

## Qatar Electricity & Water Company (QEWS)

<b>Recommendation</b>	<b>ACCUMULATE</b>	<b>Risk Rating</b>	<b>R-2</b>
<b>Share Price</b>	<b>QR187.98</b>	<b>Current Target Price</b>	<b>QR209.00</b>
<b>Implied Upside</b>	<b>11.2%</b>		

### 4Q2018 Preview: A Seasonally Soft Quarter; Accumulate

We maintain our Accumulate rating on QEWS. 3Q2018 was weaker-than-expected and RAF B's extension (for 12 years) came at lower-than-anticipated rates. For 4Q2018, we expect a seasonally weak quarter. QEWS' stock did not keep pace with the overall growth in the stock market last year given tepid 2Q/3Q results but we continue to like the company as a solid long-term play with a defensive business model. QEWS enjoys a solid long-term growth profile with attractive EBITDA margins and compelling dividend/FCF yields. LT catalysts abound, including additional expansions domestically (like Facility E; the Siraj solar project, etc.). Beyond Paiton (Indonesia), we do not have color on other Nebras projects, which could lead to growth relative to our model.

#### Highlights

- 4Q2018 preview: we estimate revenue/EPS of QR617.1m/QR2.77, down 13% and flattish YoY, respectively.** We expect a seasonally weak quarter with YoY comparisons to be impacted for the last time by RAF A decommissioning. Yearly/QoQ comparisons are challenging (top-line down 13% YoY and -8% QoQ, while EPS flattish YoY but down 11% sequentially) given the de-commissioning of RAF A in end-2017 and seasonality; RAF A made up 9%/16% of QEWS' net power/water capacity (2017). Moreover, some revenue reduction is due to RAF B given the lower revised tariff for this fully-depreciated plant. Some impact is also due to RAF A1 with Kahramaa imposing a lower base-line K-Factor for gas charges (vs. a higher estimate assumed by QEWS in 2017). On the EPS side, YoY flat performance is due to lower margins at the older RAF A plant and QR46mn in one-off expenses in 4Q2017. The QoQ fall in EPS is because of the aforementioned factors impacting revenue/GMs along with higher interest charges that are projected up 46% YoY/10% QoQ. **Finally, we expect flat 2018 DPS of QR7.75.**
- We continue to 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/PWPAs 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/ITPs. Moreover, the company has diversified internationally with around 14% 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.
- Despite a subdued 2019, QEWS still enjoys a solid LT growth profile with attractive EBITDA margins and compelling dividend/FCF yields.** After declining 2017-2019, we expect EBITDA CAGR of 4.2% over 2019-2023; FCF should grow 4.8% over the same period driven by Um Al Houl and inflation-driven capacity charge increases. Despite modeled compression, QEWS should still maintain solid EBITDA margins (2019-2023 avg.: ~46%). Over 2018-2023, we expect dividend yield to average 4.2% and FCF yield to average 7.2% (despite a dip in 2018 as QEWS invested \$252mn into the Facility D JV). ROEs average around 12.4% over 2019-2023.

#### 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 1-year PT is QR209.** Shares have generated 38% in 5-year total returns, outpacing the DSM Index (18%).
- Risks: Geopolitical risks** cannot be modeled. Besides **risks in international expansion**, there is always a chance **domestic projects get delayed/shelved**. It is possible **Kahramaa substantially renegotiates the terms of existing contracts** and recent discussions on K-Factors gives us pause; however, this is not an imminent risk. We note the recent lower-than-expected rates for RAF B involve a contract extension on a fully-depreciated plant. **Operational risks include availability of capacity below contracted levels**, which could lead to penalties.

