IDEA/DEEP DIVE

May 29 2025

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OQ Gas Network (OQGN)

IDEA: LT growth supported by RAB model with high CF visibility, offering an attractive DY of >7.5%

- **Oman's exclusive natural gas network owner and operator is well-positioned to benefit from the country's network growth needs.**
- **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 35% upside. CMP implies a P/E of 12.5x at a >15% discount to regional/ global peers, offering an attractive DY of 7.6% 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.

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. Oman has announced ambitious targets for green hydrogen production, with OQGN playing a key enabling role. The company has been designated the National Infrastructure Provider for hydrogen pipelines, supporting Hydrom with master planning and collaborating with partners. OQGN has also completed a strategic study on hydrogen to evaluate the complexities of building a hydrogen CUI and its commercialisation, positioning itself as a leading hydrogen network operator. OQGN actively contributes to Hydrom's feasibility study, ensuring alignment across technical, commercial, financial, and legal aspects. OQGN plans to design an optimised hydrogen pipeline network to serve announced and future hydrogen blocks, leveraging economies of scale and rights-of-way efficiencies to reduce transportation costs.

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 (see Exhibit 77).

We reiterate our Buy rating and raise our TP to OMR 0.200/share, backed by a highly predictable DY of 7.6%. With OQGN offering an attractive DY of 7.6% in FY 25e, our TP yields a TRS of 13.6% (5.5% EPS CAGR, and 8.1% DY). We believe OQGN's CMP (FY 25 P/E of 12.5x) 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 0.9x, 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 35% upside.

BUY **OMR 0.20↑**

Consumer Services / Oman

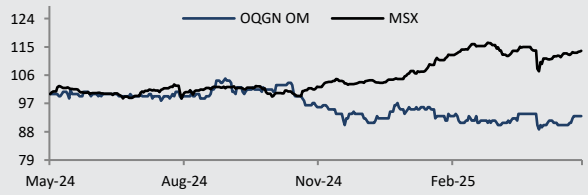
Bloomberg code	OQGN OM
Market index	MSX
Target Price	0.20
Upside (%)	35

Market data 5/28/2025

Last closing price	0.15
52 Week range	0.1-0.2
Market cap (OMR m)	641
Market cap (USD m)	1,665
Average Daily Traded Value (USD m)	0.9
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)	13.4	12.5	11.9	11.4
DPS	0.011	0.011	0.011	0.012
Div. yield (%)	7.2	7.6	7.5	7.9
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)	11.8	11.3	11.0	10.7
RoAE (%)	3.8	4.1	4.2	4.4
RoIC (%)	7.4	7.5	7.6	7.8

Price Performance



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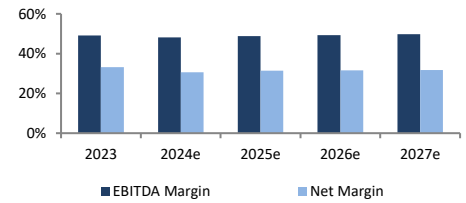
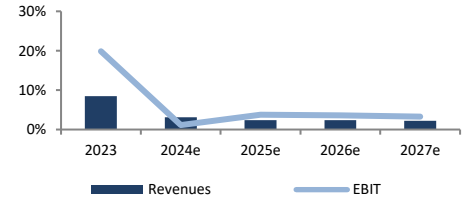
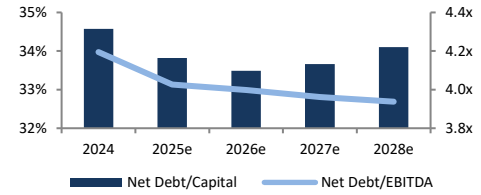
Profitability



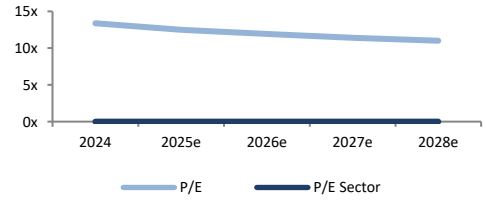
Growth



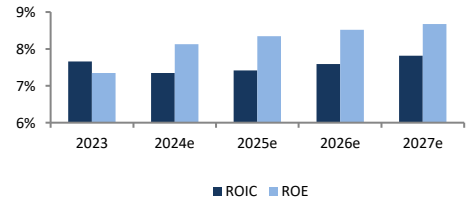
Gearing



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	640.93	640.93	640.93	640.93	640.93	640.93

Year-end	2023	2024	2025e	2026e	2027e	2028e
Valuation metrics						
P/E (x) (current price)	13.7	13.4	12.5	11.9	11.4	11.0
P/E (x) (target price)	18.5	18.1	16.8	16.1	15.4	14.9
EV/EBITDA (x) (current price)	11.4	11.8	11.3	11.0	10.7	10.5
EV/EBITDA (x) (target price)	13.3	13.8	13.1	12.7	12.4	12.2
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	5.9	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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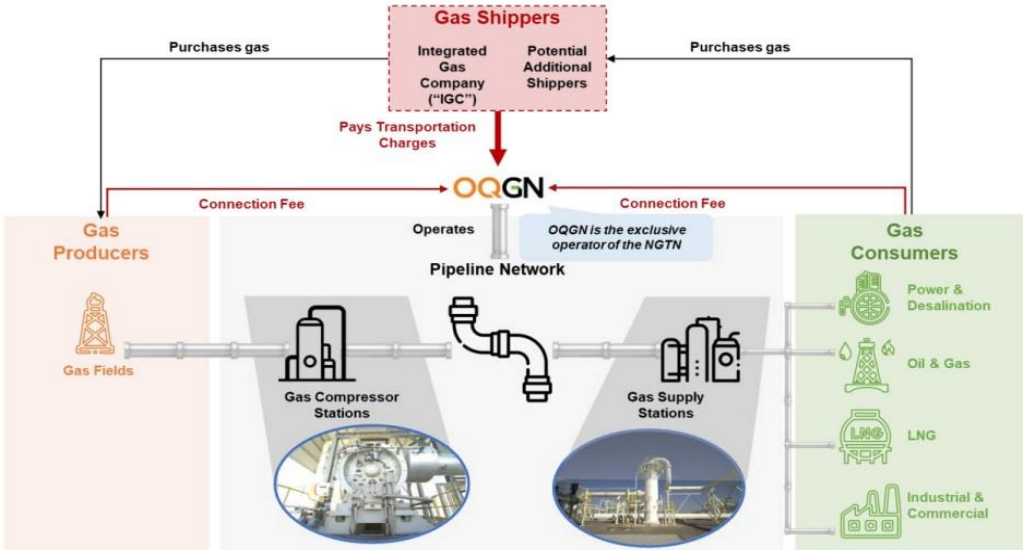
Attractive and low-risk investment case at a double-digit TRS.

Oman's exclusive gas network operator has an LT concession agreement. The Regulated Asset Base (RAB) model ensures cash flow visibility, supporting generous dividend flow.

OQGN is well-positioned to benefit from Oman's growing gas network.

OQ Gas Networks (OQGN) is the sole owner and operator of Oman's natural gas transportation network under a long-term agreement ending in 2070. The company operates >4k km of gas transportation pipelines with a total regulated asset base of >OMR 1bn (>USD 2.6bn). With natural gas playing a key element in Omani energy security, contributing to >95% of national power generation, sustained demand and available supply ensure the utilisation and growth requirements for OQGN's network over the long term. These networks connect producers to consumers within different sectors (Power, Desalination, Oil & Gas, LNG, Industrial and Commercial).

Exhibit 1: OQGN's role within NGTN's operations and key stakeholders



Source: Company Data

Overall, OQGN's operational growth is built on the following key pillars:

- **De-risked business model under RAB structure:** The RAB business model ensures that OQGN is compensated for its continued investments in Oman's networks. This also eliminates any exposure to utilisation or commodity movement risk. Moreover, the structure also ensures that >90% of OpEx is on a pass-through basis.
- **Upward adjustment of regulatory WACC for a 4-year price control period:** As of December 2023, OQGN announced that the regulator set a regulatory WACC of 7.8% (revised up from 7.3%) for a four-year price control period (FY24-27e).

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- **Oman's exceptional reserve recovery ratio:** Oman has historically maintained an average reserve life of 20 years with an almost 100% reserve recovery ratio.

- **Termination risk protected by contractual agreement:** The company maintains protection clauses against termination by the government. As such, OQGN would be entitled to i) the latest RAB value, ii) unavoidable third-party costs, and iii) payables to senior debtors (if RAB is insufficient).

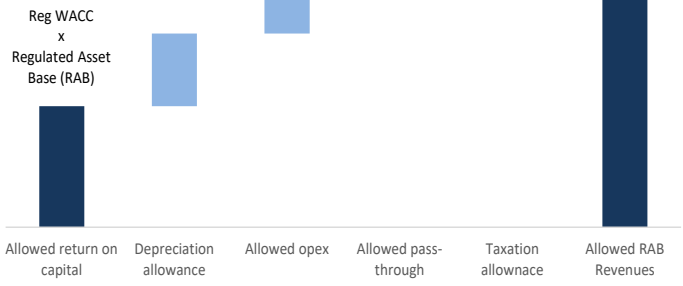
The RAB model introduced in 2018 ensures cash flow visibility and limits OQGN's exposure to natural gas price movements and demand fluctuations.

OQGN operates under a regulated asset base (RAB structure), which was introduced in FY 18A under a concession agreement ending in 2070. Under the RAB structure, OQGN's revenue is regulated/ensured via an established return rate (the regulatory WACC), which is determined by the regulator during periodic reviews every three or four years.

We highlight that the regulatory return utilises the regulatory WACC to compensate for the regulated asset base. CapEx plans to grow the asset base, which requires approval by the regulator for every price control period.

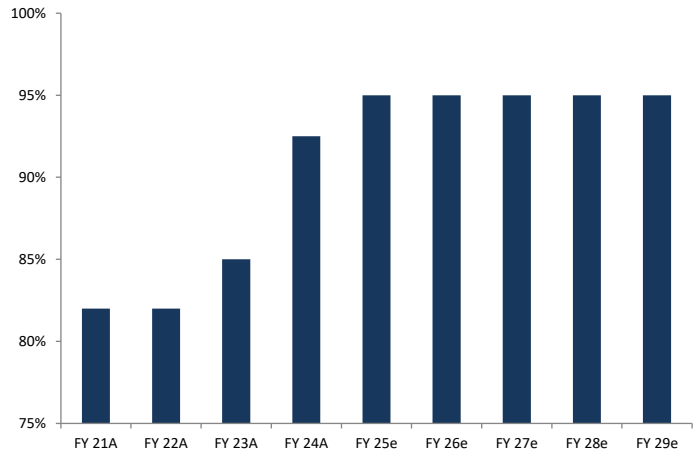
Overall, OQGN's well-defined RAB framework ensures predictable returns and minimal risk through establishing key pillars (see Exhibit 2) with allowed return as the base and the addition of key OpEx allowances (>90% of total OpEx).

Exhibit 2: RAB structure ensures OQGN is compensated for its network investment …



Source: Company Data

Exhibit 3: … OpEx allowances exceed 90%, especially after new allowances.



Source: Company Data

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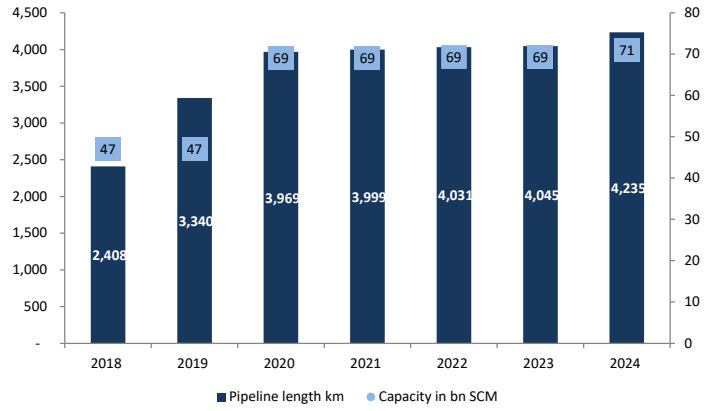
Network growth plans feed into OQGN's growing asset base.

OQGN is set to inject OMR 235m in CapEx over a five-year period, boosting its regulated asset base to reach OMR 1,103m by FY 29e. The growing asset base aims to support Oman's Natural Gas Transportation Network's (NGTN) plans of:

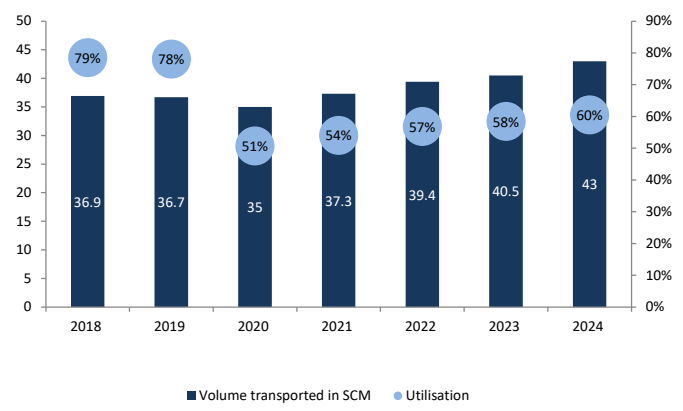
- Debottlenecking of existing networks,
- Network additions/extensions,
- Consolidating existing networks owned by upstream players, and
- Exploring potential hydrogen transport opportunities.

Exhibit 4: OQGN's successful growth strategy is evident through its historical pipeline and capacity growth.



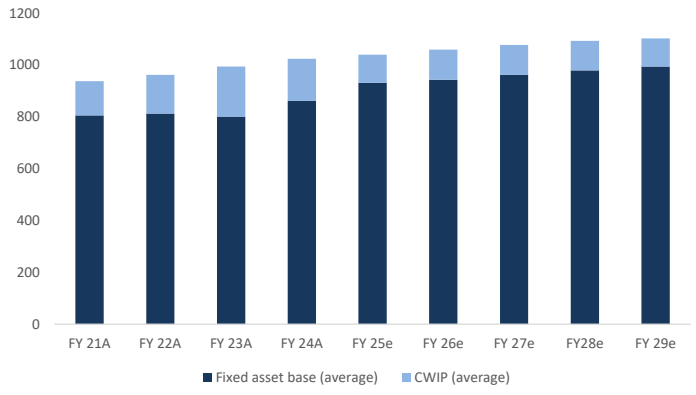
Source: Company Data

Exhibit 5: Network expansion reflected in growing volume of transported gas.



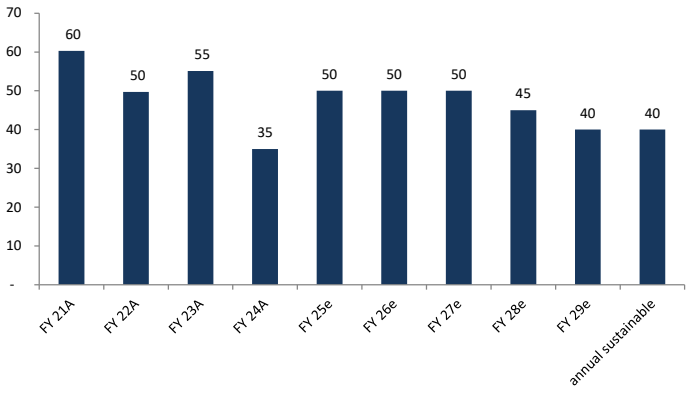
Source: Company Data

Exhibit 6: OQGN's regulated asset base to reach OMR 1,103bn by FY 29e



Source: Company Data, Arqaam Capital Research

Exhibit 7: We assume an annual CapEx of OMR 40-50m FY 25-29e, followed by sustainable outlay of OMR 40m p.a



Source: Company Data, Arqaam Capital Research

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Recent adjustment to regulatory WACC ensures improved returns for a four-year period.

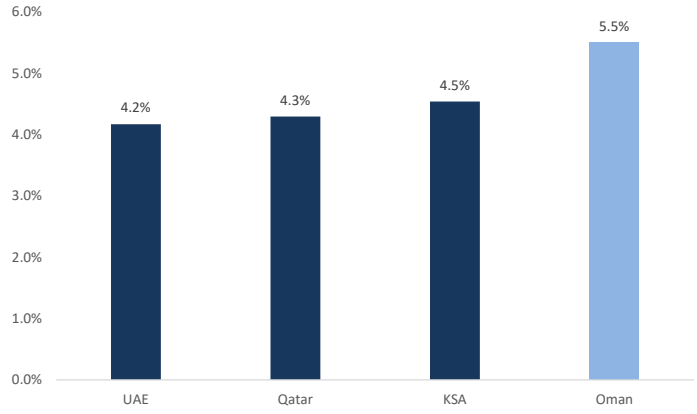
Since the introduction in 2018, the regulatory WACC has been the key foundation of the RAB structure, with the WACC adjusted for every new price control period. Following negotiations with the shipper throughout 2023, OQGN announced an agreement for an upward adjustment in regulatory WACC to 7.79% (up from 7.3%) for an extended price control period of four years (compared to an average of three years historically). Beyond PC3, we assume OQGN maintains the current regulator WACC, with exhibits 48 & 49 highlighting the impact of a possible change in LT WACC on our TP.

