

## Qatar Electricity & Water Company (QEWS)

<b>Recommendation</b>	<b>ACCUMULATE</b>	<b>Risk Rating</b>	<b>R-2</b>
<b>Share Price</b>	<b>QR169.10</b>	<b>Current Target Price</b>	<b>QR204.00</b>
<b>Implied Upside</b>	<b>20.6%</b>	<b>Old Target Price</b>	<b>QR209.00</b>

### Increasing EPS Estimates; Maintaining Accumulate Rating

We are updating our estimates for QEWS post 2018 results. 4Q2018 results were generally in-line with our estimates with much of the earnings beat based on an accounting adjustment for depreciation. Our current 2019 estimates are fairly unchanged on an operating basis but our 2019 EPS goes from QR12.42 to QR13.95, with most of the increase being driven by reduced depreciation expenses. Our 2019 revenue/EBITDA forecasts remain at QR2.6bn/QR1.2bn. 2H2018 was decidedly weaker than 1H2018 given RAF B's extension (for 12 years) came at lower-than-anticipated rates and our 2019 estimates continue to account for this decline. We continue to like the company as a solid 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. We continue to maintain our Accumulate rating on the shares with our price target changing from QR209 to QR204.

#### Highlights

- 2019 operating metrics change slightly vs. previous forecasts; we expect modest costs pressure going forward.** Net income/EPS for this year improve 12% from QR1.4bn/QR12.42 to QR1.5bn/QR13.95 driven mostly by a 27% drop in depreciation expenses as QEWS has increased the useful life of its plants from 25 years to 30 years. Our current 2019 EPS forecast represents flat growth over 2018. Other fundamental estimates for 2019, such as revenue/EBITDA show modest changes. Looking beyond 2019, we adopt a more conservative view on direct costs, leading to our EPS estimates for 2020 and 2021 to increase by a more modest 9% and 6%, respectively.
- We continue to like QEWS as a solid long-term play with a defensive business model.** Essentially a capacity provider, QEWS takes on insignificant demand/costs/funding risks holding secure contracted assets with long-term (~25 years) fuel agreements/PWPAs and committed funding. This also leads to visible cash flows and a stable operating profile. The State of Qatar (through various entities) owns 60% of the company.
- Market leader in Qatar with international expansion gathering steam.** Essentially a monopoly, QEWS owns stakes in all domestic IWPPs/IPPs/IWPs. Moreover, QEWS has diversified internationally with 14% of its 2018 net income driven by 60%-owned JV (Nebras). Nebras has presence in Indonesia, Jordan and Oman and is actively seeking opportunities in MENA and SE Asia.
- Despite a subdued 2019, QEWS still enjoys a solid LT growth profile with attractive EBITDA margins and compelling dividend/FCF yields.** After declining 2017-2019, we expect EBITDA CAGR of 1.7% over 2019-2023; FCF should grow 2.7% over the same period driven by Um Al Houll and inflation-driven capacity charge increases. Despite modeled compression, QEWS should still maintain solid EBITDA margins (2019-2023 avg.: ~46%). Over 2018-2023, we expect dividend yield to average 4.7% and FCF yield to average 8.1% (despite a dip in 2018 as QEWS invested \$252mn into the Facility D JV). ROEs average around 13.0% over 2019-2023.

#### Catalysts

- New opportunities currently not in our model:** Besides Um Al Houll, our model does not account for additional JV expansions domestically (like Facility E; a solar project called Siraj, etc.) which will lead to LT upside. **Facility E, which is Um Al Houll's size** (power: 2,000-2,500 MW & water: 100-130 MIGD), should be commissioned before summer 2022. Siraj should start production in late 2020 with 200 MW with possible expansion to 500 MW subsequently. Beyond Paiton in Indonesia, we do not have color on other Nebras projects, which could lead to growth relative to our model. Ultimately, our JV income forecasts could prove to be conservative – we are expecting 11.4% growth from QR542mn in 2018 to QR604mn in 2019 and a 2.5% CAGR over 2019-2023.

#### Recommendation, Valuation and Risks

- Recommendation & valuation: Our 1-year PT is QR204.** We have lowered our target price slightly given our expectation of higher costs beyond 2019. Shares have generated 21% in 5-year total returns, outpacing the DSM Index (7%).
- Risks: Geopolitical risks** cannot be modeled. Besides **risks in international expansion**, there is always a chance **domestic projects get delayed/shelved**. It is possible **Kahramaa substantially renegotiates the terms of existing contracts** and recent discussions on K-Factors gives us pause; however, this is not an imminent risk. We note the recent lower-than-expected rates for RAF B involve a contract extension on a fully-depreciated plant. **Operational risks include availability of capacity below contracted levels**, which could lead to penalties.

