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Powering Dhofar

Initial Public Offering

شركة ظفار لتوليد الكهرباء

Dhofar Generating Company

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OFFER DETAILS

Issuer	**Dhofar Generating Company S.A.O.G.** (under transformation)		
Listing	Muscat Securities Market (MSM)		
Offering	88,896,000 Offer Shares		
Price	**Bzs 225 per Offer Share***		
Implied free float %	40%		
Categories	Category I (65%): 57,782,400 Offer Shares Category II (35%): 31,113,600 Offer Shares		
Limits of application	**(Offer Shares)**	**Minimum**	**Maximum**
	Category I:	1,000	100,000
	Category II:	100,100	8,889,600
Eligibility	Omani and Non-Omani individuals and juristic persons		
Issue Manager	بنك ظفار BankDhofar Investment Banking Division		
Global Coordinator and Bookrunner	EFG HERMES المجموعة المالية هيرميس		

Collecting Banks

BankDhofar, bank muscat, NBO, Oman Arab Bank, Bank Sohar, ahlibank

*(Comprising a Nominal Value of Bzs 100, premium of Bzs 123 and Offer Expenses of Bzs 2 per Offer Share)

Offer opens on 1 July 2018 and closes on 16 August 2018

IMPORTANT NOTICE TO INVESTORS

This document does not constitute an offer to sell or an invitation to subscribe for any shares of Dhofar Generating Company SAOG (under transformation). Any such offer or invitation will be solely on the basis of the Prospectus of the company to the exclusion of this document. Recipients of this document are responsible for taking their own independent professional advice on any investment in the company and for conducting an independent evaluation of the information contained herein. The content of this document is not to be construed as legal, business or tax advice.

WHY INVEST IN DHOFAR GENERATING CO.

Dhofar Generating Company (DGC) owns and operates the Salalah II IPP which comprises of two power generation plants with a combined contracted capacity of 718 MW, located at Raysut in the Dhofar Governorate of the Sultanate of Oman.

The original plant, which commenced commercial operations in 2003 has a contracted capacity of 273 MW. A second new plant was developed by DGC with a capacity of 445 MW and has commenced commercial operations on January 1, 2018. Together, the total contracted power capacity represents approximately 62% of the total contracted capacity in the Dhofar Power System.

DGC currently generates its revenues pursuant to a 15-year PPA (Power Purchase Agreement) with Oman Power & Water Procurement Co. (OPWP), maturing on 1 January 2033. The power capacity of the Plant is fully contracted to OPWP and is being used to meet the growing power demand in the Dhofar Governorate during the term of the PPA and beyond.

DGC was founded and is also owned by a consortium comprising Mitsui (Japan), Acwa Power (KSA) and DIDIC (Oman).

KEY INVESTMENT HIGHLIGHTS

The company’s unique investment propositions, can be summarized as under:

Largest Power Company in the Dhofar Governorate

The Company is the largest operating power plant in the Dhofar Power System (DPS), with an installed power capacity of 718 MW which represents approximately 61.74% of the power capacity demand in the DPS as per OPWP's 7-year statement (2017-2023). The peak demand of the DPS is expected to grow from 505MW in 2017 to 735MW in 2023. Given the power generation capacity of the DPS other than the Plant is only 445MW, which is below the projected peak demand, the operation of the Plant is crucial for meeting the electricity demand in the Dhofar region.

The Company is also the only power producer in DPS that has an OCGT (Open Cycle Gas Turbine) plant connected to the system. OCGT plants are crucial to meet short term peak demands, as the plant is able to start-up and shut down very fast and at a much more economical and efficient manner compared to CCGT (Combined Cycle Gas Turbine) plants.

Stable and predictable revenues

Under the PPA, the Company receives the Power Capacity Charges from OPWP for the demonstrated power capacity of the Plant as set by the initial acceptance test at COD and henceforth, the annual performance tests. These charges are designed to cover fixed costs, including fixed operating and maintenance costs, debt service, insurance costs, taxes, spare parts, connection fees and return on capital. The Power Capacity Charges, which comprise of 98% of total non-fuel revenues under the PPA, are payable by OPWP regardless of whether the actual output of the Plant is dispatched by OPWP, and regardless of whether the Company is instructed by OPWP to deliver electricity. This means that, subject to certain limited exceptions, OPWP is obliged to pay Power Capacity Charges to the Company for

100 percent of the guaranteed contracted power capacity of the Plant, irrespective of whether or not electricity is actually dispatched.

