Company Update

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Passant Mohamed
Passant.mohamed@arqaamsecurities.com
+20 109 925 8411

Nour Eldin Sherif, CFA
noureldin.sherif@arqaamcapital.com
+971 55 780 9963

OQEP

Lower Brent drives 8% EPS cut; Downgrade to Hold, following recent rally, yet at a compelling 8% FCFY and DY

- **We cut our EPS by 8% in FY 26-28e on 3% lower revenues as now assume oil price of USD 63/bbl (-8% vs. prev.), partly offset by higher entitlement to OQEP (51%, +1 ppts vs. prev.) and higher Block 60 volumes.**
- **We expect FY 26e revenues to decline 6%, on softer oil prices (-14% y/y), despite support from growing gas revenues.**
- **We expect a resilient FCF of USD 663m in FY 26-28e resulting in dividends of USD 658m (of which 92% is base dividends, and the balance is PLD), yielding 8%.**
- **We downgrade to Hold at a TP of OMR 0.4/share, as the stock rallied 18% since initiation, coupled with an 8% downward EPS revision, but still offers a lucrative DY of 8% vs. 4.6% for peers.**

We cut our EPS by 8% in FY 26-28e mainly reflecting lower oil prices of USD 63/bbl (-8% vs. prev.). Revenues are trimmed by 3% to OMR 816m on average in FY 26-28e, primarily driven by the lower oil assumption of USD 63/bbl (from USD 68/bbl), resulting in 7% decline in realized selling prices. Based on the PSA sensitivity, we raise OQEP's share to 51% (from 50%) as every USD 10/bbl drop in oil increases OQEP's entitlement by 2-4%, partially cushioning the price impact. We expect modestly higher oil volumes (+4% across FY26-28e), supported by the Bissat C expansion in Block 60, where processing capacity increased from ~60 kbbl/d to ~70 kbbl/d, reactivating several wells and lifting field output. Gas assumptions are kept unchanged, consistent with fixed GSAs that govern sales and pricing. We cut our GPM lower by c.195 bps to 32.8% in FY 26-28e reflecting softer realised pricing.

We expect an 6% decline in revenues in FY 26e on 15% lower oil price despite higher gas sales and processing fees. Oil & condensate revenues are expected to drop 10% in FY 26e due to lower brent price of USD 58.5/bbl (-14% y/y), with normalizing premium (-15% drop in realised prices), despite an assumed growth of 6% in oil volumes, thanks to higher OQEP's share. Total production should increase to 232.4k boepd in FY 26e (+2% y/y), driven by Block 60 and a higher contribution from gas, which should now account for 48% of the volume sales mix. We assume 6% growth in gas revenues in FY 26e on higher contracted volumes (+5% y/y) and a modest price step-up, while processing and service fees should grow 6% y/y. We expect modestly lower GPM of 31% (-4.8 ppts y/y) and EBITDA margin of 63% (-2.8 ppts y/y), reflecting lower oil price but supported by OQEP's low-cost base (USD 8/boe). We see disciplined Capex of USD 811m (USD 9.6/boe, flat y/y), in line with long-term field development plans.

OQEP should continue to generate strong FCF of USD 663m (OMR 256m) p.a. in FY 26-28e at an attractive 8% FCFY, supported by a structurally low-cost base of USD 8/boe and disciplined capex intensity of USD 9/boe. The company has already distributed over USD 562m (OMR 217m) in dividends YTD 2025, comprising USD 448m (OMR 173m) in base dividends and USD 114m (OMR 44m) in PLD, impling a DY of 7%. We expect total dividends of USD 658m (OMR 254m) in FY 26-28e, comprising base dividends of USD 600m (OMR 232m) and a PLD of USD 58m (OMR 22m). Dividend yield expected to rise to 8% over FY 26-27e, fully covered by FCF, reflecting the resilient production base, fixed-price gas sales, and stable cost structure. On buyback program, OQEP targets 45-60m shares between Aug-25 and Feb-26; over 50% of the program has already been executed, at an average cost of OMR 0.344/share. We expect the company to continue opportunistically completing the program, supported by strong liquidity, moderate capex requirements (OMR 760-827m p.a), and robust cash generation.