#### Key Financial Data and Estimates

	FY2018	FY2019e	FY2020e	FY2021e
<b>Revenue (QR mn)</b>	<b>2,601</b>	<b>2,559</b>	<b>2,609</b>	<b>2,662</b>
<i>Revenue Growth</i>	<i>-15.3%</i>	<i>-1.6%</i>	<i>1.9%</i>	<i>2.0%</i>
<b>EPS (QR)</b>	<b>13.97</b>	<b>13.95</b>	<b>14.37</b>	<b>14.93</b>
<i>EPS Growth</i>	<i>-4.9%</i>	<i>-0.1%</i>	<i>3.0%</i>	<i>3.9%</i>
<b>P/E (x)</b>	<b>12.1</b>	<b>12.1</b>	<b>11.8</b>	<b>11.3</b>
<b>DPS (QR)</b>	<b>7.75</b>	<b>7.75</b>	<b>7.75</b>	<b>8.00</b>
<b>ROE</b>	<b>14.7%</b>	<b>13.8%</b>	<b>13.3%</b>	<b>13.0%</b>

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

#### Key Data

Current Market Price (QR)	169.10
Current Dividend Yield (%)	4.6
Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWC.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	205.25/168.00
3-m Average Volume ('000)	35.2
Mkt. Cap. (\$ bn/QR bn)	5.1/18.6
EV (\$ bn/QR bn)	5.9/21.6
Shares Outstanding (mn)	110.0
FO Limit* (%)	49.0
Current FO* (%)	12.7
1-Year Total Return (%)	(10.6)
Fiscal Year End	December 31

Source: Bloomberg (as of March 17, 2019), \*Qatar Exchange (as of March 14, 2019); Note: FO is foreign ownership

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## Summary of Estimate Changes

2019 operating metrics change slightly vs. previous forecasts; we expect modest costs pressure going forward. Net income/EPS for this year improve 12% from QR1.4bn/QR12.42 to QR1.5bn/QR13.95 driven mostly by a 27% drop in depreciation expenses as QEWS has increased the useful life of its plants from 25 years to 30 years. Our current 2019 EPS forecast represents flat growth over 2018. Other fundamental estimates for 2019, such as revenue/EBITDA show modest changes. Looking beyond 2019, we adopt a more conservative view on direct costs, leading to our EPS estimates for 2020 and 2021 to increase by a more modest 9% and 6%, respectively.

### QNB FS Current Estimates Vs. Previous Estimates

(QR mn, Unless Noted Otherwise)	2019			2020			2021		
	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
<b>Revenue</b>	<b>2,559.270</b>	<b>2,609.078</b>	<b>-2%</b>	<b>2,609.130</b>	<b>2,672.506</b>	<b>-2%</b>	<b>2,661.687</b>	<b>2,738.468</b>	<b>-3%</b>
Cost of Sales	(1,190.061)	(1,239.312)	-4%	(1,226.291)	(1,242.715)	-1%	(1,250.993)	(1,246.003)	0%
<b>Gross Profit</b>	<b>1,369.209</b>	<b>1,369.766</b>	<b>0%</b>	<b>1,382.839</b>	<b>1,429.791</b>	<b>-3%</b>	<b>1,410.694</b>	<b>1,492.465</b>	<b>-5%</b>
<i>Gross Margin</i>	53.5%	52.5%		53.0%	53.5%		53.0%	54.5%	
<b>EBITDA</b>	<b>1,191.037</b>	<b>1,161.935</b>	<b>3%</b>	<b>1,200.212</b>	<b>1,216.764</b>	<b>-1%</b>	<b>1,223.502</b>	<b>1,274.113</b>	<b>-4%</b>
<i>EBITDA Margin</i>	46.5%	44.5%		46.0%	45.5%		46.0%	46.5%	
Depreciation & Amortization	(273.282)	(372.685)	-27%	(277.282)	(376.685)	-26%	(281.282)	(380.685)	-26%
<b>EBIT</b>	<b>917.755</b>	<b>789.250</b>	<b>16%</b>	<b>922.930</b>	<b>840.079</b>	<b>10%</b>	<b>942.220</b>	<b>893.428</b>	<b>5%</b>
<i>EBIT Margin</i>	35.9%	30.3%		35.4%	31.4%		35.4%	32.6%	
<b>JV Income</b>	<b>603.882</b>	<b>584.863</b>	<b>3%</b>	<b>618.978</b>	<b>599.485</b>	<b>3%</b>	<b>634.453</b>	<b>614.472</b>	<b>3%</b>
Interest Expense	(243.931)	(232.315)	5%	(234.039)	(230.055)	2%	(224.067)	(215.663)	4%
<b>Net Income</b>	<b>1,534.682</b>	<b>1,366.433</b>	<b>12%</b>	<b>1,580.359</b>	<b>1,448.683</b>	<b>9%</b>	<b>1,641.751</b>	<b>1,547.046</b>	<b>6%</b>
<i>Net Margin</i>	60.0%	52.4%		60.6%	54.2%		61.7%	56.5%	
<b>EPS (QR)</b>	<b>13.95</b>	<b>12.42</b>	<b>12%</b>	<b>14.37</b>	<b>13.17</b>	<b>9%</b>	<b>14.93</b>	<b>14.06</b>	<b>6%</b>

Source: QNB FS estimates

## 4Q2018/2018 Review

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.

