

Date: 19/09/2013  
Publication: Times of Oman  
Country: Oman  
Language: English  
Section: Business

# Sembcorp Salalah share offer attractive: United Securities

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Times News Service

**MUSCAT:** United Securities, a leading brokerage firm on the Muscat Securities Market (MSM), yesterday recommended to the investors to subscribe to the initial public offering (IPO) of Sembcorp Salalah Power and Water Company (SPWC) with the issue being priced at a reasonable discount to its 12-month target price of OMR2.040.

The brokerage firm, which released a detailed analysis about the share offer, termed it a good opportunity for investors who prefer low-risk long-run portfolio as well as for those looking for high dividend defensive stocks.

Though SPWC is priced at 13.6 multiple of price earnings ratio to 2013 earnings, the stock offers an upside potential of 25 per cent on the offer price. The SPWC's dividend yield of 10.6 per cent (168 baisas) over a 12-month period is the key attraction currently, while sector is trading at a seven per cent yield.

#### Superior earnings

Citing how attractive the issue is, United Securities said it has stable revenue and superior earnings before interest, taxes, depreciation and amortisation (Ebitda) margins in excess of 68 per cent, attractive payouts in excess of 95 per cent over long term

and absence of cash sweep mechanism to drive FCF growth. SPWC, with its 15 million imperial gallons per day (MIGD) desalination capacity and 445 MW power capacity proved to be the only integrated plant (IWPP) in Salalah that accounts for 72 per cent of Salalah's power and 100 per cent water requirements.

Its contracted revenue model with OPWP till 2027 leads to long term revenue and visible earnings, with 14 years of contract validity still remaining. "The revenue is expected to grow at a sustainable CAGR of one per cent during 2013-18 to OMR64.7 million in 2018, assuming an efficient technical availability of the plant," noted United Securities.

The EPS forecast provides enough cushion to increase payouts despite higher financing costs but continuous deleveraging makes FCF growth seem sustainable.

"We believe SPWC's only negative aspect would be its high debt costs. However, it enjoys special tariff pricing agreements with OPWP compensating such high establishment and financing costs. We are slightly skeptical about the listing gain due to absence of clarity in subscription

rates since the offer is too huge, to the tune of OMR53 million, which may have an effect on valuation and listing price," added the brokerage firm.

"Although SPWC's revenue is forecasted to grow at one per cent CAGR during 2013-18 to OMR64.7 million in 2018E, we believe the superior margin remains the key attraction to our investment thesis." United Securities also said SPWC caters to 72 per cent of total contracted capacity in Salalah system and 100 per cent of water requirement.

#### Business risks

The total demand is expected to grow from 256 MW in 2012 to 606 MW in 2019, an average increase of around 13 per cent annually.

Referring to business risks involved, the brokerage firm said the key risks include SPWC's ongoing litigation with SEPCO III (EPC contractor) and OPWP, though the management has clarified that there would be minimal impact. Additionally, the plant achieved full production level in May, 2012 and possible guidance of full operational estimates as per the prospectus. "Any deviations from this would likely affect valuations, and

thereby our rating." The Salalah System covers the city of Salalah and surrounding areas in the Governorate of Dhofar, serving around 70,000 electricity customers. It currently comprises an integrated generation, transmission and distribution system, owned and operated by Dhofar Power Company (DPC) pursuant to a concession agreement signed with the government in 2001 and a new independent power generation and water desalination facility.

The DPC acts as the sole electricity supplier within the service area covered by the system, supplying existing and new electricity customers.

The Salalah System is interconnected with the power system of Petroleum Development Oman via a link between Thumrait and Harweel. This interconnection provides important reliability benefits through sharing generation reserves.

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