We downgrade OQEP to Hold at a TP of OMR 0.395/share, following a 18% rally since initiation. The investment case remains supported by resilient cash generation, with an 8% FCFY and 8% DY profile and additional upside from exploration and potential increases in operating stakes across existing and new fields. We forecast an average FCF of USD 1.2bn (OMR 447m) over FY 26-49e, assuming full reserve depletion by FY 49e, underpinned by a conservative oil-price of USD 65/bbl and a gradual shift in the production mix towards gas, with oil/gas converging to 50/50 by FY 29e (from 55/45 in FY 25e). Valuation now appears full as the stock trades at 6.6x EV/EBITDA on FY 26e, broadly in line with peers, The stock's core attraction remains its dividend proposition, offering a compelling 8% yield in FY 26e, comfortably ahead of the peer average of c.4.6%.

HOLD↓ **OMR 0.395↓**

Industrial / OMAN

Bloomberg code	OQEP OM
Market index	MSX
Target Price	0.395
Upside (%)	2.7

Market data	**1/15/2026**
Last closing price	0.38
52 Week range	0.3-0.4
Market cap (OMR m)	3,096
Market cap (USD m)	8,042
Average Daily Traded Value (OMR m)	4.0
Average Daily Traded Value (USD m)	11.3
Free float (%)	25%

Year-end (local m)	**2024**	**2025e**	**2026e**	**2027e**
Revenues	841	835	785	825
EBITDA	559	552	497	528
Net income	332	293	250	281
EPS	0.04	0.04	0.03	0.04
EPS growth (%)	(48.2)	(8.8)	(14.8)	12.7
P/E (current price)	8.3	8.8	8.9	9.0
DPS	0.02	0.03	0.03	0.03
Div. yield (%)	6.5%	10.4%	9.6%	9.3%
FCF/share	0.03	0.04	0.03	0.03
FCF yield (%)	8.6%	11.1%	9.5%	9.2%
CAPEX	246	307	313	319
CAPEX/sales (%)	29.2	36.8	39.9	38.7
Net Debt/EBITDA (x)	0.4	0.4	0.4	0.4
EV/EBITDA (x)	5.1	5.2	5.2	5.3
RoAE (%)	39.5	31.8	26.9	29.6
RoIC (%)	23.4	23.3	18.5	20.6

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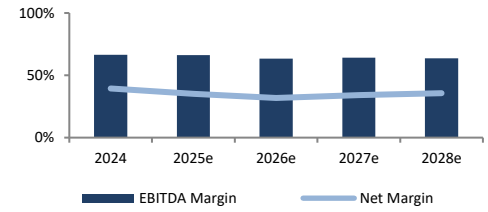
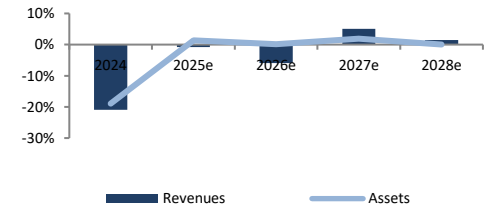
Abacus

Arqaam Capital Fundamental Data

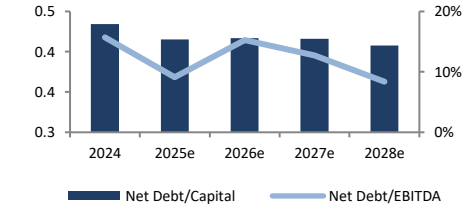
Profitability



Growth



Gearing



OQEP

Year-end	2023	2024	2025e	2026e	2027e	2028e
Financial summary						
Reported EPS	0.08	0.04	0.04	0.03	0.04	0.04
Diluted EPS	0.08	0.04	0.04	0.03	0.04	0.04
DPS	0.04	0.02	0.03	0.03	0.03	0.03
BVPS	0.35	0.42	0.43	0.43	0.45	0.46

Year-end	2023	2024	2025e	2026e	2027e	2028e
Valuation metrics						
P/E (x) (current price)	4.3	8.3	8.8	8.9	9.0	8.6
P/E (x) (target price)	5.2	10.0	10.5	10.7	10.9	10.4
EV/EBITDA (x) (current price)	3.7x	5.1x	5.2x	5.2x	5.3x	5.3x
EV/EBITDA (x) (target price)	4.4	6.0	6.1	6.2	6.3	6.3
EV/FCF (x)	5.4	11.6	9.0	10.5	10.9	9.7
Free cash flow yield (%)	18.6%	8.6%	11.1%	9.5%	9.2%	10.3%
Dividend yield (%)	11.8%	6.5%	10.4%	9.6%	9.3%	9.9%

