Quarterly Update
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QQGN

LT growth supported by RAB model with high CF visibility, offering an attractive DY of 7%

- **Oman's exclusive natural gas network owner and operator is well-positioned to benefit from the country's network growth needs.**
- **Earnings up by 26% y/y noting that Q2 24A earnings were inflated by cOMR 4m in one-off gains from PC2 Opex.**
- **RAB structure ensures CF predictability with no commodity exposure; A growing RAB base backed by annual CapEx of >OMR 40m and WACC adjustment support a 5.5% EPS CAGR FY24-27e.**
- **We reiterate our Buy rating and lift our TP to OMR 0.200, with 25% upside. CMP implies a P/E of 13.5x at a >10% discount to regional/ global peers, offering an attractive DY of 7% at the core of the story.**

Oman's network demand should fuel OQGN's growing asset base, while the RAB structure ensures CF visibility. OQ Gas Network (OQGN) is Oman's exclusive operator of natural gas transportation pipelines with a growth strategy based on the continued investment in the country's network, debottlenecking/upgrade of existing networks, and possible acquisition of gas transportation assets. OQGN operates under a RAB structure (with a concession agreement ending in 2070e). Revenue is regulated/ensured via an established return rate (the regulatory WACC), which the regulator determines during periodic reviews every three/four years. The RAB model ensures that i) CapEx outlays are compensated, ii) >90% of OpEx is on a pass-through basis, and iii) OQGN is neither exposed to gas prices nor demand fluctuations, ultimately leading to exceptional CF visibility.

OQGN's Q2 25A net income declined 9.5% y/y (+1.3% q/q) to OMR 12.8m, reflecting a one-off OMR 4m PC2 Opex adjustment. Excluding this, recurring earnings rose 26% y/y, supported by a 2.1x jump in construction revenue and a 12% drop in financing costs after debt was repriced at 5.15% (vs. 5.7%, 2028 maturity). H1 25A earnings reached OMR 25.4m, up 13% y/y excluding OMR 5.3m in one-offs. IFRS revenue grew 20% y/y (+42% q/q) to OMR 53m, with construction more than doubling; adjusted growth was 32% y/y, while allowance and finance income held steady at OMR 9m and OMR 19m.

Attractive regulatory WACC for a 4-year PC, supporting 6% EPS CAGR (FY 24-27e). As of December 23, the regulator announced a regulatory WACC of 7.8% (up from 7.3% in PC 2) for a four-year price control period (PC 3), with additional OpEx and CapEx allowances spread over the period. We highlight that the official revision and additional allowances are set to boost recurring earnings throughout the new price control period (5.5% CAGR). With Oman Rf c80-110bps above other GCC countries, the upgrade in regulatory WACC seems justified, especially as UAE's Taqa moved to a nominal WACC of 7-8% (4.9% + CPI). The improved WACC and a 3% growth in OQGN's regulated asset base support our forecasted 5.5% EPS CAGR FY 24- 27e.

OQGN is a key cog in the government's hydrogen pipeline infrastructure plans. The company supports Hydrom on master planning, contributes to its feasibility studies, and has completed a strategic hydrogen study assessing CUI development and commercialisation. By designing an optimised pipeline network for current and future hydrogen blocks, OQGN aims to leverage scale and rights-of-way efficiencies to lower transport costs, positioning itself as a leading hydrogen network operator.

Higher network growth will unlock more potential value as OQGN maintains ample balance sheet capacity. While we conservatively assume an organic CapEx outlay of OMR 195m during PC 3, higher demand and /or consolidation opportunities from networks owned by upstream players could unlock further growth opportunities. Every OMR 10m in additional CapEx/annum adds c2-3% to our TP. At 0.3x EV/RAB, OQGN maintains ample funding room before hitting its covenant cap of 0.7x EV/RAB (

We have a Buy rating on the name with a TP of OMR 0.200/share backed by a highly predictable DY of 7%. With OQGN offering an attractive DY of 7.1% in FY 25e. Our TP yields a TRS of 12% (4.6% EPS CAGR, and 7% DY). We believe OQGN's CMP (FY 25 P/E of 13.5x) offers deep value given its i) CF visibility under the RAB structure, ii) LT concession agreement running to FY 70e, iii) EPS growth fueled by improved WACC and growing asset base, and iv) solid FCF generation supporting its generous payout policy. The discount is further highlighted by OQGN's EV/RAB of 1x, which is well below other regulated peers. The aspired emerging market inclusion by 2027 would be a game changer for the MSX, leading to increased tracking of key assets, including OQGN (likely as a small cap). Our TP of OMR 0.200 provides a 25% upside.

