

Qatar Electricity and Water Co. (QEWS)

Recommendation	OUTPERFORM	Risk Rating	R-2
Share Price	QR134.90	Target Price	QR166.17
Implied Upside	23.2		

Another Weak Quarter; Lowering Estimates and Price Target but Maintaining Outperform

3Q2012 results miss the mark; we remain bullish longer term and maintain our Outperform rating. QEWS reported QR1,245mn in 3Q2012 revenue, up 4.2% QoQ and 2.1% YoY; the company's overall top-line missed our estimate of QR1,270mn by 2% (Bloomberg consensus was QR1,280mn). The net income miss was more substantial at ~17% -- QEWS reported QR341mn in 3Q2012 net income vs. our estimate of QR410mn and consensus of QR417mn. Net income declined 2.0% QoQ and 9.0% YoY. In light of the weaker-than-expected profitability profile, we have lowered our estimates and price target. *Overall, we remain bullish on QEWS, Qatar's leading listed electricity/desalinated water producer, given its low-risk business model (minimal demand/cost risk), secure and visible earnings and cash flows and strong FCF yield. Despite a \$300mn working capital facility maturing in early 2013, we expect dividend growth of QR0.50 a share to QR7.00 a share for 2012.*

Financial Results and Key Takeaways

- 3Q2012 revenue was slightly subdued relative to expectations despite benefiting from lack of outages seen in 2Q.** Revenue benefited from seasonality and the lack of major outages in RGPC and RLPC seen during 2Q2012. Overall contributions across water and lease income were in line with our estimates, while electricity generation revenue was slightly softer-than-expected. By segment: (1) Electricity generation recorded a top-line of QR609mn, up 6.3% QoQ and 3.1 YoY. (2) Water desalination revenue at QR381mn was up 0.7% and 2.1% on a QoQ and YoY basis, respectively. (3) Finally, lease income of QR254mn increased 4.7% QoQ (down 0.4% YoY).
- Profitability disappoints for a 2nd quarter in a row due to higher costs.** Gross profit margin, excluding depreciation, declined to 54.4% vs. 57.2% in 2Q2012 and 58.2% in 3Q2011. EBITDA declined to QR626mn (50.3%) in 3Q2012 vs. QR627mn (52.5%) in 2Q2012 and QR659mn (54.1%) a year ago. QEWS recorded major maintenance costs of around QR19mn related to RLPC during August. Management also attributed the relatively muted profitability this year to higher gas costs at RAF A as Kahramaa was unable to take up its entire contracted power up to the take-or-pay level during the last three quarters of 2011. This allowed QEWS to save on gas costs in 2011, which has not been the case this year given Kahramaa's higher requirements for power. We note that 3Q2011 net income was also boosted by QR19mn in liquidated damage payments received from EPC contractors for RGPC.
- Lowering 2012-2013 EPS estimates by an average of 5%; maintaining Outperform rating with a new price target of QR166.17.** Given the company's subdued profitability profile, we have reduced our EPS estimates. *We continue to rate QEWS an Outperform with a price target of QR166.17 (vs. QR172.68 previously).*

Key Data:

Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWC.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	150.00/130.20
3-m Average Volume	23,134
Mkt. Cap. (\$ bn/QR bn)	3.7/13.5
Shares Outstanding (mn)	100
FO Limit* (%)	25.0
Current FO*	7.4
1-Year Total Return (%)	0.2
Fiscal Year End	Dec. 31

Source: Bloomberg (as of October 18, 2012), *Qatar Exchange (as of October 18, 2012); Note: FO is foreign ownership

Broker Recommendations

Recommendation	Number
Buy	8
Hold	1
Sell	1

Source: Bloomberg

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

Estimates, in QR mn ex. per Share Values	New		Previous		Change	
	2012e	2013e	2012e	2013e	2012e	2013e
Total Revenue	4,598	4,715	4,621	4,724	-0.5%	-0.2%
Net Attributable Income	1,304	1,469	1,421	1,501	-8.2%	-2.2%
EPS	13.04	14.69	14.21	15.01	-8.2%	-2.2%
DPS	7.00	7.34	7.00	7.51	0.0%	-2.2%

Source: Company data, QNBFS estimates

3Q2012, Actual vs. Estimates

QR mn ex. per Share Values	3Q2012	QoQ	YoY	3Q2012e	Actual vs. Estimated
Total Revenue	1,245	4.2%	2.1%	1,270	-2.0%
Electricity	609	6.3%	3.1%	634	-4.0%
Water	381	0.7%	2.1%	384	-0.8%
Lease Income	254	4.7%	-0.4%	252	0.9%
EBITDA	626	-0.2%	-5.1%	692	-9.6%
Net Attributable Income	341	-2.0%	-8.7%	410	-16.8%
EPS	3.41	-2.0%	-8.7%	4.10	-16.8%

Source: Company data, QNBFS estimates

Recommendations		Risk Ratings	
<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>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

Contacts

Ahmed M. Shehada

Head of Trading

Tel: (+974) 4476 6535

ahmed.shehada@qnbfs.com.qa

Keith Whitney

Head of Sales

Tel: (+974) 4476 6533

keith.whitney@qnbfs.com.qa

Saugata Sarkar

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa

Sahbi Kasraoui

Manager - HNWI

Tel: (+974) 4476 6544

sahbi.alkasraoui@qnbfs.com.qa

QNB Financial Services SPC

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

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