STANDARD & POOR'S
RATINGS SERVICES

RatingsDirect®

Oman Power and Water Procurement Co. SAOC

Primary Credit Analyst:
Karim Nassif, Dubai (971) 4-372-7152; karim.nassif@standardandpoors.com

Secondary Contact:
Dima B Jardaneh, Dubai (971) 4-372-7154; dima.jardaneh@standardandpoors.com

Table Of Contents

Likelihood Of Extraordinary Government Support

Rationale

Outlook

Standard & Poor's Base-Case Scenario

Company Description

Business Risk:

Financial Risk

Liquidity

Reconciliation

Related Criteria And Research

Oman Power and Water Procurement Co. SAOC

Corporate Credit Rating	A/Stable/--

Profile Assessments

BUSINESS RISK	STRONG	Vulnerable — Excellent
FINANCIAL RISK	INTERMEDIATE	Highly leveraged — Minimal

Likelihood Of Extraordinary Government Support

The 'A' rating on regulated procurement and supply company Oman Power and Water Procurement Co. SAOC (OPWP) is based on an equalization with the long-term rating on the Sultanate of Oman (A/Stable/A-1). The equalization reflects Standard & Poor's Ratings Services' opinion that there is an "almost certain" likelihood that the government would provide timely and sufficient extraordinary to OPWP in the event of financial distress.

In accordance with our criteria for government-related entities (GREs), our rating approach is based on our view of OPWP's:

- "Integral" link with the Omani government, given the company's public policy status and 100% state ownership through the Ministry of Finance and the Electricity Holding Co. SAOC (EHC). We view OPWP as a policy-based arm of the government, undertaking an agency role in the electricity and water sector that could not be readily undertaken by a private-sector entity. OPWP must remain wholly owned by the government indefinitely, under Article (14) of the Law for the Regulation and Privatization of the Electricity and Related Water Sector ("Sector Law"). OPWP's obligations are not explicitly guaranteed, but under Article 67 of the Sector Law, the Ministry of Finance must provide adequate financing to enable OPWP to conduct its operations.
- "Critical" policy-based and strategically important role as sole bulk buyer and supplier of electricity and desalinated water in Oman. Without OPWP as intermediary, generators and suppliers would need to interact directly, which is currently against public policy as it would entail material risks. OPWP also performs the critical role of forecasting demand and supply of electricity and related water in Oman.

Rationale

We consider OPWP to have a stand-alone credit profile (SACP) of 'a-', reflecting a "strong" business risk profile and an "intermediate" financial risk profile. The SACP is supported by OPWP's monopoly position and regulated payment model, offset partially by reliance on shareholder funding to meet seasonal swings in cash flows and weak profitability associated with the adoption of the International Financial Reporting Interpretations Committee's Standard No. 4 (IFRIC 4). We assess the company's management and governance as "fair" as defined in our criteria.

Business Risk: Strong	Financial Risk: Intermediate
• Monopoly bulk buyer and seller of electricity and associated desalinated water in Oman. • Wholly owned by the Sultanate of Oman. • Fully regulated low-risk agency function with no direct operations. • Weak net profitability. • Increased potential for counterparty risk following any privatization of distribution companies.	• Seasonal working capital swings that require tight liquidity management. • Very little third-party debt outstanding and no external long-term funding requirements.

Outlook: Stable

The stable outlook on OPWP reflects that on Oman. If we revised our ratings on Oman, a revision of our ratings on OPWP would follow. We currently do not expect our view of OPWP's "critical" role for and "integral" link with the Omani government to change, meaning that the ratings on OPWP are likely to remain equalized with those on Oman.

Downside scenario

A downgrade of Oman would likely result in a downgrade of OPWP according to our GRE criteria.

The ratings on OPWP could come under pressure should the company deviate from its current practices and start to engage in long-term borrowing other than to cover working capital swings. This could lead us to reconsider our view of OPWP's agency role and, in particular, the likelihood of government support. We view it as unlikely that OPWP would start to engage in such long-term borrowing.

