

Qatar Electricity & Water Company (QEWS)

Recommendation	ACCUMULATE	Risk Rating	R-2
Share Price	QR17.99	Target Price	QR21.00
Implied Upside	16.7%	Old Target Price	QR17.00

Nebras Deal/WC 2022 Could Renew Growth Spark; Upping PT to QR21

We are updating our estimates and increasing our price target for QEWS. The company reported generally in-line-to-modestly lower 4Q2021 results. Overall, 2021 announced results were unsurprising but QEWS did modestly hike its DPS to QR0.80 (yield of 4.4%) from QR0.63 in 2020, which was ahead of our estimate of QR0.775. 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 (possibly by as soon as March). However, we have already incorporated this acquisition into our DCF-based valuation model. We have also rolled out our DCF model forward. Consequently, we increase our price target to QR21.00 from QR17.00 but maintain our Accumulate rating on QEWS. For 2022, we expect a decent 3.1% YoY growth in earnings. This should be fueled by improved power and water offtake, especially during 2H2022, given the FIFA World Cup Qatar 2022. We continue to like the company as a long-term play with a relatively defensive business model, especially in light of current market conditions. 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 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, we believe additional color/disclosures regarding its growth prospects could help fuel increases in QEWS' earnings estimates.

Highlights

- **We project 2022 earnings to increase 3.1% and expect a conservative EPS CAGR of 2.3% over 2021-26e.** QEWS reported net income of QR1.47bn in 2021, a growth of 26.8% (13.2% on a normalized basis excluding a QR139.5mn provision for a Kahramaa claim recorded in 2020) with earnings growth driven by increased GMs (lower fuel costs & manpower expenses), lower SG&A, lower finance charges and higher JV/other income. These offset a 4.3% decline in top-line in 2021 to QR2.47bn. For 2022, we expect revenue to recover 4.5% back to 2019's QR2.59bn level due to improved power and water offtake, especially during 2H2022, given the FIFA World Cup Qatar 2022. We do expect cash GMs to ease to 46.4% in 2022 vs. 50.1% in 2021 as higher offtake should also lead to higher gas costs. JV income should increase in 2022 given higher offtake and continued traction from Siraj; we note Siraj turned profitable in 2021 and should be fully commissioned in 1H2022. Finally, 2022 finance charges could increase significantly (despite a ~5% YoY decrease in debt) as the Fed is slated to progressively increase rates this year.
- **The Nebras acquisition could add ~3% to 2022 earnings as well as to our net income estimates over 2022-2026e.** QEWS recently agreed to purchase the 40% of Nebras Power it did not already own for \$530mn. Based on Nebras' disclosed BV as of 2021, the deal values Nebras at roughly 0.9x book. QEWS has also disclosed that it has entered into a 1-year bridge loan for \$550mn to finance this deal, which could close as soon as March 2022.
- **QEWS enjoys decent EBITDA margins & dividend/FCF yields.** Despite modeled compression, QEWS retains solid EBITDA margins (2021-26 avg.: ~41%). Over 2021-26, we expect dividend yields & FCF yields to average 4.8% and 7.8%, respectively. ROEs average 11.6% for 2021-26.

Catalysts

- **New opportunities currently not in our model: Facility E** (55% stake; power: 2,600 MW & water: 100 MIGD), should be partially operational around 2024, reaching full capacity in 2025. **Nebras** remains on the hunt for growth. Ultimately, our **JV income forecasts** could be conservative – we expect a 7.3% CAGR over 2021-26.

Recommendation, Valuation and Risks

- **Recommendation & valuation: We rate QEWS an Accumulate and raise our PT to QR21.00.** We have already incorporated the purchase of the remaining 40% stake in Nebras into our DCF model. QEWS trades at compelling P/E multiples of 13.1x and 13.1x for 2022 and 2023, respectively. Dividend yields are also attractive at 4.7% for 2022 and 4.7% for 2023.
- **Risks: Geopolitical risks** cannot be modeled. Besides **foreign expansion risks**, **domestic projects could also be delayed**. **Kahramaa could renegotiate existing contracts**. The next contract renewal (RAF B1) is due Aug. 2022. **Operational risks include availability of capacity below contracted levels**, which could lead to penalties.