BUY OMR 0.20

Consumer Services / Oman

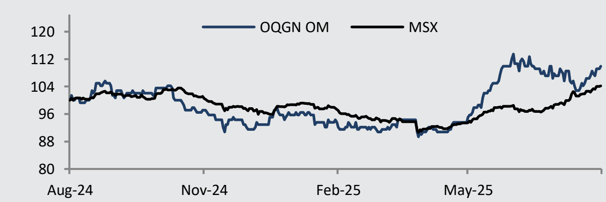
Bloomberg code	OQGN OM
Market index	MSX
Target Price	0.20
Upside (%)	24.9

Market data 9/17/2025

Last closing price	0.16
52 Week range	0.1-0.2
Market cap (OMR m)	689
Market cap (USD m)	1,788
Average Daily Traded Value (USD m)	3.4
Free float (%)	34%

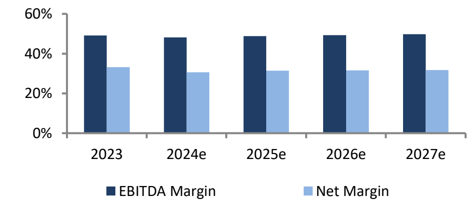
Year-end (local m)	2024	2025e	2026e	2027e
Revenues	153.8	173.7	177.4	181.1
EBITDA	80.8	84.8	87.2	89.6
Net income	47.8	51.4	53.8	56.2
EPS	0.01	0.01	0.01	0.01
EPS growth (%)	2.5	7.3	4.6	4.6
P/E (current price)	14.5	13.5	12.9	12.3
DPS	0.011	0.011	0.011	0.012
Div. yield (%)	6.7	7.0	7.0	7.3
FCF yield (%)	6.6	7.9	7.4	7.6
CAPEX	0.9	-	1.0	1.0
CAPEX/sales (%)	0.6	-	0.6	0.5
Net Debt/EBITDA (x)	4.2	4.0	4.0	4.0
EV/EBITDA (x)	12.8	12.2	11.9	11.6
RoAE (%)	3.8	4.1	4.2	4.4
RoIC (%)	7.4	7.5	7.6	7.8

Price Performance

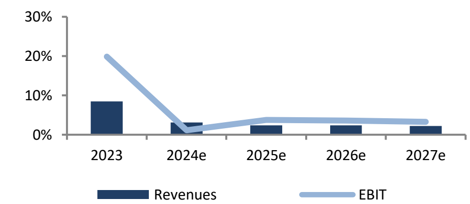


Abacus *Arqaam Capital Fundamental Data*

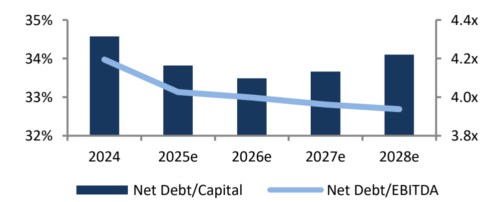
Profitability



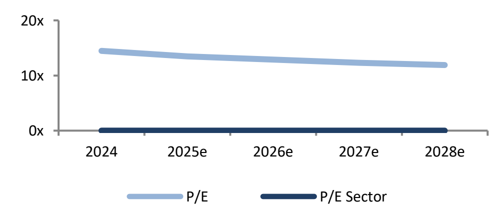
Growth



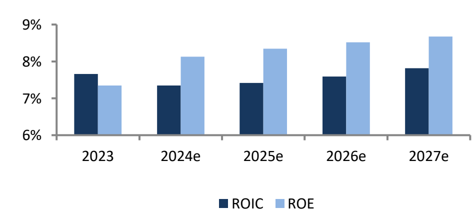
Gearing



Valuation



Return



OQ Gas Network (OQGN)

