# QEWS Alert – One-Offs/Accounting Adjustments Hurt 2017 Results; Maintain Outperform

- **QEWS posts weak 4Q2017 results beyond seasonality effects due to one-offs and accounting adjustments.** The company reported QR706.4mn in revenue for 4Q2017 (-14.5% QoQ/-9.0% YoY), which missed our modeled forecast of QR800.1mn (-11.7% divergence). Net income similarly fell (-39.1% QoQ/-1.2% YoY) to QR304.8mn vs. our estimate of QR425.6mn. While we had expected a weak quarter due to normal seasonality, the drop was exacerbated by several one-offs/accounting adjustments. **DPS of QR7.75 increased from QR7.50 in 2016** but was below our model of QR8.
- **What happened: 4Q2017 revenue affected by QR74mn of one-offs/adjustments. (1)** QR30mn in impact came from RAF B, which went under an contract extension in October. Given the plant is fully depreciated, QEWS will no longer be able to record capacity charges on its top-line but will not be required to record depreciation expenses either. This extension, valid until June, is expected to be renewed for 12 years. **(2)** QR44mn was provisioned against revenue for RAF A1 with Kahramaa imposing a lower base-line K-Factor for gas charges (vs. a higher estimate previously assumed by QEWS). QEWS expects to recoup around half of this hit in 2018 but will likely have to bear a lower K-Factor until an energy billing system is put in place for RAF A1 (by 3Q2018).
- **A further QR46mn in one-off expenses lowered net income. (1)** QR23mn was written-off in inventory (consumables, etc.) related to RAF A, which went off contract end-2017. (2) Another QR23mn was provisioned for EOS for nationals employed for more than 20 years at the company. JV income was also lower-than-expected with a similar K-Charge issue at Um Al Houl.
- **What does this mean for our model: no major change to our earnings estimates.** We expect to moderately adjust revenue and EBITDA downward to account for RAF B. The impact of K-Factors charges should be temporary, however.
- **Long-term thesis remains intact; maintain Outperform rating and QR230 price target.** Weakness in the stock post 4Q2017 results could provide an attractive entry point. New opportunities currently not in our model could as catalysts. 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.

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| 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 |


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