

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 six-month period ended June 30, 2021 (1H2021). In 1H2021, the Company has recorded a profit after tax (PAT) of RO 9.57 million. The profit after tax decreased to RO 9.57 million in 1H2021 as compared to RO 10.5 million earned in the corresponding period in 2020 (1H2020) mainly due to one off Cyclone Mekunu insurance claim settlement recognized in 1H2020.

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 1H2021.

New water plant (Salalah IWP III) commissioned in Dhofar region during 1H2021. 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 1H2021 is detailed below.

Operation and maintenance

Operating performance

The Company has shown strong operating performance in 1H2021. 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 17.5% mainly because of increased demand in the region, whereas water plant load factor has reduced by approximately 32% mainly because of commissioning of new water plant in the region. Key operating parameters for 1H2021 are noted below:

	Unit	1H2021	1H2020	Variance
Water Reliability	(%)	99.99	99.94	0.05%
Power Reliability	(%)	99.89	99.89	-
Quantity of Water Sold	(Thousand m ³)	8,458	12,470	-32.2%
Quantity of Power Sold	(MWh)	865,262	740,069	16.9%
Plant Load Factor (Power)	(%)	44.76	38.1	17.48%
Plant Load Factor (Water)	(%)	68.53	100.7	-31.9%

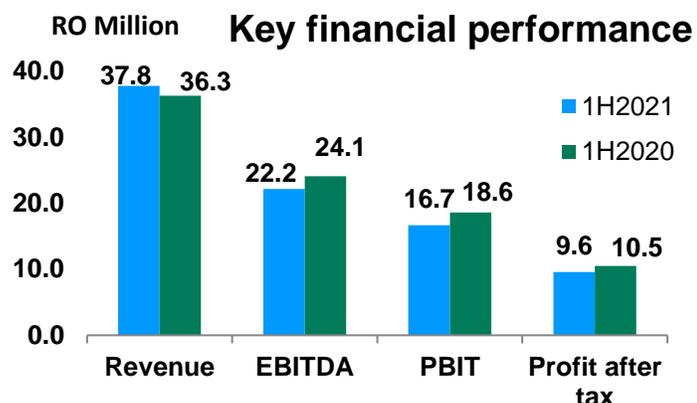
Maintenance

The Company continues to diligently and proactively perform maintenance of the plant to improve plant operation, efficiency and its sustainability. During 1H2021, the Company completed combustion inspection of two gas turbines and completed one sea water intake HP pump overhauling and other plant routine maintenance.

Financial performance

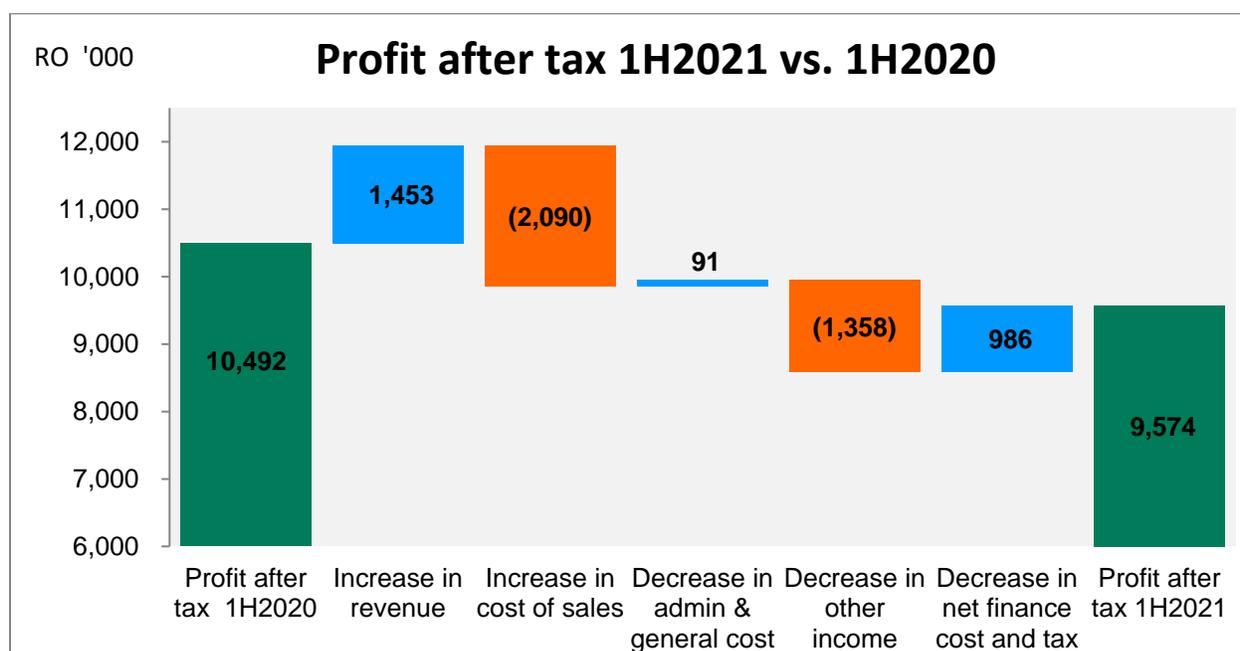
Key financial performance indicators are shown below:

	1H2021	1H2020
	RO million	RO million
Revenue	37.8	36.3
EBITDA	22.2	24.1
PBIT	16.7	18.6
Profit after tax	9.6	10.5



1H2021 Profit after tax

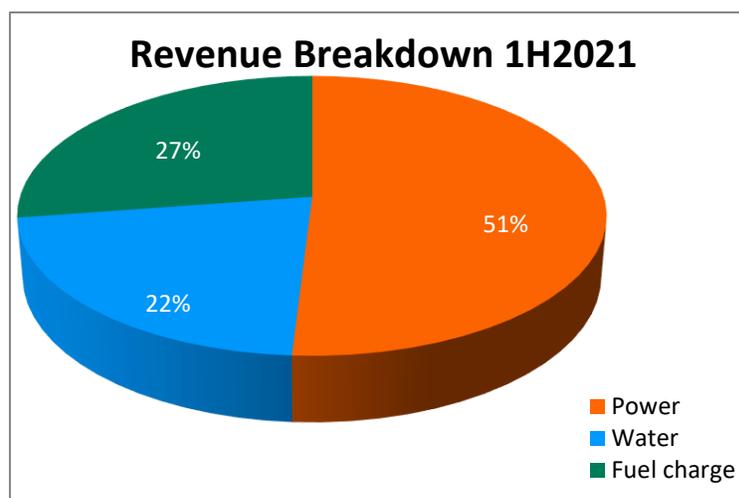
Profit after tax has decreased from RO 10.5 million in 1H2020 to RO 9.6 million in 1H2021. The significant variances are shown in the following waterfall chart.



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

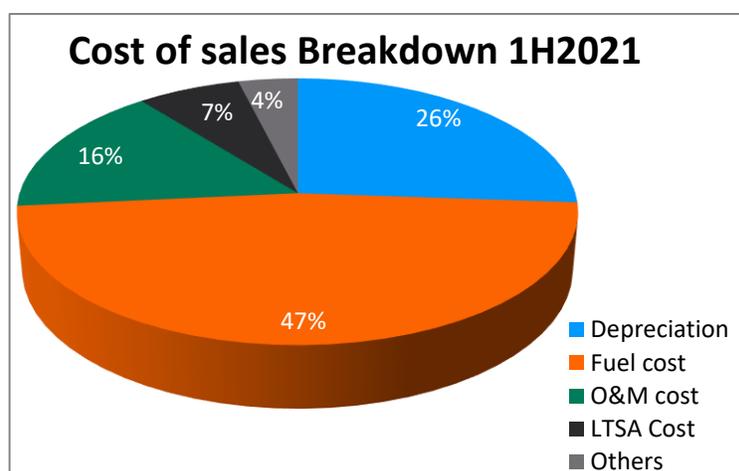
Revenue

Power contributed 51% (excluding fuel charge), water 22% and fuel charge 27% to the total revenue. Revenue was increased by 4% mainly due to increase in fuel charge revenue and energy charge revenue resulting from increase in plant load factor. 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. Capacity charge revenue slightly reduced due to one day extra revenue in 1H2020 (leap year 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 11% 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 as compared to the previous year mainly because of one-off insurance claim settlement in 1H2020, which was compensation of business interruption and property damage loss arising from Cyclone Mekunu in 2018

Net finance cost

Net finance cost decreased in 1H2021 compared to 1H2020 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 1H2021 as compared to the corresponding period previous year.

Financial position

		as at 30 June 2021	as at 31 December 2020	as at 30 June 2020
Total assets	RO million	311.69	322.23	337.71
Total liabilities	RO million	191.76	212.98	232.13
Shareholders' funds	RO million	128.92	121.06	119.34
Shareholders' equity	RO million	119.93	109.25	105.58
Gearing ratio		54:46	58:42	61:39
Net assets per share	RO/share	0.135	0.127	0.125

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 our 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 1H2021, the Company has proactively taken steps to provide vaccination to its staff and contractors.

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.