#### Key Financial Data and Estimates

	FY2017	FY2018e	FY2019e	FY2020e
<b>Revenue (QR mn)</b>	<b>3,071</b>	<b>2,633</b>	<b>2,609</b>	<b>2,673</b>
<i>Revenue Growth</i>	-1.0%	-14.3%	-0.9%	2.4%
<b>EPS (QR)</b>	<b>14.69</b>	<b>13.29</b>	<b>12.42</b>	<b>13.17</b>
<i>EPS Growth</i>	4.8%	-9.6%	-6.5%	6.0%
<b>P/E (x)</b>	<b>13.1</b>	<b>14.5</b>	<b>15.5</b>	<b>14.6</b>
<b>DPS (QR)</b>	<b>7.75</b>	<b>7.75</b>	<b>7.75</b>	<b>8.00</b>
<b>ROE</b>	<b>18.0%</b>	<b>13.7%</b>	<b>12.2%</b>	<b>12.3%</b>

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

#### Key Data

Current Market Price (QR)	187.98
Current Dividend Yield (%)	4.0
Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWC.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	205.25/170.01
3-m Average Volume ('000)	34.5
Mkt. Cap. (\$ bn/QR bn)	5.7/20.7
EV (\$ bn/QR bn)	6.6/23.9
Shares Outstanding (mn)	110.0
FO Limit* (%)	49.0
Current FO* (%)	12.6
1-Year Total Return (%)	5.5
Fiscal Year End	December 31

Source: Bloomberg (as of January 31, 2019), \*Qatar Exchange (as of January 31, 2019); Note: FO is foreign ownership

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

## 4Q2018 Preview

### QNB FS Estimates and Comparisons

In QR mn	4Q2018e	4Q2017	3Q2018	YoY	QoQ	2018e	2017	YoY
Revenue	617.10	706.37	671.47	-12.6%	-8.1%	2,632.73	3,070.74	-14.3%
Gross Profit	307.92	339.43	355.74	-9.3%	-13.4%	1,495.39	1,759.17	-15.0%
EBITDA	243.67	267.26	309.28	-8.8%	-21.2%	1,292.63	1,549.05	-16.6%
JV Income	137.23	119.07	102.54	15.3%	33.8%	519.86	566.86	-8.3%
Net Income	305.03	304.79	343.83	0.1%	-11.3%	1,461.42	1,616.18	-9.6%
EPS (in QR)	2.77	2.77	3.13	0.1%	-11.3%	13.29	14.69	-9.6%
Gross Margin	49.9%	48.1%	53.0%			56.8%	57.3%	
EBITDA Margin	39.5%	37.8%	46.1%			49.1%	50.4%	
Net Margin	49.4%	43.1%	51.2%			55.5%	52.6%	

Source: Company data, QNB FS estimates

## Valuation and Key Ratios

### Valuation Metrics

Particulars	2014	2015	2016	2017	2018e	2019e	2020e	2021e	2022e	2023e
<b>Valuation</b>										
EV/EBITDA - Consolidated	16.2	15.3	14.6	14.9	17.6	19.1	17.7	16.4	15.3	14.2
EV/EBIT	23.2	21.5	19.7	21.1	24.6	28.1	25.6	23.4	21.6	19.8
P/E	13.8	14.1	13.7	13.1	14.5	15.5	14.6	13.7	13.0	12.3
P/CF	9.3	11.2	10.0	12.4	10.6	12.9	12.0	11.9	11.3	10.9
P/BV	3.1	2.9	2.6	2.4	2.0	1.9	1.8	1.7	1.6	1.5
Dividend Yield	3.9%	3.9%	3.9%	4.0%	4.0%	4.0%	4.2%	4.3%	4.4%	4.5%
FCF Yield	(2.3%)	3.9%	5.9%	7.8%	4.7%	6.9%	7.4%	7.5%	7.9%	8.3%

