Quarterly Update
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OQ Gas Network (OQGN)

Recurring EPS up 3% (excluding one-offs); Valuation remains attractive

- **Recurring EPS rose by 3% y/y noting that Q1 24A earnings were inflated by cOMR 1.3m in one-off gains from PC2 Opex.**
- **A growing RAB base backed by a 22% y/y rise in CapEx of OMR 8m, expected to pick up post Fahud's Loop line project commission**
- **IFRS recurring revenues rose 4% y/y (-4% q/q) to OMR 37m as construction revenue +22% y/y offsets the drop in allowance income (-13% y/y) post one-off adjustment**
- **We reiterate our Buy rating with a TP of OMR 0.200, providing a 26% upside. CMP implies a P/E of 13.3x at a >10% discount to regional/ global peers, offering an attractive DY of 7.1% at current policy**

Q1 25 recurring EPS up 3% y/y, (2% ahead of Ace, +29% q/q) on higher construction activity, excluding a one-off gain of OMR 1.3m from PC2 Opex allowance. OQGN's Q1 25A net profit dropped 7% y/y (+29% q/q) to OMR 12.6 as Q1 24A earnings were boosted by an OMR 1.3m one off gain related to PC2 Opex adjustment. Adjusting for this, recurring earnings rose 3% y/y supported by a 4% y/y rise in recurring IFRS revenue coupled with a 16% y/y reduction in interest costs, which more than offset higher Admin/SG&A costs (+15% y/y; +5% vs Ace). Regarding OQGN's topline, construction revenue improved by 22% y/y while allowance for expenditure/pass through income dropped by 13% y/y to OMR 9m (vs OMR 10m in Q1 24, inflated by one-offs). Meanwhile finance income remained flat y/y resulting in a 4% y/y IFRS revenue growth (-4% q/q; +3% vs ACe). However, revenue growth was partially affected by a 550bps compression in EBIT margins triggered by higher OPEX and construction costs as employee costs rose on the back of added projects.

Capex momentum expected to pick up supporting RAB expansion. Capex outlays rose 22% y/y in Q1 25 to OMR 8m, though they remain below FY23 levels, with RAB increasing modestly by 0.1%. That said, we expect capex spending to pick up and remain in line with guidance as the company progresses with the commissioning of the 200km Fahud–Sohar Second Loop Line project. As of Q1 25, the company commissioned its central 48-inch rich and lean segregation pipeline and completed 17km out of the planned 57km for Duqm. Accordingly, management reiterated its FY25e RAB growth guidance of c.3%. Against a growing asset base, the company is well positioned for strong cash flow generation, supported by capitalization of contracted assets and a high OpEx allowance of 99.7% as of Q1 25A.

Hydrogen pipeline infrastructure plans progressing. Management is working with policy makers, conducting feasibility work with initial focus on the Duqm and Salalah regions. By designing an optimized 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

We model for a 6% EPS CAGR growth supported by a 2% RAB CAGR (FY24–27e), higher OpEx allowances and an improved regulatory WACC return. Recurring earnings are driven by: i) growth in the regulated asset base to OMR 1,078m, supported by OMR 150m of injected CapEx, ii) incremental allowances phased over the control period, and iii) improved OpEx recovery. Beyond the base case, OQGN retains ample balance sheet capacity, with 0.3x EV/RAB versus a covenant cap of 0.7x, allowing for upside from higher network growth. We conservatively assume OMR 195m of organic CapEx during PC3. However, every OMR 10m of incremental annual CapEx adds c.2–3% to our TP, highlighting further upside potential

We have a Buy rating on the name with a TP of OMR 0.200/share backed by a highly predictable DY of 7.1%. We maintain a **Buy** rating with a target price of **OMR 0.200/share**, supported by strong CF visibility and a highly predictable DY of 7%. OQGN offers an attractive FY25e DY of 7.1%. Our TP yields a TRS of 12% (4.6% EPS CAGR, and 7% DY). We view OQGN's CMP as compelling (FY 25 P/E of 13.3x) offering 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.

BUY **OMR 0.20**

Consumer Services / Oman

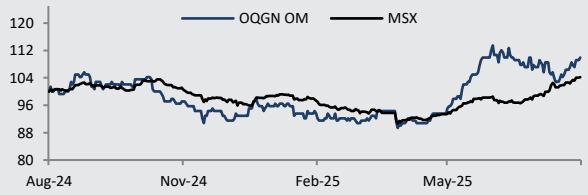
Bloomberg code	OQGN OM
Market index	MSX
Target Price	0.20
Upside (%)	26.5

Market data 6/10/2025

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



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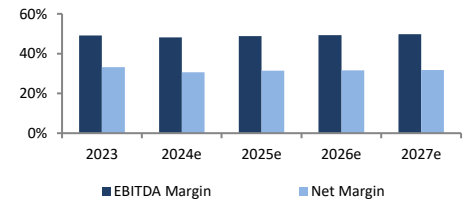
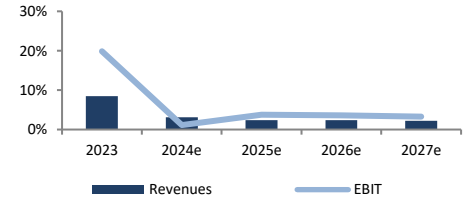
Abacus *Arqaam Capital Fundamental Data*

OQ Gas Network (OQGN)

