

Qatar Electricity & Water Company (QEWS)

Recommendation	ACCUMULATE	Risk Rating	R-2
Share Price	QR15.00	Target Price	QR19.00
Implied Upside	26.7%		

Moderate 2Q2024 Earnings Beat; Maintaining Estimates; Accumulate

QEWS moderately bested our 2Q2024 earnings estimate on better-than-expected operating performance and other income despite modestly lower-than-expected top-line and soft JV/associate income. We maintain our forecasts for now and our 2024 earnings estimate implies a 10.4% growth in earnings in 2H2024 over 1H2024, which could be aggressive. We note that as of July 2024, QEWS has started managing all commercial, administrative and technical activities for Nebras Power through a services agreement, which should boost synergies and help earnings. We maintain our Accumulate recommendation and our QR19 price target.

Highlights

- **QEWS posted 2Q2024 earnings of QR361.2mn (EPS: QR0.33), down 1.8% YoY but up 13.4% QoQ, which was 2.5% ahead of our estimate of QR352.3mn (EPS: QR0.32).**
- **Top-line of QR743.6mn (3.1% YoY, 8.2% QoQ) enjoyed an expected seasonal boost but came in modestly below our estimate of QR757.3mn (-1.8% divergence).** Electricity revenue of QR385.5mn (4.1% YoY, 14.5% QoQ) missed our forecast modestly by 2.0%. Water sales of QR335.1mn (1.1% YoY, 2.1% QoQ) was also moderately below our model of QR342.6mn (-2.2% difference).
- **Gross/EBITDA margins exceeded our model.** Cash gross margin came in at 42.7% in 2Q2024 vs. 43.4% in 2Q2023 and 44.4% in 1Q2024; we were modeling a GM of 42.1%. Overall, 2Q2024 gross profit of QR317.4mn (1.4% YoY, 3.9% QoQ) was in-line with our estimate of QR319.1mn (-0.5% divergence). G&A expenses of QR51.1mn (63.3% YoY, -15.4% QoQ) was 15.8% below our estimate of QR60.8mn. EBITDA margin came in at 35.8% in 2Q2024 vs. 39.0% in 2Q2023 and 35.7% in 1Q2024; we were expecting an EBITDA margin of 34.1%. Aided by lower-than-expected G&A expenses, EBITDA of QR266.3mn (-5.4% YoY, 8.7% QoQ) was 3.1% ahead of our model of QR258.4mn.
- **Net finance costs exceeded our model but other/miscellaneous income aided earnings upside for the quarter.** Finance costs of QR122.5mn (-3.4% YoY, 7.7% QoQ) surpassed our estimate of QR118.0mn by 3.9%. Finance income of QR55.8mn (-24.6% YoY, -5.8% QoQ) was 14.4% below our estimate of QR65.2mn. Other/miscellaneous income came in at QR66.1mn (106.4% YoY) and significantly accelerated vs. QR3.0mn posted in 1Q2024; this exceeded our forecast of QR28.5mn by 132.2%. As a major portion of the miscellaneous income line item has historically involved reversal of provisions that management had previously stated (during the company's 1Q2024 conference call) should not persist in 2024, we have to check with the company to determine the reason for this significant uptick in miscellaneous income. Finally, JV/associate income of QR169.1mn (-17.7% YoY, 17.7% QoQ) fell 13.8% below our model of QR196.1mn.
- **We maintain our estimates for now and expect a conservative EPS CAGR of 0.9% over 2023-2027e.** Given 1H2024 earnings of QR679.7mn, our FY2024 estimate implies 10.4% growth in 2H2024 earnings to QR750.5mn, which could be a bit optimistic.
- **QEWS enjoys decent EBITDA margins & dividend/FCF yields.** Despite modeled compression, EBITDA margins average ~36% (2023-27). Over 2023-27, dividend yields and FCF yields could average 5.7% and 9.1%, respectively.