Exhibit 8: Regulatory WACC assumptions

	PC 1			PC 2		
	FY 18A	FY 19A	FY 20A	FY 21A	FY 22A	FY 23A
Risk-free in USD	2.44%	2.44%	2.44%	2.00%	2.00%	2.00%
Risk-free in OMR	3.43%	3.43%	3.43%	1.35%	1.35%	1.35%
Asset Beta	0.39	0.39	0.39	0.40	0.40	0.40
ERP	5.81%	5.81%	5.81%	6.00%	6.00%	6.00%
CRP	2.66%	2.66%	2.66%	3.02%	3.02%	3.02%
Cost of Equity	**10.80%**	**10.80%**	**10.80%**	**8.77%**	**8.77%**	**8.77%**
Cost of Debt	**5.62%**	**5.62%**	**5.62%**	**5.82%**	**5.82%**	**5.82%**
Notional Gearing	50%	50%	50%	50%	50%	50%
WACC	**8.2%**	**8.2%**	**8.2%**	**7.3%**	**7.3%**	**7.3%**

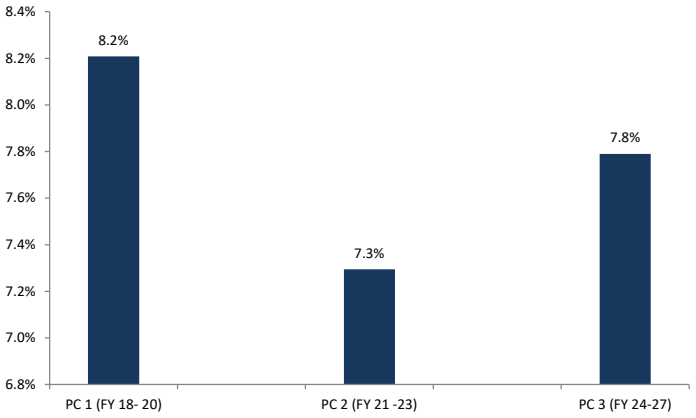
Source: Company Data

Exhibit 9: Oman's Rf remains c100-130 bps ahead of other GCC countries, warranting a higher regulatory WACC.



Source: Bloomberg

Exhibit 10: New regulatory WACC set at 7.79% considering the higher interest rates after unusually low rates.



Source: Arqaam Capital Research

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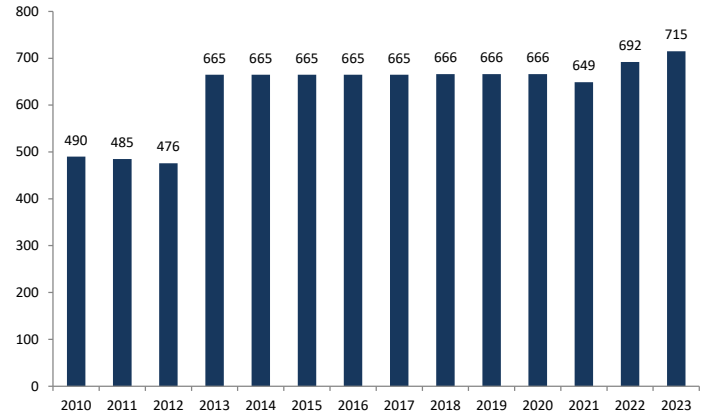
Oman enjoys a strong reserve base with a 20-year reserve life.

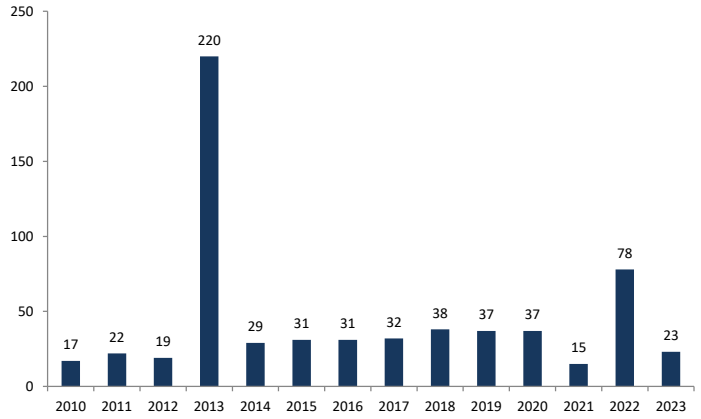
Oman has historically maintained an average reserve life of 20 years, highlighting its exceptional reserve recovery. This ensures supply for OQGN's networks, which connect key producers to consumers within different sectors.

Exhibit 11: Oman has maintained flat annual reserves despite annual production of 28+ BCM, implying an annual reserve to production ratio of c100%



Source: Bloomberg

Exhibit 12: Oman's annual reserve additions ensure that the country maintains a reserve life exceeding 20 years.



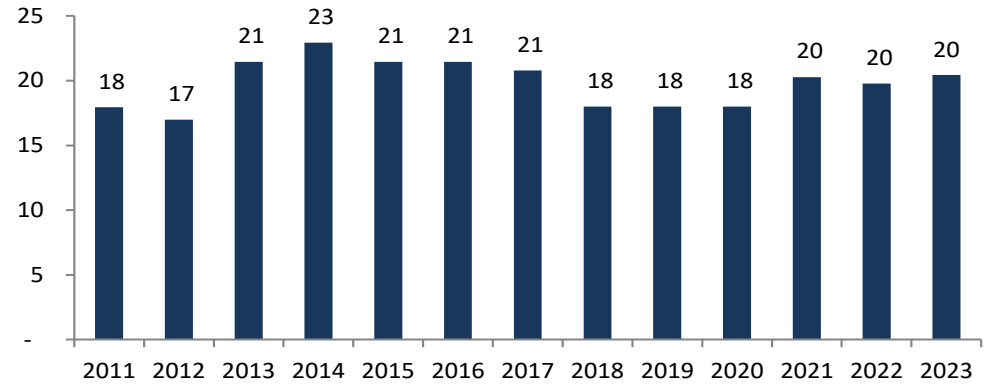
Source: Bloomberg

Exhibit 13: Oman has maintained a healthy reserve recovery ratio of c100% on average …

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Reserves BoP (in BCM)	**490**	**485**	**476**	**665**	**665**	**665**	**665**	**665**	**666**	**666**	**666**	**649**	**692**
Additions	22	19	220	29	31	31	32	38	37	37	15	78	23
Implied Extractions	(27)	(28)	(31)	(29)	(31)	(31)	(32)	(37)	(37)	(37)	(32)	(35)	(35)
Reserve Recovery Ratio	*81%*	*68%*	*710%*	*100%*	*100%*	*100%*	*100%*	*103%*	*100%*	*100%*	*47%*	*223%*	*66%*
Reserves EOP (in BCM)	**485**	**476**	**665**	**665**	**665**	**665**	**665**	**666**	**666**	**666**	**649**	**692**	**715**

Source: Bloomberg, Arqaam Capital Research

Exhibit 14: … leading to a stable average reserve life of c20 years



Source: Bloomberg, Arqaam Capital Research

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OQGN is a key cog in the government's hydrogen pipeline infrastructure plans.

Oman has announced ambitious targets for green hydrogen production, with OQGN playing a key enabling role. The company has been designated as the National Infrastructure Provider for hydrogen pipelines, supporting Hydrom with master planning and collaborating with partners. OQGN has also completed a strategic study on hydrogen to evaluate the complexities of building a hydrogen CUI and its commercialization, positioning itself as a leading hydrogen network operator. Notably, OQGN is actively contributing to Hydrom's feasibility study, ensuring alignment across technical, commercial, financial, and legal aspects. Additionally, OQGN plans to design an optimized hydrogen pipeline network to serve both announced and future hydrogen blocks, leveraging economies of scale and rights-of-way efficiencies to reduce transportation costs

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We expect RAB revenue to reach OMR 166 m by FY 29e (3% CAGR) on growing asset base and updated WACC.

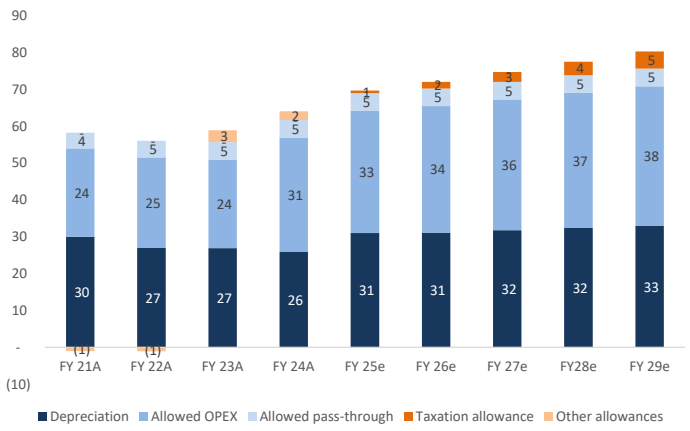
With regulatory WACC as its key building block we expect OQGN's RAB revenue to grow at a 3% CAGR reaching OMR 166m by FY 29e. This considers:

- The upward adjustment of regulatory WACC to 7.8% (vs 7.3% for PC2)
- The growth in OQGN's regulated asset base, which is expected to reach OMR 1,103 by FY 29e (2% CAGR), as well as
- Additional OpEx and CapEx allowances, which were announced back December FY 23.

Meanwhile, IFRS revenue to grow by a 3% CAGR to OMR 177m by FY 29e

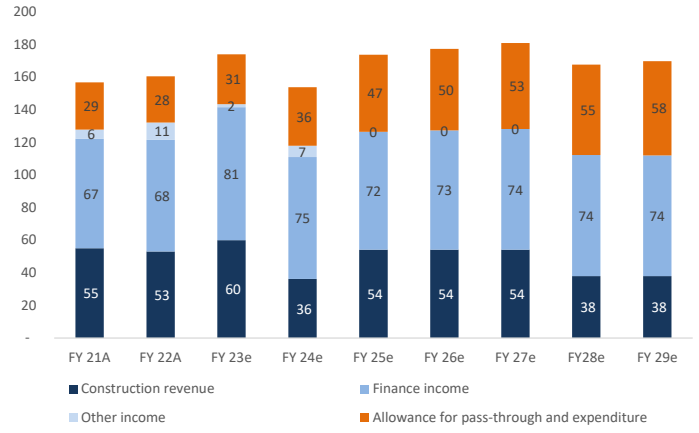
We project reported revenue (IFRS) to reach OMR 177m by FY 29e (3% CAGR) supported by i) the contribution of finance income, which are based on IRRs of concession cash flows, as well as ii) construction revenue (equivalent to regulated WACC multiplied by RAB capex).

Exhibit 15: Regulated revenue (RAB) expected reach OMR 166m by FY 29e (c.3% CAGR) …



Source: Company Data, Arqaam Capital Research

Exhibit 16: … while IFRS top line is expected to grow by 3% CAGR to reach OMR 176m by FY 29e



Source: Company Data, Arqaam Capital Research

Exhibit 17: Difference in RAB and IFRS revenue reporting

RAB reporting	IFRS reporting
Allowed return on capital	Construction revenue
+ Depreciation allowance	+Allowance for expenditure & pass-through
+ Allowed OpEx	+Project Management Services
+ Allowed pass-through	+ Finance Income
+ Taxation allowance	Based on IRR on concession
+ Others	receivables & contract assets
+ Other regulated adjusted income	+ Other Income
Allowed RAB revenue	**IFRS Revenue**

Source: Company Data

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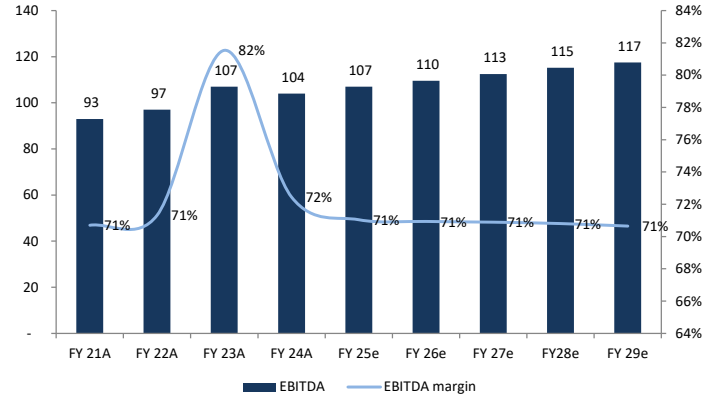
EBITDA to grow at a 3% CAGR as RAB model ensures operational visibility.

We highlight that the regulated asset base model ensures visibility on OQGN's EBITDA, which is primarily a function of RAB return (WACC x Regulated Asset Base) in addition to the depreciation allowance. The slight variance mainly represents minimal costs that are not pass- through. Accordingly, we expect the regulated EBITDA to reach OMR 117m by FY 29e (3% CAGR).

As for reported EBITDA, which is expected to reach OMR 93m (3% CAGR), we highlight that the key difference is:

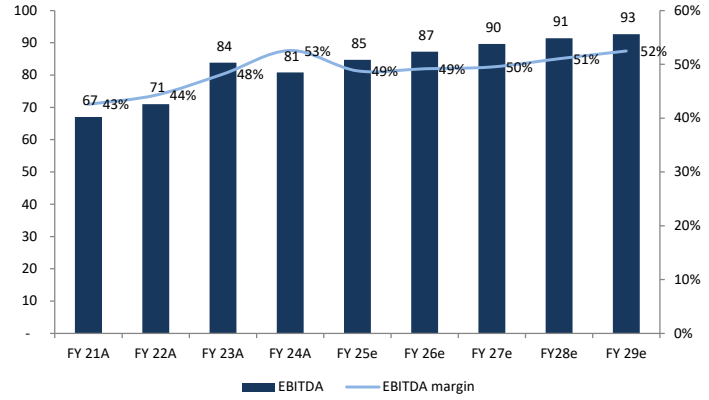
- Regulatory CapEx treatment as construction revenue while expensing construction costs, and
- Eliminating depreciation allowance.

Exhibit 18: We expect RAB EBITDA to reach OMR 117m by FY 29e (3% CAGR) …



Source: Company Data, Arqaam Capital Research

Exhibit 19: … while IFRS EBITDA to grow at 3% CAGR reaching OMR 93m by FY 29e



Source: Company Data, Arqaam Capital Research

Recurring earnings to grow at a c5.5% CAGR on improved regulatory return and higher OpEx allowance.

The RAB business model ensures excellent visibility on earnings with the only difference being the interest expense line. Overall, we forecast earnings to reach OMR 56m by FY 27e (5.5% CAGR) reflecting i) the adjustment of regulatory WACC starting FY 24, ii) the growth in OQGN's regulated asset base to OMR 1,103m (2% CAGR) as well as iii) improved OpEx allowances.

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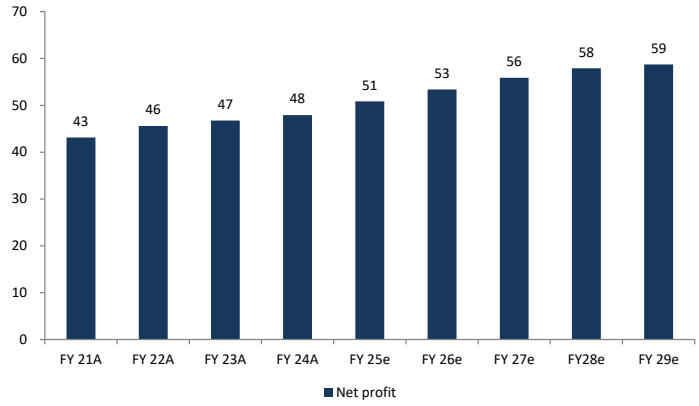
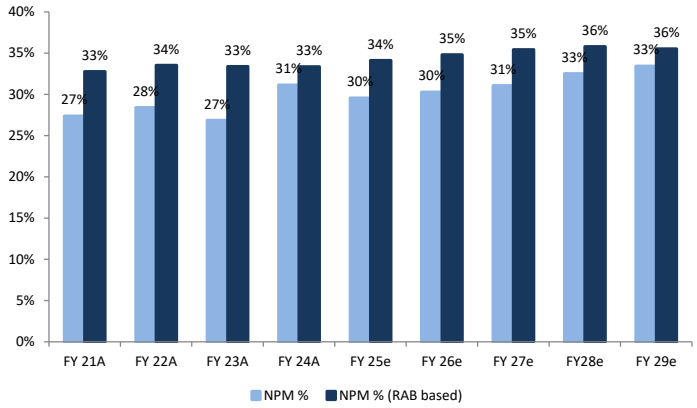
Exhibit 20: We forecast OQGN's recurring earnings to reach OMR 59m by FY 29e (c4% CAGR)



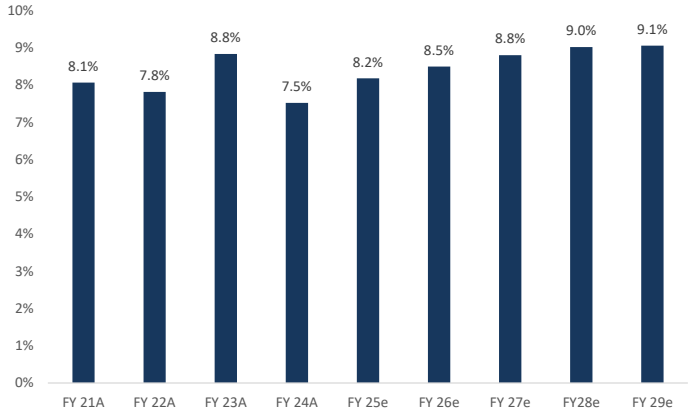
Source: Company Data, Arqaam Capital Research

Exhibit 21: Both IFRS and RAB-based net profit margin to expand amid improved cost allowance ratios



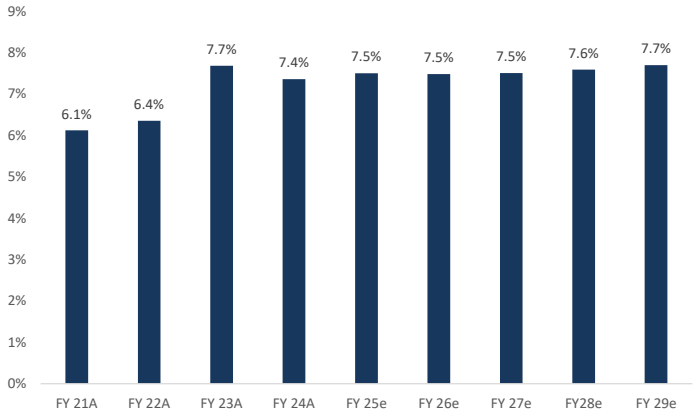
Source: Company Data, Arqaam Capital Research

Exhibit 22: OQGN to maintain an average RoAE of c8-9% throughout our forecast period.



Source: Company Data, Arqaam Capital Research

Exhibit 23: OQGN to maintain >7% RoAIC throughout our forecast horizon.



