

QEWS Alert – 1Q2022 Earnings Disappoint Due to JV Income Miss; Maintain Accumulate with QR21 Target

- **QEWS reports 1Q2022 net income of QR388.7mn, up 4.5% YoY and 33.2% QoQ, below our estimate of QR421.3mn (-7.7% difference) – Overall operating results were weaker-than-anticipated with modest misses in revenue partially offset by lower direct costs, along with an unanticipated weakness in QEWS' JV income from what we suspect to be its Nebras joint venture.**
- **Total 1Q2022 revenue (power+water+lease interest) of QR564.9mn (-6.0% YoY, -11.0% QoQ) was 5.2% shy of our forecast of QR595.7mn. Power revenue (45% of sales) of QR254.6mn (-3.5% YoY, -12.8% QoQ) was 4.0% below our model of QR265.2mn, while water sales (51% of top-line) of QR290.7mn (-6.8% YoY, -9.7% QoQ) was 6.9% below our forecast of QR312.2mn.**
- **JV income decreased 29.6% YoY but grew 10.0% QoQ to QR92.4mn; we were expecting QR124.0mn with the weakness possibly due to Nebras. Gross margin came in at 49.1% in 1Q2022, which was lower than 50.4% posted in 1Q2021 and 50.8% reported in 4Q2021. EBITDA margin came in at 42.2% in 1Q2022 vs. 44.5% in 1Q2021 and 45.4% in 4Q2021. JV income decreased to QR92.4mn from QR131.2mn in 1Q2021 (down 29.6% YoY); however, JV income did grow 10.0% sequentially from a low base of QR84.0 in 4Q2021 (which had some one-time tax adjustments in Nebras and scheduled maintenance in Q-Power and M-Power). We suspect weakness in 1Q2022 JV income could be possibly due to Nebras and we will seek color from management in this regard.**
- **We continue to like QEWS as a long-term play with a relatively defensive business model. The near-term impact of the COVID-19 pandemic was muted on QEWS' business model as the company is paid based on power and water availability and is relatively unaffected by the vagaries of end demand. QEWS also recently agreed to purchase the 40% of Nebras Power it did not already own for \$530mn. We believe this deal (to be financed by a \$550mn bank loan) could be slightly accretive (around 3% over 2022-2026e) and will update our estimates once the transaction closes. However, we have already incorporated this acquisition into our DCF-based valuation model. Growth in 2022 should be fueled by improved power and water offtake, especially during 2H2022, given the FIFA World Cup Qatar 2022. QEWS still enjoys decent EBITDA margins and dividend/FCF yields. As expected, the UAH water expansion (61.45 MIGD) was commissioned during 1Q2021. LT catalysts (which are not in our model) abound, including additional domestic expansions (like Facility E in 2024-2025, etc.). Nebras remains on the hunt for growth and has plans to increase its capacity significantly, which currently stands at more than 2.1 GW (+6.4 GW gross). Given that Nebras will become a 100%-owned subsidiary in 2Q2022, we believe additional color/disclosures regarding its growth prospects could help fuel increases in QEWS' earnings estimates.**

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Income Statement (QR mn)							
Particulars	1Q2021	4Q2021	1Q2022	1Q2022e	A Vs. E	YoY	QoQ
Revenue	600.792	634.474	564.868	595.723	-5.2%	-6.0%	-11.0%
Electricity	263.834	292.112	254.587	265.153	-4.0%	-3.5%	-12.8%
Water	311.947	322.059	290.733	312.197	-6.9%	-6.8%	-9.7%
Lease Income from JVs and Associates	25.011	20.303	19.548	18.373	6.4%	-21.8%	-3.7%
Cost of Sales (Ex. Depreciation)	(297.835)	(311.983)	(287.498)	(305.010)	-5.7%	-3.5%	-7.8%
Gross Profit	302.957	322.491	277.370	290.713	-4.6%	-8.4%	-14.0%
General and Administrative Expenses	(35.853)	(34.318)	(38.774)	(33.956)	14.2%	8.1%	13.0%
EBITDA	267.104	288.173	238.596	256.756	-7.1%	-10.7%	-17.2%
Depreciation	(68.837)	(70.742)	(72.847)	(71.242)	2.3%	5.8%	3.0%
Amortization	(1.913)	(1.837)	(1.899)	(1.914)	-0.8%	-0.7%	3.4%
Depreciation & Amortization	(70.750)	(72.579)	(74.746)	(73.155)	2.2%	5.6%	3.0%
EBIT	196.354	215.594	163.850	183.601	-10.8%	-16.6%	-24.0%
Finance Costs	(29.495)	(28.235)	(31.659)	(38.352)	-17.5%	7.3%	12.1%
Interest income	13.934	17.668	25.168	21.907	14.9%	80.6%	42.4%
Finance Costs, Net	(15.561)	(10.567)	(6.491)	(16.446)	-60.5%	-58.3%	-38.6%
Dividend Income	60.237	(51.684)	136.340	136.500	-0.1%	126.3%	-363.8%
Other & Misc. Income / Exp.	6.215	58.391	6.917			11.3%	-88.2%
JV Income	131.200	83.995	92.405	123.984	-25.5%	-29.6%	10.0%
Profit Before Tax	378.445	295.729	393.021	427.639	-8.1%	3.9%	32.9%
Profit after Tax	378.445	295.729	393.021	427.639	-8.1%	3.9%	32.9%
Minority Interest	(6.488)	(3.810)	(4.327)	(6.380)	-32.2%	-33.3%	13.6%
Net Income	371.957	291.919	388.694	421.259	-7.7%	4.5%	33.2%
<i>Net Margin</i>	<i>61.9%</i>	<i>46.0%</i>	<i>68.8%</i>	<i>70.7%</i>			
EPS (in QR)	0.34	0.27	0.35	0.38	-7.7%	4.5%	33.2%
	1Q2021	4Q2021	1Q2022	1Q2022e			
Cost of Sales	49.6%	49.2%	50.9%	51.2%			
SG&A	6.0%	5.4%	6.9%	5.7%			
Depreciation/Sales	11.5%	11.1%	12.9%	12.0%			
EBITDA margin	44.5%	45.4%	42.2%	43.1%			
Operating Margin	32.7%	34.0%	29.0%	30.8%			
Min Interest (as a % of NI)	1.7%	1.3%	1.1%	1.5%			
Net Margin	61.9%	46.0%	68.8%	70.7%			
GM	50.4%	50.8%	49.1%	48.8%			

Recommendations	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>	
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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
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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