

## Qatar Electricity & Water Company (QEWS)

Recommendation	ACCUMULATE	Risk Rating	R-2
Share Price	QR203.99	Current Target Price	QR223.00
Implied Upside	9.3%		

### 1Q2018 Exceeds Expectations; Change Rating to Accumulate

**1Q2018 beat reinforces our long-term view; maintain our target price of QR223.** Quarterly results exceeded our estimates both on the top-and bottom-lines along with margin expansion given limited maintenance-related shutdowns vs. our model. We maintain our annual 2018 forecasts for now but see upside to numbers if results trend higher. The mega Um Al Houl project also seems to be on track for early-July commissioning and should act as a catalyst for the stock. **QEWS stock is up 9% since our January 17<sup>th</sup> upgrade vs. a flat performance by the QSE Index and we reiterate our bullish stance on the name.** Given QEWS' stock price appreciation, we change our rating on QEWS from Outperform to Accumulate and retain our target price of QR223.

#### Highlights

- **QEWS reported net profit of QR394mn in 1Q2018 as compared to QR305mn in 4Q2017/QR350mn in 1Q2017**, beating our estimate of QR351mn (variation of +12%). The company's reported revenue of QR660mn came in 9% stronger than our estimate, contributing to the earnings beat. JV income at QR131mn was in-line with our estimate. EBITDA margins expanded to 52.2% vs. 47.8% in 1Q2017/52.8% in 1Q2016. YoY comparisons were aided by major maintenance at RLPC (QR30mn net income impact), 59% growth in dividend income and higher tariffs at a key project.
- **We 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/PWPA 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/IPP/ IWP. Moreover, the company has diversified internationally with close to 15% of its net income expected to be driven by 60%-owned international JV (Nebras) in 2018. Nebras has operations in Indonesia, Jordan and Oman and is actively seeking opportunities in MENA and SE Asia.
- **Solid growth profile with industry leading EBITDA margins and attractive dividend/FCF yields.** We expect EBITDA CAGR of ~2% over 2019-2023 and FCF to grow around 5% over the same period driven by Facility D (Um Al Houl) and inflation-driven capacity charge increases. Despite modeled compression, QEWS should maintain above-average EBITDA margins (avg.: ~48%). We expect dividend yield to average 4.1% over 2018-2023 and FCF yield to average 7.4% over the same period (despite a dip in 2018 given an expected \$250mn equity infusion into the Facility D JV). ROEs remain healthy.

#### Catalysts

- **New opportunities currently not in our model:** Besides Um Al Houl, our model does not account for additional expansions domestically (like Facility E; a solar project called Siraj, etc.) which will lead to LT upside. Beyond Paiton in Indonesia, we do not have color on other Nebras projects, which could lead to growth relative to our model.

#### Recommendation, Valuation and Risks

- **Recommendation & valuation:** *Our 12-month target is QR223.* Shares have generated 89% in total returns over five years, handily outpacing the DSM Index (30%), the MSCI Qatar Index (17%) and the MSCI EM Index (30%).
- **Risks:** Geopolitical risks cannot be modeled. Besides risks inherent in international expansion, there is always a chance domestic projects get delayed or shelved. It is possible Kahramaa renegotiates the terms of existing contracts; however, this is not an imminent risk. Operational risks include availability of capacity below contracted levels, which could lead to penalties.

#### Key Financial Data and Estimates

	FY2017	FY2018e	FY2019e	FY2020e
Revenue (QR mn)	3,071	2,493	2,637	2,697
Revenue Growth	(1.0%)	(18.8%)	5.8%	2.2%
EPS (QR)	14.69	13.32	14.36	14.88
EPS Growth	4.8%	(9.3%)	7.8%	3.6%
P/E (x)	13.9	15.3	14.2	13.7
DPS (QR)	7.75	7.75	8.00	8.25
Dividend Payout	52.7%	58.2%	55.7%	55.5%
ROE	18.0%	15.3%	15.3%	14.8%

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

#### Key Data

Current Market Price (QR)	203.99
Current Dividend Yield (%)	4.2
Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWC.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	217.70/161.99
3-m Average Volume ('000)	58.5
Mkt. Cap. (\$ bn/QR bn)	6.2/22.4
EV (\$ bn/QR bn)	7.0/25.5
Shares Outstanding (mn)	110.0
FO Limit* (%)	49.0
Current FO* (%)	11.3
1-Year Total Return (%)	1.9
Fiscal Year End	December 31