Source: Company Data, Arqaam Capital Research

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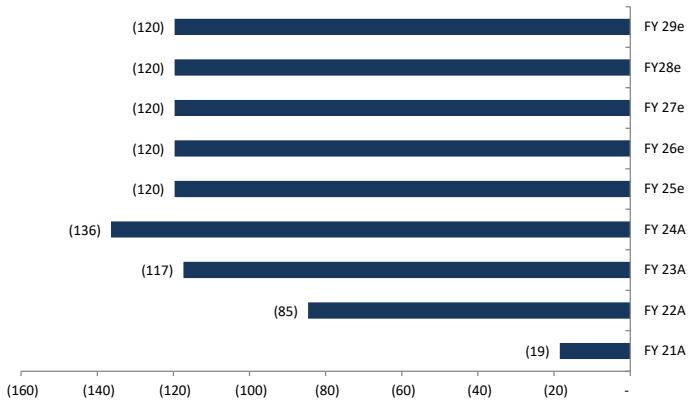
FCFF should remain above the OMR 50m mark despite notable CapEx requirements to grow the regulated asset base.

The RAB structure, coupled with negative CCC, ensures strong cash flow generation amid a growing asset base; conversion is at an average of 40-50% for the initial period.

OQGN's business model requires annual capital expenditures to expand its regulated asset base (RAB). To broaden OQGN's network, we assume an annual CapEx of OMR 50m over three years.

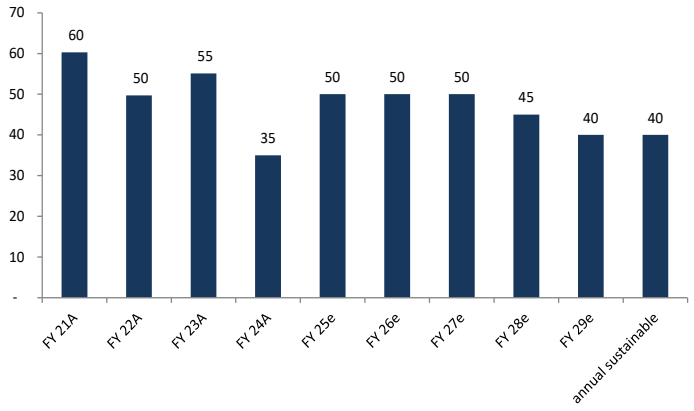
Accordingly, we expect FCFF conversion to remain at 50-60% between FY 25- 29e

Exhibit 24: OQGN's negative CCC is a highly attractive feature supporting FCF generation



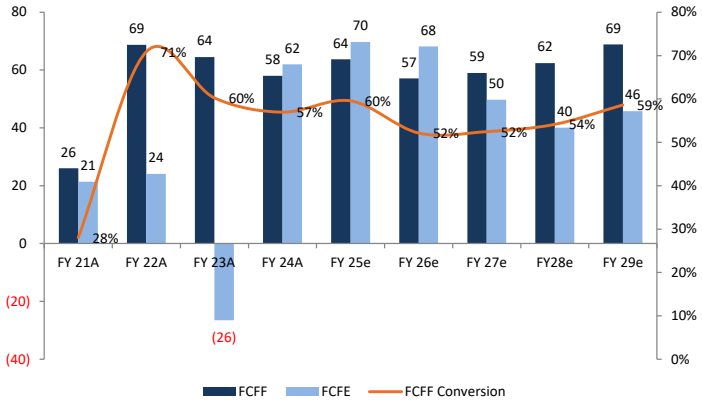
Source: Company Data, Arqaam Capital Research

Exhibit 25: We assume an annual CapEx of OMR 45-50m FY 24-29e, followed by a sustainable outlay of OMR 40m.



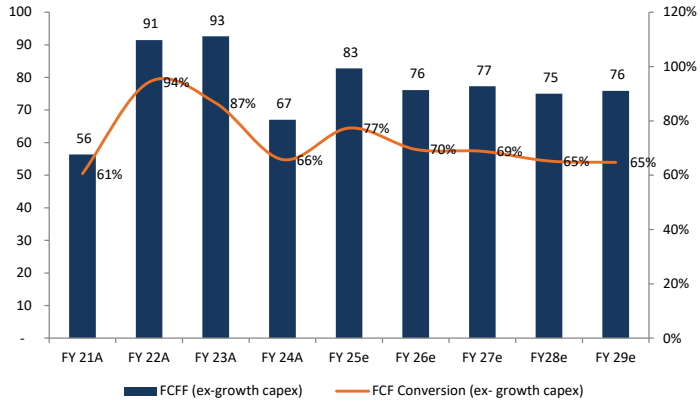
Source: Company Data, Arqaam Capital Research

Exhibit 26: FCFF to remain above OMR 40 m-mark despite notable CapEx requirements



Source: Company Data, Arqaam Capital Research

Exhibit 27: Ex-growth CapEx FCFF to remain above OMR 70m throughout our forecast period



Source: Company Data, Arqaam Capital Research

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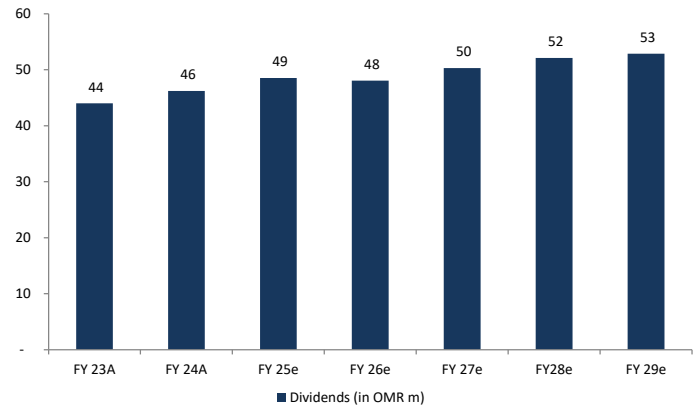
Dividends at the core of OQGN's story with payout unfazed by growth CapEx

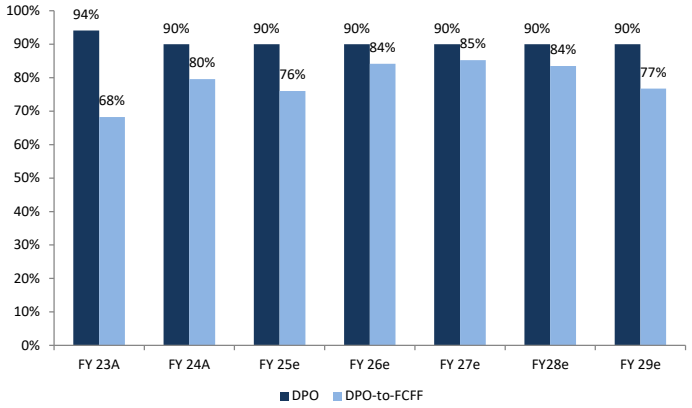
As per policy, OQGN intends to pay the higher of 90% payout or a 5% y/y dividend growth, guaranteed for a two-year period. This will be paid on a semi-annual basis (April and October of each year). This comes following a one-off payment of OMR 11m for Q4 23 earnings, incurred on April FY 24. Beyond the guided period, we expect OQGN to maintain a 90% payout ratio, noting that the firm has the balance sheet capacity (at 3x net debt/EBITDA and 30% net debt/RAB) which can fuel the growth capex while maintaining the generous payout policy.

Exhibit 28: OQGN adopts an attractive payout policy for FY 24-25e.



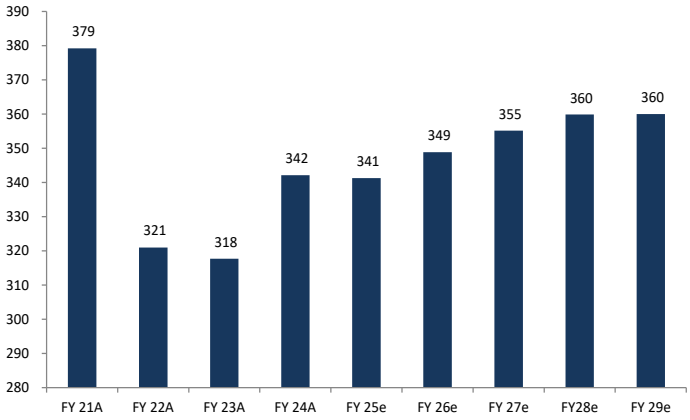
Source: Arqaam Capital Research

Exhibit 29: We expect OQGN to maintain an average c90% DPO thereafter.



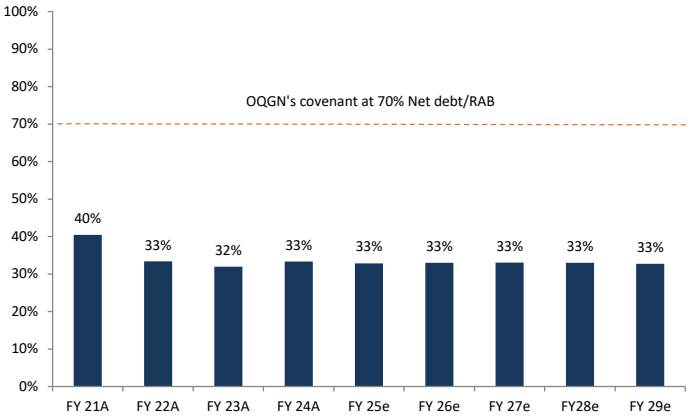
Source: Arqaam Capital Research

Exhibit 30: Payout unfazed by the company's potential CapEx plans given its reasonable leverage profile …



Source: Company Data, Arqaam Capital Research

Exhibit 31: … as OQGN's net debt-to-RAB remains significantly below the covenant of 0.7x RAB.



Source: Company Data, Arqaam Capital Research

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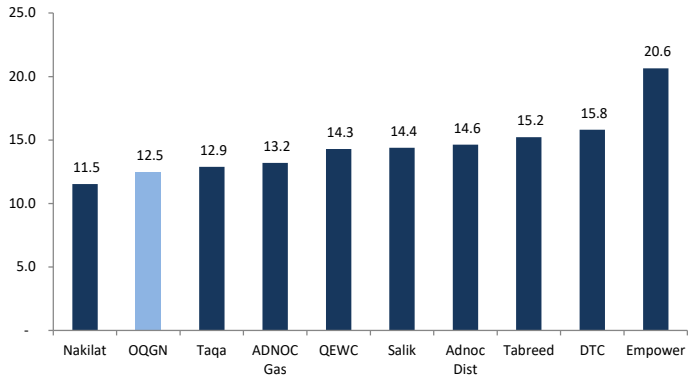
OQGN is amongst the lowest in terms of RAB-adopting peers; Attractive dividend yield at the core of the story.

At the current price, OQGN trades at a notable discount to both MENA defensive names at a FY 25 e P/E of 12.8x. Furthermore, it also trades at a FY 25e EV/EBITDA of 9x. Significantly, compared to peers utilizing the RAB business model OQGN remains amongst the lowest globally in terms of EV/RAB at 0.8x with a c30 % discount to the global average.

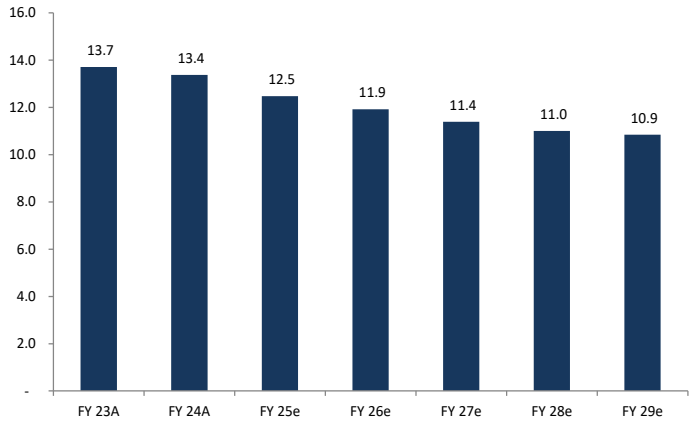
In terms of DY for FY 25e, OQGN sits notably ahead of MENA's defensive names at 7.5% supported by an attractive payout policy of paying the higher of 90% DPO or 5% y/y growth. Overall, we highlight that the current price offers a good entry point for OQGN given its: i) highly regulated RAB structure ensuring high return visibility and minimal risk, ii) long-term concession agreement (50-years) with exclusivity, iii) operational growth amid growing asset base and higher regulated WACC, and iv) attractive dividends payout policy with a DY ahead of regional peers.

Exhibit 32: OQGN amongst the lowest MENA defensive names at FY 25e P/E of 12.5x



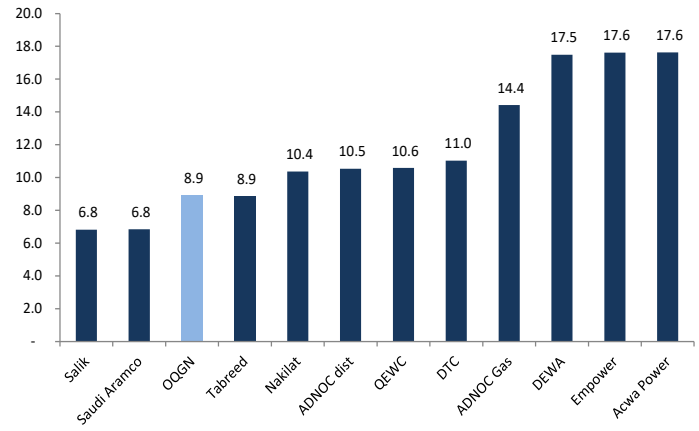
Source: Bloomberg, Arqaam Capital Research

Exhibit 33: LT P/E drops reflecting OQGN's earnings growth throughout the forecast horizon.



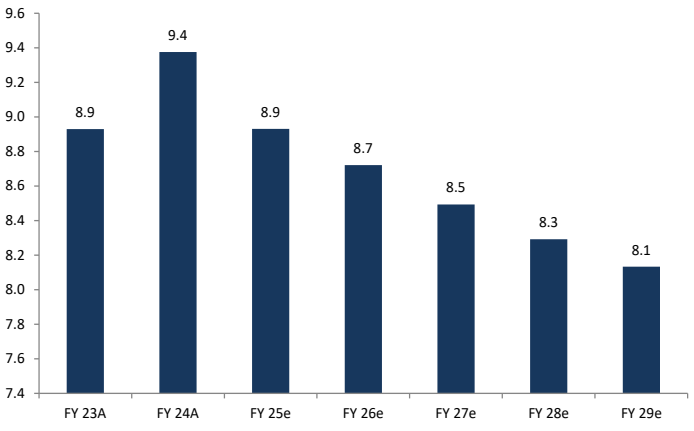
Source: Arqaam Capital Research

Exhibit 34: OQGN EV/EBITDA below the average defensive names in the region



Source: Bloomberg, Arqaam Capital Research

Exhibit 35: LT EV/EBITDA reflects OQGN's EBITDA growth amid network growth and WACC adjustment



Source: Arqaam Capital Research

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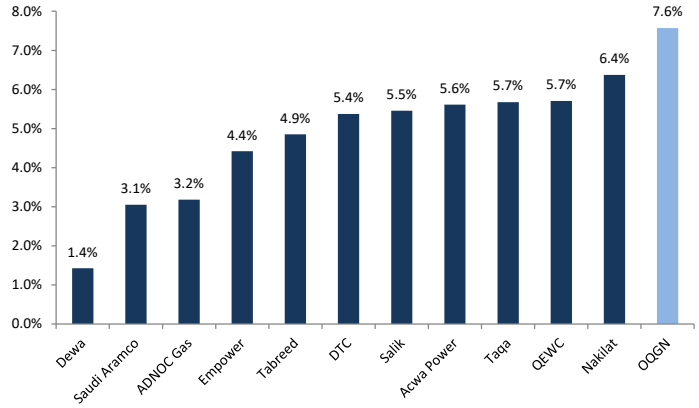
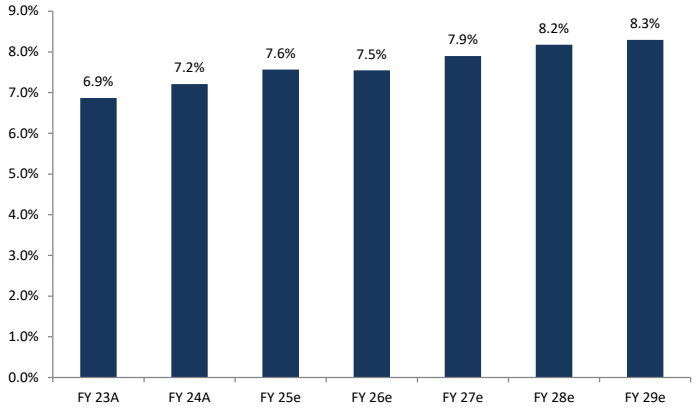
Exhibit 36: OQGN's FY 25e DY significantly ahead of regional defensive names



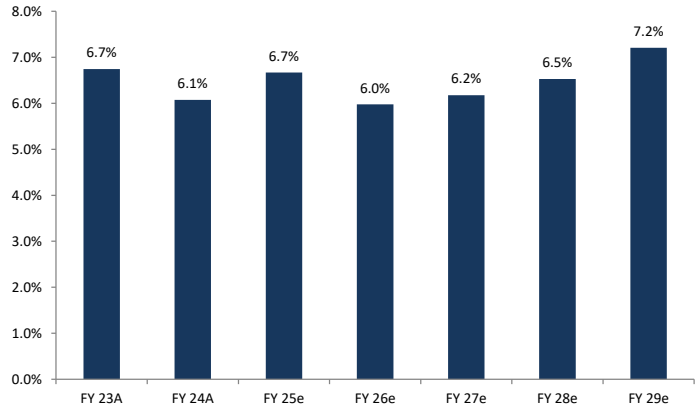
Source: Bloomberg, Arqaam Capital Research

Exhibit 37: DY movement reflects EPS growth with a generous payout policy.