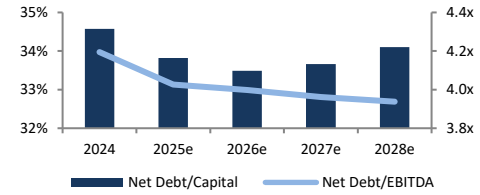
Profitability



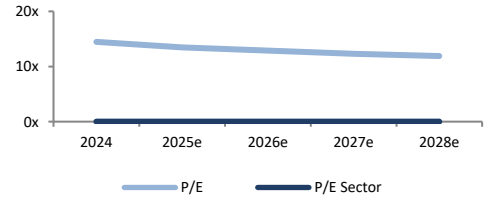
Growth



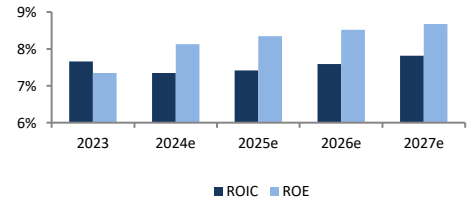
Gearing



Valuation



Return



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

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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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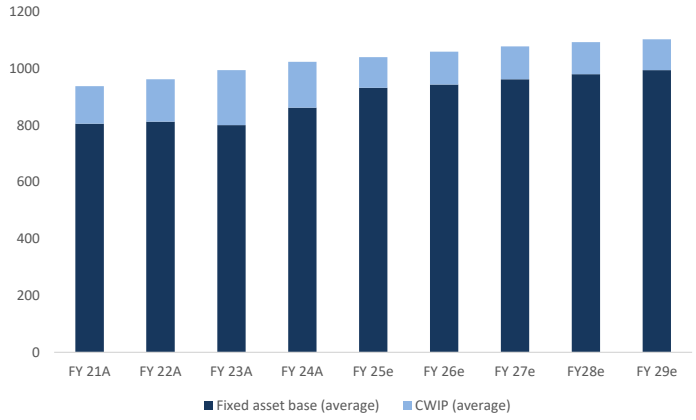
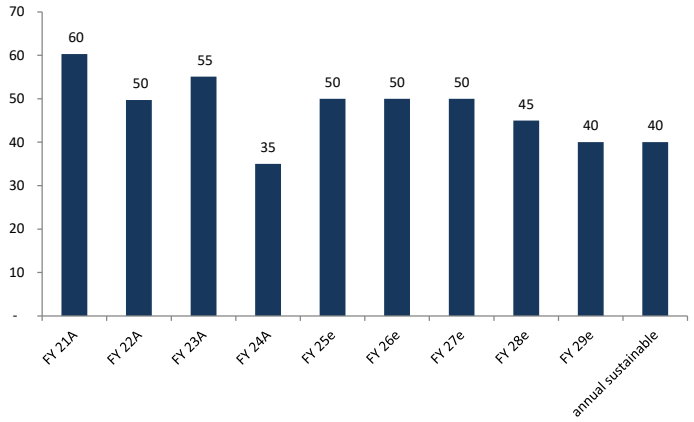
Exhibit 1: OQGN's regulated asset base to reach OMR 1,078bn by FY 27e



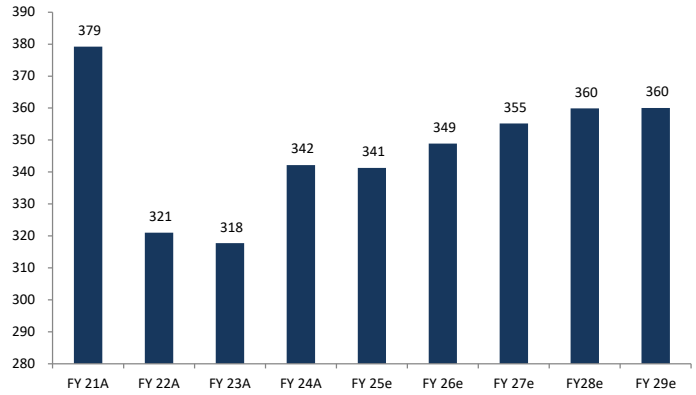
Source: Arqaam Capital Research

Exhibit 2: We assume an annual CapEx of OMR 40-50m FY 25-29e, followed by sustainable outlay of OMR 40m p.a



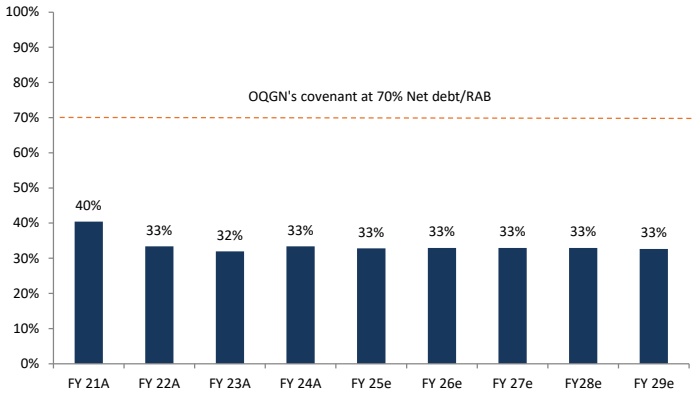
Source: Arqaam Capital Research

Exhibit 3: Payout unfazed by the company's potential CapEx plans given its reasonable leverage profile …



Source: Arqaam Capital Research

Exhibit 4: … as OQGN's net debt-to-RAB remains significantly below the covenant of 0.7x RAB



Source: Arqaam Capital Research

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