Source: Bloomberg (as of April 23, 2018), \*Qatar Exchange (as of April 23, 2018); Note: FO is foreign ownership

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## Detailed Financial Statements

Income Statement (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
<b>Revenue</b>	<b>3,071</b>	<b>2,493</b>	<b>2,637</b>	<b>2,697</b>
Cost of Sales, Excluding Depreciation	(1,312)	(1,071)	(1,140)	(1,172)
<b>Gross Profit</b>	<b>1,759</b>	<b>1,422</b>	<b>1,498</b>	<b>1,525</b>
General & Administrative Expenses	(210)	(214)	(219)	(223)
<b>EBITDA</b>	<b>1,549</b>	<b>1,207</b>	<b>1,279</b>	<b>1,302</b>
Deferred Income	0	0	0	0
Depreciation & Amortization	(453)	(319)	(323)	(327)
<b>EBIT</b>	<b>1,096</b>	<b>888</b>	<b>956</b>	<b>974</b>
Finance Costs, Net	(164)	(157)	(144)	(132)
Dividend Income & Gain on Sale of AFS	95	95	79	90
Other & Miscellaneous Income/Expense & Share of Profits from JVs	613	663	713	729
Share of Associates	0	0	0	0
Profit Before Tax	1,639	1,489	1,604	1,662
Income Tax Expense	0	0	0	0
<b>Profit After Tax (Continuing Operations)</b>	<b>1,639</b>	<b>1,489</b>	<b>1,604</b>	<b>1,662</b>
Discontinued Operations				
Minority Interest	(23)	(24)	(24)	(25)
<b>Profit for Shareholders</b>	<b>1,616</b>	<b>1,465</b>	<b>1,579</b>	<b>1,637</b>
<b>EPS (QR)</b>	<b>14.69</b>	<b>13.32</b>	<b>14.36</b>	<b>14.88</b>

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
<b>Non-Current Assets</b>				
Property, Plant and Equipment	5,745	5,533	5,318	5,099
Available-for-Sale Investments	702	702	702	702
Finance Lease Receivables	1,249	1,141	1,043	954
JV Loans and Investments in JVs	3,136	4,246	4,526	4,709
Other Non-Current assets	330	322	314	306
<b>Total Non-Current Assets</b>	<b>11,161</b>	<b>11,945</b>	<b>11,904</b>	<b>11,769</b>
<b>Current Assets</b>				
Finance Lease Receivables & Others	120	120	120	120
Inventories	231	232	240	241
Accounts Receivables & Prepayments	852	854	860	864
Cash and Short-Term Deposits	3,436	2,862	3,265	3,835
<b>Total Current Assets</b>	<b>4,639</b>	<b>4,067</b>	<b>4,485</b>	<b>5,060</b>
<b>Total Assets</b>	<b>15,800</b>	<b>16,012</b>	<b>16,388</b>	<b>16,829</b>
<b>Equity</b>				
Equity to the Parent	8,982	9,595	10,321	11,078
Minority Interest	250	274	299	324
<b>Total Equity</b>	<b>9,232</b>	<b>9,869</b>	<b>10,620</b>	<b>11,402</b>
<b>Non-Current Liabilities</b>				
Loans and Borrowings	4,442	3,998	3,598	3,238
Employees' End of Service Benefits	74	92	111	129
Derivatives	27	27	27	27
<b>Total Non-Current Liabilities</b>	<b>4,543</b>	<b>4,117</b>	<b>3,736</b>	<b>3,394</b>
<b>Current Liabilities</b>				
Accounts Payables & Others	585	587	593	594
Loans and Borrowings	1,424	1,424	1,424	1,424
Derivatives	15	15	15	15
<b>Total Current Liabilities</b>	<b>2,025</b>	<b>2,026</b>	<b>2,033</b>	<b>2,034</b>
<b>Equity and Liabilities</b>	<b>15,800</b>	<b>16,012</b>	<b>16,388</b>	<b>16,829</b>

Source: Company data, QNBFS 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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