QNBFS Alert – QEWS Reports Positive 1Q2015 Earnings Surprise

- **QEWS reports better-than-expected 1Q2015 profitability as margins expand.** QEWS reported QR667.2mn in revenue for 1Q2015 vs. our estimate of QR672.6mn. Revenue decreased 10% QoQ and increased 1% YoY; revenue was up 4% YoY excluding the impact of RAF A SAT stations (Al Saliyah and Doha South Super) that were discontinued, as expected, once their PPA expired YE2014. We were projecting QR303.8mn in net income but the company beat our estimate coming in at QR346.1mn (-4% QoQ, +16% YoY). The majority of the beat was due to an increase in GMs with cash cost of sales declining to 39.2% vs. our conservative estimate of 42.4%. Depreciation also come down to QR103.9mn vs. our estimate of QR118.3mn. The beat in depreciation will likely sustain going forward given that Ras Abu Fontas A has been fully depreciated by YE2014.

- **We retain our bullish stance on QEWS with an Accumulate rating and a QR229 price target.** We will adjust our net income estimate upward given the beat this quarter and lower depreciation charges going forward.

- **New projects on the horizon:** QEWS should benefit from two new water plants, RAF A2 (36 MIGD) from 2H2015 and RAF A3 (36 MIGD) from 4Q2016, adding ~28% to QEWS' net water capacity. Further, Facility D (2,400 MW & 130 MIGD; 60% share) should be commissioned in 2018. We also expect contribution from Ras Laffan Industrial Water (recently upped to 65 MIGD from 36 MIGD; 60%) later in 2018. The latter two projects are not factored into our estimates/fair value. Overall, these four projects should expand QEWS' net electricity & water capacity by 27% and 73%, respectively, in 2018. QEWS is seeking regional expansion and has set up a $1bn JV (60% stake), Nebras Power, with QPI/QH. The partners are valuing QEWS' assets in Oman & Jordon (BV: QR279.7mn) for sale to the JV; the Sur IPP in Oman is also planning an IPO in 2015.

- **Risks:** Declining oil prices are a major risk to regional equities. We note these further specific risks: 1) EBITDA margin erosion & 2) Foreign expansion risks.

QNB FINANCIAL SERVICES

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

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

Shahan Keushgerian
Senior Research Analyst
+974 4476 6509
Shahan.keushgerian@qnbfs.com.qa