Key Financial Data and Estimates

	FY2021	FY2022e	FY2023e	FY2024e
Revenue (QR mn)	2,475	2,587	2,522	2,567
Revenue Growth	-4.3%	4.5%	-2.5%	1.8%
EPS (QR)	1.33	1.38	1.37	1.40
EPS Growth	26.8%	3.1%	-0.5%	2.6%
P/E (x)	13.5	13.1	13.1	12.8
DPS (QR)	0.80	0.85	0.85	0.85
ROE	12.4%	12.2%	11.6%	11.3%

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

Key Data

Current Market Price (QR)	17.99
Dividend Yield (%)	4.4
Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWQ.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	18.33/16.01
3-m Average Volume ('000)	571.0
Mkt. Cap. (\$ bn/QR bn)	5.4/19.8
EV (\$ bn/QR bn)	6.0/22.0
Shares Outstanding (bn)	1.10
FO Limit* (%)	49.0
Current FO* (%)	9.2
1-Year Total Return (%)	7.7
Fiscal Year End	December 31

Source: Bloomberg (as of February 22, 2022), *Qatar Exchange (as of February 22, 2022); Note: FO is foreign ownership

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Valuation and Key Ratios

Valuation Metrics

Particulars	2014	2015	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e
Valuation													
EV/EBITDA - Consolidated	15.3	14.4	13.8	14.1	16.2	21.9	22.8	17.1	17.1	17.2	16.5	15.7	14.9
EV/EBIT	21.9	20.3	18.6	19.9	20.8	31.1	34.0	23.1	23.6	24.1	23.1	21.9	20.6
P/E	12.9	13.2	13.4	12.2	12.9	14.0	17.1	13.5	13.1	13.1	12.8	12.4	12.0
P/CF	8.9	10.7	9.6	11.9	9.5	15.6	11.1	12.1	11.5	11.9	11.7	11.6	11.3
P/BV	2.9	2.7	2.4	2.2	1.9	2.0	2.0	1.7	1.6	1.5	1.5	1.4	1.3
Dividend Yield	4.2%	4.2%	4.2%	4.3%	4.3%	4.3%	3.5%	4.4%	4.7%	4.7%	4.7%	5.0%	5.0%
FCF Yield	(2.4%)	4.1%	6.2%	8.1%	5.3%	5.2%	8.6%	7.0%	8.0%	7.8%	7.9%	8.0%	8.2%

Source: Bloomberg, QNB FS Research

Peer Comparisons

Company	Mcap	P/E		EV/EBITDA		P/B		ROE		EBITDA Margin		Dividend Yield	
	USDmnn	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e
SAUDI ELECTRICITY CO	29,484	14.4	12.0	6.2	5.3	1.31	1.23	11.2%	9.1%	47.5%	57.2%	2.6	2.6
TAQA MOROCCO	2,899	29.7	30.1	12.8	n.a.	n.a.	n.a.	15.3%	15.4%	39.8%	N/A	3.3	3.4
ABU DHABI NATIONAL ENERGY CO	37,958	20.7	21.4	10.2	10.3	2.14	2.03	9.8%	9.7%	44.6%	44.4%	2.4	3.1
TABREED	1,859	12.5	11.4	12.3	11.5	1.08	0.97	9.0%	9.5%	51.0%	51.1%	4.9	5.1
SEVERN TRENT PLC	9,453	29.4	21.8	14.7	13.4	5.62	5.60	19.6%	26.3%	46.5%	48.7%	3.7	3.8
UNITED UTILITIES GROUP PLC	9,569	23.2	20.8	14.7	14.3	2.33	2.32	7.9%	11.3%	54.9%	55.6%	4.2	4.4
TATA POWER CO LTD	9,596	34.1	28.2	15.0	12.7	3.22	2.98	9.0%	10.4%	18.8%	19.5%	0.8	0.9
CESC LTD	1,367	7.3	6.6	6.2	6.1	0.97	0.90	14.4%	13.8%	26.8%	25.7%	5.9	6.4
NTPC LTD	17,144	8.2	7.3	8.4	7.4	0.96	0.89	12.0%	12.7%	30.7%	31.6%	4.8	5.2
EDP - ENERGIAS DO BRASIL SA	2,431	8.4	7.6	5.3	5.2	1.11	1.05	14.9%	15.2%	22.8%	23.2%	7.3	7.8
Peer Group Average		18.8	16.7	10.6	9.6	2.1	2.0	12.3%	13.3%	38.3%	39.7%	4.0	4.3
Peer Group Median		17.5	16.4	11.2	10.3	1.3	1.2	11.6%	12.0%	42.2%	44.4%	3.9	4.1
QATAR ELECTRICITY & WATER CO	5,434	13.1	13.1	17.1	17.2	1.6	1.5	12.2%	11.6%	41.0%	40.5%	4.7	4.7