Source: Bloomberg, QNB FS estimates

### Key Growth Rates/CAGRs/Ratios

Particulars	2014	2015	2016	2017	2018e	2019e	2020e	2021e	2022e	2023e	CAGR ('19-'23)
<b>Growth Rates</b>											
Revenue	(0.2%)	2.9%	4.0%	(1.0%)	(14.3%)	(0.9%)	2.4%	2.5%	2.5%	2.5%	2.5%
Gross Profit	(1.8%)	1.9%	3.6%	(3.3%)	(15.0%)	(8.4%)	4.4%	4.4%	3.4%	3.5%	3.9%
EBITDA - Consolidated	(2.5%)	5.4%	2.8%	(4.9%)	(16.6%)	(10.1%)	4.7%	4.7%	3.6%	3.6%	4.2%
EBIT	(3.5%)	7.3%	7.2%	(9.3%)	(15.7%)	(14.6%)	6.4%	6.4%	4.7%	4.7%	5.5%
PBT	11.0%	(2.0%)	2.5%	4.2%	(9.1%)	(6.5%)	6.0%	6.8%	5.7%	5.5%	6.0%
PAT/EPS	10.5%	(1.9%)	2.8%	4.8%	(9.6%)	(6.5%)	6.0%	6.8%	5.7%	5.5%	6.0%
DPS	10.0%	0.0%	0.0%	3.3%	0.0%	0.0%	3.2%	3.1%	3.0%	2.9%	3.1%
CFPS	30.7%	(16.6%)	11.7%	(19.0%)	16.7%	(17.5%)	6.9%	1.2%	4.7%	4.5%	4.3%
FCFPS	NM	NM	50.5%	31.1%	(39.1%)	45.7%	7.7%	1.4%	5.3%	5.0%	4.8%
<b>Operating Ratios</b>											
Gross Margin	59.5%	58.9%	58.7%	57.3%	56.8%	52.5%	53.5%	54.5%	55.0%	55.5%	
EBITDA Margin - Consolidated	51.8%	53.1%	52.5%	50.4%	49.1%	44.5%	45.5%	46.5%	47.0%	47.5%	
EBIT Margin	36.3%	37.8%	38.9%	35.7%	35.1%	30.3%	31.4%	32.6%	33.3%	34.0%	
Net Margin	52.8%	50.3%	49.7%	52.6%	55.5%	52.4%	54.2%	56.5%	58.2%	59.9%	
<b>Finance Ratios</b>											
Debt-Equity Ratio	0.8	0.7	0.7	0.7	0.5	0.5	0.4	0.4	0.3	0.3	
Net Debt-Equity Ratio	0.5	0.4	0.4	0.3	0.3	0.2	0.1	0.1	0.0	(0.0)	
Interest Coverage	9.7	9.4	8.1	6.1	4.1	3.4	3.7	4.1	4.6	5.1	
<b>Return Ratios</b>											
ROIC	8.8%	9.2%	8.5%	7.4%	5.6%	4.7%	5.0%	5.2%	5.3%	5.4%	
ROE	22.6%	20.4%	18.6%	18.0%	13.7%	12.2%	12.3%	12.4%	12.4%	12.4%	
ROA	11.8%	11.2%	10.1%	10.2%	8.4%	7.8%	8.1%	8.5%	8.8%	9.1%	
FCF Yield	-2.3%	4.0%	6.0%	7.8%	4.8%	6.9%	7.5%	7.6%	8.0%	8.4%	
<b>Liquidity Ratios</b>											
Current Ratio	1.2	1.5	2.1	2.3	2.0	2.2	2.2	2.4	2.6	2.8	
Quick Ratio	1.1	1.4	1.9	2.2	1.9	2.0	2.1	2.3	2.5	2.7	

Source: Bloomberg, QNB FS estimates

## Detailed Financial Statements

Income Statement (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
<b>Revenue</b>	<b>3,071</b>	<b>2,633</b>	<b>2,609</b>	<b>2,673</b>
Cost of Sales, Excluding Depreciation	(1,312)	(1,137)	(1,239)	(1,243)
<b>Gross Profit</b>	<b>1,759</b>	<b>1,495</b>	<b>1,370</b>	<b>1,430</b>
General & Administrative Expenses	(210)	(203)	(208)	(213)
<b>EBITDA</b>	<b>1,549</b>	<b>1,293</b>	<b>1,162</b>	<b>1,217</b>
Deferred Income	0	0	0	0
Depreciation & Amortization	(453)	(369)	(373)	(377)
<b>EBIT</b>	<b>1,096</b>	<b>924</b>	<b>789</b>	<b>840</b>
Finance Costs, Net	(164)	(114)	(152)	(146)
Dividend Income & Gain on Sale of AFS	95	111	122	134
Other & Miscellaneous Income/Expense & Share of Profits from JVs	613	570	635	649
Share of Associates	0	0	0	0
Profit Before Tax	1,639	1,490	1,393	1,477
Income Tax Expense	0	0	0	0
<b>Profit After Tax (Continuing Operations)</b>	<b>1,639</b>	<b>1,490</b>	<b>1,393</b>	<b>1,477</b>
Discontinued Operations				
Minority Interest	(23)	(29)	(27)	(29)
<b>Profit for Shareholders</b>	<b>1,616</b>	<b>1,461</b>	<b>1,366</b>	<b>1,449</b>
<b>EPS (QR)</b>	<b>14.69</b>	<b>13.29</b>	<b>12.42</b>	<b>13.17</b>