Year-end	2023	2024	2025e	2026e	2027e	2028e
Financial summary						
Reported EPS	0.01	0.01	0.01	0.01	0.01	0.01
Diluted EPS	0.01	0.01	0.01	0.01	0.01	0.01
DPS	0.01	0.01	0.01	0.01	0.01	0.01
BVPS	0.15	0.14	0.15	0.15	0.15	0.15
Weighted average shares	4,330.62	4,331	4,331	4,331	4,331	4,331
Average market cap	692.90	692.90	692.90	692.90	692.90	692.90

Year-end	2023	2024	2025e	2026e	2027e	2028e
Valuation metrics						
P/E (x) (current price)	14.8	14.5	13.5	12.9	12.3	11.9
P/E (x) (target price)	18.5	18.1	16.8	16.1	15.4	14.9
EV/EBITDA (x) (current price)	12.4	12.8	12.2	11.9	11.6	11.3
EV/EBITDA (x) (target price)	13.6	14.1	13.5	13.1	12.7	12.5
EV/FCF (x)	1,092.2	875.4	880.0	827.4	782.5	698.8
Free cash flow yield (%)	6.0	6.6	7.9	7.4	7.6	8.0
Dividend yield (%)	5.1	5.3	5.6	5.6	5.8	6.1

Year-end	2023	2024	2025e	2026e	2027e	2028e
Growth (%)						
Revenues	8.1	(10.8)	13.0	2.1	2.0	(1.1)
EBITDA	18.0	(3.6)	4.8	2.9	2.7	2.0
EBIT	18.1	(2.4)	3.6	3.0	2.8	2.0
Net income	22.3	(14.3)	7.5	4.6	4.6	3.6

Year-end	2023	2024	2025e	2026e	2027e	2028e
Margins (%)						
EBITDA	48.6	52.6	48.8	49.2	49.5	51.0
EBIT	48.1	52.6	48.2	48.6	49.0	50.5
Net	32.4	31.1	29.6	30.3	31.1	32.5

Year-end	2023	2024	2025e	2026e	2027e	2028e
Returns (%)						
RoAA	4.2	4.3	4.5	4.6	4.6	4.8
RoAE	3.7	3.8	4.1	4.2	4.4	4.5
RoIC	7.8	7.4	7.5	7.6	7.8	7.9
FCF margin	29.9	36.9	39.6	36.2	36.5	38.6

Year-end	2023	2024	2025e	2026e	2027e	2028e
Gearing (%)						
Net debt/Capital	31.3	34.6	33.8	33.5	33.7	34.1
Net debt/Equity	47.2	54.2	54.2	54.9	55.3	55.5
Interest cover (x)	4.1	3.3	3.6	3.7	3.9	4.1
Net debt/EBITDA (x)	3.6	4.2	4.0	4.0	4.0	3.9

Abacus *Arqaam Capital Fundamental Data*

Company profile

OQGN is the exclusive operator and owner of Oman's Natural Gas Transportation Network, with a monopoly over gas transportation in Oman through its 50-year concession agreement (ending in 2070) and assets that include c4,235 km of pipelines, three compressor stations and 26 gas supply stations. As the transporter of natural gas, OQGN plays a vital role in feeding gas resources to a diverse set of downstream customers within different sectors. As a gas transmission utility, the company operates under a regulated asset base (RAB) model, first introduced in 2018, which ensures highly visible streams of cash flows, with a low-risk profile to returns on its OMR c1bn asset base.

Investment thesis

As Oman's exclusive NG network owner and operator OQGN benefits from the growth in the country's networks. OQGN's operational growth is built on a de-risked business model under the RAB structure. With the growth in regulated asset base coupled with the upward revision in regulatory WACC to 7.79% we foresee a c5.5% EPS CAGR (FY 24-27e). We have a Buy recommendation on the name with a TP of OMR 0.200/share.