Catalysts

- **We like QEWS as a long-term play with a relatively defensive business model, especially given current market conditions. LT catalysts (not in our model) include Facility E (55% stake; power: 2,300 MW & water: 100 MIGD) that should be operational, in phases from, 2027. Nebras also has several medium-term projects in the pipeline. Investors could also perceive an increase in DPS positively.**

Recommendation, Valuation and Risks

- **Recommendation & valuation: We rate QEWS an Accumulate with a PT of QR19.00.** Dividend yield is 5.3% for 2024 and 5.6% for 2025.
- **Risks: Geopolitical risks** cannot be modeled. Besides **foreign expansion risks**, **domestic projects could also be delayed. Operational risks include availability of capacity below contracted levels**, which could lead to penalties.

Key Financial Data and Estimates

	FY2023	FY2024e	FY2025e	FY2026e
Revenue (QR mn)	2,911	3,044	3,081	3,133
Revenue Growth	7.0%	4.6%	1.2%	1.7%
EPS (QR)	1.41	1.30	1.36	1.41
EPS Growth	-9.3%	-7.8%	4.7%	3.4%
P/E (x)	10.6	11.5	11.0	10.7
DPS (QR)	0.86	0.80	0.84	0.87
ROE	10.4%	9.3%	9.4%	9.3%

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

Key Data

Current Market Price (QR)	15.00
Dividend Yield (%)	5.7
Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWC.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	18.80/14.50
3-m Average Volume ('000)	417.1
Mkt. Cap. (\$ bn/QR bn)	4.5/16.5
EV (\$ bn/QR bn)	5.7/20.6
Shares Outstanding (bn)	1.10
FO Limit* (%)	100.0
Institutional FO* (%)	9.5
1-Year Total Return (%)	(12.3)
Fiscal Year End	December 31

Source: Bloomberg (as of August 05, 2024), *Qatar Exchange (as of August 05, 2024); Note: FO is foreign ownership

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QNB FS 2Q2024 Estimates and Comparisons

Income Statement (QR mn)							
Particulars	2Q2023	1Q2024	2Q2024	2Q2024e	A Vs. E	YoY	QoQ
Revenue	721.599	687.335	743.641	757.286	-1.8%	3.1%	8.2%
Electricity	370.384	336.601	385.520	393.365	-2.0%	4.1%	14.5%
Water	331.581	328.146	335.099	342.575	-2.2%	1.1%	2.1%
Lease Income from JVs and Associates	19.634	22.588	23.022	21.346	7.9%	17.3%	1.9%
Cost of Sales (Ex. Depreciation)	(408.701)	(381.827)	(426.240)	(438.166)	-2.7%	4.3%	11.6%
Gross Profit	312.898	305.508	317.401	319.120	-0.5%	1.4%	3.9%
General and Administrative Expenses	(31.327)	(60.465)	(51.142)	(60.756)	-15.8%	63.3%	-15.4%
EBITDA	281.571	245.043	266.259	258.364	3.1%	-5.4%	8.7%
Depreciation (CoS)	(83.539)	(80.846)	(82.922)	(83.009)	-0.1%	-0.7%	2.6%
Depreciation (G&A)	(21.425)	(3.303)	(4.004)	(3.345)	19.7%	-81.3%	21.2%
Amortization	(2.008)	(1.912)	(1.936)	(1.912)	1.3%	-3.6%	1.3%
Depreciation & Amortization	(106.972)	(86.061)	(88.862)	(88.266)	0.7%	-16.9%	3.3%
EBIT	174.599	158.982	177.397	170.098	4.3%	1.6%	11.6%
Finance Costs	(126.803)	(113.777)	(122.531)	(117.930)	3.9%	-3.4%	7.7%
Interest income	73.960	59.183	55.756	65.156	-14.4%	-24.6%	-5.8%
Finance Costs, Net	(52.843)	(54.594)	(66.775)	(52.774)	26.5%	26.4%	22.3%
Dividend Income	22.701	74.140	21.287	18.018	18.1%	-6.2%	-71.3%
Other & Misc. Income / Exp.	32.015	3.016	66.065	28.457	132.2%	106.4%	2090.5%
JV/Associate Income	205.424	143.744	169.117	196.133	-13.8%	-17.7%	17.7%
Profit from Discontinued Operations	(6.517)	0.114	(0.001)	-	-	-100.0%	N/M
Profit Before Tax	375.379	325.402	367.090	359.933	2.0%	-2.2%	12.8%
Tax	(2.020)	(2.262)	(1.965)	(2.502)	-21.5%	-2.7%	-13.1%
Profit after Tax	373.359	323.140	365.125	357.431	2.2%	-2.2%	13.0%
Minority Interest	(5.442)	(4.648)	(3.963)	(5.141)	-22.9%	-27.2%	-14.7%
Net Income	367.917	318.492	361.162	352.289	2.5%	-1.8%	13.4%
<i>Net Margin</i>	<i>51.0%</i>	<i>46.3%</i>	<i>48.6%</i>	<i>46.5%</i>			
EPS (QR)	0.33	0.29	0.33	0.32	2.5%	-1.8%	13.4%

