

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 three-months period ended March 31, 2023 (1Q2023). In 1Q2023, the Company has recorded a profit after tax (PAT) of RO 4.54 million as compared to RO 4.33 million earned in corresponding period of 2022 (1Q2022). The profit after tax increased mainly due to lower finance cost in 1Q2023 as compared to 1Q2022.

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 50% of the power demand and 40% of the desalinated water demand in the region for 1Q2023.

Performance overview

The Company’s operating and financial performance for 1Q2023 is detailed below.

Operating performance

The Company has shown strong operating performance in 1Q2023. 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 10.6% mainly because of higher demand by Local Dispatch Center, whereas water plant load factor is reduced by approximately 15.1% compared to previous year. However, due to the take-or-pay commercial arrangement that we have with Oman Power and Water Procurement Company (OPWP), the plant load factor does not have a significant impact on the profitability of the Company. Key operating parameters for 1Q2023 are noted below:

	Unit	1Q2023	1Q2022	Variance
Water Reliability	(%)	99.86	100.00	-0.14%
Power Reliability	(%)	99.98	99.98	-
Quantity of Water Sold	(Thousand m ³)	3,548	4,181	-15.10%
Quantity of Power Sold	(MWh)	337,589	305,154	10.62%
Plant Load Factor (Power)	(%)	35.12	31.75	10.61%
Plant Load Factor (Water)	(%)	57.81	68.13	-15.15%

Health, Safety, Security and the Environment (HSSE)

The Company successfully achieved no lost time incidents and zero incidents of environmental non-compliance. As of March 31, 2023, the Company accumulated 5.9 million safe man-hours without any lost time incident, which is a testament to the Company’s commitment to the highest safety standards.

Financial performance

Key financial performance indicators are shown below:

	1Q2023	1Q2022
	RO million	RO million
Revenue	18.02	16.89
Earning before interest and tax and depreciation allowance	9.82	10.18
Profit before interest and tax	7.03	7.43
Profit after tax	4.54	4.33

Profit after tax

Profit after tax has increased from RO 4.33 million in 1Q2022 to RO 4.54 million in 1Q2023.

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

Revenue

Power contributed 49% (excluding fuel charge), water 23% and fuel charge 28% to the total revenue. Revenue was increased by RO 1.1 million mainly due to increase in fixed capacity charge revenue and fuel charge revenue as compared to the corresponding period previous year. Fuel charge revenue increased by RO 1 million mainly due to increase in plant heat rate and increase in the gas price. 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. Actual heat rate is better than the contracted Fuel Demand Model. Fixed capacity charge revenue increased mainly due to inflation indexation impact.

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 1.55 million compared to the same period in 2022, mainly due to the higher fuel cost, LTSA cost and O&M cost. Increase in fuel cost was in line with the increase in the fuel charge revenue. LTSA cost increased due to increase in chargeable Factor Fired Hours and increase in inflation index. O&M cost increased mainly due to increase in planned maintenance of the plant.

Net finance cost

Finance cost decreased by RO 0.5 million in 1Q2023 compared to 1Q2022 due to the scheduled repayment of part of the term loan in line with the financing documents.

Finance income increased by RO 0.2 million due to increase in fixed deposit rate.

Income tax expense

Income tax expenses increased due to increase in profit for 1Q2023 as compared to the corresponding period previous year.

Financial position

		as at 31 March 2023	as at 31 March 2022	as at 31 December 2022
Total assets	RO million	276.82	287.75	288.37
Total liabilities	RO million	124.67	152.96	140.59
Shareholders' equity	RO million	152.15	134.79	147.78
Gearing ratio		37:63	45:55	41:59
Net assets per share	RO/share	0.159	0.141	0.155

Business outlook

We will remain focused on maximising shareholder returns through a continued watch on the financial and operational performance of the Company, and by minimising the impact of rising global inflation and interest rates. The Company expects to achieve its targeted results for the financial year 2023.