

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 nine-month period ended September 30, 2021 (9M2021). In 9M2021, the Company has recorded a profit after tax (PAT) of RO 13.7 million as compared to RO 14.4 million earned in corresponding period in 2020 (9M2020). The profit after tax decreased mainly due to one off Cyclone Mekunu insurance claim settlement recognized in 9M2020.

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 around 60% of the power demand and 50% of the desalinated water demand in the region for 9M2021.

New water plant (Salalah IWP III) commissioned in Dhofar region during 9M2021. Since the commissioning of Salalah IWP III, the water demand is being shared by the both water plants which resulted in reduction of plant load factor. However, plant load factor 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 operation and maintenance and financial performance for 9M2021 is detailed below.

Operation and maintenance

Operating performance

The Company has shown strong operating performance in 9M2021. 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 7.1% mainly because of increased demand in the region, whereas water plant load factor has reduced by approximately 28% mainly because of commissioning of new water plant in the region. Key operating parameters for 9M2021 are noted below:

	Unit	9M2021	9M2020	Variance
Water Reliability	(%)	99.65	99.70	-0.05%
Power Reliability	(%)	99.82	99.85	-0.03%
Quantity of Water Sold	(Thousand m ³)	13,433	18,676	-28.1%
Quantity of Power Sold	(MWh)	1,202,862	1,127,434	6.7%
Plant Load Factor (Power)	(%)	41.26	38.53	7.08%
Plant Load Factor (Water)	(%)	72.16	99.96	-27.8%

Maintenance

The Company continues to diligently and proactively perform maintenance of the plant to improve plant operation, efficiency and its sustainability. During 9M2021, the Company completed combustion inspection of two gas turbines, ST2 Generator excitor leads repairing and completed one sea water intake HP pump overhauling and other plant routine maintenance.

Financial performance

Key financial performance indicators are shown below:

	9M2021	9M2020
	RO million	RO million
Revenue	55.54	54.23
EBITDA	32.54	34.64
PBIT	24.19	26.31
Profit after tax	13.69	14.40

9M2021 Profit after tax

Profit after tax has decreased from RO 14.4 million in 9M2020 to RO 13.7 million in 9M2021. The main reason of reduction in profit is one off Cyclone Mekunu insurance claim recognised in 9M2020.

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

Revenue

Power contributed 51% (excluding fuel charge), water 22% and fuel charge 27% to the total revenue. Revenue was increased by RO 1.3 million mainly due to increase in fuel charge revenue and energy charge revenue resulting from increase in power plant load factor. Water output charge reduced due to reduction in water production resulting from sharing of water demand with Salalah IWP III. 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. Plant load factor does not present a significant impact on the profitability of the Company because the reduction of variable revenue is offset by a lower operational cost.

Cost of sales

Cost of sales mainly comprises depreciation of property, plant and equipment, fuel cost, operations & maintenance (O&M) cost and Long Term Service Agreement (LTSA) cost. Cost of sales increased by RO 2.1 million compared to the same period in 2020, mainly due to the increase in fuel cost, operation and maintenance cost and LTSA cost. Fuel cost increased due to increase in plant load factor in line with the increase in fuel charge revenue. Operation and maintenance cost increased due to increase in planned maintenance activities and LTSA cost increased due to increase in number of chargeable FFH and inflation factor.

Other income

Other income is reduced by RO 1.4 million as compared to the previous year mainly because of one-off insurance claim settlement in 9M2020, which was compensation of business interruption

and property damage loss arising from Cyclone Mekunu in 2018

Net finance cost

Net finance cost decreased by RO 1.3 million in 9M2021 compared to 9M2020 due to the scheduled repayment of part of the term loan in line with the financing documents.

Income tax expense

Income tax expenses decreased due to decrease in profit for 9M2021 as compared to the corresponding period previous year.

Financial position

		as at 30 September 2021	as at 30 September 2020	as at 31 December 2020
Total assets	RO million	308.57	338.02	322.23
Total liabilities	RO million	183.52	227.58	212.98
Shareholders' funds	RO million	133.04	123.25	121.06
Shareholders' equity	RO million	125.06	110.44	109.25
Gearing ratio		50:50	58:42	58:42
Net assets per share	RO/share	0.139	0.129	0.127

COVID-19 Pandemic

Dhofar region was not significantly impacted by the COVID-19 pandemic, registering very low number of COVID-19 cases throughout 2020 and to date 2021. Nevertheless, the Company activated its business continuity plan and took all necessary precautionary measures to protect the people and operations. Some of the initiatives included regular disinfection of the plant, the formation of split team arrangements, the preparation of emergency response plans to tackle emergency situations, provision of all required PPEs, and the reconfiguration of the plant entrance system to enable active screening of employees and visitors. In 9M2021, the Company has proactively taken steps to provide vaccination to its staff and contractors and completed two doses of vaccination to all staff.

Business outlook

The commitment to safe and reliable operations will remain the Company's top priority. At the same time, the Company will remain focused on maximising shareholder returns through a continued watch on the financial and operational performance of the Company.