S&P Global
Ratings

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Research Update:

Energy Development Oman SAOC Outlook Revised To Positive Following Similar Action On Sovereign; 'BB+' Ratings Affirmed

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Rating Action Overview

- On March 29, 2024, S&P Global Ratings revised its outlook on Oman to positive from stable.
- We cap our rating on oil and gas producer Energy Development Oman SAOC (EDO) at the level of the sovereign because we view EDO as a government-related entity (GRE) that has an integral link with the government, the 100% shareholder of the company.
- We therefore revised our outlook to positive from stable and affirmed our 'BB+' long term issuer and issue credit ratings on EDO.
- The positive outlook mirrors that on Oman, with any upside for EDO dependent on a higher sovereign rating.

Rating Action Rationale

The outlook revision follows a similar action on Oman. On March 29, 2024, we revised our outlook on the sovereign to positive from stable, based on our view that the government's balance sheet will strengthen and the economic reform program could lead to faster-than-expected deleveraging in many state-owned enterprises--without dampening economic growth outcomes--and boost the economy's resiliency to adverse oil price shocks (see "Oman Outlook Revised To Positive On Strengthening Fiscal Position; 'BB+/B' Ratings Affirmed," published March 29, 2024, on RatingsDirect). Given EDO's integral link with the government and because we think the government can influence the company's strategic plans via its significant presence on the board, we cap our rating on EDO at the level of the sovereign under our criteria. In light of the upgrade to the sovereign, our issuer credit rating on EDO is one notch below our assessment of the company's 'bbb-' stand-alone credit profile (SACP).

We consider EDO a GRE with a moderately high likelihood of government support and expect it will remain a key player in Oman's energy sector. Our assessment reflects our view that the company has an integral link with the government, given the state's 100% direct ownership of EDO. The government also has a strong influence on the company's strategic plans, via its significant presence on the board, which the minister of energy and minerals chairs. The assessment also reflects our view that EDO plays a very important role for the Omani government because it is the largest oil and gas producer in Oman--through its 60% ownership of Petroleum Development Oman (PDO; contributing about 50% of hydrocarbon production)--and therefore a significant employer.

We cap our assessment of the likelihood of government support at moderately high, instead of extremely high. This reflects the high default correlation between the government and EDO, which results from the concentration of hydrocarbon receipts in the government's revenue. Oil and gas revenue account for more than 70% of the Omani government's total. In the event of financial distress, EDO's loss of income could weigh on the government's fiscal position and thereby limit its ability to support the company.

Despite sizable dividends and capital expenditure (capex) requirements, EDO's SACP remains at 'bbb-' and is supported by the company's leading share in Omani hydrocarbon production and overall good cash flow visibility. Our business risk assessment factors in EDO's access to large reserves, with more than 1.5 billion barrels of oil equivalent in 1P reserves and include more than 60% of Oman's 1P oil and nonassociated gas condensate (NAGC) reserves; leading domestic share of hydrocarbon production; and broadly low operating cost structure. The assessment is balanced by significant geographical and upstream concentration and a relatively lower reserve life index of about 6.4 years, on a 1P calculated basis (based on S&P Global Ratings' calculations), compared with peers in the same business category. The company has ongoing and new expansion projects in both oil and gas to develop and upgrade existing wells. As a result, in our base-case scenario, we assume significant capex of $3.7 billion-$4.0 billion annually until at least 2027, up from $3.6 billion in 2023. We expect the company to balance its expansion plans with distributions to its ultimate shareholder, the government of Oman. In our base-case scenario, we expect meaningful cash calls to the government in the form of dividends, royalties, and taxes of $9 billion-$12 billion annually.

Our base-case scenario is largely unchanged following the 2023 results and oil price updates, with funds from operations (FFO) to debt expected to remain above 45% over 2024-2026. The company's 2023 results were broadly in line with our revenue and EBITDA expectations, but we now assume an average Brent oil price of $80 per barrel (/bbl) from 2025 onwards, compared with $85/bbl previously (see "S&P Global Ratings Revises Its WTI And Brent Price Assumptions For 2025 And Beyond On Anticipated Oversupply," published March 11, 2024). As a result, our calculated EBITDA is now about 5% lower than our previous estimates, but overall credit metrics remain commensurate with the rating level, with FFO to debt remaining above 45%. For more details on our key assumptions on EDO, see the analysis on the company published Feb. 20, 2024.