Ownership structure

Ownership structure	
OQ Gas Network SAOC	51.0%
Public Investment Fund	4.90%
Falcom Investment LLC	4.90%
Fluxys Internatioal SA	4.90%
Free Float	34.3%

Source: Bloomberg, Company Data

OQ Gas Network (OQGN)

Year-end	2023	2024	2025e	2026e	2027e	2028e
Income statement (OMRm)						
Sales revenue	172.3	153.8	173.7	177.4	181.1	179.1
Cost of sales	(77.9)	(58.6)	(76.4)	(77.3)	(78.2)	(74.1)
Gross profit	**94.5**	**95.2**	**97.3**	**100.1**	**102.9**	**105.0**
SG&A	-	-	-	-	-	-
EBITDA	**83.8**	**80.8**	**84.8**	**87.2**	**89.6**	**91.4**
Depreciation	(1.0)	-	(1.0)	(1.0)	(1.0)	(1.0)
EBIT	**82.8**	**80.8**	**83.8**	**86.3**	**88.6**	**90.4**
Interest expense	(20.1)	(24.3)	(23.3)	(23.0)	(22.5)	(21.9)
Other pre-tax income/(expense)	-	-	-	-	-	-
Profit before tax	62.7	56.6	60.4	63.2	66.2	68.5
Taxes	(6.9)	(8.8)	(9.1)	(9.5)	(9.9)	(10.3)
Other post-tax income/(expense)	-	-	-	-	-	-
Net profit (group)	55.8	47.8	51.4	53.8	56.2	58.2
Minorities	-	-	-	-	-	-
Net profit (parent)	**55.8**	**47.8**	**51.4**	**53.8**	**56.2**	**58.2**
Arqaam adjustments (including dilution)	(8.8)	-	-	-	-	-
Arqaam Net profit	**46.7**	**47.9**	**51.4**	**53.8**	**56.2**	**58.2**

Year-end	2023	2024	2025e	2026e	2027e	2028e
Balance sheet (OMRm)						
Cash and equivalents	23.8	15.8	38.2	57.9	58.1	46.7
Receivables	44.5	44.6	53.6	55.0	56.5	58.0
Inventories	2.7	3.0	3.6	3.7	3.7	3.6
Tangible fixed assets	116.0	117.0	137.8	138.4	139.0	134.6
Other assets including goodwill	914.7	929.5	926.1	945.2	963.8	981.9
Total assets	**1,101.7**	**1,109.9**	**1,159.3**	**1,200.2**	**1,221.1**	**1,224.7**
Payables	62.3	53.3	65.4	66.3	67.2	64.5
Interest bearing debt	329.5	354.9	379.5	406.8	413.2	406.6
Other liabilities	62.4	76.7	84.6	92.0	98.8	105.0
Total liabilities	**454.2**	**485.0**	**529.5**	**565.0**	**579.2**	**576.1**
Shareholders equity	647.5	625.8	629.8	635.1	641.9	648.6
Minorities	-	-	-	-	-	-
Total liabilities & shareholders equity	**1,101.7**	**1,110.8**	**1,159.3**	**1,200.2**	**1,221.1**	**1,224.7**

Year-end	2023	2024	2025e	2026e	2027e	2028e
Cash flow (OMRm)						
Cashflow from operations	**127.2**	**96.8**	**116.2**	**115.0**	**116.9**	**114.9**
Net capex	(48.7)	(73.7)	(59.4)	(59.7)	(59.7)	(1.0)
Free cash flow	**51.6**	**56.8**	**68.8**	**64.2**	**66.1**	**69.1**
Equity raised/(bought back)	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-
Net inc/(dec) in borrowings	(58.7)	27.5	25.2	28.0	7.2	(5.9)
Other investing/financing cash flows	(20.1)	(24.3)	(23.3)	(23.0)	(22.5)	(21.9)
Net cash flow	**(43.1)**	**(7.6)**	**22.4**	**19.7**	**0.2**	**(11.4)**
Change in working capital	22.6	(9.3)	2.3	(0.5)	(0.7)	(4.0)

