Company Profile

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OQ Base Industries

A tough year ahead on methanol/LPG weakness, partially mitigated by strong ammonia dynamics. Downgrade to Hold after share price rally

- **We lower our methanol and LPG price forecasts in FY 26e onwards given looser supply/demand dynamics and weakening energy prices, but expect a higher ammonia price in FY 26e on strong demand.**
- **OQBI should witness a challenging year in FY 26e given strong exposure to methanol and LPG (c.75% of revenues), despite the expected stability in volumes and price-linked gas formula.**
- **EBITDA/EPS are expected to decline by 5%/7% y/y in FY 26e, with the impact of price weakness exacerbated by the expected shutdown in the LPG plant. We lower our FY 26-30e EBITDA estimates by c.6% and EPS est. by c.12% given our lower price estimates**
- **We cut our TP by 5% to OMR 0.18 and downgrade to Hold as the share price rally (+64% since Jan'25) leaves no upside vs. our TP. OQBI continues to offer decent FY 26e FCFY/DY of 11%/5.5% on healthy FCF generation, and on upside potential from the unmodeled brownfield methanol project (+50% methanol capacity), but valuation is full on a normalized basis.**

Methanol market is expected to remain well supplied amid multi-year low Asian operating rates. Asian methanol prices fell 7% y/y and are currently c.5% below the FY25A average, reflecting continued downward pressure. Global methanol capacity stood at c.190 mt in FY 25A vs. estimated consumption of c.136 mt (ICIS), underscoring persistent oversupply. Market volatility in H2 25A was driven by US sanctions on certain cargoes, which temporarily lifted demand for non-sanctioned supply. Looking ahead, methanol production is set to increase in FY 26e on new global capacity, including Iran's Sabalan Phase 2. While China's MTO sector affordability remains weak, two new MTO units scheduled for FY 26e offer limited demand upside. Beyond FY 26e, slower capacity additions and some rationalization may narrow the supply-demand gap, though excess capacity is likely to persist. Overall, we expect methanol prices to remain under pressure amid subdued demand, ample supply, and ongoing sanctions-related uncertainties. We expect LPG prices to continue to trend lower in FY 26e, as we expect further weakness in oil prices vs. FY 25A average (USD 58-50/bbl oil price for FY 26e). LPG fundamentals are expected to remain muted in the NT due to weak petchem demand and warm weather, despite some winter heating support, with butane showing strength from gasoline blending. While the LT outlook suggests some recovery driven by rising crude prices (which could come towards the end of FY 26e/beg. FY 27e), nevertheless, potential oversupply from ME production and slow Asian demand could keep prices relatively weak compared to historical norms.

OQBI should report weaker profitability in FY 26e on the expected decline in methanol/LPG prices and lower LPG volumes. We expect methanol prices to decline by 4% y/y in FY 26e, after witnessing a 7% y/y dip in FY 25A, to average USD 265/t (spot at USD 268/t). We also forecast a 6% y/y drop in LPG prices. On the flipside, we expect ammonia prices to remain flat in FY 26e (USD 386/t) owing to strong demand. We also expect weaker LPG volumes in FY 26e as per the company's plan to carry out a maintenance shutdown in FY 26e. All in all, these factors are expected to drive a 5% y/y decline in EBITDA to OMR 81bn and a 7% y/y dip in net income to OMR 39m. We, however, expect earnings to recover in FY 27e onwards as methanol and LPG prices recover close to mid-cycle averages (LT brent price of USD 65/bbl – ACe).

Cashflow generation was robust in 9M 25A, with an annualized FCFY of 12%; yet we expect the upcoming IGC payment to hit Q4 25 FCFs. OQBI generated FCFs of OMR 71m in 9M 25A, already >90% of our FY 25e FCF estimate of OMR 77m. Annualized, this implies an FCFY of c.13%. However, we note that OQBI did not pay IGC for its share of OQ LPG cashflows (80%), and it is expected that the next payment will be made during Q4 25e. Accordingly, we expect lower FCF generation in Q4 25e, with our FY 25e FCF forecast still implying a decent FCFY of 11%.

