

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-month period ended March 31, 2020 (1Q2020). In 1Q2020, the Company has recorded a profit after tax (PAT) of RO 5.1 million. The profit after tax increased to RO 5.1 million in 1Q2020 as compared to RO 3.3 million earned in the corresponding quarter in 2019 (1Q2019). The increase in profit after tax is mainly because of Cyclone Mekunu insurance claim settlement and lower finance cost.

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 40% to 45% of the power demand and 100% of the desalinated water demand in the region for 1Q2020.

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. 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 1Q2020 is detailed below.

Operation and maintenance

Operating performance

The Company has shown strong operating performance in 1Q2020. Key operating performance is characterised by high reliability of its power and water plants. The Company’s power plant load factor has reduced by approximately 4% mainly because of lower demand in the region. Key operating parameters for 1Q2020 are noted below:

	Unit	1Q2020	1Q2019	Variance
Water Reliability	(%)	99.96	99.85	0.1%
Power Reliability	(%)	99.96	99.95	-
Quantity of Water Sold	(Thousand m ³)	6,219	6,061	2.6%
Quantity of Power Sold	(MWh)	295,984	305,690	-3.2%
Plant Load Factor (Power)	(%)	30.45	31.80	-4.24%
Plant Load Factor (Water)	(%)	100.22	98.76	1.48%

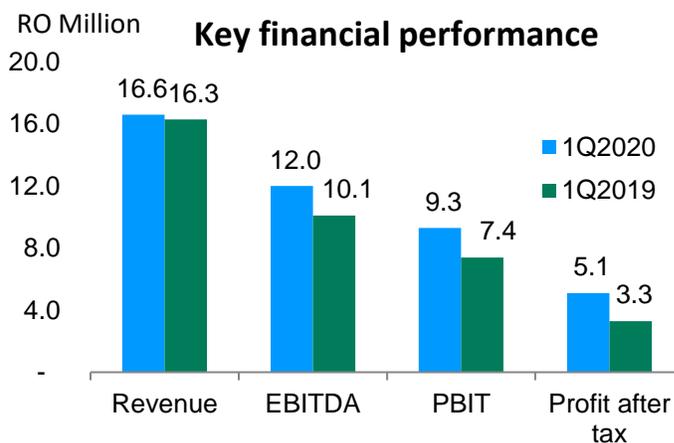
Maintenance

The Company continues to diligently and proactively perform maintenance of the plant to improve plant operation, efficiency and its sustainability. During 1Q2020, the Company completed major inspection of steam turbine, combustion inspection of one gas turbine as well as power and water plant DCS upgrade.

Financial performance

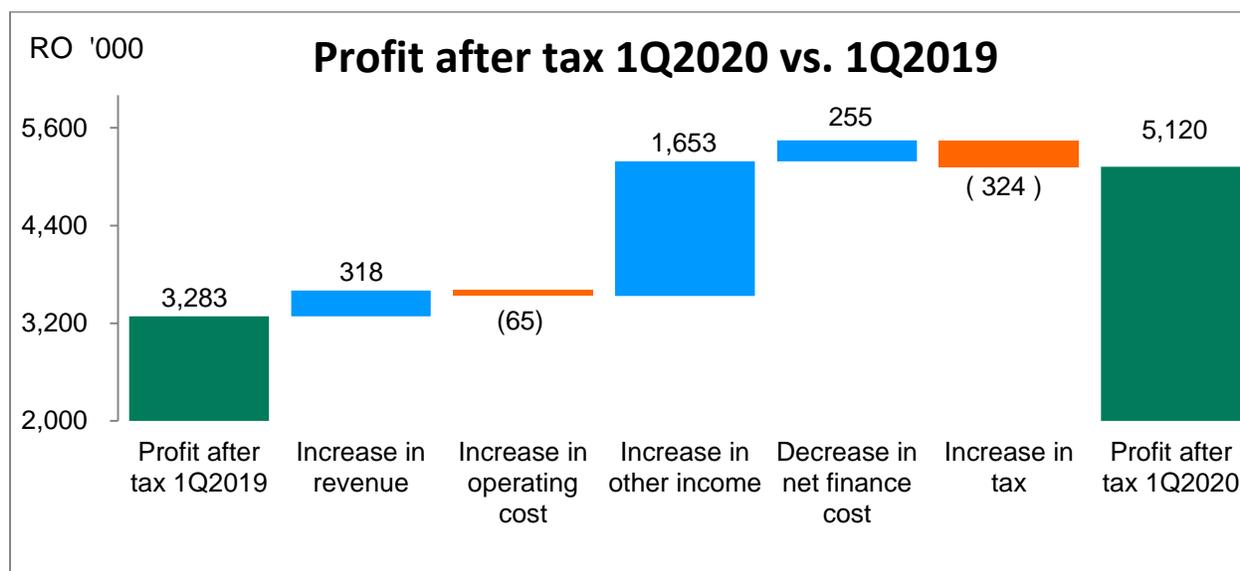
Key financial performance indicators are shown below:

	1Q2020	1Q2019
	RO million	RO million
Revenue	16.64	16.33
EBITDA	12.00	10.05
PBIT	9.26	7.35
Profit after tax	5.12	3.28