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Valuation - reiterate our Buy and lift TP to OMR 0.200/share

We initiate coverage on **OQ Gas Network (OQGN)** with a **Buy** rating. We set a DCF derived TP of **OMR 0.200/share**, offering 35% upside to the current market price. DCF best captures the intrinsic value given the expected regulated asset base growth and WACC adjustment in FY 24e and their impact on free cash flows during our forecast period. Our valuation framework is based on long-term analysis and not linked to near-term assessment.

We forecast six years of free cash flows to calculate the fair value for OQGN. FCFs grow at a CAGR of 3% in FY 25-30e.

Our base case is based on static WACC based on the company's capital structure, averaging 8.5%, based on a cost of equity of 10% and a cost of debt of c5%, and weight of debt of c31%. Our perpetual growth is assumed to be at 3%.

Exhibit 1: OQGN valuation summary

OMR m	FY 25e	FY 26e	FY 27e	FY 28e	FY 29e	FY 30e
Operating Income (EBIT)	76	78	81	83	85	86
Tax Paid	-2	-3	-4	-5	-6	-8
NOPAT	**74**	**76**	**77**	**78**	**79**	**78**
D&A	31	31	32	32	33	33
Adjusted COPAT	**105**	**107**	**109**	**110**	**112**	**111**
Change in Working Capital	2	-1	-1	-4	-4	0
CapEx	-50	-50	-50	-45	-40	-40
Free Cash Flow to Firm	**57**	**56**	**58**	**61**	**68**	**71**
Present Value of FCFF	54	49	46	45	46	44
PVOP	285					
PVTV	827					
Enterprise Value	**1,112**					
Net Debt	315					
Minority	0					
Equity Value, OMR m	**797**					
No of Shares, m	4,331					
DCF Value/Share	**0.184**					
12M Target Price, OMR/share	**0.200**					

Source: Arqaam Capital Research

Sensitivity analysis

Exhibit 2: Sensitivity to change in CoE and TGR

		CoE				
		10.0%	10.5%	11.0%	11.5%	12.0%
TGR	4.0%	0.306	0.275	0.248	0.226	0.206
	3.5%	0.268	0.243	0.222	0.203	0.186
	3.0%	0.239	0.218	**0.200**	0.184	0.170
	2.5%	0.214	0.197	0.182	0.168	0.155
	2.0%	0.195	0.180	0.166	0.154	0.143

Source: Arqaam Capital Research

Scenario analysis

a) Regulatory WACC adjustment post PC 3

Bull case: Our base case assumes regulatory WACC is maintained at 7.8% after the third price control period PC 3. However, assuming regulatory WACC is adjusted upwards by c50bps to **8.3%** this yields a bull case TP of OMR 0.218/share (c9% above our base case).

Exhibit 3: Bull case to yield a TP of OMR 0.218/share (9% above our base case)

	FY 24-27e	FY 28e	FY 29e	FY 30e
EBITDA	329	121	124	126
FCF	172	64	73	76
Enterprise value, (OMR m)	1,184			
Equity Value (OMR m)	870			
12TP (OMR/share)	0.218			

Source: Arqaam Capital Research

Bear case: Meanwhile our bear case scenario assumes that regulatory WACC is revised downwards to **7.3%** (previous WACC for PC 2) beyond FY 27e. This would yield a TP of OMR 0.182/share (c10% below our base case). However, we note that a downward revision would likely be accompanied by a lower CoE and CoD, which could also impact OQGN's valuation.

Exhibit 4: Bear case to yield a TP of OMR 0.182/share (9% below our base case)

	FY 25-27e	FY 28e	FY 29e	FY 30e
EBITDA	329	110	111	113
FCF	172	59	63	65
Enterprise value, (OMR m)	1,039			
Equity Value (OMR m)	725			
12TP (OMR/share)	0.182			

Source: Arqaam Capital Research

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