	2Q2023	1Q2024	2Q2024	2Q2024e
Cost of Sales	56.6%	55.6%	57.3%	57.9%
SG&A	4.3%	8.8%	6.9%	8.0%
Depreciation/Sales	11.6%	11.8%	11.2%	11.0%
EBITDA margin	39.0%	35.7%	35.8%	34.1%
Operating Margin	24.2%	23.1%	23.9%	22.5%
Min Interest (as a % of NI)	1.5%	1.5%	1.1%	1.5%
Net Margin	51.0%	46.3%	48.6%	46.5%
GM	43.4%	44.4%	42.7%	42.1%

Source: Company data, QNB FS Research

Valuation and Key Ratios

Valuation Metrics

Particulars	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Valuation														
EV/EBITDA - Consolidated	13.1	12.4	11.8	11.9	13.7	18.5	19.1	14.1	16.5	16.5	15.5	14.9	14.3	13.6
EV/EBIT	18.8	17.4	15.8	16.9	17.6	26.3	28.5	19.0	23.2	24.6	22.7	21.7	20.6	19.3
P/E	10.8	11.0	10.7	10.2	10.7	11.7	14.3	11.2	9.6	10.6	11.5	11.0	10.7	10.3
P/CF	7.4	8.9	8.0	9.9	8.0	13.0	9.3	10.1	9.6	10.1	8.7	8.7	8.5	8.3
P/BV	2.4	2.2	2.0	1.8	1.6	1.7	1.7	1.4	1.1	1.1	1.1	1.0	1.0	1.0
Dividend Yield	5.0%	5.0%	5.0%	5.2%	5.2%	5.2%	4.2%	5.3%	6.3%	5.7%	5.3%	5.6%	5.8%	6.0%
FCF Yield	(2.9%)	4.9%	7.4%	9.7%	6.3%	6.2%	10.3%	8.4%	12.0%	6.7%	9.6%	9.5%	9.8%	10.1%

