RATING ACTION COMMENTARY

Fitch Revises EDO's Outlook to Positive; Affirms IDR at 'BB+'

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Fitch Ratings - Frankfurt am Main - 23 Dec 2024: Fitch Ratings has revised Energy Development Oman SAOC's (EDO) Outlook to Positive from Stable, while affirming its Long-Term Issue Default Rating (IDR) at 'BB+'. The rating action follows the recent revision of the Outlook on Oman's sovereign rating.

EDO's rating is constrained by that of its sole shareholder, the government of Oman (BB+/Positive), due to their close links, in line with Fitch's Government-Related Entities (GRE) Rating Criteria and Parent and Subsidiary Linkage (PSL) Rating Criteria.

EDO's 'bbb+' Standalone Credit Profile (SCP) is supported by its large-scale oil and gas operations, strong and resilient cash flow generation, due to contracted sale prices for gas and a flexible royalty framework, a flexible dividend policy and low leverage. The SCP is constrained by a single country of operations, a solely upstream-focused business model, and a mature reserve base with a low proved reserve life compared with peers'.

KEY RATING DRIVERS

Sovereign Constrains Rating: EDO's rating is constrained by that of Oman, due to strong linkages between EDO and Oman. Under our GRE Rating Criteria, we assess the precedents of support as 'Strong' and decision-making and oversight, preservation of government policy role, and contagion risk as 'Very Strong'. This assessment results in an overall GRE support score of 55 points out of a maximum of 60.

'Very Strong' Decision-Making & Oversight: EDO's 'Very Strong' decision-making and

'Strong' Precedents of Support: The government in 2022 provided a shareholder bridge facility by permitting EDO to defer dividend payouts and allowing the company to instead allocate its excess cash towards near-term investments. The government also established a flexible royalty regime - whereby royalties are based on average oil prices during the relevant period - to allow EDO to preserve cash flow at times of low hydrocarbon prices. We expect the government to continue providing support, due to EDO's pivotal role in Oman's infrastructure and economy.

'Very Strong' Government-Policy Role Preservation: The oil and gas sector is a major part of the Omani economy, with EDO's Block 6 concessions accounting for a large portion of the nation's total oil and gas reserves. The company sells gas mainly on the domestic market. Further, EDO is one of the largest corporate employers in Oman.

'Very Strong' Contagion Risk: EDO currently has a growing presence in capital markets. Its default would significantly impair the financial standing of the sovereign and the ability of either the government or other GREs within the country to raise financing. We view EDO as a benchmark issuer for its government in the financing market. This underlines our 'Very Strong' assessment of contagion risk.

Scale Offsets Limited Diversification: EDO is the largest oil and gas producer in Oman via its interest in Petroleum Development Oman (PDO). PDO operates the onshore Block 6 oil and gas concessions, which comprise over 24% of Oman's land acreage and have more than 50 years of production history. This slightly mitigates EDO's focus on a single country of operations. We expect an average output of over 800 thousand barrels of oil equivalent per day (kboe/d) until 2028 in our rating case.

Flexible Payouts Under Fiscal Framework: EDO has been subject to a unique fiscal framework since 2021. The fiscal terms include royalties paid to the government weekly, based on EDO's revenue from the sale of oil and condensate and taxes paid on income derived from its oil and gas operations. Royalties and taxes paid are significant under our price deck, but they are structured in such a way to ease the burden on cash flow when market conditions weaken.

Strong Financial Profile: We expect EDO will maintain a strong financial profile until 2028 under our base-case oil and gas price deck, despite growing capex and high royalties and tax

Conservative Leverage Target: We expect EDO's EBITDA net leverage to average below 1x in 2024-2028. EDO plans to maintain company-defined net debt below 2.2x funds from operations (FFO). This is a target set by the board, although it is no longer covenanted in its new USD2 billion term loan agreement.