1Q2020 Profit after tax

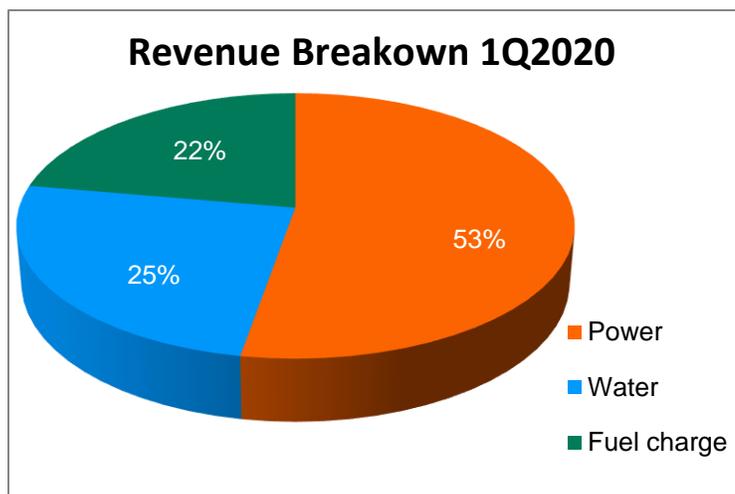
Profit after tax has increased from RO 3.3 million in 1Q2019 to RO 5.1 million in 1Q2020. The significant variances are shown in the following waterfall chart.



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

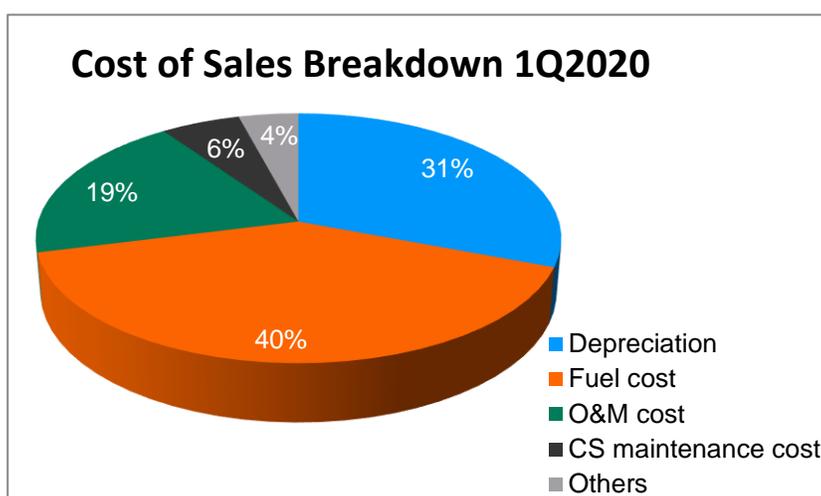
Revenue

Power contributed 53% (excluding fuel charge), water 25% and fuel charge 22% 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. 1Q2020 revenue increased by 2% compared to the corresponding period last year mainly because of higher power plant reliability and leap year impact.



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 marginally increased by 1% compared to the same period in 2019, mainly due to the increase in fuel cost.



Other income

Other income in 1Q2020 is mainly from settlement of Insurance claim in compensation of business interruption and property damage loss arising from Cyclone Mekunu in 2018.

Net finance cost

Net finance cost decreased in 1Q2020 compared to 1Q2019 due to the scheduled repayment of part of the term loan in line with the financing documents.

Income tax expense

Income tax expenses increased mainly due to increase in profit for 1Q2020 as compared to the corresponding period last year.

Financial position

		as at 31 March 2020	as at 31 December 2019	as at 31 March 2019
Total assets	RO million	327.54	330.56	326.40
Total liabilities	RO million	227.64	229.14	229.08
Shareholders' funds	RO million	113.97	111.43	106.44
Shareholders' equity	RO million	99.90	101.42	97.32
Current ratio		0.90:1	1.05:1	1.04:1
Gearing ratio		62:38	63:37	66:34
Net assets per share	RO/share	0.119	0.117	0.112

COVID-19 Pandemic

As the novel coronavirus (COVID-19) spreads beyond China and becomes a global pandemic, this outbreak will inevitably impact economies and businesses. The Government of Oman has established Supreme Committee for COVID-19 which is dealing with pandemic situation in the country and trying to minimize its impact to the extent possible.

In the first quarter of 2020, the Company has not experienced any significant pandemic-related impact on its operating and financial performance. However, the Company has taken all possible measures to mitigate the risks arising from the COVID-19 situation.

The Company is closely monitoring the developing situation of the pandemic at country, regional and global level and will continue to evaluate and assess the effects of pandemic. In the event the Company foresees any impact, the Company will be able to seek contractual relief as mentioned in Power and Water Purchase Agreement.

Business outlook

2020 is expected to be challenging year due to evolving COVID-19 pandemic situation, continued pressures arising from local regulatory and economic environment; greater requirement for plant maintenance and increased repayment profile. The Company will continue to focus on better cost management, financial and cash management; improving productivity and efficiency in order to maximise Shareholders' return.