

# Sembcorp Salalah Power & Water Company SAOG

## Management Discussion and Analysis

We are pleased to present the financial statements of Sembcorp Salalah Power & Water Company (“Sembcorp Salalah” or “the Company”) for the nine-month period ended September 30, 2019 (9M2019). In 9M2019, the Company has recorded a profit after tax (PAT) of RO 11.5 million. The profit after tax increased to RO 11.5 million in 9M2019 as compared to RO 9.3 million earned in the corresponding period in 2018 (9M2018). The increase in profit is mainly because of:

- ❖ Higher power plant reliability and heat rate efficiency in 2019;
- ❖ Lower net finance cost and tax expenses in 2019; and
- ❖ Lower revenue in 2018 was due to Cyclone Mekunu force majeure outages impact

### **Business overview**

The Company’s core business activity is to provide electricity and water in the region of Dhofar. Contracted capacity for the power plant is 445 MW and 15 MiGD for the water plant. The Company receives revenue based on the availability of its plant, which ensures that its business model is stable. The Company contributed 50% of the power demand and 100% of the desalinated water demand in the region for 9M2019.

Since the commissioning of a new power plant in Dhofar region in 2018, the grid’s Load Dispatch Center has implemented an operational policy of sharing the grid demand between both plants, which has led to a significantly reduced plant load factor for our power plant. However, this does not present a significant impact on the profitability of the Company because the Company’s revenue is based on the availability of the plant, whilst the reduction of variable revenue is offset by a lower operational cost.

### **Performance overview**

The Company’s operating and maintenance and financial performance for 9M2019 is detailed below.

### ***Operating and maintenance***

#### ***Operating performance***

The Company has shown strong operating performance in 9M2019. Key operating performance is characterised by high reliability of its power and water plants. The Company’s power plant load factor has increased by approximately 25%, in line with the expected increase in the electricity demand of the region. Water plant load factor increased by approximately by 19% mainly due to Cyclone Mekunu force majeure outage impact in 2018. Key operating parameters for 9M2019 are noted below:

|                                  | Unit                       | 9M2019           | 9M2018           | Variance |
|----------------------------------|----------------------------|------------------|------------------|----------|
| <b>Water Reliability</b>         | (%)                        | <b>99.95</b>     | <b>99.87</b>     | 0.8%     |
| <b>Power Reliability</b>         | (%)                        | <b>99.93</b>     | <b>99.32</b>     | 0.6%     |
| <b>Quantity of Water Sold</b>    | (Thousand m <sup>3</sup> ) | <b>18,491</b>    | <b>15,564</b>    | 18.8%    |
| <b>Quantity of Power Sold</b>    | (MWh)                      | <b>1,403,124</b> | <b>1,114,757</b> | 25.9%    |
| <b>Plant Load Factor (Power)</b> | (%)                        | <b>48.12</b>     | <b>38.23</b>     | 25.9%    |
| <b>Plant Load Factor (Water)</b> | (%)                        | <b>99.33</b>     | <b>83.61</b>     | 18.8%    |

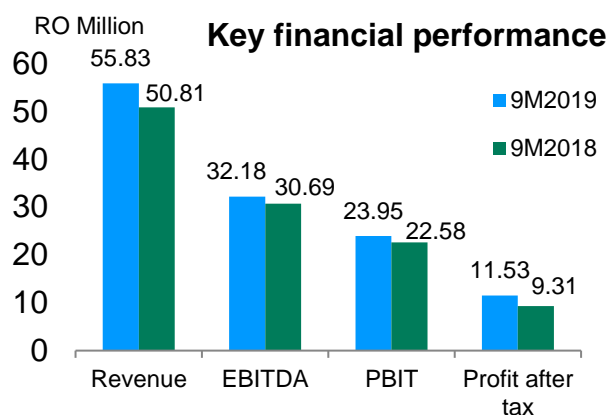
### **Maintenance**

The Company continues to diligently and proactively perform maintenance of the plant to improve plant operation, efficiency and its sustainability. In addition to routine maintenance of the plant, the Company successfully completed two major inspections and package 3 upgrade of two gas turbines, maintenance of pressure regulating terminal natural gas station and major overhaul of some plant auxiliaries during 9M2019.