We lower our TP by 5% to OMR 0.18/share and downgrade to Hold on limited upside post the YtD share price rally. The cut in our TP is mainly driven by our lower price assumptions, whereby we cut our FY 26-30e methanol price forecasts by 8%, ammonia price forecasts by 3% (although we raise FY 26e est. by 10%) and LPG price forecasts by 8%. Accordingly, Our EBITDA/EPS estimates are now c6%/12% lower in FY 26-30e, with EPS growing at an FY 25-30e CAGR of 6% (on deleveraging and methanol/LPG price recovery). OQBI's share price is up c.50% since July, and upside at our new TP is now limited, yet we highlight that near-term FCFY remains above sector average at c.11% in FY 25-27e (vs. <9% for local peers) and DY remains decent >5% in FY 26e (with upside to dividends after the end of the IPO stated policy on robust FCF generation). There is also upside potential from the unmodelled brownfield methanol project (still under study), which should add 50% to methanol capacity with relatively low CapEx (c.USD 470m, c.40% less than greenfield options) leveraging current infrastructure and access to low-cost gas.

Hold OMR 0.18

Petrochemicals / Oman

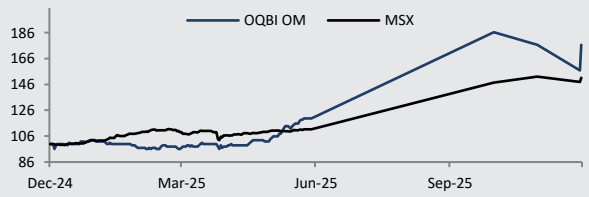
Bloomberg code	OQBI OM
Market index	MSX
Target Price	0.18
Upside (%)	-4.7

Market data 1/14/2026

Last closing price	0.17
52 Week range	0.1-0.2
Market cap (OMR m)	657
Market cap (USD m)	1,707
Average Daily Traded Value (OMR m)	5.0
Average Daily Traded Value (USD m)	12.7
Free float (%)	44%

Year-end (local m)	2024	2025e	2026e	2027e
Revenues	235	225	213	225
EBITDA	93	85	81	84
Net income	40	42	39	44
EPS	0.01	0.01	0.01	0.01
EPS growth (%)	(14.9)	2.8	(7.2)	13.9
P/E (current price)	16.3	15.8	17.1	15.0
DPS	0.01	0.01	0.01	0.01
Div. yield (%)	5.0	5.2	5.5	5.8
FCF/share	-	-	-	-
FCF yield (%)	14.0	9.7	11.3	11.6
CAPEX	28	11	20	16
CAPEX/sales (%)	12.0	5.0	9.2	7.0
Net Debt/EBITDA (x)	1.9	1.6	1.1	0.5
EV/EBITDA (x)	8.6	9.4	9.8	9.5
RoAE (%)	13.9	12.5	11.4	12.7
RoIC (%)	11.2	10.6	10.5	12.2

Price Performance



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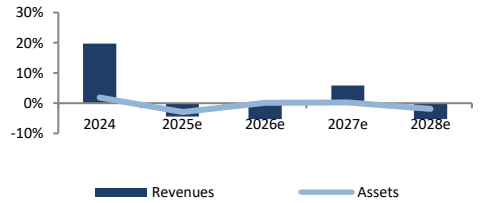
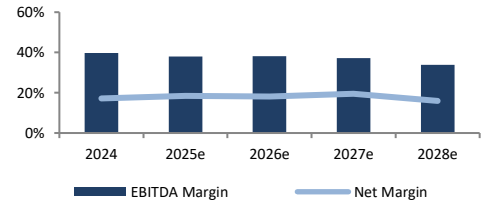
Abacus

Arqaam Capital Fundamental Data

Profitability



Growth



OQ Base Industries

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
BVPS	0.07	0.09	0.10	0.10	0.10	0.10
Weighted average shares	3,459.49	3,459.49	3,459.49	3,459.49	3,459.49	3,459.49
Average market cap	657.30	657.30	657.30	657.30	657.30	657.30

Year-end	2023	2024	2025e	2026e	2027e	2028e
Valuation metrics						
P/E (x) (current price)	13.8	16.3	15.8	17.1	15.0	19.3
P/E (x) (target price)	13.2	15.5	15.1	16.3	14.3	18.4
EV/EBITDA (x) (current price)	9.5	8.6	9.4	9.8	9.5	11.1
EV/EBITDA (x) (target price)	8.6	7.7	8.5	8.9	8.6	10.0
EV/FCF (x)	388.1	307.3	446.5	380.1	370.6	472.8
Free cash flow yield (%)	11.1	14.0	9.7	11.3	11.6	9.1
Dividend yield (%)	-	5.0	5.2	5.5	5.8	6.0

