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Energy Development Oman SAOC Upgraded To 'BBB-' From 'BB+' Following Similar Action On Sovereign; Outlook Stable

S&PGR Upgrades EDO To 'BBB-' In line With Oman; Outlook Stable

- On Sept. 27, 2024, S&P Global Ratings raised its long-term foreign and local currency sovereign credit ratings on Oman to 'BBB-' from 'BB+', and assigned a stable outlook.
- The sovereign rating on Oman is therefore no longer a rating constraint for Energy Development Oman SAOC (EDO), since the stand-alone credit quality on the oil and gas producer was already at 'bbb-'.
- Therefore, we raised to 'BBB-' from 'BB+' our long-term issuer credit rating and issue ratings on EDO and its debt.
- The outlook is stable, reflecting the stable outlook on Oman, and our view that EDO's funds from operations to debt will remain comfortably above 45% over the next 12-18 months.

DUBAI (S&P Global Ratings) Sept. 30, 2024--On Sept. 27, 2024, we upgraded Oman to reflect the continued strengthening of the Omani government's balance sheet and faster-than-expected external deleveraging of many state-owned enterprises (see "[Oman Upgraded To 'BBB-' From 'BB+' On Continued Public Sector Deleveraging; Outlook Stable](#)," published 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 representation on EDO's board, the upgrade of EDO mirrors that of the sovereign. Our issuer credit rating on EDO is now in line with our 'bbb-' assessment of the company's stand-alone credit profile (SACP).

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. We also incorporate 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 (contributing more than 60% of hydrocarbon production as of end-2023)--and therefore a significant employer.

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.

EDO benefits from 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 non-associated gas condensate (NAGC) reserves; leading domestic share of hydrocarbon production; and broadly low operating cost structure. Conversely, EDO's production profile shows 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 global 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.

We expect the Brent oil price will average \$85 per barrel for the remainder of the year, followed by \$80/bbl from 2025 and beyond, unchanged from our previous forecasts. At the same time, we factor in additional debt, given higher shareholder loans and the recent bond issuance. In July 2024, the company issued a \$750 million sukuk under its trust certificate program, which translates into total debt of about \$8.7 billion. We continue to regard this as commensurate with the rating, with FFO to debt of 48%-58% over 2024-2026, compared with 61% at end-2023. For more details on our key assumptions on EDO, see "Energy Development Oman SAOC Outlook Revised To Positive Following Similar Action On Sovereign; 'BB+' Ratings Affirmed," published April 2, 2024 on RatingsDirect.

The stable outlook on EDO mirrors that on the sovereign, and our expectations that EDO will continue to benefit from its leading share in Oman's oil and gas production while still being able to replace its reserves and operate profitably, even in a low oil price environment--albeit with constrained discretionary cash flow, given sizable investments and dividends. We expect FFO to debt will remain well above 45% over the next 12-18 months.

We would take a negative rating action on EDO if we took a similar rating action on Oman, or if FFO to debt remained consistently below 45%. Pressure might also stem from lower visibility on reserve replacement that potentially translates into lower profitability and more volatile cash flows, or from higher-than-anticipated planned capex, which could lead to lower discretionary cash flow.

We would take a positive rating action on EDO, all else being equal, if we took a positive rating action on the sovereign and if FFO/debt comfortably exceeded 60% on a sustainable basis, notably under our midcycle price assumptions of 55\$/bbl.

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.

Related Criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), April 4, 2024
- [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
- [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 Upgraded To 'BBB-' From 'BB+' On Continued Public Sector Deleveraging; Outlook Stable](#), Sept. 27, 2024
- [S&P Global Ratings Revises Its Natural Gas Price Assumptions; Oil Price Assumptions Unchanged](#), Sept. 10, 2024
- [Net-Zero Targets Leave GCC Oil Companies Unperturbed For Now](#), April 22, 2024
- [GCC Oil And Gas Producers' Capex Cooldown Won't Fire Up Drillers' Leverage](#), April 15, 2024
- [Energy Development Oman SAOC](#), Feb 20, 2024

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