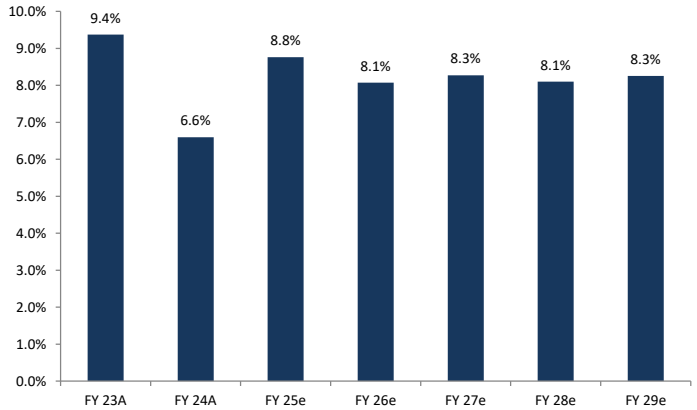
Source: Arqaam Capital Research

Exhibit 38: FCF yield impacted by growth CapEx …



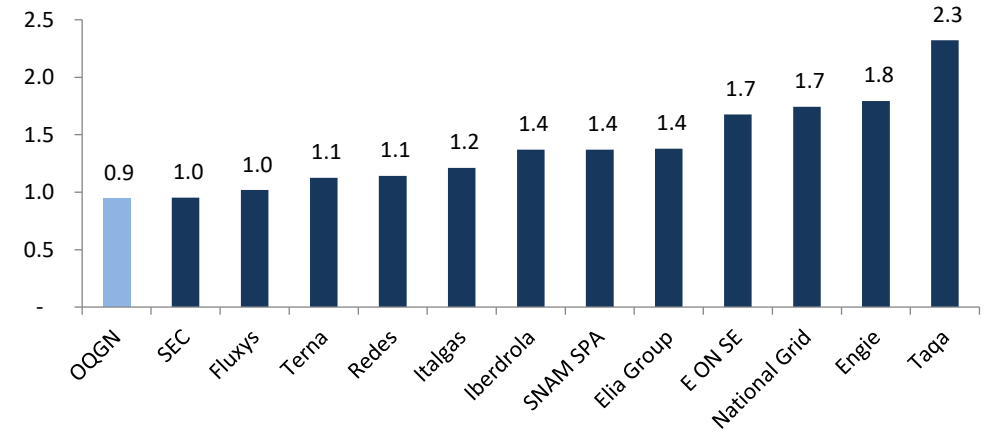
Source: Arqaam Capital Research

Exhibit 39: … ex-growth CapEx FCF yield to be >8%



Source: Arqaam Capital Research

Exhibit 40: At 0.9x EV/RAB OQGN trades at a discount to regulated peers



Source: Bloomberg, Arqaam Capital Research
Note: EVs adjusted to take into consideration the regulated portion of each company

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RAB Framework & IFRS adjustment

OQGN financial reporting/disclosure follows IFRS under IFRIC 12 despite its RAB structure. That said, reporting has no impact on the company's bottom line as we highlight below the difference in both reporting methods.

Exhibit 41: Difference in revenue reporting (RAB vs IFRS)

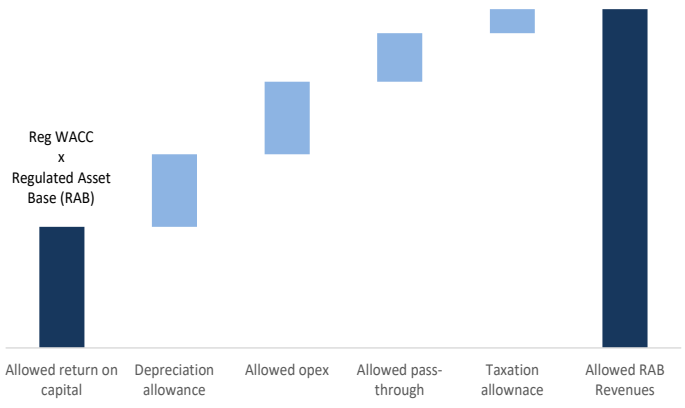
RAB reporting	IFRS reporting
Allowed return on capital	Construction revenue
+ Depreciation allowance	+Allowance for expenditure & pass-through
+ Allowed OpEx	+Project Management Services
+ Allowed pass-through	+ Finance Income
+ Taxation allowance	Based on IRR on concession
+ Others	receivables & contract assets
+ Other regulated adjusted income	+ Other Income
Allowed RAB revenue	**IFRS Revenue**

Source: Company Data

Unlike RAB reporting, IFRS revenues key building blocks represent:

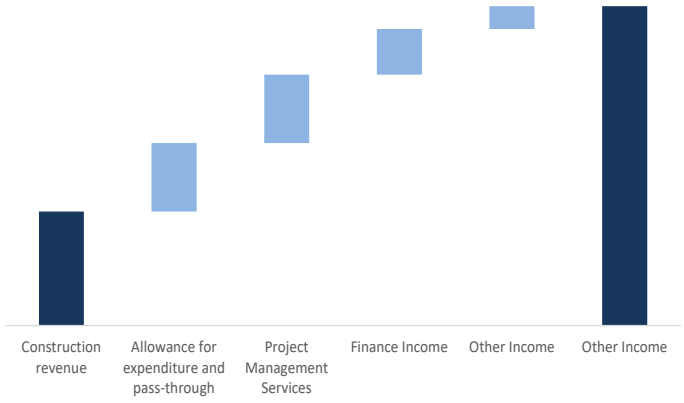
- **Construction revenue**, which is primarily regulated asset base multiplied by the regulatory WACC.
- **Finance income**, which is based on the IRRs of concession cash flows.

Exhibit 42: RAB revenue building blocks



Source: Company Data

Exhibit 43: Reported revenue (IFRS) building blocks



Source: Company Data:

As for key OpEx items, the key difference lies in construction costs which are added to the regulated asset base for RAB reporting, while being expensed as the key OpEx item under IFRS reporting.

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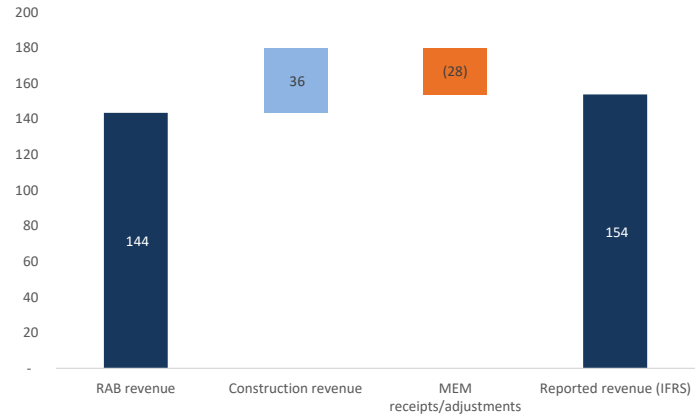
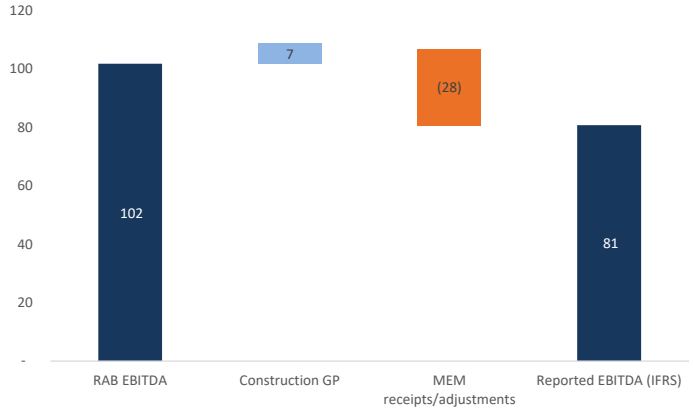
The following charts highlight the conversion between both reporting methods which eventually lead to OQGN's bottom line.

Exhibit 44: Conversion from RAB to IFRS revenue using FY 24 figures



Source: Company Data

Exhibit 45: Conversion from RAB to IFRS EBITDA using FY 24 figures.



Source: Company Data

In summary, under IFRS reporting OQGN applies IFRIC 12 under which it recognizes:

i) Financial assets (concession receivables and contract assets) instead of PPE;

ii) Revenue and cost for construction of contract assets and finance income on concession receivables and contract assets instead of allowed return on capital in the income statement.

It is worth highlighting that returns on concession receivables as well as return on contract assets are both recognized in the form of finance income using the effective interest method. The conversion from RAB to reported EBITDA is enabled through the addition of construction gross profit and the removal of MEM receipts/adjustments (broadly in line with RAB depreciation).

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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 46: 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

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Sensitivity analysis

Exhibit 47: Sensitivity to change in CoE and TGR

TGR \ CoE	10.0%	10.5%	11.0%	11.5%	12.0%
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 48: 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 49: 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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Peers' analysis – OQGN offered at a discount to global and regional peers despite a solid business model; DY amongst the highest within the region and the global utility space aided by the higher of a 90% DPO or 5% y/y increase.

At the current price, OQGN trades at a notable discount to both MENA defensive names at a FY 25 e P/E of 11.5x. Furthermore, it also trades at a low FY 25e EV/EBITDA of 8.5x. Beyond the region, OQGN also trades at a discount to global utility/regulated players with an average FY 25e P/E and EV/EBITDA of 14x and 9x, respectively. In terms DY for FY 25e, OQGN is notably ahead of MENA's defensive names at 7.6% supported by a more attractive payout policy.

Exhibit 50: OQGN peers' analysis

Company	MCAP (USDm)	P/E (x) FY 25e	P/E (x) FY 26e	P/E (x) FY 27e	EV / EBITDA (x) FY 25e	EV / EBITDA (x) FY 26e	EV / EBITDA (x) FY 27e	P/B (x) FY 25e	Div. Yield FY 25e	Div. Yield FY 26e
Global regulated and utility peers										
IBERDROLA SA	114,885	16.8	16.2	15.1	10.8	10.3	9.7	1.9	4.2%	4.4%
NATIONAL GRID PLC	69,372	14.3	12.9	12.3	11.1	9.9	9.1	1.3	4.4%	4.5%
ENGIE	49,836	9.6	10.0	9.7	5.2	5.3	5.1	1.3	7.4%	7.1%
EXELON CORP	46,923	17.2	16.5	15.5	10.6	10.0	9.4	1.7	3.4%	3.6%
NTPC LTD	39,957	14.2	13.3	12.9	9.4	8.6	7.5	1.8	2.7%	2.8%
ENDESA SA	31,361	13.9	13.3	13.2	6.9	6.7	6.6	3.2	5.1%	5.3%
NATURGY ENERGY GROUP SA	28,457	14.1	14.8	14.4	7.6	7.6	7.6	2.7	6.2%	6.4%
RWE AG	27,789	15.0	13.7	11.1	6.8	6.1	5.2	0.7	3.6%	3.8%
VERBUND AG	26,413	15.2	19.7	21.2	9.0	10.7	11.0	2.2	3.2%	2.6%
FIRSTENERGY CORP	24,868	17.1	15.9	14.7	11.0	10.1	9.4	1.8	4.1%	4.4%
TERNA-RETE ELETTRICA NAZIONA	19,655	16.6	16.1	15.3	10.2	9.5	8.8	2.3	4.5%	4.6%
SNAM SPA	19,067	12.6	12.2	11.8	11.6	11.0	10.4	1.9	6.0%	6.2%
SDIC POWER HOLDINGS CO LTD-A	16,578	14.3	13.5	13.7	9.9	9.4	9.2	1.7	3.9%	4.2%
FORTUM OYJ	14,738	15.4	16.8	17.0	9.4	10.0	10.2	1.5	5.9%	5.6%
REDEIA CORP SA	10,880	18.9	16.1	15.3	12.5	11.1	10.4	1.8	4.6%	4.7%
CHINA POWER INTERNATIONAL	4,868	8.3	7.3	6.3	10.3	9.4	8.7	0.7	6.4%	7.1%
Average		**14.4**	**13.8**	**13.0**	**8.6**	**8.1**	**7.5**	**1.6**	**4.6%**	**4.8%**
MENA defensive names										
Saudi Aramco	1,629,423	16.2	15.4	14.4	7.6	7.2	6.8	4.0	5.2%	5.5%
Taqa	96,425	50.8	47.7	44.4	18.9	18.4	17.5	3.5	1.2%	1.4%
ADNOC Gas	66,241	15.4	14.6	12.9	8.4	8.0	7.3	2.7	5.6%	5.7%
Acwa Power	61,065	103.2	83.0	67.8	54.1	44.4	35.4	9.4	0.3%	0.3%
DEWA	36,482	17.9	16.5	15.2	9.8	9.2	8.9	1.5	4.6%	4.9%
ADNOC dist	11,503	16.4	15.5	14.6	11.7	11.1	10.5	nm	6.2%	6.2%
Salik	10,536	24.8	22.3	20.6	20.2	18.8	17.6	nm	4.0%	4.4%
ADNOC LS	9,689	11.6	11.3	10.1	7.6	7.2	6.8	1.7	3.0%	3.1%
Nakilat	7,173	14.8	14.9	13.2	16.2	15.8	14.4	1.8	3.2%	3.2%
QEWC	4,575	11.1	11.0	10.6	18.5	18.0	17.6	1.0	5.4%	5.6%
Empower	4,438	16.6	15.0	14.3	12.0	11.1	10.6	4.9	5.5%	5.7%
Tabreed	2,092	13.0	12.3	11.5	11.1	10.7	10.4	1.2	6.1%	6.4%
DTC	1,770	16.1	14.2	13.0	10.4	9.6	8.8	nm	5.3%	6.1%
Average		**30.1**	**26.8**	**23.7**	**17.2**	**15.6**	**13.9**	**3.5**	**3.7%**	**3.8%**
OQGN		**12.5**	**11.9**	**11.4**	**8.9**	**8.7**	**8.5**	**1.0**	**7.6%**	**7.5%**

Source: Bloomberg, Arqaam Capital Research

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OQGN's financial outlook

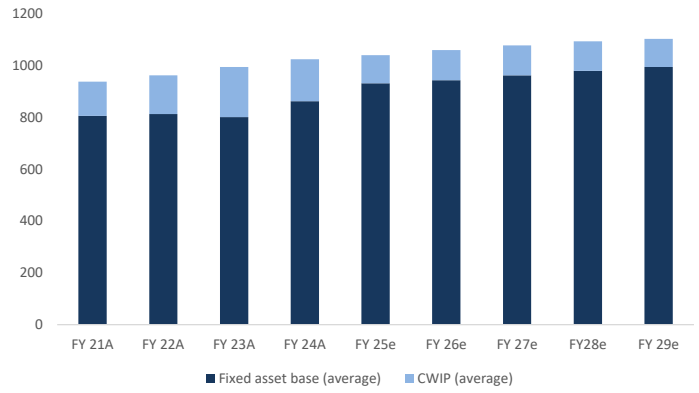
Revenues – RAB revenue to grow at 3% CAGR reflecting growing asset base and updated regulatory WACC

Regulated Asset Base (RAB) model ensures de-risked business model amid growing gas network in Oman.

OQGN is set to inject OMR 235m in CapEx over a four-year period, boosting its regulated asset base to reach OMR 1,103 m by FY 29e. The growing asset base aims to support Oman's Natural Gas Transportation Network's (NGTN) plans of:

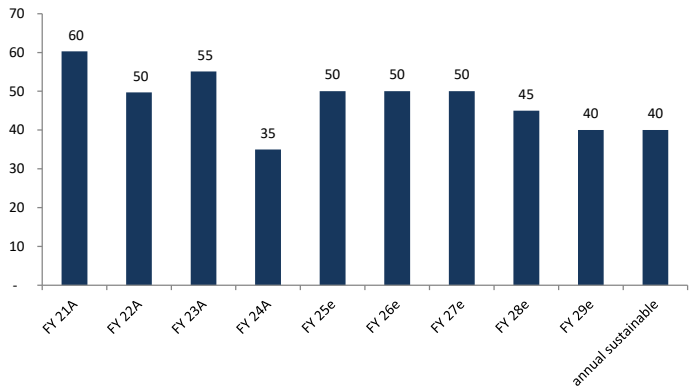
- Debottlenecking of existing networks,
- Network additions/extensions,
- Consolidating existing networks owned by upstream players, and
- Exploring potential hydrogen transport opportunities.

Exhibit 51: OQGN's regulated asset base to reach OMR 1,103m by FY 29e



Source: Company Data, Arqaam Capital Research

Exhibit 52: We assume an annual CapEx of OMR 45-50m FY 24-29e followed by sustainable outlay of OMR 40m p.a



Source: Company Data, Arqaam Capital Research

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New regulatory WACC to support expected growth for an extended price control period

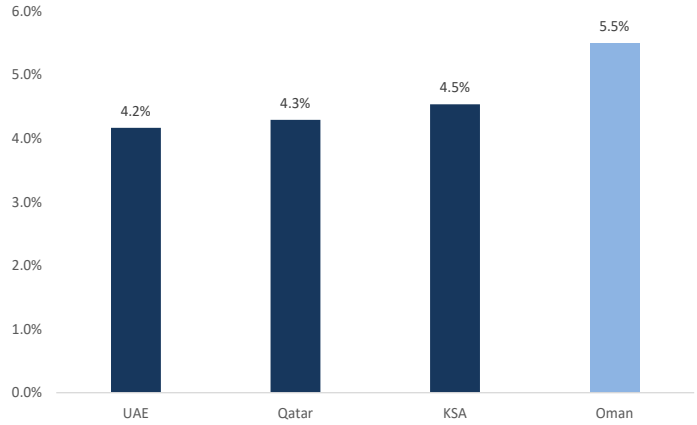
As of December 2023, OQGN announced that the regulator announced a regulatory WACC of 7.79% (up from 7.3%) for a four-year price control period (FY 24-27e) with additional OpEx and CapEx allowances spread over the period. We highlight that the official revision and additional allowances are set to boost recurring earnings starting FY 24. This comes after a six-year RAB implementation (over two price control periods with PC2 ending in FY 23A. It is worth highlighting that the increase in regulatory WACC, which came in response to the rise in global rates during FY 23A, ensures an attractive return on OQGN's asset base over the new price control period with regulatory WACC being the key building block in the company's RAB revenue.

Exhibit 53: Regulatory WACC assumptions

	PC 1			PC 2		
	FY 18A	FY 19A	FY 20A	FY 21A	FY 22A	FY 23A
Risk free in USD	2.44%	2.44%	2.44%	2.00%	2.00%	2.00%
Risk free in OMR	3.43%	3.43%	3.43%	1.35%	1.35%	1.35%
Asset Beta	0.39	0.39	0.39	0.40	0.40	0.40
ERP	5.81%	5.81%	5.81%	6.00%	6.00%	6.00%
CRP	2.66%	2.66%	2.66%	3.02%	3.02%	3.02%
Cost of Equity	**10.80%**	**10.80%**	**10.80%**	**8.77%**	**8.77%**	**8.77%**
Cost of Debt	**5.62%**	**5.62%**	**5.62%**	**5.82%**	**5.82%**	**5.82%**
Notional Gearing	50%	50%	50%	50%	50%	50%
WACC	**8.2%**	**8.2%**	**8.2%**	**7.3%**	**7.3%**	**7.3%**

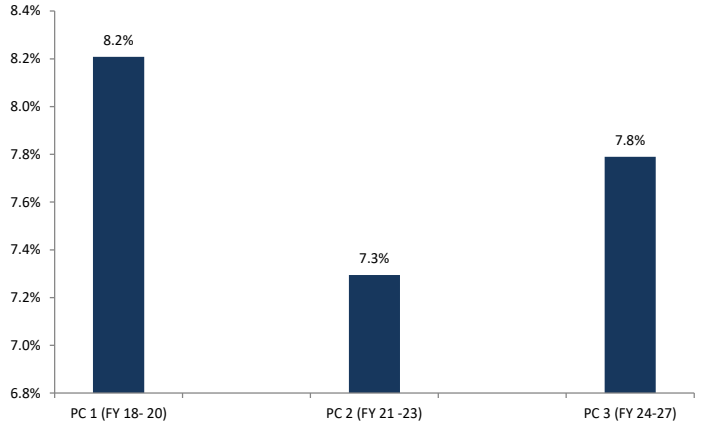
Source: Company Data

Exhibit 54: Oman's Rf remains c100-130 bps ahead of other GCC countries warranting a higher regulatory WACC



Source: Bloomberg

Exhibit 55: New regulatory WACC set at 7.79% considering the interest rate movement.



Source: Arqaam Capital Research

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We expect RAB revenue to reach OMR 166m by FY 29e (3% CAGR) on growing asset base and updated WACC.

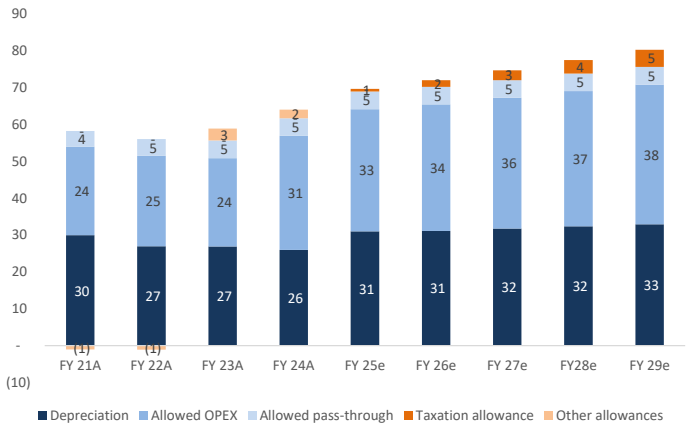
With regulatory WACC as its key building block, we expect OQGN's RAB revenue to grow at a 3% CAGR reaching OMR 166m by FY 29e. This considers:

i. The upward adjustment of regulatory WACC to 7.8% (vs 7.3% for PC2)
ii. The growth in OQGN's regulated asset base, which is expected to reach OMR 1,103m by FY 29e (2% CAGR), as well as
iii. Additional OpEx and CapEx allowances, which were announced in December FY 23.

Meanwhile, IFRS revenue to grow by a 3% CAGR to OMR 176m by FY 29e

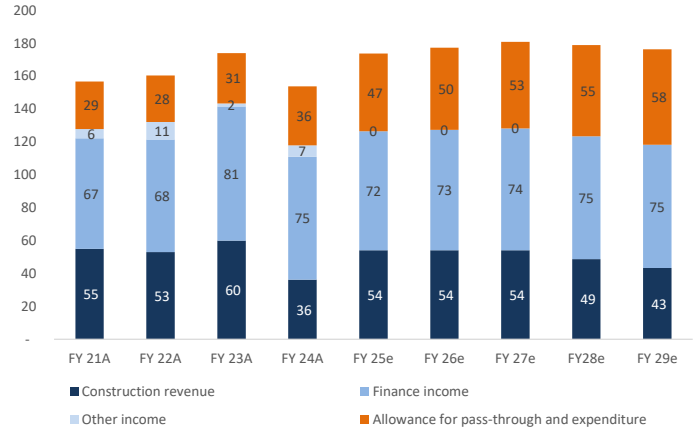
We project reported revenue (IFRS) to reach OMR 176m by FY 29e (3% CAGR) supported by i) the contribution of finance income, which are based on IRRs of concession cash flows, as well as ii) construction revenue (equivalent to regulated WACC multiplied by RAB capex).

Exhibit 56: Regulated revenue (RAB) expected reach OMR 166m by FY 29e (c3% CAGR) …



Source: Company Data, Arqaam Capital Research

Exhibit 57: … while IFRS top line is expected to grow by 3% CAGR to reach OMR 176m by FY 29e



Source: Company Data, Arqaam Capital Research

Exhibit 58: Difference in RAB and IFRS revenue reporting

RAB reporting	IFRS reporting
Allowed return on capital	Construction revenue
+ Depreciation allowance	+Allowance for expenditure & pass-through
+ Allowed OpEx	+Project Management Services
+ Allowed pass-through	+ Finance Income
+ Taxation allowance	Based on IRR on concession
+ Others	receivables & contract assets
+ Other regulated adjusted income	+ Other Income
Allowed RAB revenue	**IFRS Revenue**

Source: Company Data

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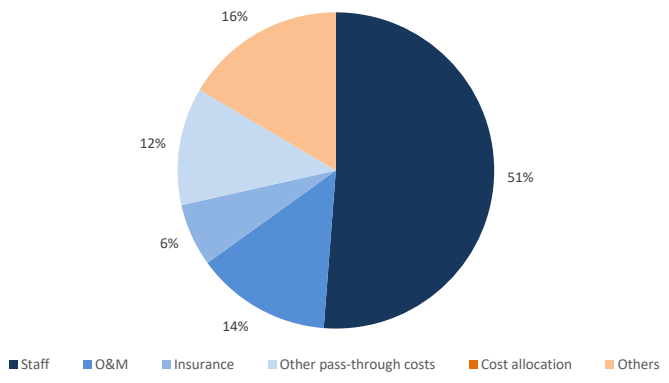
OpEx and margins – Key operating costs are mostly pass-through ensuring visibility of operating profit

RAB model ensures key OpEx constituents are pass through; construction cost key difference in IFRS recognition.

We note that c80%+ of OQGN's key OpEx items are mainly pass-through as highlighted in exhibit 62. For the RAB model, employee costs represent the bulk of the OpEx at c51%. As cost allocation charges haven't re-occurred since total OpEx allowance improved during FY 24A, reaching >90%.

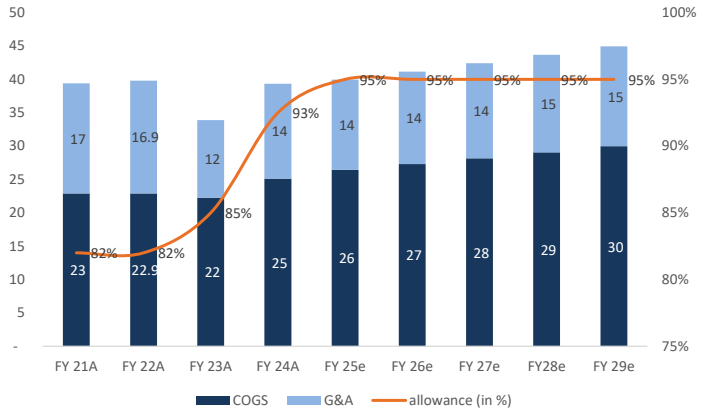
It is worth highlighting that construction cost is the key difference to IFRS OpEx, which is recognized within the regulated asset base for the RAB model.

Exhibit 59: Staff represents the largest contributor to OQGN's OpEx (RAB-based)



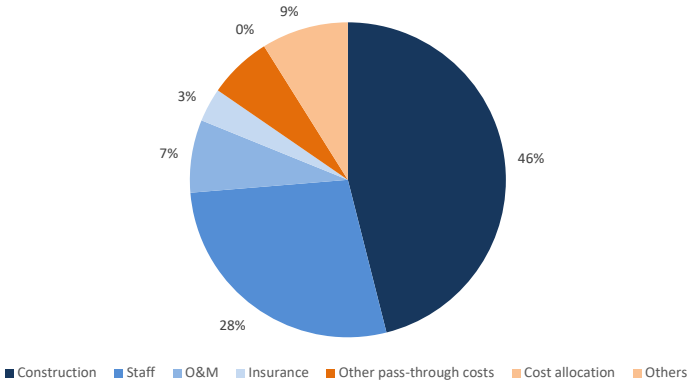
Source: Company Data

Exhibit 60: We expect >90% of OPEX to be pass-through after the addition of further allowances starting FY 25e



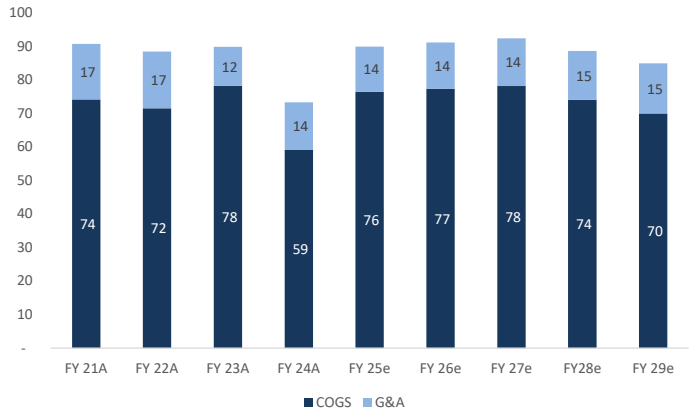
Source: Company Data, Arqaam Capital Research

Exhibit 61: Construction costs represents the bulk of reported OpEx (IFRS)



Source: Company Data

Exhibit 62: We expected reported OpEx to reach cOMR 80m by FY 29e



Source: Company Data, Arqaam Capital Research

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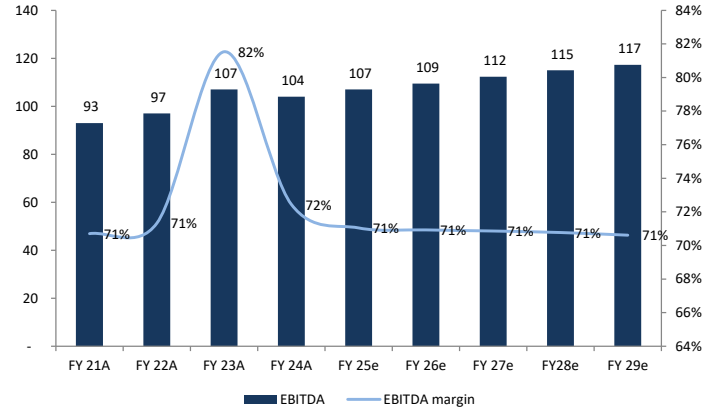
EBITDA to grow at a 2% CAGR as RAB model ensures operational visibility.

We highlight that the regulated asset base model ensures visibility on OQGN's EBITDA, which is primarily a function of RAB return (WACC x Regulated Asset Base) in addition to the depreciation allowance. The slight variance mainly represents minimal costs that are not pass- through. Accordingly, we expect regulated EBITDA to reach OMR 117m by FY 29e (2% CAGR).

As for reported EBITDA, which is expected to reach OMR 92m (3% CAGR), we highlight that the key difference is:

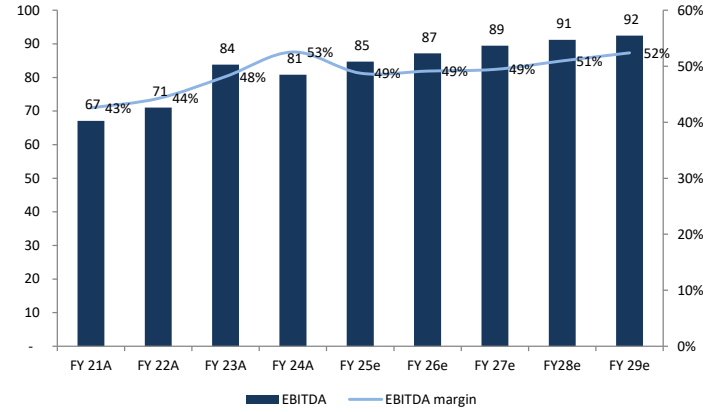
- Regulatory CapEx treatment as construction revenue while expensing construction costs, and
- Eliminating depreciation allowance.

Exhibit 63: We expect RAB EBITDA to reach OMR 117m by FY 29e (2% CAGR) …



Source: Company Data, Arqaam Capital Research

Exhibit 64: … while IFRS EBITDA to grow at 3% CAGR reaching OMR 92m by FY 29e



Source: Company Data, Arqaam Capital Research

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Financing bill improved following recent cost renegotiation; margin reduced to 1.25%

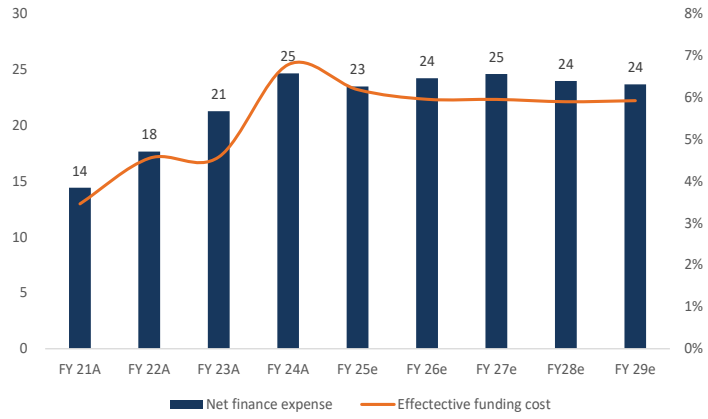
OQGN renegotiated its debt facilities in FY 23, whereby the local currency portion (c40% of total debt is subject to fixed rates of c5.7% for an initial four-year period before being exposed to a variable rate of CBO rate + 2% margin. Overall, we assume an average interest rate of c5.5-6% throughout our forecast horizon. It is worth highlighting that the high-interest rate environment has fed into an upward adjustment in regulatory WACC to 7.8% for an extended price control period.

Most recently management has successfully negotiated a reduction in margin to 1.25% for its FC-debt.

Regulated asset base depreciated over an implied 40-year period; IFRS reporting disregards depreciation.

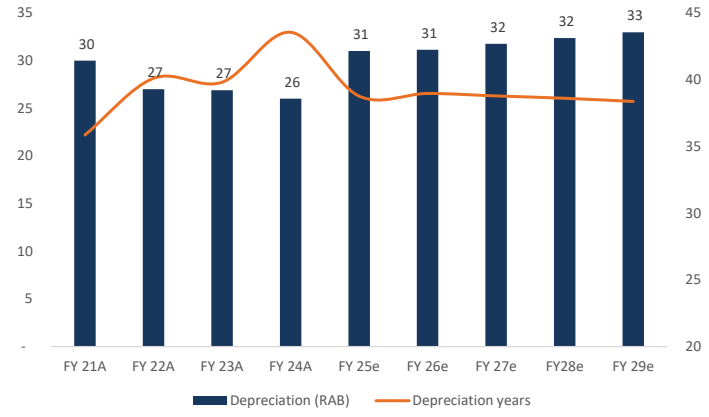
OQGN's regulated asset base is depreciated on a straight-line basis, with the current charges on the RAB of cOMR 26m, implying a depreciation of c44 years. Meanwhile, IFRS reporting has a minimal depreciation expense of OMR 1m with assets recorded as concession receivables and contract assets.

Exhibit 65: We assume a net finance cost of c5-6 % throughout our forecast period



Source: Company Data, Arqaam Capital Research

Exhibit 66: Regulated asset base depreciated over a 40-year period



Source: Company Data, Arqaam Capital Research

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OQGN exposed to 15% tax rate, yet payments vary on different depreciation policies

As per Omani law, OQGN is exposed to a corporate tax rate of 15% recorded on the income statement. That said, the accelerated depreciation policy adopted by the Tax Authority meant that the company historically has not paid any cash taxes over the past years. However, the Tax Authority adjusted to a straight-line depreciation method, which lead to actual cash tax payments starting FY 24A.

We highlight that, an allowance is allocated to OQGN for cash taxes as a part of the RAB model, which shields the company against any future changes in Omani tax law.

Exhibit 67: Tax allowance a function of actual tax payment rather than income tax

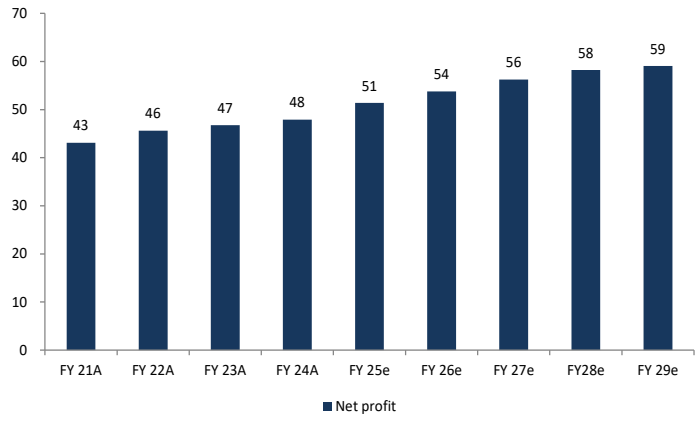
	FY 21A	FY 22A	FY 23 A	FY 24A	FY 25e	FY 26e	FY 27e	FY 28e	FY 29e
Regulated asset base (average)	**806**	**813**	**801**	**863**	**932**	**943**	**962**	**980**	**995**
Tax depreciation	81	81	76	78	79	75	72	69	65
RAB Depreciation	30	27	27	26	31	31	32	32	33
difference	51	54	49	52	48	44	40	36	32
Taxable income	1	(1)	13	5	12	18	24	30	36
Actual tax payment	**0**	**-**	**2**	**1**	**2**	**3**	**4**	**4**	**5**
Income tax	9	8	7	9	9	9	10	10	10
Income tax rate	*17%*	*14%*	*11%*	*16%*	*15%*	*15%*	*15%*	*15%*	*15%*

Source: Company Data, Arqaam Capital Research

Recurring earnings to grow at a c5.5% CAGR on improved regulatory return and higher OpEx allowance.