Year-end	2023	2024	2025e	2026e	2027e	2028e
Growth (%)						
Revenues	(23.5)	(20.9)	(0.8)	(5.9)	5.1	1.5
EBITDA	(26.6)	(27.1)	(1.4)	(10.0)	6.4	0.8
EBIT	(35.5)	(30.4)	(4.3)	(20.9)	14.2	1.1
Net income	-	(47.7)	(11.7)	(14.8)	12.7	6.3

Year-end	2023	2024	2025e	2026e	2027e	2028e
Margins (%)						
EBITDA	72.2	66.5	66.1	63.3	64.1	63.6
EBIT	38.0	33.5	32.3	27.2	29.5	29.4
Net	59.6	39.4	35.1	31.8	34.1	35.7

Year-end	2023	2024	2025e	2026e	2027e	2028e
Returns (%)						
RoAA	29.6	17.9	17.5	14.8	16.6	17.4
RoAE	105.6	39.5	31.8	26.9	29.6	30.3
RoIC	23.2	23.4	23.3	18.5	20.6	20.4
FCF margin	16.0	7.4	9.8	8.0	7.5	9.3

Year-end	2023	2024	2025e	2026e	2027e	2028e
Gearing (%)						
Net debt/Capital	31.4	17.9	15.4	15.6	15.5	14.4
Net debt/Equity	61.1	25.6	21.9	22.2	21.4	19.4
Interest cover (x)	36.0	79.0	16.5	13.1	15.7	17.2
Net debt/EBITDA (x)	0.6	0.4	0.4	0.4	0.4	0.4

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Abacus *Arqaam Capital Fundamental Data*

Company profile

OQEP is Oman's only government-owned upstream oil and gas company and a major subsidiary of OQ, contributing around 56% of OQ's adjusted EBITDA in FY 2024. Since its founding in 2009, it has grown production nearly 14-fold to 227.8 kboe/d as of FY 24.

The company ranks among Oman's top three oil and gas producers, contributing ~14% of the country's hydrocarbon output in FY 2023. It holds 2P working interest reserves of approximately 0.974 billion boe as of H1 24. OQEP manages 14 upstream assets across exploration, development, and production, and benefits from Oman's strategic location, strong regulatory environment, and economic stability.

Investment thesis

We downgrade OQEP to Hold at a TP of OMR 0.395/share, following a 18% rally since initiation. The investment case remains supported by resilient cash generation, with an 8% FCFY and 8% DY profile and additional upside from exploration and potential increases in operating stakes across existing and new fields. We forecast an average FCF of USD 1.2bn (OMR 447m) over FY 26-49e, assuming full reserve depletion by FY 49e, underpinned by an oil-price of USD 65/bbl and a gradual shift in the production mix towards gas, with oil/gas converging to 50/50 by FY 29e (from 55/45 in FY 25e). Valuation now appears full as the stock trades at 6.6x EV/EBITDA on FY 26e, broadly in line with peers, The stock's core attraction remains its dividend proposition, offering a compelling 8% yield in FY 26e, comfortably ahead of the peer average of c.4.6%.

OQEP

Year-end	2023	2024	2025e	2026e	2027e	2028e
Income statement (OMRmn)						
Sales revenue	1,063	841	835	785	825	837
Cost of sales	(614)	(523)	(532)	(538)	(547)	(557)
Gross profit	**449**	**318**	**303**	**247**	**277**	**280**
SG&A	(45)	(37)	(33)	(33)	(34)	(34)
EBITDA	**767**	**559**	**552**	**497**	**528**	**532**
Depreciation	(363)	(278)	(282)	(283)	(285)	(286)
EBIT	**404**	**282**	**270**	**213**	**243**	**246**
Interest expense	(11)	(4)	(16)	(16)	(16)	(14)
Share of results of associates & JV	-	8	11	12	12	25
Profit before tax	707	329	297	254	286	304
Taxes	(80)	(3)	(4)	(4)	(4)	(5)
Other post-tax income/(expense)	**-**	**-**	**-**	**-**	**-**	**-**
Net profit (group)	627	327	293	250	281	299
Minorities	7	5	-	-	-	-
Net profit (parent)	**634**	**332**	**293**	**250**	**281**	**299**
Arqaam adjustments (including dilution)	7	5	-	-	-	-
Arqaam Net profit	**634**	**332**	**293**	**250**	**281**	**299**

