

QEWS Alert – 4Q2018 Beats on Lower Depreciation; In-Line DPS; Accumulate

- **QEWS' 4Q2018 net income rises 25% YoY/11% QoQ to QR380mn, beating our estimate primarily on an accounting adjustment for depreciation:** QEWS increased the useful life of its plants to 30 years from 25 years, leading to a quarterly depreciation adjustment charge of only QR9mn vs. our assumption of QR90mn. *Rolling back this adjustment, QEWS' net income would have come in at QR299mn, 2% lower than our estimate of QR305mn.*
- **As we noted in our [preview](#), revenue was weak due to seasonality.** QEWS' top-line of QR586mn was down 17%/13% YoY/QoQ and came in 5% below our estimate of QR617mn.
- **EBITDA margins expanded on lower G&A.** GMs improved slightly to 50.2% vs. our estimate of 49.9%. EBITDA margins expanded more substantially to 43.7% vs. our estimate of 39.5% because of lower SG&A; we were likely too conservative with our SG&A forecast.
- **Reported net income benefits from lower depreciation charges and better-than-expected JV income.** Depreciation was much lower than expected as explained above. Moreover, JV income was 16% ahead of our estimate; the outsized 56% QoQ jump in this item is because of a QR57mn provision related to a JV over seawater costs in 3Q2018. Nevertheless, JV income was surprisingly strong in a seasonally weak quarter and we await clarity from management in this regard. *(For more details on 4Q2018/2018 comparisons, please see page 2)*
- **2018 DPS maintained at QR7.75 a share with a DY of 4.2%.**
- **Where do we go from here in terms of numbers? Lower depreciation can boost our 2019 EPS estimate by around 5%.** New depreciation schedule should lower depreciation expense to a quarterly run rate of around QR70-75mn, which should lead to QR0.60-0.70 EPS boost. We will update our estimates to account for this and other changes shortly.
- **Maintain Accumulate rating with QR209 price target.** We continue to like QEWS as a long-term play with a defensive business model. QEWS enjoys a solid long-term growth profile with attractive EBITDA margins and compelling dividend/FCF yields. LT catalysts (which we have not yet factored into our estimates) abound, including additional expansions domestically (like Facility E, the Siraj solar project, etc.). Beyond Paiton (Indonesia), we do not have color on other Nebras projects, which could lead to growth relative to our model.

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In QR mn	4Q2018	4Q2018e	4Q2017	3Q2018	A Vs. E	YoY	QoQ	2018	2018e	A Vs. E	2017	YoY
Revenue	585.86	617.10	706.37	671.47	-5.1%	-17.1%	-12.7%	2,601.49	2,632.73	-1.2%	3,070.74	-15.3%
Gross Profit	293.90	307.92	339.43	355.74	-4.6%	-13.4%	-17.4%	1,481.36	1,495.39	-0.9%	1,759.17	-15.8%
EBIT	245.26	151.72	173.47	217.34	61.7%	41.4%	12.8%	1,017.48	923.94	10.1%	1,096.24	-7.2%
Depreciation & Amortization	(10.73)	(91.94)	(93.80)	(91.95)	-88.3%	-88.6%	-88.3%	(287.47)	(368.68)	-22.0%	(452.82)	-36.5%
EBITDA	255.99	243.67	267.26	309.28	5.1%	-4.2%	-17.2%	1,304.95	1,292.63	1.0%	1,549.05	-15.8%
JV Income	159.55	137.23	119.07	102.54	16.3%	34.0%	55.6%	542.19	519.86	4.3%	566.86	-4.4%
Net Income	380.20	305.03	304.79	343.83	24.6%	24.7%	10.6%	1,536.59	1,461.42	5.1%	1,616.18	-4.9%
EPS (in QR)	3.46	2.77	2.77	3.13	24.6%	24.7%	10.6%	13.97	13.29	5.1%	14.69	-4.9%
DPS								7.75	7.75	0.0%	7.75	0%
Gross Margin	50.2%	49.9%	48.1%	53.0%				56.9%	56.8%		57.3%	
EBIT Margin	41.9%	24.6%	24.6%	32.4%				39.1%	35.1%		35.7%	
EBITDA Margin	43.7%	39.5%	37.8%	46.1%				50.2%	49.1%		50.4%	
Net Margin	64.9%	49.4%	43.1%	51.2%				59.1%	55.5%		52.6%	

Recommendations

Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price

OUTPERFORM	Greater than +20%
ACCUMULATE	Between +10% to +20%
MARKET PERFORM	Between -10% to +10%
REDUCE	Between -10% to -20%
UNDERPERFORM	Lower than -20%

Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In-line with the average
R-4	Above average
R-5	Significantly above average

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