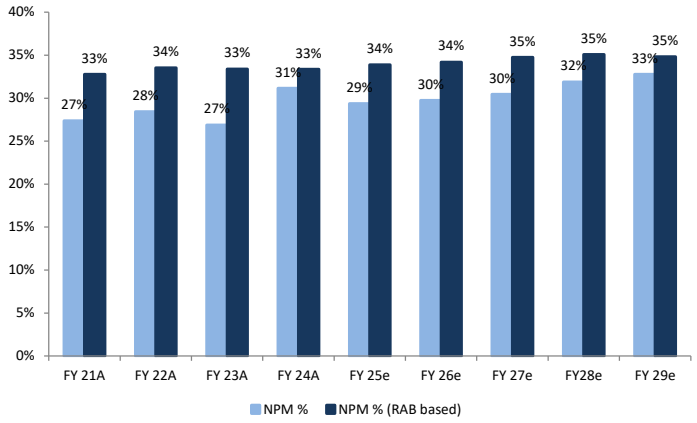
The RAB business model ensures excellent visibility on earnings with the only difference lying in the interest expense. Overall, we forecast earnings to reach OMR 56m by FY 27e (5.5% CAGR) reflecting i) the adjustment of regulatory WACC starting FY 24 A, ii) the growth in OQGN's regulated asset base to OMR 1,103m (2% CAGR) as well as iii) improved OpEx allowances.

Exhibit 68: We forecast OQGN's recurring earnings to reach OMR 58m by FY 29e (c4% CAGR)



Source: Company Data, Arqaam Capital Research

Exhibit 69: Both IFRS and RAB-based net profit margin to expand amid improved cost allowance ratios



Source: Company Data, Arqaam Capital Research

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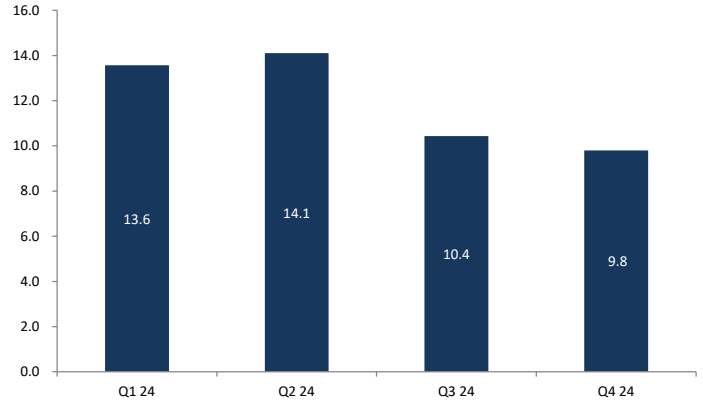
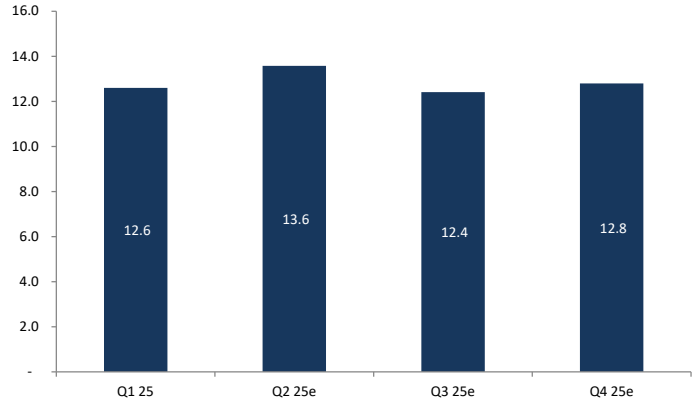
Exhibit 70: OQGN's quarterly earnings progression



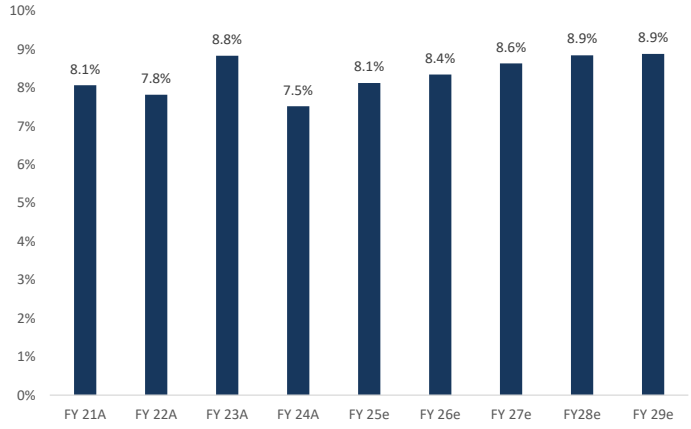
Source: Company Data

Exhibit 71: Recognition delay to be made up throughout FY 25e



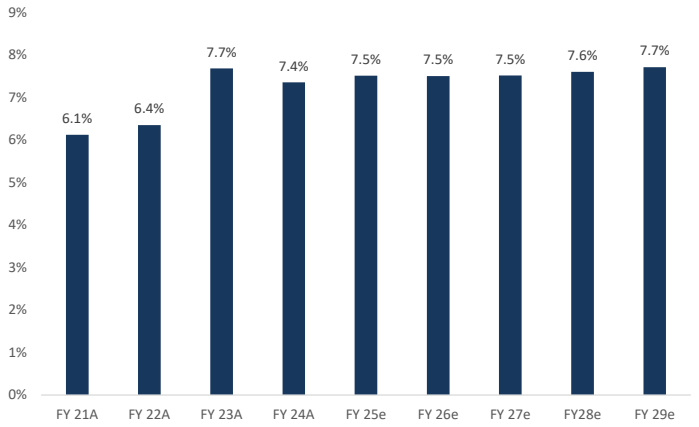
Source: Company Data

Exhibit 72: OQGN to maintain an average RoAE of c8-9% throughout our forecast period.



Source: Company Data, Arqaam Capital Research

Exhibit 73: OQGN to maintain >7% RoAIC throughout our forecast horizon.



Source: Company Data, Arqaam Capital Research

Exhibit 74: OQGN's operating summary

	PC 2			PC 3			
	FY 21A	FY 22A	FY 23A	FY 24A	FY 25e	FY 26e	FY 27e
Regulated Asset Base (average)	938	962	995	1,024	1,041	1,059	1,078
Annual CapEx	60	50	55	35	50	50	50
Regulatory WACC (%)	7.30%	7.30%	7.30%	7.79%	7.79%	7.79%	7.79%
Regulated Return (RAB - based)	**132**	**136**	**140**	**144**	**151**	**154**	**159**
Construction revenue	55	53	60	36	54	54	54
MEM receipts less finance income	(31)	(28)	(28)	(26)	(31)	(31)	(32)
Other adjustments	2	(0)	2	-	-	-	-
Reported Revenue (IFRS)	**157**	**160**	**174**	**154**	**174**	**177**	**181**
EBITDA (RAB)							
EBITDA (IFRS)	**39**	**40**	**36**	**44**	**44**	**45**	**46**
EBITDA Margin (RAB)	51	50	56	34	50	50	50
EBITDA Margin (IFRS)	**91**	**89**	**90**	**73**	**90**	**91**	**92**
Recurring Net Income							
Dividends	**93**	**97**	**107**	**102**	**107**	**110**	**113**
payout (%)	**67**	**71**	**84**	**81**	**85**	**87**	**90**

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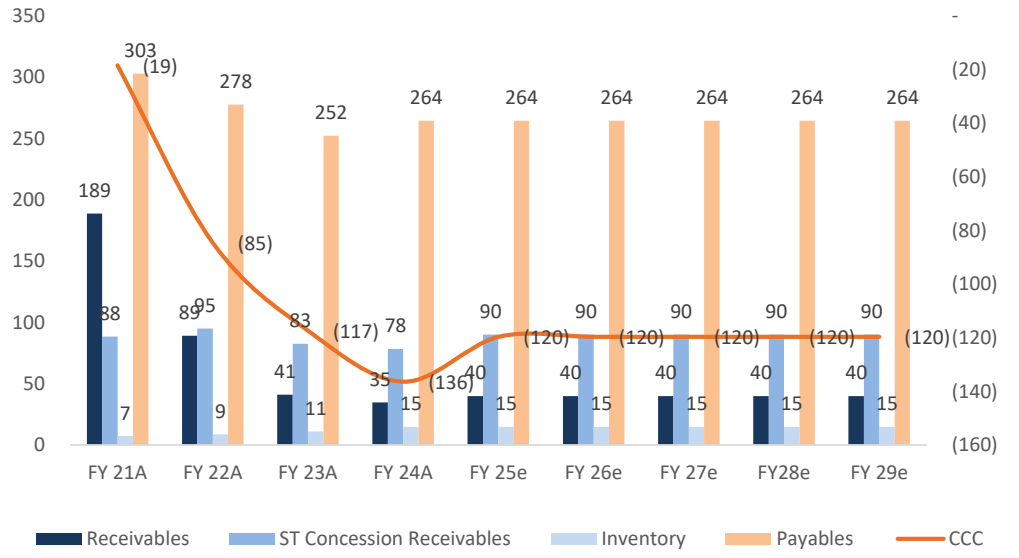
FCFF remains above OMR 50m-mark despite notable CapEx requirement to grow the regulated asset base.

Favorable business structure results in a negative cash conversion cycle

OQGN currently enjoys a negative cash conversion cycle of c120 days. This is mainly impacted by a longer payables' days on hand at c264 days payable to contractors in addition to CapEx accruals. On receivables, OQGN takes monthly payments by the shipper as per RAB agreement with whole total receivables DoH average c90 days. Looking ahead we expect OQGN to maintain an average cash conversion cycle of c120 days.

Exhibit 75: OQGN enjoys a negative cash conversion cycle of c120 days



Source: Company Data, Arqaam Capital Research

OQGN has ample balance sheet capacity to fund growth plans; the company holds a funding gap of OMR 387m before hitting its covenant.

OQGN enjoys an efficient capital structure, which allows the company to grow its regulated asset base seamlessly. Ahead of its IPO, OQGN agreed to the restructuring of its debt with lesser exposure to variable interest rates (for the initial high interest period). OQGN entered 2 conventional facilities in 2H 23A along with 2 Wakala facilities, under Sharia Compliance to refinance the current credit facilities allowing for future capex funding and sustainable dividend distribution.

As of Q4 24A, OQGN's net debt stood at OMR 342m, implying a 0.3x net debt/RAB. Accordingly, the company still has ample funding room (cOMR 387m) before hitting its covenant of 0.7x net debt/RAB.

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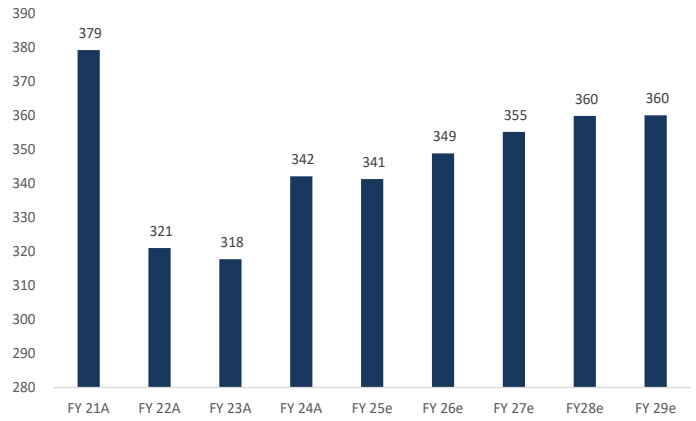
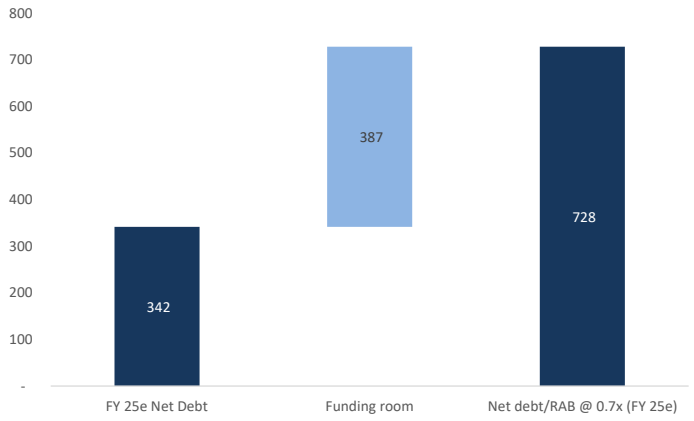
Exhibit 76: At 0.3x net debt/RAB OQGN enjoys a healthy leverage profile …



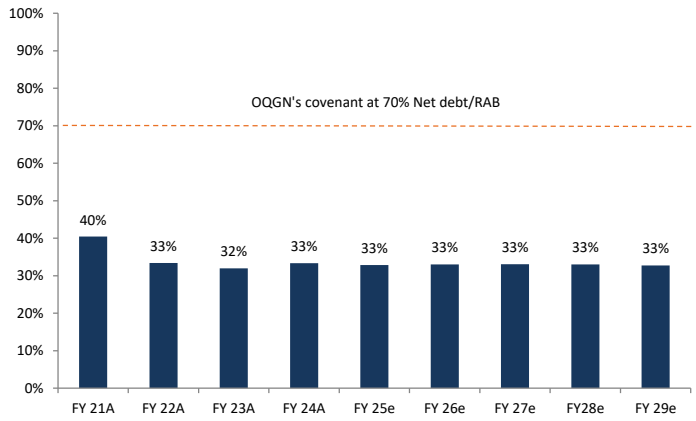
Source: Company Data, Arqaam Capital Research

Exhibit 77: … leaving ample funding room to lever up if required before hitting its covenant.



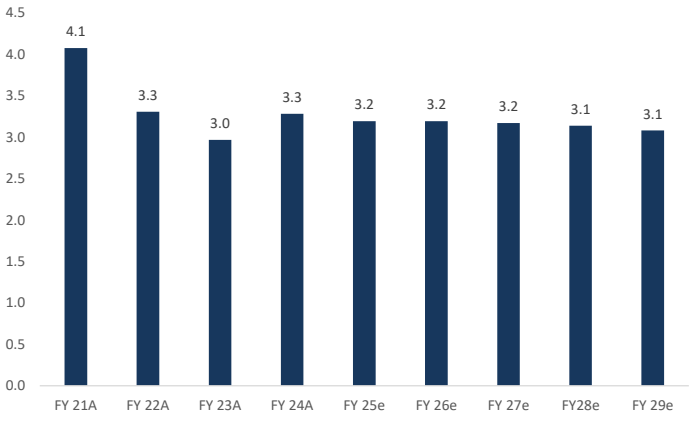
Source: Company Data, Arqaam Capital Research

Exhibit 78: OQGN's net debt-to-RAB remains significantly below the covenant of 0.7x RAB ….



Source: Company Data, Arqaam Capital Research

Exhibit 79: … while also maintaining average net debt/adjusted EBITDA (RAB) of c3x



Source: Company Data, Arqaam Capital Research

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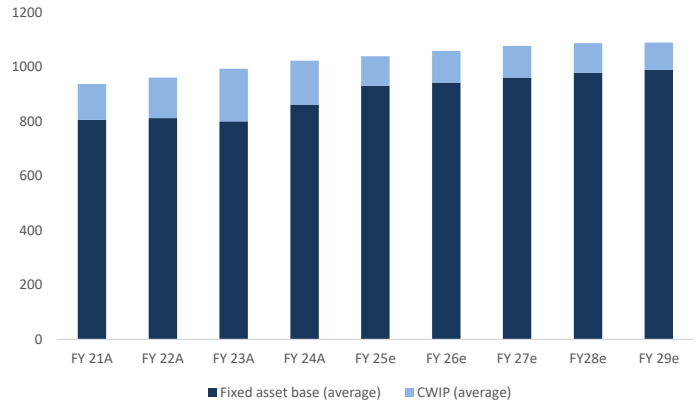
We forecast OMR 235m in organic CapEx outlay over a four-year period; Regulated asset base to reach OMR 1.09bn by FY 29e

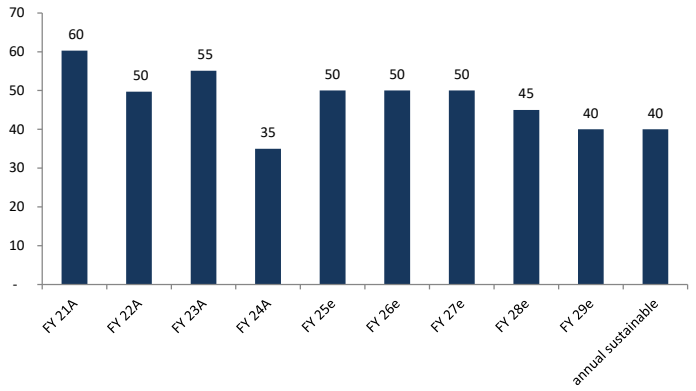
We took a conservative approach as we only assume organic growth over our forecast horizon, with an annual CapEx outlay of cOMR50m, which will allow the asset base to expand to OMR1.103n by FY 29e (CAGR of 2%). Beyond this point, we only assume a sustaining capex of cOMR35mn and keep the RAB almost unchanged. Yet we note that**,** OQGN strategy is to expand both organically and inorganically. That said, organic CapEx could possibly be on the table as i) OQGN possibly consolidates Oman's network through the acquisition of existing assets and/or ii) the company participating in hydrogen transportation in the long term. We highlight that further investment in OQGN's current regulated asset base could unlock further upside beyond our TP (see exhibit 82).