The Company has strong predictability of stable cash flows that are sheltered from volatility of demand for electricity, given that the Company is mainly paid on an availability basis. The term of the DGC PPA is currently the longest for any operating project in the market with the majority of the other agreements expiring 7-10 years earlier.

Well-established framework

The Project represents one of the thirteen IPP/IWP/IWP projects in Oman developed over the course of 20 years. Oman is a pioneer of private power and water in the GCC and the proven contractual framework, enshrined in the Sector Law, is well established making Oman a preferred destination for IWP/IPP/IWPP developers. The procurement, ownership and contractual framework template adopted for the Project is similar to those adopted with the other IWPs, IPPs and IWPPs in Oman predating the Project.

Over the years, these projects in Oman have seen participation of many of the long term players active in the global power sector including leading developers, investors and financial institutions. This demonstrates the confidence of the industry in Oman's power sector.

Mitigation of Risks Associated with Fuel Price, Quality and Supply

Natural gas is the primary fuel used at the Plant. A long term NGSA entered into by the Company secures the supply over the contracted PPA period. Under the NGSA, the MOG is responsible for the procurement and delivery to the Plant of all of its natural gas requirements. All gas delivered to the Plant by the MOG must meet minimum quality standards.

Any increase in the price of gas charged by MOG is directly passed through in the PPA entered by the Company with OPWP.

Long term financing for the Project with mitigations for cash sweep

The Company has entered into long term financing for the Project through Senior Facilities and loans from the shareholders. A large portion of the senior financing is hedged as per the CTA. The Finance Documents for the Senior Facilities include a cash sweep mechanism in respect of the Company's accounts, but also provide an option to the Company to disapply the cash sweep by arranging equivalent amounts in letters of credit. This option when elected, allows the Company to continue to make dividend payments to the shareholders.

Fully Operational Project Adopting Best-In-Class Technology

The new CCGT power plant combines a set of gas-fired turbines with a steam turbine to make better use of the fuel it consumes greatly improving overall efficiency. The New Plant uses Frame 6F GTs from GE, one of the most reputed GT manufacturers in the industry. This equipment has a track record of more than 144 similar units in operation, completing over 5 million operating hours, with the first unit being shipped in 1996. The Frame 6F GT provides F-class performance in a lower unit capacity allowing smaller projects to benefit from the efficiency levels normally associated with the much larger 7F and 9F engines. The long term parts and maintenance risk is minimized by a long term service agreement in place with GE.

The reliability of DGC is evidenced with on-time delivery and smooth performance testing for the New Plant.

Experienced Operator Supported by a Skilled Management Team

The operation and maintenance is undertaken by NOMAC Oman, a subsidiary of NOMAC. NOMAC currently has full operational responsibility for 19 major projects, regionally and worldwide, operating several IPPs within the Middle East region, and other successful ongoing projects in Turkey, South Africa, Bulgaria, Morocco and Oman. NOMAC is also privileged to be responsible for the O&M of some of the largest plants ever built in the world. This includes the 193MIGD Shuaibah IWPP, the largest MSF water desalination plant, and the 4GW Qurayyah IPP, the largest combined cycle IPP, both based in Saudi Arabia. Given its wide presence in the region, NOMAC has a deep pool of technical experts that can be deployed across various projects at short notice. This mitigates any risk of disturbance to the Plant operations due to unexpected loss of skilled manpower. The NOMAC team at DGC brings a proven track record of vast expertise in both open cycle and combined cycle gas turbine technology, operations and maintenance. All senior management of NOMAC Oman at Salalah including the General Manager, Technical Manager, Operations Manager and Maintenance Manager have power and related sector working experience of more than twenty years.

Experienced Founders with an established track record globally, in the GCC and in Oman

DGC has the backing of the Founders with a proven track record of implementing large and complex independent power plants globally and in the GCC.