Source: Bloomberg, QNB FS Research

Key Growth Rates/CAGRs/Ratios

Particulars	2014	2015	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	CAGR ('21-'26)
Growth Rates														
Revenue	(0.2%)	2.9%	4.0%	(1.0%)	(15.3%)	(8.2%)	8.3%	(4.3%)	4.5%	(2.5%)	1.8%	1.3%	1.7%	1.3%
Gross Profit	(1.8%)	1.9%	3.6%	(3.3%)	(15.8%)	(23.6%)	4.2%	5.2%	(3.1%)	(3.4%)	0.7%	1.3%	1.7%	(0.6%)
EBITDA - Consolidated	(2.5%)	5.4%	2.8%	(4.9%)	(15.8%)	(25.8%)	(8.2%)	24.4%	(4.0%)	(3.6%)	0.7%	1.3%	1.7%	(0.8%)
EBIT	(3.5%)	7.3%	7.2%	(9.3%)	(7.2%)	(33.1%)	(12.5%)	37.2%	(5.6%)	(5.3%)	0.7%	1.6%	2.1%	(1.4%)
JV Income	3.6%	4.1%	(25.1%)	85.4%	(4.4%)	48.7%	(31.7%)	3.5%	22.0%	6.4%	3.5%	3.0%	2.8%	7.3%
PBT	11.0%	(2.0%)	(1.9%)	8.8%	(4.5%)	(8.0%)	(17.9%)	26.0%	3.1%	(0.5%)	2.6%	3.2%	3.0%	2.3%
Net Income/EPS	10.5%	(1.9%)	(1.7%)	9.5%	(4.9%)	(8.0%)	(18.1%)	26.8%	3.1%	(0.5%)	2.6%	3.2%	3.0%	2.3%
DPS	10.0%	0.0%	0.0%	3.3%	0.0%	0.0%	(18.7%)	27.0%	6.3%	0.0%	0.0%	5.9%	0.0%	2.4%
CFPS	30.7%	(16.6%)	11.7%	(19.1%)	24.2%	(38.8%)	40.1%	(7.9%)	4.8%	(2.7%)	1.3%	1.4%	1.9%	1.3%
FCFPS	NM	NM	50.5%	30.9%	(35.1%)	(1.7%)	65.2%	(18.3%)	14.9%	(3.0%)	1.4%	1.5%	2.0%	3.2%
Operating Ratios														
Gross Margin	59.5%	58.9%	58.7%	57.3%	56.9%	47.3%	45.6%	50.1%	46.4%	46.0%	45.5%	45.5%	45.5%	
EBITDA Margin - Consolidated	51.8%	53.1%	52.5%	50.4%	50.2%	40.5%	34.4%	44.6%	41.0%	40.5%	40.1%	40.1%	40.1%	
EBIT Margin	36.3%	37.8%	38.9%	35.7%	39.1%	28.5%	23.0%	33.0%	29.8%	29.0%	28.7%	28.7%	28.9%	
Net Margin	52.8%	50.3%	47.5%	52.6%	59.1%	59.2%	44.8%	59.3%	58.5%	59.7%	60.2%	61.3%	62.1%	
Finance Ratios														
Debt-Equity Ratio	0.8	0.7	0.7	0.7	0.7	0.7	0.6	0.5	0.4	0.4	0.4	0.3	0.3	
Net Debt-Equity Ratio	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.1	0.0	(0.0)	
Interest Coverage	9.7	9.4	8.1	6.1	4.5	2.8	4.0	7.1	5.1	3.8	4.1	4.6	5.3	
Return Ratios														
ROIC	8.8%	9.2%	8.5%	7.4%	5.9%	4.1%	3.7%	4.7%	4.3%	4.0%	4.0%	4.0%	4.0%	
ROE	22.6%	20.4%	17.8%	18.0%	14.7%	14.1%	11.9%	12.4%	12.2%	11.6%	11.3%	11.2%	11.0%	
ROA	11.8%	11.2%	9.7%	10.2%	8.4%	8.1%	6.8%	7.9%	8.0%	7.9%	8.0%	8.1%	8.2%	
FCF Yield	(2.4%)	4.1%	6.2%	8.1%	5.3%	5.2%	8.6%	7.0%	8.0%	7.8%	7.9%	8.0%	8.2%	
Liquidity Ratios														
Current Ratio	1.2	1.5	2.1	2.3	1.6	1.4	1.4	1.6	1.7	1.8	1.9	2.1	2.2	
Quick Ratio	1.1	1.4	1.9	2.2	1.6	1.4	1.4	1.6	1.7	1.8	1.9	2.1	2.2	
Valuation														
EV/EBITDA - Consolidated	15.3	14.4	13.8	14.1	16.2	21.9	22.8	17.1	17.1	17.2	16.5	15.7	14.9	
EV/EBIT	21.9	20.3	18.6	19.9	20.8	31.1	34.0	23.1	23.6	24.1	23.1	21.9	20.6	
P/E	12.9	13.2	13.4	12.2	12.9	14.0	17.1	13.5	13.1	13.1	12.8	12.4	12.0	
P/CF	8.9	10.7	9.6	11.9	9.5	15.6	11.1	12.1	11.5	11.9	11.7	11.6	11.3	
P/BV	2.9	2.7	2.4	2.2	1.9	2.0	2.0	1.7	1.6	1.5	1.5	1.4	1.3	
Dividend Yield	4.2%	4.2%	4.2%	4.3%	4.3%	4.3%	3.5%	4.4%	4.7%	4.7%	4.7%	5.0%	5.0%	
FCF Yield	(2.4%)	4.1%	6.2%	8.1%	5.3%	5.2%	8.6%	7.0%	8.0%	7.8%	7.9%	8.0%	8.2%	

