

QEWS Alert – Generates In-Line 3Q2021 Earnings; Retain Accumulate

- **QEWS reports 3Q2021 net income of QR391.3mn, up 4.7% YoY but down 5.2% QoQ, bang in-line with our estimate of QR392.6mn (-0.3% difference) –** While overall top-line was below our estimate, better-than-expected margins and upside in JV income helped earnings come in-line for the quarter.
- **Total 3Q2021 revenue (power+water+lease interest) of QR639.1mn (-8.2% YoY, 6.5% QoQ) was below our forecast of QR689.0mn (divergence of -7.2%).** We note that 3Q2021 was the 2nd straight quarter of YoY revenue decline after six consecutive quarters of YoY revenue increases. Output charges remain lower YoY as Kahramaa continues to prefer the newer/more-efficient JV plants (for example, Umm Al Houl) over the older fully-consolidated ones.
- **JV income decreased 3.2% YoY but gained 13.4% QoQ to QR188.6mn.** Gross margin came in at 47.4% in 3Q2021, which was higher than 42.8% in 3Q2020 but lower than 51.8% posted in 2Q2021. EBITDA margin came in at 41.8% in 3Q2021 vs. 37.6% in 3Q2020 and 47.1% in 2Q2021. JV income decreased to QR188.6mn from QR194.9mn in 3Q2020; JV income, however, did increase from QR166.3mn in 2Q2021.
- **We remain Accumulate on QEWS with a QR17.0 price target.** 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 could remain muted on QEWS' business model as the company is paid based on power and water availability and is not affected 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; Siraj solar project in 2021-2022, etc.). Nebras remains on the hunt for growth but beyond Paiton (Indonesia), we do not have color on other major Nebras projects, which could lead to growth relative to our model.

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, CFA, CAIA
Head of Research
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

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

DISCLAIMER: This publication has been prepared by QNB Financial Services Co. WLL (“QNBFS”) a wholly-owned subsidiary of Qatar National Bank Q.P.S.C (“QNB”). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report.

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNBFS.