rating	Ba3
Type	LT Corporate Family Ratings
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Oman Power and Water Procurement Company SAOC

Update to credit analysis

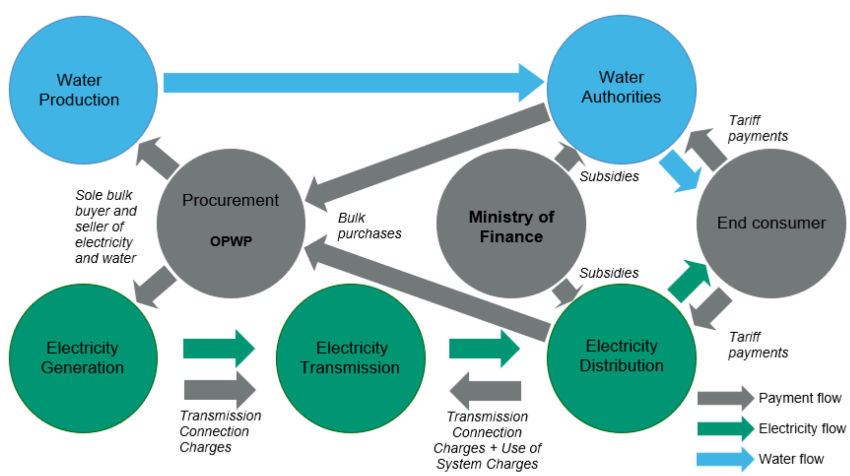
Summary

We view Oman Power and Water Procurement Company SAOC (OPWP) as a government-related issuer (GRI) whose Ba3 corporate family rating (CFR) reflects a baseline credit assessment (BCA) of ba3, combined with a very high level of dependence and a very high level of support from the Government of Oman (Ba3 negative).

OPWP's rating is constrained by the company's significant indirect exposure to the Omani government in the form of subsidies and whose credit standing has been weakening. In particular, recurring delays in the payment of subsidies to the distribution companies and government water departments have increased OPWP's working capital requirements. The company's significant use of short-term working capital facilities negatively affects its liquidity position.

OPWP's rating remains supported by (1) the stable and transparent regulatory framework for the electricity sector and the independence of the regulator; (2) the cost-recovery mechanisms of the regulatory framework; (3) the low business risk profile and strict regulation of OPWP's activities and (4) its monopoly position in Oman.

Exhibit 1
OPWP benefits from a stable and transparent regulatory framework



Source: OPWP

The assumption of very high government support is underpinned by: (1) the full government ownership; (2) the fact that the company's revenues indirectly include substantial government subsidies; and (3) the company's importance as an essential service provider, facilitator of government policy to diversify the economy away from hydrocarbons, and employer of Omani nationals. Under Article 67 of the Law for the Regulation and Privatisation of the Electricity and Related Water Sector (Sector Law), the Ministry of Finance pledges to secure the availability of adequate finance to allow the company to undertake its activities as long as the company is fully owned by the government. We see this provision of the law as further enhancing the linkages with the government and supportive of the company's liquidity.

Credit strengths

» Strategic role in Oman's growing power and water sector

» Low business risk enhanced by the stability of the regulatory framework

Credit challenges

» Credit risk profile heavily reliant on the ability to pass through procurement costs

» Large short-term liquidity needs during the peak season

Rating outlook

The negative outlook reflects the negative outlook on the sovereign rating because of the strong credit links between OPWP and the government.

Factors that could lead to an upgrade

OPWP's ratings could be upgraded if Oman's long-term issuer rating was upgraded. This would also require no material deterioration in the company's operating and financial performance as well as a stronger liquidity profile.

Factors that could lead to a downgrade

OPWP's ratings could be downgraded in case of a further downgrade of Oman's sovereign rating or in case of adverse changes in the regulatory framework.

Key indicator

Exhibit 2

Key Indicators for Oman Power and Water Procurement Company SAOC

	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
CFO pre-WC + Interest / Interest	2.7x	2.7x	2.5x	1.7x	1.9x
CFO pre-WC / Debt	7%	7%	8%	5%	7%
CFO pre-WC – Dividends / Debt	7%	7%	8%	5%	7%
Debt / Capitalization	100%	100%	100%	102%	103%

All ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless otherwise indicated.
Source: Moody's Investors Service

Profile

Oman Power and Water Procurement Company SAOC (OPWP) undertakes fully regulated water and electricity procurement services within the Sultanate of Oman. Established in 2003 and with headquarters in Muscat, Oman, OPWP has the exclusive right (subject to certain limited exceptions) to act as the sole buyer of electricity and water from licensed production facilities, and is the sole seller of electricity and water to the licensed electricity suppliers and water authorities.

