

Qatar Electricity & Water Company (QEWS)

Recommendation	ACCUMULATE	Risk Rating	R-2
Share Price	QR222.20	Current Target Price	QR256.00
Implied Upside	15.2%		

Maintaining Accumulate Rating and QR256 Price Target

We rate QEWS an Accumulate with an unchanged QR256 price target. Our PT reflects the Umm Al Houll project beginning in 2017 and we continue to expect this 2,520 MW and 136.5 MIGD project to add about QR23 per share to QEWS' fair value with the remaining business worth around QR233. QEWS is a low-risk play deeply linked to Qatar's growth story and we retain our long-term bullish stance.

Highlights

- QEWS' net profit declines to QR308mn in 4Q2016 due to higher-than-expected direct costs:** Profits dipped sequentially vs. QR442mn in 3Q2016, a seasonally strong quarter. For 4Q2016, QEWS' reported revenue came in at QR777mn, right in line with our estimate of QR794mn. However, increased direct costs led to a miss relative to our earnings estimate of QR388mn. The divergence in costs was mainly due to RLPC, which was down for maintenance and costs related to RAF A3, which was not in operation in 2015. The company also recommended a dividend of QR7.50 a share, slightly below our estimate of QR7.75. DY remains a decent 3.4%.
- We are tweaking our model to reflect 2016 results and RAF A PWSA expiration.** Overall we lower our current year net income by 3% from QR1,795mn to QR1,740mn. For 2018, we now expect net income to fall to QR1,615mn as **RAF A gets decommissioned at the end of 2017.** The PWSA covering RAF A, which contributes around 7% to power and 13% to water capacities (including prospective Facility D capacity), respectively, was extended until 2017. RAF A is a fairly old plant (originally commissioned over 1977-1980) and is not expected to be renewed again. However, we will hike our estimates if this facility is indeed renewed around the 3Q2017 time frame by Kahramaa. **RAF B's PWSA, which is expiring this October will be renewed for another 12 years. Umm Al Houll (Facility D) will begin Phase I operations from 3Q2017** and will be fully commissioned by mid-2018. However, we expect only nominal contribution this year from this mega-project until the facility is fully commissioned by mid-2018. **Nebras should also add around 10% to QEWS bottom-line this year,** mostly because of contribution from the company's 35.5% stake in PT Pation Energy, which owns a 2,045 MW power plant in East Java.

Catalysts

- New projects on the horizon:** QEWS should benefit from RAF A3 (36 MIGD) from Sep.2016 (fully functional by 2017). Further, Umm Al Houll (Facility D) should be on-line in 2018 after its initial phase in 2017. Overall, these two projects should expand QEWS' net electricity & water capacity by 28% and 40%, respectively. Beyond these projects, another mega-project (Facility E) should begin construction in 2018-2019, with commissioning by 2020-2021. QEWS (60% stake) has also entered into a JV with QP called Seraj Energy, which will invest in a solar energy project in Qatar with a 500 MW Phase I expected to come on-line in 2019. On the international front, through 60%-owned Nebras, we expect QEWS to seek out other diversification opportunities.

Recommendation, Valuation and Risks

- Recommendation and valuation:** *We rate QEWS an Accumulate with an unchanged price target of QR256.00.* The stock is trading at a 2017 P/E of 14.0x.
- Risks:** **Volatile oil prices are a major risk to regional equities.** Decrease in tariff rates could negatively impact QEWS' business model.