Year-end	2023	2024	2025e	2026e	2027e	2028e
Growth (%)						
Revenues	(9.0)	19.7	(4.4)	(5.3)	5.9	(5.3)
EBITDA	(5.1)	10.7	(8.5)	(4.8)	3.3	(13.9)
EBIT	(15.7)	7.7	(13.9)	(7.9)	5.6	(23.1)
Net income	(23.3)	(14.9)	2.8	(7.2)	13.9	(22.5)

Year-end	2023	2024	2025e	2026e	2027e	2028e
Margins (%)						
EBITDA	42.9	39.7	38.0	38.2	37.3	33.9
EBIT	28.5	25.6	23.1	22.4	22.4	18.2
Net	24.2	17.2	18.5	18.1	19.5	16.0

Year-end	2023	2024	2025e	2026e	2027e	2028e
Returns (%)						
RoAA	5.7	5.0	5.2	4.9	5.5	4.3
RoAE	18.1	13.9	12.5	11.4	12.7	9.8
RoIC	9.4	11.2	10.6	10.5	12.2	10.4
FCF margin	11.1	14.0	9.7	11.3	11.6	9.1

Year-end	2023	2024	2025e	2026e	2027e	2028e
Gearing (%)						
Net debt/Capital	46.9	25.9	21.5	14.8	7.0	2.1
Net debt/Equity	126.3	52.8	41.5	27.2	12.1	3.4
Interest cover (x)	6.7	3.9	4.7	5.2	7.7	8.1
Net debt/EBITDA (x)	3.8	1.9	1.6	1.1	0.5	0.2

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Abacus *Arqaam Capital Fundamental Data*

Company profile

OQBI is Oman's only integrated producer of methanol, ammonia, and LPG products, including propane, butane, condensate, and LPG (cooking gas) sold domestically. Established in 2006, the company 51% owned by OQ, Oman's leading energy company. In 2024, OQBI acquired OQ LPG, previously a separate subsidiary of OQ. It operates across the entire natural gas value chain, with three advanced plants producing methanol, ammonia and LPG that have a combined production capacity of 1,816 ktpa.

Investment case

OQBI's diversified product portfolio enables streamlined earnings, with revenues mainly driven by highly demanded chemicals, methanol, ammonia and LPG, positioning the company for sustained growth. It enjoys superior industry margins (EBITDA margin c.40%) thanks to cost-effective natural gas supply agreements, providing margin protection through the cycle. There is upside potential from brownfield methanol project, targeting methanol capacity growth of 50% with relatively low CapEx leveraging current infrastructure and access to low-cost gas. It also has the potential for exposure to clean/sustainable fuels (blue/green methanol/ammonia), capitalizing on the shift towards low-carbon energy solutions and accelerating decarbonization efforts.

OQBI offers strong free cashflow generation, with one of the highest FCFYs (c.10-13%) in the petchem space implying comfortable dividend capacity and ample headroom for growth. It has a clear dividend policy with an attractive dividend yield of >6% (sustainable and growing) enabled by strong FCF generation. Current market price implies a normalized P/E of 12x, below regional and global peers.

We have a Buy rating at a TP of OMR 0.19/share (10% upside).

Ownership structure

Shareholders	%
OQ	51%
Free Float	49%

OQ Base Industries

Year-end	2023	2024	2025e	2026e	2027e	2028e
Income statement (OMRmn)						
Sales revenue	196	235	225	213	225	213
Cost of sales	(131)	(166)	(163)	(155)	(164)	(164)
Gross profit	**65**	**69**	**62**	**58**	**61**	**49**
SG&A	(9)	(9)	(10)	(10)	(11)	(11)
EBITDA	**84**	**93**	**85**	**81**	**84**	**72**
Depreciation	(28)	(33)	(33)	(33)	(33)	(33)
EBIT	**56**	**60**	**52**	**48**	**50**	**39**
Interest expense	(8)	(15)	(11)	(9)	(7)	(5)
Share of results of associates & JV	-	-	-	-	-	-
Profit before tax	48	40	42	39	44	34
Taxes	-	-	-	-	-	-
Other post-tax income/(expense)	**-**	**-**	**-**	**-**	**-**	**-**
Net profit (group)	48	40	42	39	44	34
Minorities	-	-	-	-	-	-
Net profit (parent)	**48**	**40**	**42**	**39**	**44**	**34**
Arqaam adjustments (including dilution)	-	-	-	-	-	-
Arqaam Net profit	**48**	**40**	**42**	**39**	**44**	**34**