Outlook

The positive outlook on EDO mirrors that on Oman. Any change in the sovereign rating will flow through to our rating on EDO. The SACP assessment of 'bbb-' reflects our view that the company will continue to benefit from its leading share in Oman's oil and gas production while being able to replace its reserves and operate profitably, even with low oil prices--albeit with constrained discretionary cash flow, given material investments and dividends. We expect FFO to debt will remain above 45% over the next 12-18 months (it was 61.1% as of Dec 31, 2023).

Downside scenario

We would take a negative rating action on EDO if we take a similar rating action on Oman. Lower visibility on reserve replacement, which could translate into lower profitability and more volatile cash flow, or higher-than-anticipated planned capex, which could lead to lower discretionary cash flow, could weaken the SACP.

Upside scenario

We would take a positive rating action on EDO if we take a similar rating action on Oman.

Company Description

EDO was established in December 2020 through a royal decree and is wholly owned by Oman. In 2021, the government transferred its 60% stake in the Block 6 oil concession, through its ownership in PDO, to EDO and granted it 100% of the new Block 6 gas concession.

All of EDO's assets are in Oman. The company exports most of its gas and condensate business to Asian markets, while its gas sales are primarily for domestic use. As of Jan. 1, 2024, EDO had 3.4 billion barrels of oil equivalent in proven and probable reserves. As of Dec. 31, 2023, the company had a daily oil and gas production of about 844,000 barrels of oil equivalent. According to the EDO's investor presentation for fiscal 2023, the company's Block holds approximately 50% of Oman's crude oil and condensate reserves and approximately 70% of the country's combined oil and condensate production. EDO also accounts for more than 60% of Oman's proven reserves and NAGC reserves. In 2023, it generated $16.4 billion in revenue and $8.8 billion in S&P Global Ratings-adjusted EBITDA.

Liquidity

We assess EDO's liquidity as adequate. Over the next 12 months, sources of cash would exceed uses by more than 1.2x. Our assessment of the company's liquidity is supported by its strong relationship with banks and prudent risk management.

Principal liquidity sources in the 12 months started Dec. 31, 2023, include:

- Accessible cash balance of $680 million.
- An undrawn revolving credit facility maturing August 2026 of Omani rial 150 million ($390 million equivalent).
- Cash FFO of $5.0 billion-$5.5 billion.

Principal liquidity uses over the same period include:

- Debt maturities of $1.6 billion (of which $1.3 billion is a shareholder loan).
- Working capital outflows of $100 million-$120 million.
- Capex of $3.2 billion-$4.0 billion.

Covenants

EDO has two financial covenants--to maintain the ratio of its tangible net worth to net debt above 40%, and the ratio of its reported FFO to net debt above 45%. We assess that the company has ample headroom under these covenants.

Issue Ratings - Subordination Risk Analysis

Capital structure

According to its fiscal 2023 financial reports, EDO's capital structure included a $2.5 billion syndicate facility, a $975 million term loan, $3.2 billion in shareholder loans, and the $1 billion sukuk (issued in September 2023) under its trust certificate issuance program.

Analytical conclusions

Due to the lack of subordination risk and the guarantee from EDO to its subsidiary EDO Gas, we equalize our rating on the trust certificate issuance program and our issue rating with our foreign currency long-term issuer credit rating on the company.

Ratings Score Snapshot

Foreign currency issuer credit rating	**BB+/Positive/--**
Local currency issuer credit rating	**BB+/Positive/--**
Business risk:	Satisfactory
Country risk	Moderately High
Industry risk	Moderately High
Competitive position	Satisfactory
Financial risk:	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb-
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	bbb-
Related government rating	BB+/Positive/B
Likelihood of government support	Moderately high (-1 notch from the SACP)

Related Criteria

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Methodology For Rating Sukuk, Jan. 19, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Oman Outlook Revised To Positive On Strengthening Fiscal Position; 'BB+/B' Ratings Affirmed, March 29, 2024
- S&P Global Ratings Revises Its WTI And Brent Price Assumptions For 2025 And Beyond On Anticipated Oversupply, published March 11, 2024
- GCC Corporate And Infrastructure Outlook 2024: Holding Up Against Refinancing Needs, March 4, 2024
- Energy Development Oman SACO, Feb. 20, 2024
- Regional Gas Is More Exposed Than Oil To War In The Middle East, Nov. 15, 2023
- Presale: EDO Sukuk Limited, Sept. 8, 2023
- National Oil Companies In GCC Can Absorb The Energy Transition Impact For Now, March 8, 2023

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Energy Development Oman SAOC		
Issuer Credit Rating	BB+/Positive/--	BB+/Stable/--
Ratings Affirmed		
EDO Sukuk Ltd.		
Senior Unsecured	BB+	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.