Mitsui has several decades of IPP experience with a significant presence in the IPP space in most geographical regions, with a gross power generation capacity of 35 GW. Mitsui also has a long term presence in Oman's oil and gas, and industrial sector through its participation in onshore oil and gas production, the Oman LNG project, and the Liwa Plastics Industries Complex.

ACWA Power's portfolio across the GCC, MENA and South African region has 22+ GW of power and produce 2.7 million m3 /day of desalinated water under construction and operation. ACWA Power's first project outside its home market of Saudi Arabia was the acquisition of the Barka 1 IWPP in the Muscat region, which it has successfully managed and operated since 2010. Under the leadership of ACWA Power, the Barka 1 IWPP developed, financed, constructed and is operating two sea water reverse osmosis desalination plants under the company.

The local partner, Dhofar International Development & Investment Holding Co. ('DIDIC'), is one of the largest investment companies in Oman having made significant contributions throughout the Country. DIDIC has strived to diversify its holdings various segments through investments including the financial sector, tourism services, education and logistics sectors while focusing on localization.

Opportunities for incremental growth in revenue after the expiry of PPA

Overall demand for power in Oman is expected to increase significantly according to OPWP, driven by economic development, population growth, increasing personal income, capital investment, housing, infrastructure and industrial spending and tourism developments. Peak demand for power on the Dhofar Power System is expected to grow from 497 MW in 2016 to 1,303 MW in 2032, when the Project's PPA is due to expire. K4K anticipates that the capacity of existing plants and firm new builds in the Dhofar Power System will not be sufficient to cover demand thereafter. Therefore, based on the results of the K4K study, the Company is expected to remain economically useful in the post-PPA period.

Financial strength

The Company's past and projected financials are provided below.

#shares	2015	2016	2017	2018 e	2019 e	2020 e	2021 e	2022 e	2023 e
Operating Revenue (million OMR)	21.8	16.1	15.4	46.3	46.6	47.6	48.2	49.7	51.2
Net Profit (million OMR)	2.4	(0.2)	(0.5)	0.2	1.5	2.1	2.4	2.9	2.5
EPS (Bzs)#	10.8	(1.0)	(2.2)	1.0	6.6	9.5	10.9	13.0	11.3
DPS (Bzs)	0.0	0.0	0.0	0.0	18.0	18.0	18.0	18.0	18.0
Total Assets	100.6	154.7	217.0	231.8	229.1	221.6	213.8	205.8	197.5
Total Equity*	31.3	31.1	52.3	52.5	49.7	47.8	46.3	45.2	43.7
Total Debt**	57.8	109.2	150.6	159.6	152.7	145.5	138.4	131.0	123.4
Debt Equity (times)	1.8x	3.5x	2.9x	3.0x	3.1x	3.0x	3.0x	2.9x	2.8x

2015 includes results prior to acquisition of the business
* excludes Cash-Flow Hedge Reserve
** includes current portion of debt and working capital balance

Value in the post PPA period

As per K4K, which was appointed on behalf of the investors to ascertain the cash flows of the Company in the post PPA period, there is expected to be significant value for the Company in the post-PPA period. This is because K4K expects that the Plant's useful life is 40 years which is longer than the PPA period and the capacity of existing plants and firm new builds in the Dhofar Power System will not be sufficient to cover demand thereafter. The base case expected average annual EBITDA (based on 2018 prices) by K4K for the Company from the expiry of the PPA period to 2057 is USD 80.89 mn.

KEY VALUATION ASPECTS

Comparables

Higher dividend yield than peer group average

DGC's dividend yield for the first 5 years is 8%

Company	TTM Dividend Yield[1]	Dividend Yield 2018E	Price to Book Value per share[2]	6M ADTV[3] OMR'000	P(W)PA Expiry
ACWA	6.1%	5.9%[4]	2.09	16.95	2021
ABPC	6.3%	7.8%	1.02	6.39	2028
Al Kamil	2.6%	6.5%	1.22	6.48	2021
ASPC	7.4%	7.8%	1.00	10.96	2028
MCDC	1.9%	6.0%	1.38	89.84	2034
PPC	5.2%	6.4%	1.06	112.82	2029
Sembcorp	4.9%	5.9%	2.18	116.59	2027
SDC[5]	n.m.	n.m.	2.53	n/a	2029
SMN	5.5%	2.9%	4.17	8.47	2022/ 2024
Sohar[6]	n/m	**n/m**	0.90	1.83	2022
Average	**5.0%**	**6.2%**			
Weighted Average[7]	**4.4%**	**6.1%**			
DGC[8]	**n.m**	**8.0%**	**0.98**		**2032**