Key Financial Data and Estimates

	FY2015	FY2016	FY2017e	FY2018e
Revenue (QR mn)	2,983	3,103	3,349	2,786
Revenue Growth	2.9%	4.0%	7.9%	-16.8%
EPS (QR)	13.64	14.02	15.81	14.68
EPS Growth	-1.9%	2.8%	12.8%	-7.2%
P/E (x)	16.3	15.9	14.0	15.1
DPS (QR)	7.50	7.50	7.75	8.00
Dividend Payout	55.0%	53.5%	49.0%	54.5%
Dividend Yield	3.4%	3.4%	3.5%	3.6%
ROE	20.4%	18.6%	18.9%	16.2%

Source: Company data, QNBFS estimates; Note: All data based on current number of shares

Key Data

Current Market Price (QR)	222.20
Dividend Yield – 2016 (%)	3.4
Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWQ.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	247.90/191.00
3-m Average Volume ('000)	24.6
Mkt. Cap. (\$ bn/QR bn)	6.7/24.4
Shares Outstanding (mn)	110.0
FO Limit* (%)	25.0
Current FO* (%)	12.1
1-Year Total Return (%)	21.3
Fiscal Year End	December 31

Source: Bloomberg (as of February 12, 2017), *Qatar Exchange (as of February 12, 2017); Note: FO is foreign ownership

Saugata Sarkar
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Detailed Financial Statements

Income Statement (In QR mn)	FY2015	FY2016	FY2017e	FY2018e
Revenue	2,983	3,103	3,349	2,786
Cost of Sales, Excluding Depreciation	(1,225)	(1,283)	(1,401)	(1,180)
Gross Profit	1,757	1,820	1,947	1,606
General & Administrative Expenses	(173)	(192)	(207)	(172)
EBITDA	1,584	1,628	1,741	1,434
Deferred Income	7	7	0	0
Depreciation & Amortization	(463)	(427)	(485)	(489)
EBIT	1,128	1,208	1,256	945
Finance Costs, Net	(102)	(134)	(144)	(138)
Dividend Income & Gain on Sale of AFS	20	43	54	63
Other & Miscellaneous Income/Expense & Share of Profits from JVs	474	456	609	778
Share of Associates	16	0	0	0
Profit Before Tax	1,536	1,573	1,775	1,648
Income Tax Expense	0	0	0	0
Profit After Tax (Continuing Operations)	1,536	1,573	1,775	1,648
Discontinued Operations				
Minority Interest	(35)	(31)	(35)	(33)
Profit for Shareholders	1,501	1,542	1,740	1,615
EPS (QR)	13.64	14.02	15.81	14.68

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2015	FY2016	FY2017e	FY2018e
Non-Current Assets				
Property, Plant and Equipment	5,714	6,130	6,588	6,207
Available-for-Sale Investments	344	511	511	511
Finance Lease Receivables	1,491	1,366	1,252	1,148
JV Loans and Investments in JVs	2,627	2,825	2,957	4,043
Other Non-Current assets	311	303	295	287
Total Non-Current Assets	10,487	11,136	11,604	12,197
Current Assets				
Finance Lease Receivables & Others	146	124	124	124
Inventories	178	281	307	258
Accounts Receivables & Prepayments	888	674	727	605
Cash and Short-Term Deposits	1,751	3,011	3,508	3,255
Total Current Assets	2,963	4,090	4,666	4,243
Total Assets	13,450	15,226	16,270	16,439
Equity				
Equity to the Parent	7,346	8,275	9,190	9,952
Minority Interest	256	254	251	249
Total Equity	7,602	8,529	9,441	10,201
Non-Current Liabilities				
Loans and Borrowings	3,791	4,675	4,738	4,264
Employees' End of Service Benefits	49	53	57	61
Derivatives	20	8	8	8
Total Non-Current Liabilities	3,860	4,736	4,803	4,333
Current Liabilities				
Accounts Payables & Others	756	704	769	647
Loans and Borrowings	1,124	1,237	1,237	1,237
Derivatives	107	20	20	20
Total Current Liabilities	1,988	1,961	2,026	1,905
Equity and Liabilities	13,450	15,226	16,270	16,439

Source: Company data, QNBFS estimate

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

Contacts

Contacts

Saugata Sarkar

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa

Mohamed Abo Daff

Senior Research Analyst

Tel: (+974) 4476 6589

mohd.abodaff@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@qnbfs.com.qa

Zaid Al Nafsoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

zaid.alnafsoosi@qnbfs.com.qa

QNB Financial Services Co. WLL

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

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