Source: Bloomberg, QNB FS Research

Key Growth Rates/CAGRs/Ratios

Particulars	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e	CAGR ('23-'27)
Growth Rates															
Revenue	(0.2%)	2.9%	4.0%	(1.0%)	(15.3%)	(8.2%)	8.3%	(4.3%)	10.0%	7.0%	4.6%	1.2%	1.7%	1.7%	2.3%
Gross Profit	(1.8%)	1.9%	3.6%	(3.3%)	(15.8%)	(23.6%)	4.2%	5.2%	7.6%	0.8%	3.6%	0.1%	0.3%	1.0%	1.3%
EBITDA - Consolidated	(2.5%)	5.4%	2.8%	(4.9%)	(15.8%)	(25.8%)	(8.2%)	24.4%	(4.3%)	2.0%	2.8%	(0.2%)	(0.0%)	0.8%	0.9%
EBIT	(3.5%)	7.3%	7.2%	(9.3%)	(7.2%)	(33.1%)	(12.5%)	37.2%	(7.7%)	(4.1%)	5.0%	0.4%	0.7%	1.9%	2.0%
JV/Associate Income	3.6%	4.1%	(8.9%)	52.3%	(4.4%)	48.7%	(31.7%)	3.5%	17.4%	0.4%	9.9%	4.1%	3.3%	2.8%	5.0%
PBT	11.0%	(2.0%)	2.5%	4.2%	(4.5%)	(8.0%)	(17.9%)	26.0%	17.6%	(11.3%)	(7.3%)	4.7%	3.4%	3.6%	1.0%
Net Income/EPS	10.5%	(1.9%)	2.8%	4.8%	(4.9%)	(8.0%)	(18.1%)	26.8%	16.6%	(9.3%)	(7.8%)	4.7%	3.4%	3.6%	0.9%
DPS	10.0%	0.0%	0.0%	3.3%	0.0%	0.0%	(18.7%)	27.0%	18.8%	(9.5%)	(7.0%)	5.0%	3.6%	3.4%	(1.1%)
CFPS	30.7%	(16.6%)	11.7%	(19.1%)	24.2%	(38.8%)	40.1%	(7.9%)	4.6%	(4.9%)	16.5%	(0.5%)	2.4%	2.3%	2.9%
FCFPS	N/M	N/M	50.5%	30.9%	(35.1%)	(1.7%)	65.2%	(18.2%)	42.9%	(43.7%)	42.0%	(0.6%)	2.9%	2.8%	(3.4%)
Operating Ratios															
Gross Margin	59.5%	58.9%	58.7%	57.3%	56.9%	47.3%	45.6%	50.1%	49.0%	46.2%	45.7%	45.2%	44.6%	44.3%	
EBITDA Margin - Consolidated	51.8%	53.1%	52.5%	50.4%	50.2%	40.5%	34.4%	44.6%	38.9%	37.1%	36.4%	35.9%	35.3%	35.0%	
EBIT Margin	36.3%	37.8%	38.9%	35.7%	39.1%	28.5%	23.0%	33.0%	27.7%	24.9%	25.0%	24.8%	24.5%	24.6%	
Net Margin	52.8%	50.3%	49.7%	52.6%	59.1%	59.2%	44.8%	59.3%	62.9%	53.3%	47.0%	48.6%	49.4%	50.4%	
Finance Ratios															
Debt-Equity Ratio	0.8	0.7	0.7	0.7	0.7	0.7	0.6	0.5	0.7	0.5	0.4	0.4	0.3	0.3	
Net Debt-Equity Ratio	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.0	
Interest Coverage	9.7	9.4	8.1	6.1	4.5	2.8	4.0	7.1	2.6	1.4	1.6	1.6	1.7	1.7	
Return Ratios															
ROIC	8.8%	9.2%	8.5%	7.4%	5.9%	4.1%	3.7%	4.7%	2.9%	3.3%	3.5%	3.5%	3.4%	3.4%	
ROE	22.6%	20.4%	18.6%	18.0%	14.7%	14.1%	11.9%	12.4%	11.3%	10.4%	9.3%	9.4%	9.3%	9.3%	
ROA	11.8%	11.2%	10.1%	10.2%	8.4%	8.1%	6.8%	7.9%	6.2%	6.7%	6.1%	6.4%	6.5%	6.6%	
FCF Yield	-2.9%	4.9%	7.4%	9.7%	6.3%	6.2%	10.3%	8.4%	12.0%	6.7%	9.6%	9.5%	9.8%	10.1%	
Liquidity Ratios															
Current Ratio	1.2	1.5	2.1	2.3	1.6	1.4	1.4	1.6	1.8	1.7	1.8	1.9	2.0	2.2	
Quick Ratio	1.1	1.4	1.9	2.2	1.6	1.4	1.4	1.6	1.8	1.7	1.8	1.8	2.0	2.1	
Valuation															
EV/EBITDA - Consolidated	13.1	12.4	11.8	11.9	13.7	18.5	19.1	14.1	16.5	16.5	15.5	14.9	14.3	13.6	
EV/EBIT	18.8	17.4	15.8	16.9	17.6	26.3	28.5	19.0	23.2	24.6	22.7	21.7	20.6	19.3	
P/E	10.8	11.0	10.7	10.2	10.7	11.7	14.3	11.2	9.6	10.6	11.5	11.0	10.7	10.3	
P/CF	7.4	8.9	8.0	9.9	8.0	13.0	9.3	10.1	9.6	10.1	8.7	8.7	8.5	8.3	
P/BV	2.4	2.2	2.0	1.8	1.6	1.7	1.7	1.4	1.1	1.1	1.1	1.0	1.0	1.0	
Dividend Yield	5.0%	5.0%	5.0%	5.2%	5.2%	5.2%	4.2%	5.3%	6.3%	5.7%	5.3%	5.6%	5.8%	6.0%	
FCF Yield	(2.9%)	4.9%	7.4%	9.7%	6.3%	6.2%	10.3%	8.4%	12.0%	6.7%	9.6%	9.5%	9.8%	10.1%	