### QNB FS 4Q2018/2018 Estimates and Comparisons

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%	

Source: Company data, QNB FS estimates

## Valuation and Key Ratios

### Valuation Metrics

Particulars	2014	2015	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
<b>Valuation</b>										
EV/EBITDA - Consolidated	14.5	13.7	13.0	13.3	15.3	16.3	15.6	14.7	13.8	13.0
EV/EBIT	20.8	19.2	17.6	18.8	19.6	21.1	20.2	19.1	17.9	16.8
P/E	12.2	12.4	12.6	11.5	12.1	12.1	11.8	11.3	10.9	10.5
P/CF	8.4	10.1	9.0	11.2	9.0	11.0	10.6	10.6	10.3	10.0
P/BV	2.7	2.5	2.2	2.1	1.8	1.7	1.6	1.5	1.4	1.3
Dividend Yield	4.4%	4.4%	4.4%	4.6%	4.6%	4.6%	4.6%	4.7%	4.9%	5.0%
FCF Yield	(2.6%)	4.4%	6.6%	8.6%	5.6%	8.1%	8.5%	8.5%	8.7%	9.0%

Source: Bloomberg, QNB FS estimates

### Key Growth Rates/CAGRs/Ratios

Particulars	2014	2015	2016	2017	2018	2019e	2020e	2021e	2022e	2023e	CAGR ('19-'23)
<b>Growth Rates</b>											
Revenue	(0.2%)	2.9%	4.0%	(1.0%)	(15.3%)	(1.6%)	1.9%	2.0%	2.1%	2.1%	2.0%
Gross Profit	(1.8%)	1.9%	3.6%	(3.3%)	(15.8%)	(7.6%)	1.0%	2.0%	2.1%	2.1%	1.8%
EBITDA - Consolidated	(2.5%)	5.4%	2.8%	(4.9%)	(15.8%)	(8.7%)	0.8%	1.9%	2.0%	2.1%	1.7%
EBIT	(3.5%)	7.3%	7.2%	(9.3%)	(7.2%)	(9.8%)	0.6%	2.1%	2.2%	2.3%	1.8%
PBT	11.0%	(2.0%)	(1.9%)	8.8%	(4.5%)	(0.1%)	3.0%	3.9%	4.0%	4.0%	3.7%
JV Income	3.6%	4.1%	(25.1%)	85.4%	(4.4%)	11.4%	2.5%	2.5%	2.5%	2.5%	2.5%
PAT/EPS	10.5%	(1.9%)	(1.7%)	9.5%	(4.9%)	(0.1%)	3.0%	3.9%	4.0%	4.0%	3.7%
DPS	10.0%	0.0%	0.0%	3.3%	0.0%	0.0%	0.0%	3.2%	3.1%	3.0%	2.3%
CFPS	30.7%	(16.6%)	11.7%	(19.1%)	24.2%	(18.3%)	3.6%	(0.1%)	3.0%	3.2%	2.4%
FCFPS	NM	NM	50.5%	30.9%	(35.1%)	45.1%	4.1%	(0.1%)	3.4%	3.5%	2.7%
<b>Operating Ratios</b>											
Gross Margin	59.5%	58.9%	58.7%	57.3%	56.9%	53.5%	53.0%	53.0%	53.0%	53.0%	
EBITDA Margin - Consolidated	51.8%	53.1%	52.5%	50.4%	50.2%	46.5%	46.0%	46.0%	45.9%	45.9%	
EBIT Margin	36.3%	37.8%	38.9%	35.7%	39.1%	35.9%	35.4%	35.4%	35.4%	35.5%	
Net Margin	52.8%	50.3%	47.5%	52.6%	59.1%	60.0%	60.6%	61.7%	62.8%	64.0%	
<b>Finance Ratios</b>											
Debt-Equity Ratio	0.8	0.7	0.7	0.7	0.7	0.6	0.5	0.5	0.4	0.4	
Net Debt-Equity Ratio	0.5	0.4	0.4	0.3	0.3	0.2	0.1	0.1	(0.0)	(0.1)	
Interest Coverage	9.7	9.4	8.1	6.1	4.5	3.8	3.9	4.2	4.5	4.9	
<b>Return Ratios</b>											
ROIC	8.8%	9.2%	8.5%	7.4%	5.9%	5.2%	5.1%	5.1%	5.0%	5.0%	
ROE	22.6%	20.4%	17.8%	18.0%	14.7%	13.8%	13.3%	13.0%	12.7%	12.4%	
ROA	11.8%	11.2%	9.7%	10.2%	8.4%	8.2%	8.3%	8.4%	8.5%	8.6%	
FCF Yield	-2.6%	4.4%	6.6%	8.6%	5.6%	8.1%	8.5%	8.5%	8.7%	9.0%	
<b>Liquidity Ratios</b>											
Current Ratio	1.2	1.5	2.1	2.3	1.6	6.2	6.3	6.7	7.0	7.4	
Quick Ratio	1.1	1.4	1.9	2.2	1.6	6.0	6.1	6.5	6.9	7.2	