### **Financial performance**

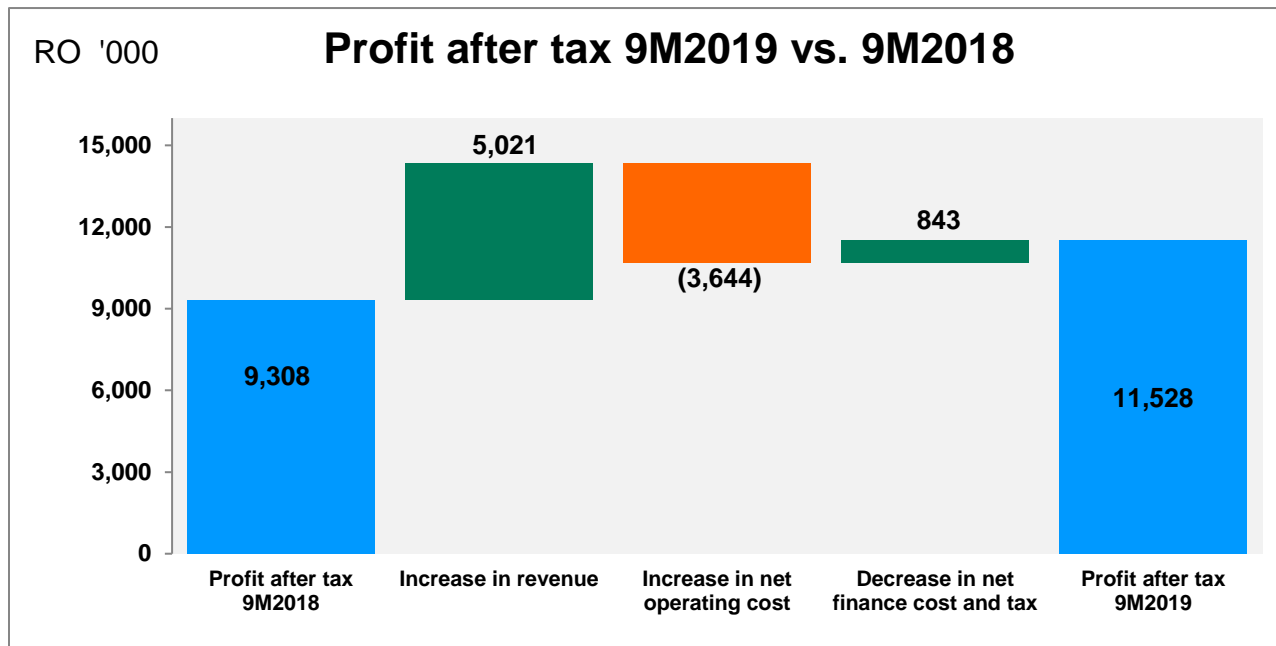
Key financial performance indicators are shown below:

|                         | 9M2019     | 9M2018     |
|-------------------------|------------|------------|
|                         | RO million | RO million |
| <b>Revenue</b>          | 55.83      | 50.81      |
| <b>EBITDA</b>           | 32.18      | 30.69      |
| <b>PBIT</b>             | 23.95      | 22.58      |
| <b>Profit after tax</b> | 11.53      | 9.31       |



### 9M2019 Profit after tax

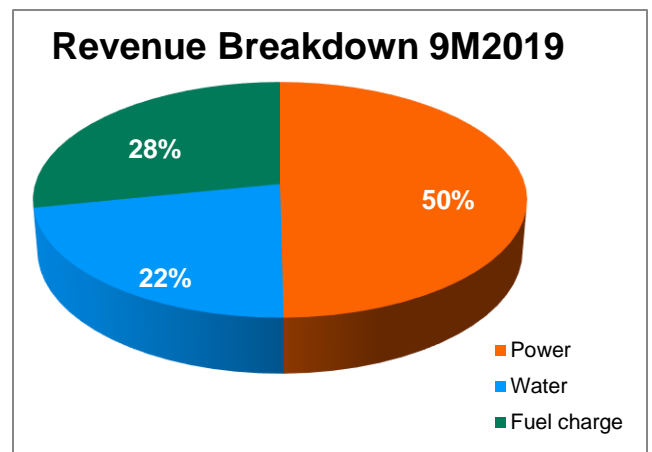
Profit after tax increased from RO 9.3 million in 9M2018 to RO11.5 million in 9M2019. The significant variances are shown in the following waterfall chart.