Year-end	2023	2024	2025e	2026e	2027e	2028e
Balance sheet (OMRmn)						
Cash and equivalents	109	168	174	193	213	211
Receivables	76	40	32	29	28	23
Inventories	9	11	11	10	11	11
Tangible fixed assets	580	580	557	544	526	517
Other assets including goodwill	24	15	15	15	15	15
Total assets	**798**	**813**	**789**	**790**	**792**	**778**
Payables	49	27	26	22	21	20
Interest bearing debt	428	341	314	285	255	223
Other liabilities	68	117	112	142	166	189
Total liabilities	**545**	**484**	**452**	**448**	**442**	**432**
Shareholders equity	253	328	336	341	348	345
Minorities	-	-	-	-	-	-
Total liabilities & shareholders equity	**798**	**812**	**788**	**789**	**791**	**776**

Year-end	2023	2024	2025e	2026e	2027e	2028e
Cash flow (OMRmn)						
Cashflow from operations	**93**	**140**	**88**	**110**	**109**	**97**
Net capex	(4)	(28)	(11)	(20)	(16)	(24)
Free cash flow	**89**	**112**	**77**	**91**	**93**	**73**
Equity raised/(bought back)	-	-	-	-	-	-
Dividends paid	-	-	(33)	(34)	(36)	(38)
Net inc/(dec) in borrowings	(121)	(37)	(27)	(29)	(30)	(31)
Other investing/financing cash flows	(26)	(28)	(11)	(9)	(7)	(5)
Net cash flow	**(90)**	**143**	**7**	**18**	**20**	**(1)**
Change in working capital	(19)	3	7	(1)	-	3

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OQBI Q4 25e results preview

Exhibit 1: OQBI Q4 25e preview

SAR m	Q4 24e	Q4 23A	y/y change	Q3 24A	q/q change
Revenues	1,050	957	*9.8%*	1,029	*2.1%*
Gross profit	109	(50)	*(315.7%)*	107	*1.7%*
EBIT	136	16	*761.7%*	137	*n/m*
Net income	83	(17)	*(586.7%)*	90	*n/m*
Gross margin	10.3%	-5.3%	1,561	10.4%	(4)
EBIT margin	13.0%	1.7%	1,134	13.3%	(30)
Net margin	7.9%	-1.8%	973	8.7%	(79)

Source: Arqaam Capital Research, Company Data

Valuation

Exhibit 2: DCF summary

SAR m	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Operating Income (EBIT)	48	50	39	45	49	45	42	26	38	35
Tax Paid	0	0	0	0	0	0	0	0	0	0
NOPAT	**48**	**50**	**39**	**45**	**49**	**45**	**42**	**26**	**38**	**35**
Depreciation	33	33	33	33	33	33	33	33	33	33
Notional gas cost adjustment	35	40	41	34	41	39	39	34	39	39
IGC 80% share payment	(5)	(15)	(18)	(0)	(22)	(21)	(19)	(26)	(42)	(42)
Adjusted COPAT	**111**	**108**	**95**	**113**	**102**	**97**	**96**	**68**	**69**	**66**
CAPEX and Changes in WC	**(20)**	**(15)**	**(22)**	**(26)**	**(20)**	**(16)**	**(17)**	**(27)**	**(19)**	**(33)**
Change in Working Capital	(1)	0	3	(5)	(3)	1	0	3	(3)	0
CAPEX	(20)	(16)	(24)	(21)	(17)	(17)	(17)	(29)	(17)	(33)
Free Cash Flow to Firm	**91**	**93**	**73**	**87**	**82**	**81**	**80**	**41**	**49**	**33**
Terminal Value										518
Present Value of FCFF	84	80	58	64	55	49	44	21	24	243
PVOP	494									
PVTV	229									
Enterprise Value	**722**									
Net Debt	**142**									
Minority	2,570									
Equity Value	**580**									
No of Shares	3,459									
DCF Value/Share	**0.18**									

Source: Arqaam Capital Research, Company Data

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