Source: Bloomberg, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	FY2021	FY2022e	FY2023e	FY2024e
Revenue	2,475	2,587	2,522	2,567
Cost of Sales, Excluding Depreciation	(1,235)	(1,386)	(1,362)	(1,399)
Gross Profit	1,239	1,201	1,160	1,168
General & Administrative Expenses, Excl. Depreciation & Amortization	(135)	(141)	(139)	(140)
EBITDA	1,105	1,060	1,022	1,028
Deferred Income	0	0	0	0
Depreciation & Amortization	(287)	(289)	(291)	(293)
EBIT	817	771	731	736
Finance Costs, Net	(43)	(65)	(85)	(81)
Dividend Income & Gain on Sale of AFS	81	100	108	114
Other & Miscellaneous Income/Expense & Income from JVs/Associates	635	731	775	801
Profit Before Tax	1,490	1,537	1,529	1,569
Income Tax Expense	0	0	0	0
Profit After Tax (Continuing Operations)	1,490	1,537	1,529	1,569
Discontinued Operations				
Minority Interest	(22)	(23)	(23)	(23)
Profit for Shareholders	1,468	1,514	1,506	1,545
EPS (QR)	1.33	1.38	1.37	1.40

Source: Company data, QNB FS estimates

Balance Sheet (In QR mn)	FY2021	FY2022e	FY2023e	FY2024e
Non-Current Assets				
Property, Plant & Equipment	4,805	4,573	4,338	4,102
Available-for-Sale Investments	3,165	3,418	3,589	3,768
Finance Lease Receivables	798	675	571	483
JV Loans and Investments in JVs/Associates	5,073	5,395	5,734	6,081
Other Non-Current assets	112	100	89	77
Total Non-Current Assets	13,953	14,162	14,321	14,512
Current Assets				
Finance Lease Receivables & Others	280	280	280	280
Inventories	64	68	67	69
Accounts Receivables & Prepayments	566	567	553	563
Cash and Short-Term Deposits	3,627	3,756	3,853	3,948
Total Current Assets	4,537	4,672	4,754	4,861
Total Assets	18,490	18,834	19,075	19,372
Equity				
Equity to the Parent	11,811	12,445	13,016	13,626
Minority Interest	177	146	114	82
Total Equity	11,988	12,590	13,130	13,708
Non-Current Liabilities				
Loans and Borrowings	3,583	3,411	3,230	3,042
Employees' End of Service Benefits	76	77	77	78
Lease Liabilities	23	22	20	19
Derivatives	3	3	3	3
Total Non-Current Liabilities	3,685	3,512	3,331	3,142
Current Liabilities				
Accounts Payables & Others	688	702	690	709
Loans and Borrowings	2,097	1,996	1,891	1,781
Derivatives & Lease Liabilities	33	33	33	33
Total Current Liabilities	2,818	2,731	2,614	2,523
Equity and Liabilities	18,490	18,834	19,075	19,372

Source: Company data, QNB FS 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

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