Source: Company data, QNB FS estimates

Balance Sheet (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
<b>Non-Current Assets</b>				
Property, Plant and Equipment	5,745	5,434	5,169	4,901
Available-for-Sale Investments	702	1,384	1,384	1,384
Finance Lease Receivables	1,249	1,141	1,043	954
JV Loans and Investments in JVs	3,136	5,021	5,367	5,719
Other Non-Current assets	330	340	332	324
<b>Total Non-Current Assets</b>	<b>11,161</b>	<b>13,321</b>	<b>13,296</b>	<b>13,282</b>
<b>Current Assets</b>				
Finance Lease Receivables & Others	120	135	135	135
Inventories	231	234	255	255
Accounts Receivables & Prepayments	849	577	572	586
Cash and Short-Term Deposits	3,436	3,040	3,369	3,611
<b>Total Current Assets</b>	<b>4,635</b>	<b>3,986</b>	<b>4,330</b>	<b>4,587</b>
<b>Total Assets</b>	<b>15,797</b>	<b>17,307</b>	<b>17,626</b>	<b>17,869</b>
<b>Equity</b>				
Equity to the Parent	8,978	10,658	11,172	11,768
Minority Interest	250	246	241	237
<b>Total Equity</b>	<b>9,228</b>	<b>10,903</b>	<b>11,413</b>	<b>12,005</b>
<b>Non-Current Liabilities</b>				
Loans and Borrowings	4,442	4,327	4,110	3,699
Employees' End of Service Benefits	74	84	93	103
Derivatives	27	5	5	5
<b>Total Non-Current Liabilities</b>	<b>4,543</b>	<b>4,416</b>	<b>4,209</b>	<b>3,807</b>
<b>Current Liabilities</b>				
Accounts Payables & Others	586	561	577	630
Loans and Borrowings	1,424	1,423	1,423	1,423
Derivatives	15	4	4	4
<b>Total Current Liabilities</b>	<b>2,026</b>	<b>1,988</b>	<b>2,004</b>	<b>2,057</b>
<b>Equity and Liabilities</b>	<b>15,797</b>	<b>17,307</b>	<b>17,626</b>	<b>17,869</b>

Source: Company data, QNB FS 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

### Contacts

#### Saugata Sarkar, CFA, CAIA

Head of Research

Tel: (+974) 4476 6534

[saugata.sarkar@qnbfs.com.qa](mailto:saugata.sarkar@qnbfs.com.qa)

#### Mehmet Aksoy, PhD

Senior Research Analyst

Tel: (+974) 4476 6589

[mehmet.aksoy@qnbfs.com.qa](mailto:mehmet.aksoy@qnbfs.com.qa)

#### Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

[shahan.keushgerian@qnbfs.com.qa](mailto:shahan.keushgerian@qnbfs.com.qa)

#### Zaid al-Nafoosi, CMT, CFTE

Senior Research Analyst

Tel: (+974) 4476 6535

[zaid.alnafoosi@qnbfs.com.qa](mailto:zaid.alnafoosi@qnbfs.com.qa)

#### QNB Financial Services Co. W.L.L.

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

**Disclaimer and Copyright Notice:** This publication has been prepared by QNB Financial Services Co. W.L.L. ("QNB FS") a wholly-owned subsidiary of Qatar National Bank (Q.P.S.C.). QNB FS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange. Qatar National Bank (Q.P.S.C.) 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. QNB FS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment 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. 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. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNB FS Fundamental Research as a result of depending solely on the historical technical data (price and volume). 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. This report may not be reproduced in whole or in part without permission from QNB FS.

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