

QEWS Alert – Completes Purchase of Remaining 40% of Nebras for \$530mn; Maintain Accumulate

- **QEWS announces the completion of its acquisition of 40% share capital in Nebras Power** – The final deal terms appear consistent with the initial announcement on January 4, 2022 (as highlighted in our previous [report](#)). QEWS' wholly-owned subsidiary, Ras Laffan Operating Co., completed this purchase from Qatar Holding. Given that QEWS already owns the remaining 60% of the share capital of Nebras, 100% of Nebras' operations should be consolidated going forward.
- **Price is attractive vs. BV and QEWS has funded the transaction using a \$550mn bank loan.** The 40% stake was worth roughly \$584mn in BV as of 2Q2022. So the purchase price is at a moderate discount to BV. Nebras' earnings (@100%) did decline from QR355.8mn in 2019 to QR284.9mn in 2020 (down 19.9%) and then again to QR206.3mn (down 27.6%). This implies the deal values Nebras at ~17x 2020 and ~23x 2021 earnings. While Nebras' 2021 earnings declined, to a large extent, as Paiton in Indonesia did not benefit from a COVID-related tax reduction as was the case in 2020, we note Nebras' earnings remain depressed in 1H2022 primarily on account of a QR113mn net impairment loss on 5 solar plants located in Ukraine in 2Q2022. However, we are hopeful that the company can benefit from earnings growth going forward if we strip out these one-offs. Established in 2013, Nebras Power is a global power development, investment and operating company. It was set up as a strategic JV between two key GREs of the State of Qatar (QEWC & QIA), with the objective to develop and manage a portfolio of sustainable strategic investments in power, water and renewables globally. Nebras has a total equity adjusted power capacity of more than 2,100 MW based on a mix of various technologies, such as solar, natural gas, coal and wind.
- **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 shortly.**
- **We continue to like QEWS as a long-term play with a relatively defensive business model.** 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. We have already incorporated the Nebras acquisition into our DCF-based valuation model. 2022 earnings should benefit from improved power and water offtake, especially during 2H2022, given the FIFA World Cup Qatar 2022. 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 (~6.3 GW gross). Given that Nebras has become a 100%-owned subsidiary, we believe additional color/disclosures regarding its growth prospects could help fuel increases in QEWS' earnings estimates.

Recommendations	
<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>	
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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
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 (“QNB FS”) a wholly-owned subsidiary of Qatar National Bank (“Q.P.S.C.”). 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 QNB FS 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 QNB FS 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, QNB FS 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. QNB FS 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 QNB FS.