Upside scenario

There is limited upside to the ratings in our view. The most likely trigger for an upgrade would be the raising of our sovereign ratings on Oman.

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics

Assumptions

- Revenue growth in the 10%-12% range per year over 2012-2014, based on the regulatory payment model, with a significant increase in 2013.
- EBITDA margins remaining between 29% and 35%, whereas EBIT tends to reflect accounting for leases rather than business performance.
- Net accounting losses of Omani rial (OMR) 2 million-OMR3 million ($5.2 million to $7.8 million) over the short term. We anticipate OPWP reporting positive pretax net profits as of 2016, excluding the impact of updates to International Financial Reporting Standards (IFRS) that could affect the company's lease reporting.

Key Metrics

	2012	2012e	2014e
FFO/Total Debt (%)*	2	1.5-2.5	1.5-2.5
Debt/EBITDA (x)**	16	16-22	16-22
Ebitda Margin (%)	35	28-35	29-35

*We have added OMR2.152 million of operating leases to debt. Excluding the lease adjustments, FFO to debt would have been 12% in 2012. We anticipate unadjusted FFO to debt at 12% to 15% over the 2013-2014. **Debt to EBITDA excluding the lease adjustments was 3.9x in 2012. We anticipate an unadjusted ratio of 3.5 to 4.5x over the forecast period. OMR--Omani rial. FFO--Funds from operations. e--Estimate.

Company Description

OPWP was established in 2004 by Royal Decree as part of the Sector Law, whose aim was to separate the government's assets in the electricity and related water sector into functional corporate entities with a view to eventual privatization. OPWP is one of only two entities required by the Sector Law to remain 100% owned by the government, reflecting its singular and strategically important role.

OPWP is Oman's sole bulk buyer and seller of electricity and desalinated water. It acts as the interface between generators and suppliers and has no production facilities of its own. It acts purely in a broker capacity on behalf of the government, as reflected in its balance sheet, which comprises mainly short-term trade payables (procurement costs) and trade receivables (amounts due from suppliers).

The company's second core responsibility is to provide the government with accurate long-term forecasts for electricity and related water demand in Oman, which it does under detailed seven-year plans that it updates annually. OPWP is also responsible for ensuring sufficient capacity to meet this demand, at the lowest possible cost. If OPWP forecasts a shortfall, it is required to arrange open and fair auctions to attract local and overseas investors for the purpose of building new capacity.

Business Risk:

A unique role, under a protective ownership and regulatory framework

The major supports for OPWP's strong business risk profile are:

- Its monopoly position within the electricity and related water sector in Oman. As long as OPWP retains its exclusive

right to procure and sell bulk electricity and related water in Oman, it will face no direct competition.
- The fully regulated nature of its revenues. The Authority for Regulation regulates OPWP's revenues through a transparent cost-recovery system that allows full pass-through of procurement costs under normal circumstances. The authority must give OPWP at least 10 years' notice to terminate its license, and although the license can be revoked, the conditions that would trigger this would essentially require negligence or fraud by OPWP.
- Its low-risk agency function and no direct operations. OPWP's agency-type function focuses on the management of power and water contracts, while treasury and accounting are outsourced to EHC. The lack of direct electricity or related water operations reduces OPWP's overall business risk. OPWP's role is limited to planning and forecasting future requirements for electricity generation and water desalination to procure capacity in a timely manner, and promoting efficiency in the electricity and related water sectors.
- Continuously strong demand. According to OPWP's plan for 2011-2018, peak demand is forecast to increase by 8% per year, to 6,582 megawatts (MW) in 2018 from 3,845MW in 2011. Revised demand projections for 2013-2017 show an increase to 13% on the Salalah system (from about 9%) and 10% on the main system (from 8%), and sufficient capacity has been provided to avoid material outages. OPWP avoided fines under the terms of its license during 2012 and so far in 2013. It expects demand to rise by about 8%-8.5% in the electricity segment and by about 5%-5.5% in the water segment for 2011-2018.

These supports are partly offset by:

- The expiration of two leases in 2017, which could affect net profit. OPWP aims to ensure that existing leases are rolled over in the medium to long term, with similar counterparties. We understand that under accounting standards likely to be implemented by about 2015, OPWP may have to report all its leases as finance leases. This could reduce reported profit in the short term by more than we currently anticipate. OPWP's losses in 2012 resulted from its adoption of IFRIC 4, which led to higher-than-average depreciation and interest charges on financial leases. We expect such charges and their impact to subside over the long term, resulting in improved profitability. OPWP's EBITDA margins and returns on capital are average relative to those of regional peers.
- Likely higher debt under the new regulatory regime for the Salalah system. The license agreement governing OPWP's operation of the Salalah grid is due to be restructured by year-end 2013. The most significant change is that the government will no longer pay subsidies in advance for the Salalah grid. The timing of those payments will be more in line with those for the main interconnected system, which results in a short timing mismatch between payment by power generators and distributors. We therefore anticipate an additional working capital funding need as a result of the license change. We understand OPWP has recently negotiated a new OMR50 million working capital facility, at 1.65%, to replace the existing OMR25 million with Bank of Muscat.
- Risks from sector liberalization. Higher counterparty risks from privatized generation and distribution companies. The regulator's licensing process and government's subsidy of such private-sector entities mean this risk would likely be low.
- Unpredictable market growth in Oman. OPWP risks fines from the regulator if it fails to adequately plan for projected demand. If OPWP secures too much capacity for Oman's needs, the regulator would allow the associated costs to be passed through as long as the capacity had previously been approved under a seven-year plan. OPWP is working with the regulator on contingency measures in the event that the planned projects are not completed on time. The electricity supply companies are also pursuing demand-side management initiatives in cooperation with the regulator.

Lower-than-expected indirect costs would allow OPWP to earn additional profit, while unanticipated increases in indirect costs would reduce profit. Nevertheless, these amounts are low and do not provide the company with a significant unrestricted cash buffer.

S&P Base-Case Operating Scenario

OPWP's revenues are fully regulated under a transparent cost-recovery tariff that allows full pass-through of procurement costs under normal circumstances. We anticipate revenue growth of 10%-12% and EBITDA margins of 29%-35% over 2012-2014.

We anticipate that OPWP will report net losses of about OMR2 million to OMR3 million over the short term. OPWP's revenues from the electricity division improved by OMR57 million in 2012, while those from water increased by OMR5 million. Revenues for the year totaled OMR403.3 million, mainly from bulk supply tariffs: 68% electricity and 20% desalinated water (similar to 2011). Most of the remainder comprised net funding from the Ministry of Finance to cover costs of managing the Salalah concession agreement. After capacity and output costs for electricity generators and desalinators, and administrative expenses, the operating profit for 2012 was OMR122 million, up from OMR84.9 million the previous year.

Peer comparison

Table 1

Oman Power and Water Procurement Co. SAOC--Peer Comparison		
Industry Sector: Power		
	Oman Power and Water Procurement Co. SAOC	**Saudi Electric Co.**
Corporate credit rating as of May 15, 2013	A/Stable/--	AA-/Stable/--
(Mil. $)	**--Fiscal year ended Dec. 31, 2012--**	
Revenues	1,047.6	8,972.0
EBITDA	368.8	3,662.6
Net income from continuing operations	(20.9)	682.9
Funds from operations (FFO)	95.0	3,927.0
Capital expenditures	62.0	9,931.5
Free operating cash flow	37.4	(4,391.7)
Discretionary cash flow	37.4	(4,533.8)
Cash and short-term investments	61.2	812.2
Debt	5,938.6	15,360.2
Equity	(10.1)	14,391.3
Adjusted ratios		
EBITDA margin (%)	35.2	40.8
EBITDA interest coverage (x)	1.1	11.2
EBIT interest coverage (x)	1.0	2.4
Return on capital (%)	5.3	2.7
FFO/debt (%)	1.6	25.6
Free operating cash flow/debt (%)	0.7	(28.6)
Debt/EBITDA (x)	16.1	4.2
Total debt/debt plus equity (%)	100.2	51.6

Financial Risk : Intermediate

No additional long-term debt requirements

Our assessment of OPWP's financial risk stems partly from our view that OPWP will not need any material additional long-term debt. We consider liquidity management to be OPWP's main financial risk. Consequently, we consider OPWP's financial risk profile to be largely predicated on OPWP's ability to arrange sufficient liquidity in a timely manner to meet working capital deficits.