Exhibit 80: OQGN's regulated asset base to reach OMR 1,103 by FY 29e



Source: Company Data, Arqaam Capital Research

Exhibit 81: We assume an annual CapEx of OMR 45-50m FY 25-29e followed by sustainable outlay of OMR 40m p.a



Source: Company Data, Arqaam Capital Research

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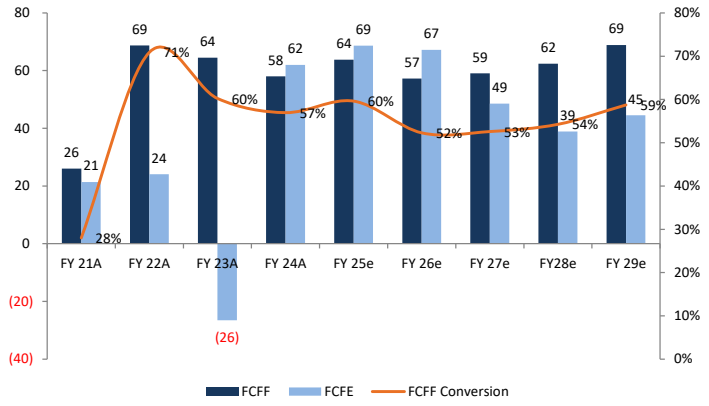
RAB structure coupled with negative CCC ensure strong cash flow generation amid growing asset base; conversion at a 40-50% average for the initial period.

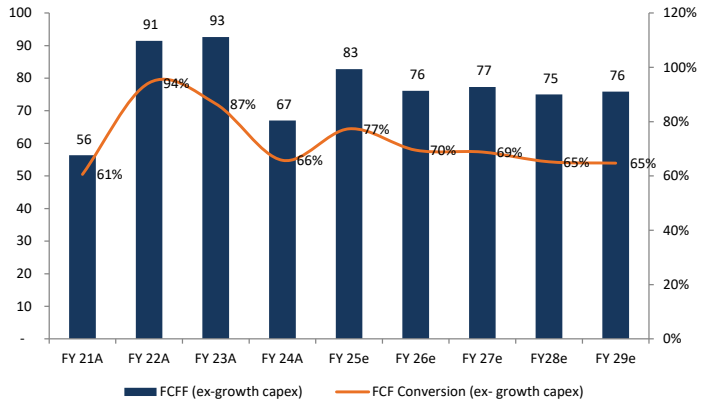
OQGN's business model requires annual capital expenditure to expand its regulated asset base (RAB). Looking ahead, we assume an annual CapEx of OMR 50m over a four-year period to expand OQGN's network. Accordingly, we expect FCFF conversion to remain at 50-60% between FY 25-29e.

Exhibit 82: FCFF to remain above OMR 50m-mark despite notable CapEx requirements



Source: Company Data, Arqaam Capital Research

Exhibit 83: Ex-growth CapEx FCFF to remain above cOMR 70m throughout our forecast period

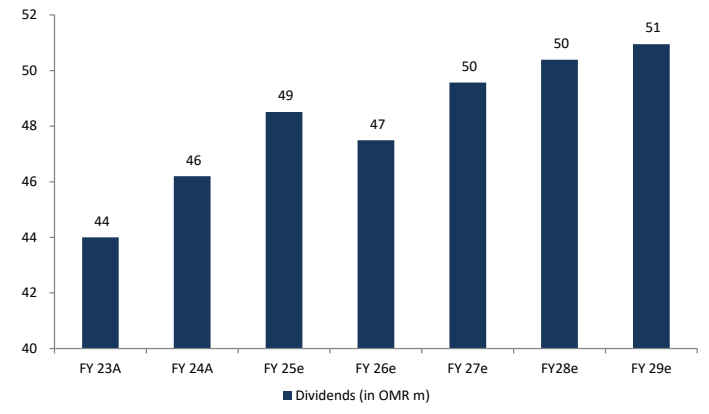


Source: Company Data, Arqaam Capital Research

Dividends at the core of OQGN's story with payout unfazed by growth CapEx

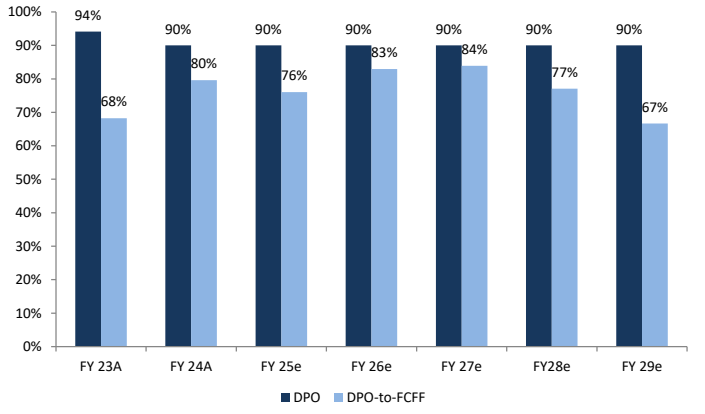
As per policy, OQGN intends to pay the higher of 90% payout or 5% y/y dividends growth, guaranteed for a two-year period. This will be paid on a semi-annual basis (April and October of each year). This comes following a one-off payment of OMR 11m for Q4 23 earnings, incurred on April FY 24. Beyond the guided period, we expect OQGN to maintain a 90% payout ratio, noting that the firm's has the balance sheet capacity (at 3x net debt/EBITDA and 30% net debt/RAB) can fuel the growth capex while maintaining the generous payout policy.

Exhibit 84: OQGN adopts an attractive payout policy for FY 24-25e



Source: Arqaam Capital Research

Exhibit 85: We expect OQGN to maintain an average c90% DPO thereafter



Source: Arqaam Capital Research

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Appendix

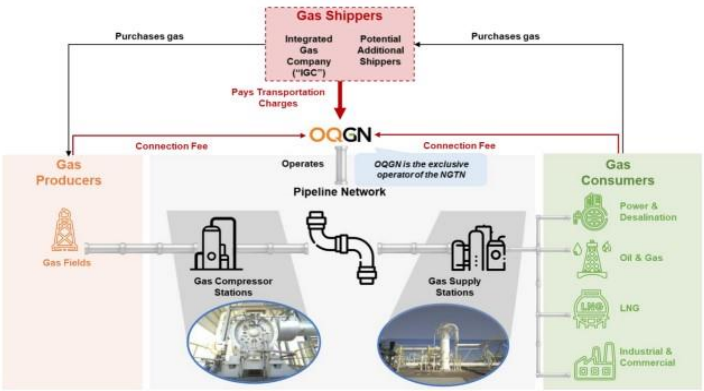
OQGN in a nutshell

A natural monopoly of ownership and operation of Oman's natural gas transportation network

OQGN is the exclusive owner and operator of the Natural Gas Transportation Network in Oman providing an indispensable link between Omani gas producers and gas consumers. It was recently listed on the Muscat Stock Exchange (October 24th, 2023), as part of Oman's state IPO pipeline. OQGN offered 2.1bn shares, representing 49% of total issued share capital, priced at OMR 0.140/share. 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 OQGN's OMR c1bn asset base.

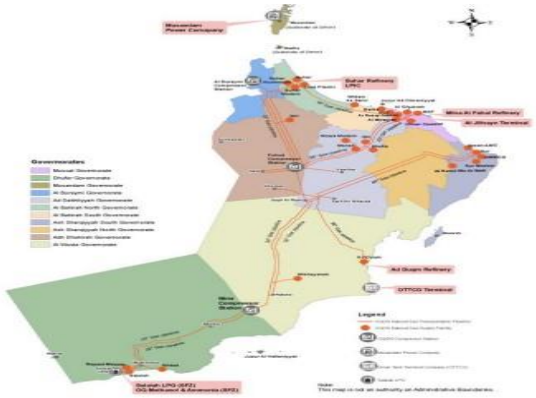
OQGN transports the gas through its 50-year concession agreement (ending in 2070) and assets that include c4,235 km of pipelines, three compressor stations, 26 gas supply stations, and serving c130 gas customers. The company transports gas, through the NGTN (a comprehensive gas transportation network encompassing a system of pipelines, metering facilities, compressor stations, gas supply stations and block-valve stations, fueling more than 90% of the electricity generation in 2020) on behalf of the Shipper, which buys gas from gas producers and sells it to gas consumers.

Exhibit 86: NGTN operations and the key stakeholders



Source: Company Data, Arqaam Capital Research

Exhibit 87: NGTN map across Oman



Source: Company Data, Arqaam Capital Research

OQGN has acquired the government-owned gas transportation assets effective 1 January 2018 in connection with the initial implementation of the RAB Framework

The subsequent asset transfers to further consolidate NGTN assets under the company as the sole and exclusive operator of the NGTN under the Amended Concession Agreement. Given this natural Monopoly, the company has been granted exclusive rights on the operation and maintenance of the NGTN and a right of first offer on any future gas transportation infrastructure concessions by the Government until 2070.

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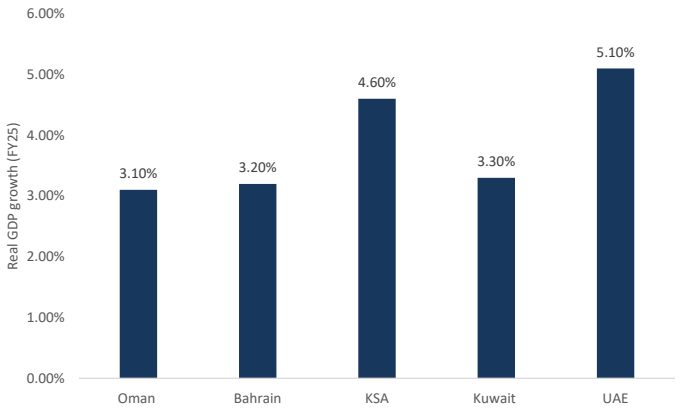
Favorable country outlook support QOGN solid fundamentals

OQGN is a play on stability and economic growth aligned with stable LT demand & supply.

We note that, Oman's CDS spread remain stable around 95-110 bps reflecting the strength of the country's domestic economy, fiscal constraint, and high oil prices, which is translated into a more favourable risk profile

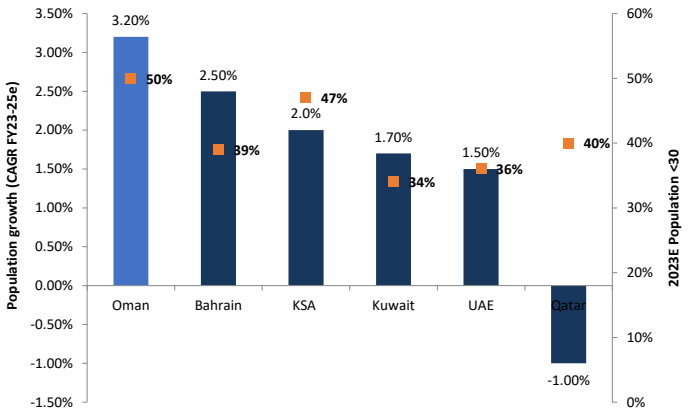
Oman has a stable GDP outlook supported by a young and growing population, with a positive outlook amid the launch of Oman Vision 2040, which is a national comprehensive 20-year plan to create a competitive developed economy, aims for the rationalization of government expenditures, ensuring Oman is on track to achieve sustainable fiscal surplus with an economic diversification strategy and the introduction of new sources of revenue. In efforts to transform Oman into an attractive investment destination, Oman has consolidated most national assets under the OIA and promoted privatization by announcing the accelerated privatization program and implemented favorable regulatory changes supporting FDI inflows (selling the government-owned gas transportation assets to OQGN was part of the program).

Exhibit 88: Oman's expected real GDP growth remains consistent with most GCC



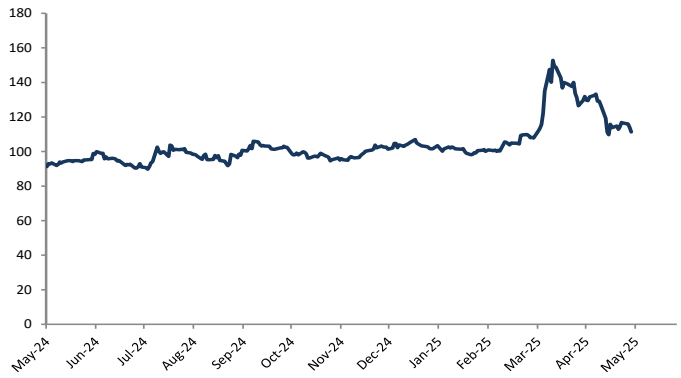
Source: IMF, World Economic Outlook

Exhibit 89: More than 50% of Oman's population is <30 years old.



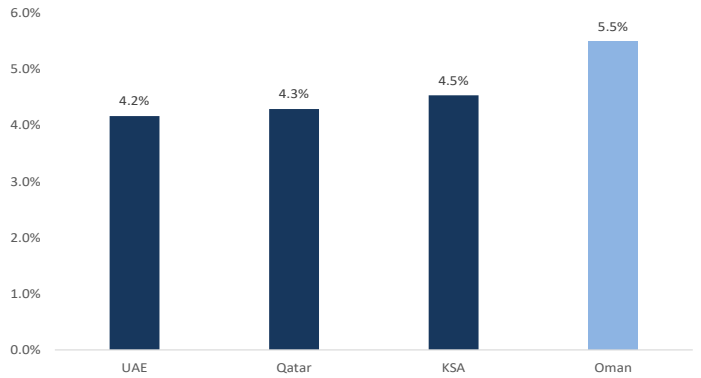
Source: IMF, World Economic Outlook

Exhibit 90: Oman 5-year CDS remains stable around the 100-bps level



Source: Bloomberg

Exhibit 91: Oman Rf c100-130bps above regional peers (5 year)



Source: Bloomberg

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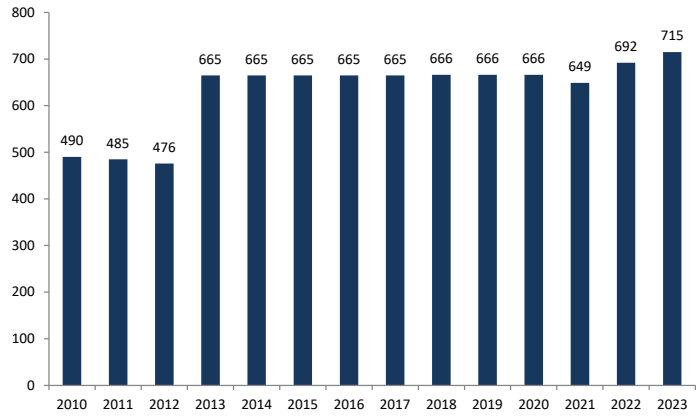
OQGN a vital part of Oman's natural gas space as it connects suppliers to customers.

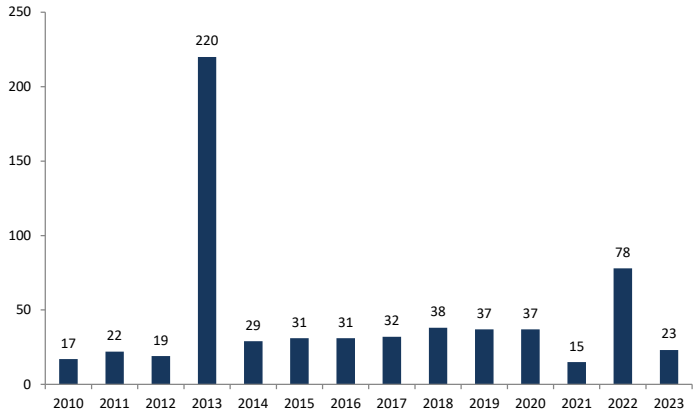
OQGN transported 42.98 BCM of gas to approximately 130 consumers across various critical industries in Oman in 2024, fed by 6 gas producers namely, PDO, BP, Dolphin Energy, OXY, Dolphi Energy and Shell plc. and vs. gas reserves of 715 BCM according to market consultants. We also note that the reserves-to-production ratio is estimated at approximately 20 years.

Exhibit 92: Oman has maintained flat annual reserves despite annual production of 28+ BCM implying an annual reserve to production ratio of c100%



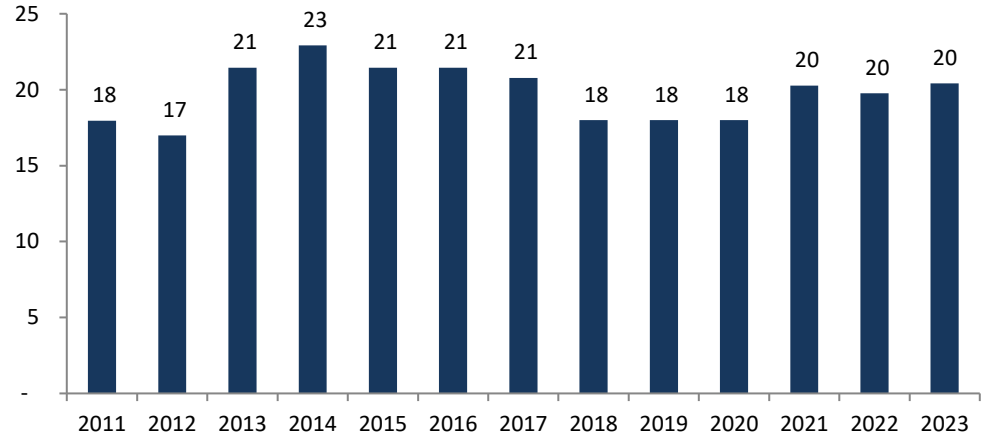
Source: Oman Gas Market Report

Exhibit 93: Oman's annual reserve additions ensure that the country maintains a its reserve life that exceeds 20 years.



Source: Oman Gas Market Report

Exhibit 94: … leading to a stable average reserve life of c20 years



Source: Bloomberg, Arqaam Capital Research

We note that Oman has ongoing exploration projects, such as the development of Hydrogen pipeline infrastructure where OQGN was appointed as the national provider. In parallel, OQGN is expanding its gas network including the 42" Fahud-Sohar loop line (+193km), which has received initial approval and will expand capacity in the northern part of the network. Other projects include the Central 48 Rich and Lean Segregation pipeline (+65 km) and the Duqm Growth Line(+57km), both designed to support future gas demand in central and eastern Oman.