Year-end	2023	2024	2025e	2026e	2027e	2028e
Balance sheet (OMRmn)						
Cash and equivalents	257	160	191	188	166	155
Receivables	471	442	415	389	407	411
Inventories	99	77	70	71	72	73
Tangible fixed assets	931	866	891	921	955	962
Other assets including goodwill	289	114	114	115	116	116
Total assets	**2,047**	**1,659**	**1,681**	**1,684**	**1,716**	**1,717**
Payables	328	288	293	297	302	307
Interest bearing debt	725	394	394	394	375	348
Other liabilities	154	65	65	65	65	65
Total liabilities	**1,208**	**747**	**752**	**755**	**741**	**719**
Shareholders equity	767	912	930	929	974	998
Minorities	71	-	-	-	-	-
Total liabilities & shareholders equity	**2,047**	**1,659**	**1,681**	**1,684**	**1,716**	**1,717**

Year-end	2023	2024	2025e	2026e	2027e	2028e
Cash flow (OMRmn)						
Cashflow from operations	**795**	**449**	**585**	**521**	**510**	**527**
Net capex	(265)	(246)	(307)	(313)	(319)	(293)
Free cash flow	**529**	**245**	**314**	**270**	**260**	**293**
Equity raised/(bought back)	-	80	-	-	-	-
Dividends paid	(316)	(173)	(276)	(251)	(236)	(276)
Net inc/(dec) in borrowings	(546)	(222)	-	-	(219)	(27)
Other investing/financing cash flows	(11)	(4)	(16)	(16)	(16)	(14)
Net cash flow	**75**	**(124)**	**30**	**(3)**	**(22)**	**(12)**
Change in working capital	961	400	398	277	197	340

Passant Mohamed
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+20 109 925 8411

Nour Eldin Sherif, CFA
noureldin.sherif@arqaamcapital.com
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Summary of forecast changes

Exhibit 1: We cut our EPS by 8% in FY 26-28e mainly reflecting lower oil prices of USD 63/bbl (-8% vs. prev.).

	FY 26e			FY 27e			FY 28e		
OMR m	**new**	**old**	**Δ**	**new**	**old**	**Δ**	**new**	**old**	**Δ**
Revenues	785	834	*-6%*	825	838	*-2%*	837	847	*-1%*
Gross profit	247	296	*-17%*	277	290	*-5%*	280	290	*-3%*
EBITDA	497	543	*-9%*	528	539	*-2%*	532	539	*-1%*
Net income	250	298	*-16%*	281	294	*-4%*	299	309	*-3%*
GPM	31.4%	35.5%	(406.4)	33.6%	34.7%	(104.8)	33.5%	34.2%	(75.3)
EBITDA margin	63%	65%	(185.5)	64%	64%	(24.2)	64%	64%	(8.5)
Net margin	31.8%	35.8%	(395.2)	34.1%	35.1%	(101.7)	35.7%	36.5%	(71.2)

Source: Company Data, Arqaam Capital Research

Valuation Summary

Exhibit 2: DCF Summary

OMRm		**FY 26e**	**FY 27e**	**FY 28e**	**FY 29e**	**FY 30e**	**FY 49e**
EBIT		213	244	246	256	285	600
Other income		12	12	25	26	26	49
(Taxes Paid)		(4)	(4)	(5)	(5)	(5)	(11)
+Depreciation		283	285	286	288	289	318
COPAT		*505*	*536*	*553*	*565*	*595*	*956*
Working capital changes		28	(14)	(1)	(4)	(13)	(0)
CAPEX		(268)	(273)	(246)	(251)	(256)	(134)
Free cash flow		**264**	**248**	**306**	**310**	**326**	**821**
PVOP	3,042						
PVTV							
Enterprise Value	3,042						
Net Debt (Q2 25A)	222						
Investments	18						
Equity Value	**2,838**						
Number of Shares	8,000						
Fair Value (OMR/share)	**0.355**						
Target Price (OMR/share)	**0.395**						

Source: Arqaam Capital Research

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