Source: Bloomberg, QNB FS estimates

## Detailed Financial Statements

Income Statement (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
<b>Revenue</b>	<b>2,601</b>	<b>2,559</b>	<b>2,609</b>	<b>2,662</b>
Cost of Sales, Excluding Depreciation	(1,120)	(1,190)	(1,226)	(1,251)
<b>Gross Profit</b>	<b>1,481</b>	<b>1,369</b>	<b>1,383</b>	<b>1,411</b>
General & Administrative Expenses	(176)	(178)	(183)	(187)
<b>EBITDA</b>	<b>1,305</b>	<b>1,191</b>	<b>1,200</b>	<b>1,224</b>
Deferred Income	0	0	0	0
Depreciation & Amortization	(287)	(273)	(277)	(281)
<b>EBIT</b>	<b>1,017</b>	<b>918</b>	<b>923</b>	<b>942</b>
Finance Costs, Net	(189)	(164)	(150)	(136)
Dividend Income & Gain on Sale of AFS	112	124	136	150
Other & Miscellaneous Income/Expense & Share of Profits from JVs	624	686	701	716
Share of Associates	0	0	0	0
Profit Before Tax	1,565	1,563	1,610	1,672
Income Tax Expense	0	0	0	0
<b>Profit After Tax (Continuing Operations)</b>	<b>1,565</b>	<b>1,563</b>	<b>1,610</b>	<b>1,672</b>
Discontinued Operations				
Minority Interest	(29)	(29)	(29)	(31)
<b>Profit for Shareholders</b>	<b>1,537</b>	<b>1,535</b>	<b>1,580</b>	<b>1,642</b>
<b>EPS (QR)</b>	<b>13.97</b>	<b>13.95</b>	<b>14.37</b>	<b>14.93</b>

Source: Company data, QNB FS estimates

Balance Sheet (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
<b>Non-Current Assets</b>				
Property, Plant & Equipment	5,750	5,585	5,416	5,242
Available-for-Sale Investments	1,559	1,559	1,559	1,559
Finance Lease Receivables	1,118	1,000	895	801
JV Loans and Investments in JVs	4,718	5,063	5,415	5,774
Other Non-Current assets	150	142	134	126
<b>Total Non-Current Assets</b>	<b>13,294</b>	<b>13,348</b>	<b>13,418</b>	<b>13,501</b>
<b>Current Assets</b>				
Finance Lease Receivables & Others	139	139	139	139
Inventories	142	151	155	159
Accounts Receivables & Prepayments	492	484	493	503
Cash and Short-Term Deposits	4,118	4,481	4,916	5,334
<b>Total Current Assets</b>	<b>4,891</b>	<b>5,255</b>	<b>5,704</b>	<b>6,135</b>
<b>Total Assets</b>	<b>18,185</b>	<b>18,604</b>	<b>19,122</b>	<b>19,636</b>
<b>Equity</b>				
Equity to the Parent	10,456	11,138	11,866	12,655
Minority Interest	258	265	273	281
<b>Total Equity</b>	<b>10,713</b>	<b>11,403</b>	<b>12,138</b>	<b>12,936</b>
<b>Non-Current Liabilities</b>				
Loans and Borrowings	4,366	6,266	5,986	5,690
Employees' End of Service Benefits	69	71	73	75
Derivatives	16	16	16	16
<b>Total Non-Current Liabilities</b>	<b>4,451</b>	<b>6,353</b>	<b>6,075</b>	<b>5,780</b>
<b>Current Liabilities</b>				
Accounts Payables & Others	572	575	622	617
Loans and Borrowings	2,444	268	283	299
Derivatives	5	5	5	5
<b>Total Current Liabilities</b>	<b>3,021</b>	<b>847</b>	<b>909</b>	<b>920</b>
<b>Equity and Liabilities</b>	<b>18,185</b>	<b>18,604</b>	<b>19,122</b>	<b>19,636</b>

Source: Company data, QNB FS estimates

### Recommendations

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

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

### Risk Ratings

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

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

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