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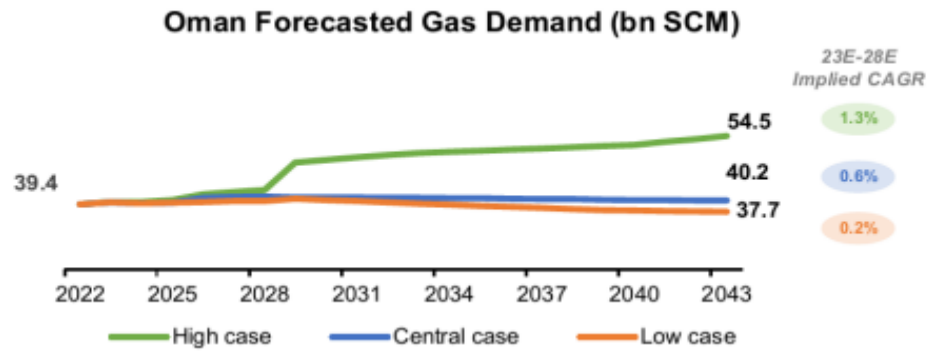
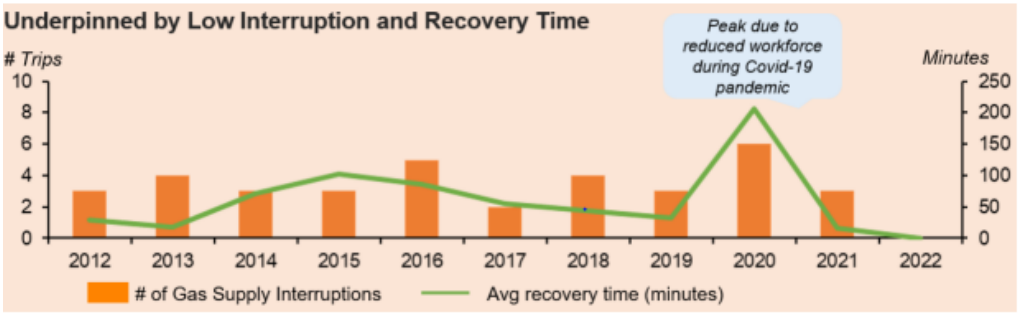
The LNG sector comprised the largest consumer of gas transported through the NGTN in FY23A, representing c32%, followed by local industrial projects consumers representing c27%, oil sector consumer representing c25%, and power and desalination sector consumers representing c16%, of gas transported by the company in FY23A (see exhibit 99).

Exhibit 95: Oman Gas Demand to grow at base case by 0.6% for FY23-28e CAGR



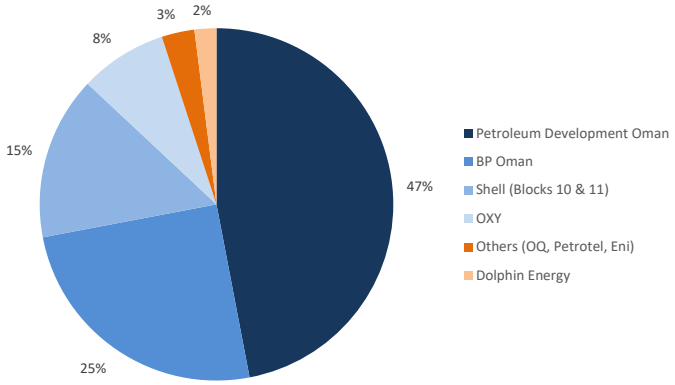
Source: Company data, Market Report

Exhibit 96: Company's gas supply interruptions and average recovery time



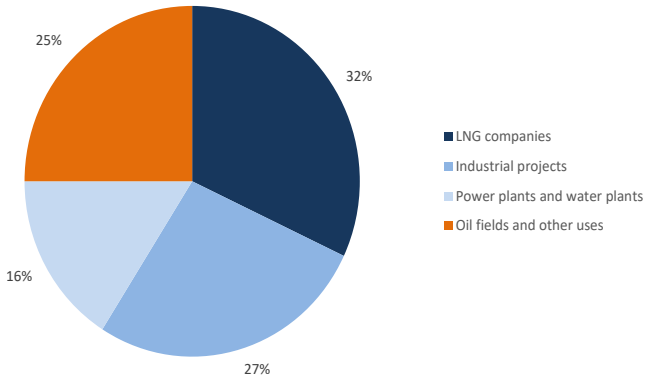
Source: Company data, Market Report

Exhibit 97: Gas producers as of FY24A



Source: Company Data

Exhibit 98: Gas consumers as of FY24A



Source: Company Data

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RAB structure allows for secured EBITDA and cash flow for OQGN.

The RAB Framework provides a regulated revenue system, whereby the company charges transportation charges to the shipper as well as connection fees to connected parties that require the company to build a new connection to the NGTN or modify an existing connection. The Allowed RAB revenues are determined by the regulator (Authority for Public Services Regulation) using a building block approach, with the key building blocks comprising the allowed return on capital (driven by the company's WACC and the regulated asset base), the allowed operating expenditure, pass-through expenditures, depreciation allowance and tax allowance, subject to annual reconciliation and RSP reconciliation of certain building blocks.

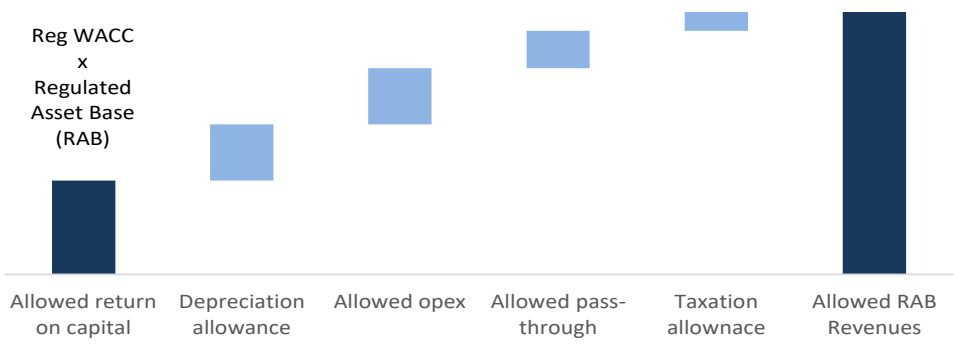
The RAB Framework allows lower risk and more predictable returns as it enables the company to charge transportation charges based on the allowed RAB revenues agreed with the regulator, which is based on the aforementioned building blocks and is not dependent on the price of gas transmitted, thus eliminating the company's exposure to gas price fluctuations and reducing exposure to the volume of gas transported, as well as allowing for adjustments in the allowed operating expenditure for inflation and provides incentives for cost efficiencies, thus enabling a predictable cash flow profile.

More on the RAB framework …

The RAB Framework aims to provide a predictable tariff-setting regime that should allow a relatively stable and cost-reflective revenue stream, with allowed RAB revenues not affected by changes in the price and volume of gas transported during a price control period, which is currently set for a period of 4 years. The regulator determines the maximum revenue that the company may earn from gas transportation (i.e., the allowed RAB revenues) based on several building blocks set out in the Amended Concession Agreement, as explained earlier. The transportation charges charged to the shipper are then derived from the allowed RAB revenues as approved by the regulator and the network capacity booked by the shipper.

RAB was initially established in 2018 where the first three-year price control period (PC 1) for the RAB was implemented and was ratified by a Royal Decree in 2020 to offer OQGN a 50-year concession term starting Oct 2020. The second price control period commenced on 1 Jan-21 and expired on 31 Dec-23 and the third price control period started on 1 Jan-24 for a period of 4 years instead of 3 years previously.

Exhibit 99: RAB structure key building blocks



Source: Company Data

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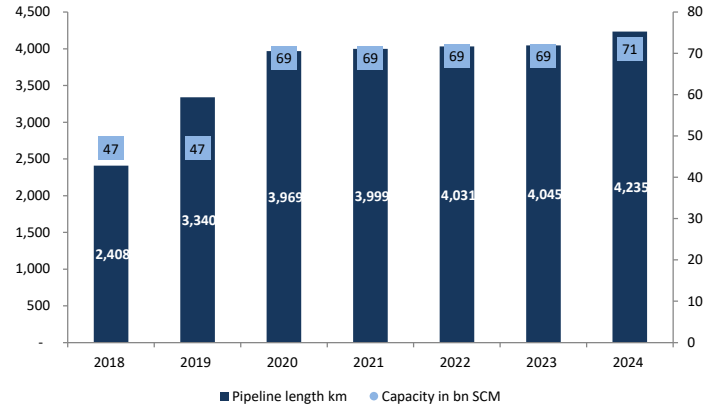
How does OQGN operate?

As earlier explained, the company transports gas through NGTN. The Natural Gas Transportation Network (NGTN) spans across approximately 4,235 kms of gas transportation pipelines as of FY24A. In addition to the pipeline network, the NGTN also includes:

- **3 compressor stations**, which are used to compress the gas (increasing its pressure), thereby providing energy to move the gas through the pipeline.
- **26 gas supply stations,** which are used to treat and condition the gas, including in terms of pressure, quality, moisture etc., to comply with the gas specification as per the shipper's natural gas sales agreements ("NGSA") with consumers.
- **Metering stations** which measure the flow of gas along the pipeline and allow the company to "track" gas as it flows along the pipeline. Metering stations employ specialized meters to measure the gas as it flows through the pipeline, without impeding its movement.
- **Valves** which work like gateways. They are usually open and allow gas to flow freely but they can be used to stop gas flow along a section of the pipe, for example to enable replacement or maintenance of a section of the pipeline between valves.

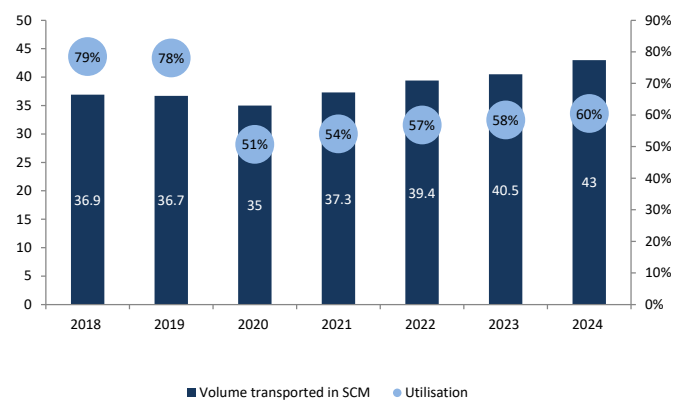
OQGN was also able to grow network, which is evident by the growth in pipeline length, as well as completion of other construction projects related to NGTN upgrades and debottlenecking, gas supply stations and gas compression stations.

Exhibit 100: OQGN's successful growth strategy evident through its historical pipeline and capacity growth



Source: Company Data

Exhibit 101: Network expansion reflected in growing volume of transported gas



Source: Company Data

IGC the current sole shipper of gas to NGTN amid MEM transfer decision

Historically, MEM was the sole shipper to the NGTN until YE FY22A. However, IGC was established pursuant to the MoF IGC decision as a government owned company to act on behalf of the government in the management of, inter alia, gas sales and purchases. Accordingly, gas produced is now purchased by the IGC from gas producers and sold to gas consumers. The key drivers for the establishment of IGC by the Government include (i) improving the fiscal performance of Oman; (ii) enhancing efficiency of the gas sector in Oman; (iii) implementing Government policies and plans with respect to gas prices and quantity allocated to each sector; and (iv) increasing economy activity and in-country value of the gas sector and related activities.

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OQGN is mostly expanding organically; FY25A projects are already secured.

Key pillars for growth include:

- Continued investment in NGTN growth, debottlenecking, and upgrades
- Acquisition of gas transportation assets; through acquiring certain existing private gas pipeline assets and networks owned by other government-related entities or by certain third parties (exploration and production companies) which use connecting pipelines for their internal operations. This is done on a case-by-case basis and must be approved by the regulator as part of the price control period process or separately under the RAB framework.
- Expansion into transportation of other energy sources.

OQGN's projects comprise a mix of (i) growth capital expenditure projects, comprising major development projects to expand the company's NGTN and connection projects to make gas connections available to various consumers; (ii) sustaining capital expenditure projects, comprising upgrade and maintenance works to maintain the quality of the company's network assets and improve gas transportation to critical sectors of the Omani economy and (iii) acquisition capital expenditure in connection with the acquisition of gas pipelines and other gas transportation assets.

Despite bearing the costs for each project, the capital expenditure allowance for the projects is approved by the regulator for each price control period. The project cost estimation is based on studies considering previous projects, industrial benchmarking, and market practice.

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History & Timeline

Exhibit 102: OQGN's Timeline

Date	Timeline
2000	• Previously known as Oman Gas Company SAOC, incorporated on 23 May 2000 and granted concession rights to own, construct, maintain and operate gas facilities in Oman for a period of 27 years commencing from 2000. Upon its incorporation, the Government directly owned 80% of the Company, while OQ owned the remaining 20%.
2004	• The first gas was exported by the Company to Dolphin Energy in the UAE.
2008	• The first import of gas received from Dolphin Energy in the UAE.
2013	• OQ acquired 100% ownership following the 80% transfer by the government
2014	• Supported the development of new business streams, including the Salalah LPG project.
2016	• Commenced the implementation of the RAB approach and the new proposed tariff system.
2018	• Adopted the RAB Framework, a new revenue and tariff mechanism, which is based on the asset ownership and network capacity booked, marking the first Price Control Period under the RAB Framework.
2019	• Signed an asset transfer agreement with the government to acquire and transfer gas network assets owned by the government and operated by PDO effective 1 July 2019 to further consolidate the gas network assets under the company.
2020	• Company renamed from Oman Gas Company to OQ Gas Networks.
2021	• Signed an asset transfer agreement with Madayn to acquire and transfer the gas distribution assets owned in the industrial estates operated by Madayn.
2022	• The Shareholders elected a new interim Board with 40% female representatives.
2023	• Launched the new OQGN brand & introduced a new organizational structure and approved a corporate governance framework in line with the CMA's corporate governance regime in preparation for the IPO.
2024	• Reached record gas delivery of 131 MSCM/day and maintained 99.9% gas availability across a 4,235 km pipeline network.

Source: Company Data

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ESG embedded in OQGN's strategy

Oman has an ambitious sustainability agenda outlined in Oman Vision 2040 with the sustainability agenda aims to achieve 7% GHG emissions reduction by FY 30 and net zero emissions by FY 50. Furthermore, Oman strives to become one of the top 20 countries in the environmental 110 performance index by FY 40 by making additional estimated investments of USD c190bn to achieve net zero emissions by FY 50, and of USD c230bn to become a hydrogen exporter. Oman also strives to achieve 30% of its GDP from green power capacity expansion by FY 50.

Aligned with Oman's strategy, OQGN has recently formed a dedicated sustainability team, including certain senior staff members, which is tasked with overseeing and leading sustainability initiatives and to explore new initiatives to be considered under the company's sustainability strategy, with the sustainability performance being subject to review by the management-led sustainability committee and the Board.

OQGN committed to Oman's environmental strategy as part of Vision 2040

OQGN is committed to contribute to the environment and natural resources priority in Oman Vision 2040. OQGN strives to minimize its climate-related impact and thus has received ISO 14001:2015 environmental management systems certification. The company achieved GHG emissions intensity at 0.19 gCO2eq/MJ during the same year.

In addition, the company plans to monitor and report in the future its GHG emissions intensity and gas flaring and is also working on developing a decarbonization strategy, in line with Oman's Net Zero plan by 2050 and thus implemented the GHG accounting tools including scope 1, 2 and 3 emissions inventory, and monitors GHG emissions across the NGTN assets.

We note that 80% of the company's pipelines may withstand 10% hydrogen transportation, subject to required upgrades and modifications and OQGN can blend hydrogen into the NGTN.

Safety a key priority amid OQGN's social strategy

On the social front, safety of the company's employees is a key priority, as OQGN is committed to safeguarding and enriching lives with a strategy to closely monitor its HSE indicators, provide regular employee HSE training and engaging with the local communities and providing support to the local economy. In FY22A, the company dedicated 2,443 HSE training hours to its employees and personnel. Furthermore, the OQGN monitors its HSE indicators and endeavors to continuously improve the HSE performance.

With respect to in-country value ("ICV") initiatives, the company also aims to promote local sourcing by giving priority to local suppliers thus contributing to the growth of the local economy. In 2022, the company sourced approximately 74% of its requirements from locally registered suppliers. The company also strives to maximize its engagement in and contribution to the Omani communities.

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OQGN is also involved in a range of social initiatives, including the following:

- **Education Initiatives** – Collaborating with the Ministry of Education: OQGN contributed to the donation of IT equipment to local public schools and launched the "Khareef Campaign", which focused on enhancing awareness on safety around the company's pipelines of the government and private sector, as well as local communities and Salalah visitors.
- **Health Initiatives** – Support to Local Hospitals and Associations: OQGN contributed to the purchase of medical equipment and facilities and distributed to local hospitals of Izki and Samail, as well as the provision of disability-friendly computers to NGOs.

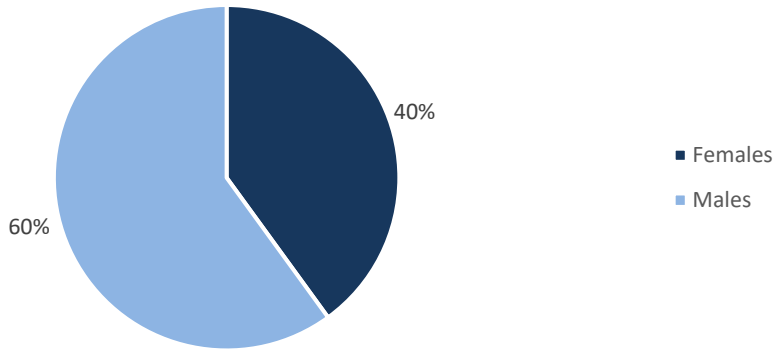
Governance a vital building block of OQGN's ESG policy

OQGN's BoD approved in September FY 23A a corporate governance framework in line with the CMA's corporate governance regime and has established an audit committee, and a nomination and remuneration committee, to meet the CMA's corporate governance standards for SAOGs and with the aim to adopt certain international practices.

Female directors comprise 40% of the company's current Board, which was introduced in August FY 23A ahead of the IPO. The company also has a dedicated sustainability committee, which is led by the managing director as well as a dedicated sustainability team, overseeing operations on its sustainability strategy, with the board undertaking reviews of ESG performance. OQGN has recently established a governance framework in compliance with the CMA regime, with the aim of adopting certain international practices.

We note that OQGN had an Omanisation rate of 94%.

Exhibit 103: Female represents 40% of the company's board



Source: Company Data

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