The main strengths are:

- No long-term debt. OPWP has a predominantly short-term balance sheet comprising mainly accounts payable and receivable, reflecting procurement costs from generators and desalinators and receivables from electricity suppliers and water departments. OPWP has no production facilities or capital expenditures. As such, it doesn't require long-term external financing. Its credit metrics are therefore strong.
- Adequate liquidity. OPWP's government ownership and Article 51 of the Sector Law effectively ensure that OPWP always has sufficient liquidity. OPWP will allocate funds from its new OMR50 million working capital facility (which replaced the previous OMR25 million) to subsidiaries when required.

These strengths are moderated by:

- Some reliance on shareholders for funding. OPWP's funding requirements are currently backed by letters of comfort from EHC. Although undiversified funding sources could constitute a risk, in the case of OPWP this is mitigated by the government's ownership of EHC and the provisions in the Sector Law. We also note that OPWP has recently obtained funding from commercial banks on relatively favorable terms, and we consider this to be possible in the future, if required.

S&P Base-Case Cash Flow And Capital Structure Scenario

OPWP's FFO are stable, but modest, reflecting its regulated revenues. We anticipate FFO to debt of about 1.7% in 2013 (after our adjustments), and 12%-15% unadjusted over 2013-2015 as payments relating to finance leases (associated with IFRIC 4) reduce the overall liabilities on OPWP's balance sheet.

With no capital expenditure or significant debt repayments, OPWP's largest cash flow item by far is the change in working capital, which it funds through cash balances, intercorporate loans, or its credit facility.

OPWP's capital and reserves totaled negative OMR3.9 million in 2012. This was a significant drop from OMR4.2 million in 2011 and resulted from IFRIC 4. The only material non-current assets comprised OMR16.9 million in advance payments (under a contract with a generating company), funded by an interest-free, long-term loan from EHC.

Financial summary

Table 2

Oman Power and Water Procurement Co. SAOC--Financial Summary					
Industry Sector: Power					
	--Fiscal year ended Dec. 31--				
(Mil. OMR)	**2012**	**2011**	**2010**	**2009**	**2008**
Revenues	403.3	349.7	311.5	264.2	238.6
EBITDA	142.0	104.9	68.8	43.0	1.0
Net income from continuing operations	(8.0)	(3.4)	(2.8)	(0.5)	1.1
Funds from operations (FFO)	36.6	34.5	57.9	18.8	2.5
Capital expenditures	23.2	1,565.9	0.0	0.2	0.2
Free operating cash flow	15.0	(1,508.2)	28.3	46.8	(7.5)
Discretionary cash flow	15.0	(1,508.2)	28.3	45.7	(8.5)
Cash and short-term investments	23.5	21.0	2.7	25.2	1.7
Debt	2,286.0	2,298.4	771.9	181.0	0.0
Equity	(3.9)	4.2	7.6	10.4	11.2
Adjusted ratios					
EBITDA margin (%)	35.2	30.0	22.1	16.3	0.4
EBITDA interest coverage (x)	1.1	1.2	1.3	1.8	61.5
EBIT interest coverage (x)	1.0	1.0	0.9	1.0	72.2
Return on capital (%)	5.3	5.5	10.1	23.5	11.0
FFO/debt (%)	1.6	1.5	7.5	10.4	N.M.
Free operating cash flow/debt (%)	0.7	(65.6)	3.7	25.8	N.M.
Debt/EBITDA (x)	16.1	21.9	11.2	4.2	0.0
Debt/debt and equity (%)	100.2	99.8	99.0	94.6	0.0

OMR--Omani rial. N.M.--Not meaningful.