OPWP is a closed joint stock company registered under the Commercial Companies Law of Oman, owned by Electricity Holding Company SAOC (Nama Holding - NH). NH is 100% owned by the Oman Investment Authority.

Detailed credit considerations

Well-established regulatory framework and independent regulator

The regulatory framework was set up through royal decree 78 in 2004 in the form of the Sector Law and clearly defines the roles of key stakeholders in the Omani utility sector: regulation, procurement, generation, transmission as well as distribution and supply. Over the last decade the Authority for Public Services Regulation (APSR, the regulator) has acted independently and in a very transparent manner, such as in conjunction with the privatization of the power generation sector and the unbundling of the Dhofar System. The regulatory framework is credit supportive and has been positively reflected in the ba3 BCA.

OPWP fulfills an important role to ensure adequate capacity in the sector

OPWP's rating incorporates its strategic role in Oman's growing power and water sector as well as its government agency-like function in certain activities such as future capacity planning. The company's primary focus is (1) to ensure that sufficient capacity and output are available to meet the requirements of licensed electricity suppliers and (2) to maximize the co-production of electricity generation and desalination water production where economical to do so. OPWP is responsible for determining demand and generation requirements for electricity and desalinated water over a 7 year horizon. If new capacity is needed, OPWP initiates a bidding process for additional independent production contracts.

The government of Oman aims to reduce the reliance of the economy on the hydrocarbon sector. Amongst the policies are subsidised electricity tariffs for the industrial sector to attract foreign direct investments and create employment opportunities for Omani nationals. A significant portion of OPWP's revenues are indirectly derived from the Omani government subsidies, whose credit profile has deteriorated as reflected in the rating downgrade to Ba3 negative in June 2020. The government introduced a gradual phase out of electricity subsidies in 2021 with the aim of reaching fully cost-reflective tariffs by 2025. Cost-reflective tariffs were introduced in 2017 for large industrial, commercial and government consumers at peak hours and during peak season. The government also announced its intention to introduce a spot market for electricity generation by the end of 2021 which would operate alongside the current power purchase agreements system.

Credit risk profile heavily reliant on OPWP's ability to pass through procurement costs

OPWP's financial profile benefits from a highly predictable revenue stream offset by largely stable procurement costs. OPWP makes significant payments to licensed production facilities as sole off-taker of electricity and water and receives significant payments from licensed electricity suppliers and water authorities when its commitments are sold. The company's gross profit is regulated and sufficient to cover operating expenses, while it is able to make a small profit if it can operate more efficiently and outperform the regulator's assumptions on administrative costs. Conversely, it may make a small loss if it is less efficient or receives penalties from the regulator.

Much of the company's credit risk profile hinges on the stability of the regulatory regime, in particular the continuity of its right to pass through procurement costs (thus eliminating market risk exposure), the regulator's acceptance of its costs as reasonable and consistent with efficient operation and economic purchase and the timeliness of those payments.

OPWP calculates bulk supply tariffs on the basis of a cost-plus formula, allowing for full pass-through of market risk under normal circumstances. Tariffs are determined annually by OPWP and approved by the AER. OPWP issues a preliminary invoice to licensed suppliers at the end of each month, with supplemental invoices for adjustments issued when practically feasible. Payments against invoices and adjustments are required to be made within 30 days of receipt.

ESG considerations

OPWP faces low environmental and social risks.

OPWP's financial policies and governance are currently determined by the government, given its full ownership of the company. This includes investment decisions and shareholder returns, which can materially affect the company's credit profile.

Liquidity analysis

Weak liquidity profile partly offset by liquidity buffers held by Nama Holding and government provisions

OPWP's liquidity profile has weakened because of recurring delays in the payment of subsidies to the distribution companies and water authorities that have increased OPWP's reliance on short-term working capital facilities. OPWP is subject to short-term liquidity needs when cash outflows to the generators temporarily exceed cash inflows from licensed suppliers and water authorities. OPWP has an OMR200 million facility for its working capital needs which typically peak in the summer months. The facility was fully drawn as of 31 March 2021.

OPWP also benefits from additional support provisions from its parent company and the government. Nama Holding had cash reserves of OMR159 million ($414 million) as of 31 December 2020. These reserves were extracted from dividend payments from its subsidiaries, and are held as a financial buffer for its subsidiaries. In addition, the company benefits from Article 67 of the Sector Law as long as it remains fully owned by the government. Article 67 stipulates that the MoF undertakes "to secure the availability of the necessary finance for [OPWP] to undertake [its] activities and achieve [its] objectives, ... for as long as [its] capital is wholly-owned by the Government".

Ratings

Exhibit 3

Category	Moody's Rating
OMAN POWER AND WATER PROCUREMENT COMPANY SAOC	
Outlook	Negative
Corporate Family Rating	Ba3

Source: Moody's Investors Service

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