Favourable Unit Economics: In 2023, EDO's total production costs before royalties were about USD4/boe of direct production costs and about USD12/boe of capex, which place the company at the lower end of the global cost curve. Adding generous royalties, which we estimate at about USD15-USD20/boe, significantly increases total production costs. This is partly mitigated by EDO's still strong financial profile, the broad alignment of EDO's and the government's interests, and progressive taxation on oil prices.

Improving ESG Footprint: EDO continues to reduce greenhouse gas emissions from operations and flaring as well as improving energy efficiency. PDO also aims to expand its renewable power generation capacity up to 30% of total capacity in the medium term. We view EDO's and PDO's environmental targets as broadly in line with Middle Eastern peers', but lagging those of their large European peers such as TotalEnergies SE (AA-/Stable), BP plc (A+/Stable) or Eni SpA (A-/Stable).

DERIVATION SUMMARY

EDO's closest peers in EMEA oil and gas are Saudi Arabian Oil Company (Saudi Aramco; A+/Stable), QatarEnergy (AA/Stable) and OQ S.A.O.C (BB+/Positive).

EDO has a stronger SCP than its Omani peer OQ, as OQ has modestly higher gross leverage metrics, lower through-the-cycle EBITDA and cash flow, and smaller scale, which are partially offset by greater diversification and a much lower dividend burden.

Fitch assesses all three companies under its GRE Rating Criteria and PSL Rating Criteria. Their IDRs are constrained by their respective sovereign ratings.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Brent crude oil prices in 2024-2027 in line with Fitch's base case price deck

- Capex averaging USD3.9 billion per year in 2024-2027

- Dividends in line with the company's financial policy

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- The Positive Rating Outlook makes a negative rating action unlikely. However, a revision of the sovereign Outlook to Stable or a negative rating action on Oman would be mirrored in EDO

- Weakening linkages between Oman and EDO - which we believe is unlikely - coupled with significant deterioration of the latter's SCP

- FFO gross leverage or EBITDA net leverage rising above 1.5x on a sustained basis due to, for example, persistently negative free cash flow (FCF) driven by high capex or large acquisitions, which may be negative for the SCP but not necessarily for the IDR

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- A positive rating action on Oman would be mirrored in EDO's rating

- The SCP is capped by limitations of the company's business profile

For Oman's rating sensitivities, see 'Fitch Revises Oman's Outlook to Positive; Affirms at 'BB+'' dated 18 December 2024 on www.fitchratings.com.

LIQUIDITY AND DEBT STRUCTURE

At end-June 2024, EDO had readily available cash and cash equivalents of USD315 million and undrawn revolving credit facilities of USD390 million. In June 2024 the company refinanced its USD2.5 billion term loan, which had begun its first repayment in 4Q23, with a USD2 billion term loan due in 2029. EDO has no near-term repayment obligations until 2026 flexible dividend policy will allow for liquidity preservation during periods of restricted capital-market access or lower oil prices.

EDO has a stated minimum cash target of about USD220 million plus additional cash reserves for the next quarter's debt service obligations, which we take into account for determining cash flow available for dividends.

ISSUER PROFILE

EDO is Oman's national energy company and owns participating interest in two concessions, accounting for approximately 65% of Oman's oil and gas production.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

EDO's rating is constrained by Oman's sovereign rating.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

ENTITY / DEBT	RATING			RECOVERY	PRIOR
Energy Development Oman SAOC	LT IDR	BB+ Rating Outlook Positive	Affirmed		BB+ Rating Outlook Stable
senior unsecured	LT	BB+	Affirmed	RR4	BB+
EDO Sukuk Limited					
senior unsecured	LT	BB+	Affirmed	RR4	BB+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Sukuk Rating Criteria (pub. 13 Jun 2022)

Parent and Subsidiary Linkage Rating Criteria (pub. 17 Jun 2023)

Government-Related Entities Rating Criteria (pub. 09 Jul 2024)

Corporate Recovery Ratings and Instrument Ratings Criteria (pub. 03 Aug 2024) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 07 Dec 2024) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 07 Dec 2024)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

Endorsement Policy

ENDORSEMENT STATUS

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Energy Development Oman SAOC	EU Issued, UK Endorsed

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