1 TTM dividend yields based on company filings on the MSM website. Closing prices taken as of 7th June 2018

2 Book Value after excluding cash flow hedge reserve

3 6MADTV: Average Daily Trade Value in US$ millions averaged over the past 6 months, from Bloomberg

4 ACWA 2018E Dividend yield calculated assuming dividend levels consistent with 2016 and 2017

5 The company is not paying dividends due to ongoing expansion of the plant.

6 The company is not paying dividends due to cash sweep under the debt facilities

7 Weighted average dividend yield weighted against the 6M ADTV

8 DGC has not announced any dividends as of the date of this prospectus.

DDM Valuation:

Valuation per share

The price per Share in Baizas based on projected dividend flows until FY 2057 under various scenarios is as follows:

Price per share (Bzs)	Optimistic Case	Scenarios* Base Case	Pessimistic Case
Discount rate			
9%	506	430	353
10%	426	364	301
11%	361	311	260

Note: Includes post PPA cash flows forecasted by K4K.

Internal rate of return (IRR)

The IRR based on projected dividend flows under various scenarios is as follows.

Scenarios*	Optimistic Case	Base Case	Pessimistic Case
Dividend IRR**	**14.4%**	**13.3%**	**12.1%**

* The same set of assumptions were taken for all the scenarios in the PPA period. In the post-PPA period, K4K has assumed the total investment cost for construction of a new CCGT plant at USD 1050/ kW. K4k has assumed an increase by 20% in the investment cost in the optimistic case and a reduction of 20% in the pessimistic case.

** includes 2 Bzs of Offer Expenses

PROPOSED TIMETABLE

Procedure	Date
Commencement of subscription	1 July 2018
Closing of subscription	16 August 2018
Due date for the Issue Manager to receive the subscription data and final registers from the Collecting Banks	28 August 2018
Notification to the CMA of the outcome of the subscription and the proposed allotment	30 August 2018
Approval of the CMA of the proposed allotment	2 September 2018
Muscat Clearing to commence refund and dispatch of the notices regarding allotment	3 September 2018
Listing of the Offer Shares with MSM	5 September 2018

HOW TO APPLY

If you are interested in applying for Shares in the Company, you should carefully review the information in the Prospectus, before deciding to invest. This can either be found online at www.dgcoman.com or obtained at branches of Collecting Banks - Bank Dhofar, bank muscat, National Bank of Oman, Oman Arab Bank, Bank Sohar, Ahli Bank, or the CMA website www.cma.gov.om

If you decide to proceed, you should complete the application form, which may be collected from a branch of one of the Collecting Banks and submit it, together with the application money by cheque or account transfer. You can only submit one application form. Submission of a second application form will be treated as a multiple application and will be rejected.

If you wish to subscribe, you must hand in your completed application form and application money before close of official working hours on 16 August 2018 at any branch of the Collecting Banks.

Further details on Subscription Procedures are provided in the IPO Prospectus of the company.

This document has been prepared for information purposes only and is for the benefit of investors who may subscribe under the Prospectus of the company. The Prospectus is the formal offering document pursuant to which the Offering is being made. You must obtain, and read in full, a copy of the Prospectus, before deciding whether to invest in Shares of Dhofar Generating Co SAOG (under transformation). Such a decision is subject to certain risks, which are set out in detail in the Prospectus of the Company and any decision to subscribe for Shares must be based solely on the Prospectus and not on this document. This document is not, and is not intended to be, a substitute for the Prospectus. Copies of the Prospectus may be obtained at branches of "Collecting Banks" in Oman, as well as from the website: www.dgcoman.com. Any subscription for Shares in the Offering must be made pursuant to an Application Form in the form provided by the Company in relation to the Offering (an "Application Form"). Application Forms may be obtained at branches of the Collecting Banks in Oman.