A brief analysis and characteristics of the major components of the profit or loss is presented below:

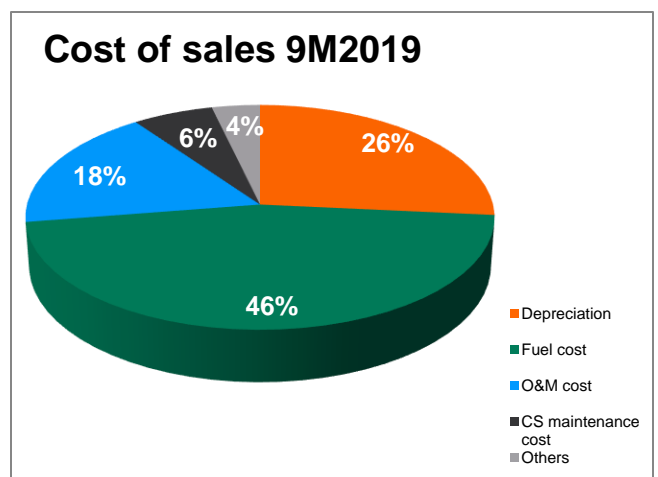
#### Revenue

Power contributed 50% (excluding fuel charge), water 22% and fuel charge 28% to the total revenue. Fuel charge revenue is a pass through and is calculated based on consumption of natural gas as computed by the plant's contractual Fuel Demand Model. 9M2019 revenue increased by 10% as compared to the corresponding period last year mainly because of higher capacity charge, variable energy charge and fuel charge. Capacity charge increased mainly because of better plant reliability and Cyclone Mekunu force majeure impact in 2018. Variable energy charge and fuel charge increased mainly due to increase in plant load factor.



#### Cost of sales

Cost of sales mainly comprises depreciation of property, plant and equipment, fuel cost and operations & maintenance (O&M) cost. Cost of sales increased as compared to the same period in 2018, mainly due to increase in fuel cost, operation and maintenance cost as well as plant insurance cost. Fuel cost increase mainly due to increase in



plant load factor in line with the increase in revenue. Operation and maintenance cost increased in 9M2019 due to increase in planned maintenance activities as per annual maintenance plan.

### **Net finance cost**

Net finance cost decreased in 9M2019 compared to 9M2018 due to the scheduled repayment of part of the term loan in line with the financing documents.

### **Financial position**

|                      |            | <b>as at<br/>30 September<br/>2019</b> | <b>as at<br/>31 December<br/>2018</b> | <b>as at<br/>30 September<br/>2018</b> |
|----------------------|------------|--|---------------------------------------|--|
| Total assets         | RO million | 326.98                                 | 331.08                                | 332.59                                 |
| Total liabilities    | RO million | 223.85                                 | 232.69                                | 227.56                                 |
| Shareholders' funds  | RO million | 114.68                                 | 106.40                                | 111.27                                 |
| Shareholders' equity | RO million | 103.14                                 | 98.39                                 | 105.03                                 |
| Current ratio        |            | 1.04:1                                 | 1.35:1                                | 1.43:1                                 |
| Gearing ratio        |            | 63:37                                  | 67:33                                 | 65:35                                  |
| Net assets per share | RO/share   | 0.120                                  | 0.111                                 | 0.117                                  |

### **Business outlook**

In 2019, the Company's focus is on better cost management, financial and cash management; improving productivity and efficiency in order to maximise Shareholders' return. The Company's operating and financial performance for the year 2019 is expected to be better than the last year.