Source: Bloomberg, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	FY2023	FY2024e	FY2025e	FY2026e
Revenue	2,911	3,044	3,081	3,133
Cost of Sales, Excluding Depreciation	(1,567)	(1,652)	(1,687)	(1,734)
Gross Profit	1,344	1,393	1,394	1,399
General & Administrative Expenses, Excl. Depreciation & Amortization	(265)	(283)	(287)	(291)
EBITDA	1,079	1,110	1,107	1,107
Deferred Income	0	0	0	0
Depreciation & Amortization	(355)	(350)	(345)	(339)
EBIT	724	760	763	768
Finance Costs, Net	(195)	(183)	(156)	(141)
Dividend Income & Gain on Sale of AFS	114	93	99	103
Other & Miscellaneous Income/Expense & Income from JVs/Associates	919	771	802	828
Profit Before Tax	1,561	1,440	1,508	1,559
Income Tax Expense	6	(2)	(2)	(2)
Profit After Tax (Continuing Operations)	1,568	1,438	1,505	1,557
Discontinued Operations	(7)	1	1	1
Minority Interest	(9)	(8)	(9)	(9)
Profit for Shareholders	1,551	1,430	1,498	1,549
EPS (QR)	1.41	1.30	1.36	1.41

Source: Company data, QNB FS estimates

Balance Sheet (In QR mn)	FY2023	FY2024e	FY2025e	FY2026e
Non-Current Assets				
Property, Plant & Equipment	5,858	5,591	5,330	5,074
Available-for-Sale Investments	2,017	2,118	2,182	2,247
Finance Lease Receivables	595	496	397	297
JV Loans and Investments in JVs/Associates	8,305	8,622	8,942	9,265
Other Non-Current assets	1,406	1,388	1,370	1,352
Total Non-Current Assets	18,181	18,215	18,220	18,235
Current Assets				
Finance Lease Receivables & Others	369	298	298	298
Inventories	97	102	104	107
Accounts Receivables & Prepayments	856	893	906	921
Cash and Short-Term Deposits	3,787	3,941	4,006	4,369
Total Current Assets	5,109	5,233	5,314	5,695
Total Assets	23,290	23,448	23,534	23,930
Equity				
Total Equity	15,209	15,677	16,278	16,886
Non-Current Liabilities				
Loans and Borrowings	5,001	4,726	4,253	4,062
Employees' End of Service Benefits	92	94	95	96
Lease Liabilities	45	44	42	41
Derivatives	19	19	19	19
Total Non-Current Liabilities	5,157	4,882	4,409	4,218
Current Liabilities				
Accounts Payables & Others	916	963	986	1,014
Loans and Borrowings	1,818	1,736	1,670	1,621
Derivatives & Lease Liabilities	190	190	190	190
Total Current Liabilities	2,924	2,890	2,847	2,826
Equity and Liabilities	23,290	23,448	23,534	23,930

Source: Company data, QNB FS estimates

Recommendations		Risk Ratings	
<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>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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