Liquidity: Adequate

We regard OPWP's liquidity as "adequate," as defined in our criteria. We expect that the company's sources of liquidity will exceed its uses by 1.8x or more, compared with our minimum of 1.2x for the "adequate" category.

The company has no capital expenditure requirements or long-term debt. Its liquidity needs arise mainly from timing differences between payments to generation and desalination companies and receipts from electricity and water suppliers. OPWP also has seasonal cash flows because tariffs increase significantly in the third quarter. We believe prudent management of working capital is therefore a key issue for OPWP's SACP. This factor, combined with reliance on an uncommitted credit facility, restricts us from assessing OPWP's liquidity as "strong".

Principal Liquidity Sources	Principal Liquidity Uses
• Our estimate of cash totaling OMR15 million; • Our assumption of FFO of OMR30 million-OMR40 million over the next 12 months; and • An overdraft facility of OMR50 million from EHC.	• Maximum loan repayments under the working capital facilities of an estimated OMR40 million-OMR50 million.

Reconciliation

OPWP reports under IFRS and its accounts are audited by PricewaterhouseCoopers. OPWP has adopted IFRIC 4, which requires it to recognize certain long-term Power Purchase Agreements (PPAs) as finance leases in its statutory accounts. This brings the associated fixed assets onto its balance sheet, creating implied depreciation and interest charges.

We make no material adjustments to OPWP's accounts, except for adding operating leases to reported debt figures. We apply a discount rate of 5% to the operating leases. Standard & Poor's recognizes that the PPAs on OPWP's balance sheet result in a zero risk weighting on the present value of future capacity payments, since PPA costs are fully recoverable under regulated bulk supply tariffs. We also consider that cash inflows from revenue are linked to payment obligations under long-term arrangements, and the treatment of leases in the financial statements does not affect the company's ability to generate cash flow.

Table 3

Reconciliation Of Oman Power and Water Procurement Co. SAOC Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. OMR)

--Fiscal year ended Dec. 31, 2012--

Oman Power and Water Procurement Co. SAOC reported amounts

	Debt	Shareholders' equity	Revenues	EBITDA	Operating income	Interest expense	Cash flow from operations	Cash flow from operations	Dividends paid	Capital expenditures
Reported	133.9	(3.9)	403.3	34.5	14.4	18.5	35.9	35.9	--	0.1
Standard & Poor's adjustments										
Operating leases	2,152.1	--	--	107.5	107.5	107.5	20.5	20.5	--	23.1
Non-operating income (expense)	--	--	--	--	0.1	--	--	--	--	--
Reclassification of interest, dividend, and tax cash flows	--	--	--	--	--	--	(18.1)	(18.1)	--	--
Reverse changes in working-capital	--	--	--	--	--	--	--	(1.7)	--	--
Total adjustments	2,152.1	0.0	0.0	107.5	107.6	107.5	2.4	0.7	0.0	23.1

Table 3

Reconciliation Of Oman Power and Water Procurement Co. SAOC Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. OMR) (cont.)

Standard & Poor's adjusted amounts

	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	2,286.0	(3.9)	403.3	142.0	122.0	126.0	38.2	36.6	0.0	23.2

Related Criteria And Research

- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Methodology: Short-Term/Long-Term Ratings Linkage Criteria For Corporate And Sovereign Issuers, May 15, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Use Of CreditWatch And Outlooks, Sept 14, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk					
Business Risk	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

Note: These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.

Ratings Detail (As Of May 15, 2013)	
Oman Power and Water Procurement Co. SAOC	
Corporate Credit Rating	A/Stable/--
Corporate Credit Ratings History	
01-Aug-2012	A/Stable/--
20-Jul-2011	A/Negative/--

Ratings Detail (As Of May 15, 2013) (cont.)	
07-Mar-2011	A/Watch Neg/--
Related Entities	
Oman (Sultanate of)	
Issuer Credit Rating	A/Stable/A-1
Transfer & Convertibility Assessment	AA-
Senior Unsecured	A
Short-Term Debt	A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Additional Contact:
Industrial Ratings Europe; Corporate_Admin_London@standardandpoors.com