

QEWS Alert – 2Q2021 Earnings Beat on Margins & JV Income; Accumulate

- **QEWS reports 2Q2021 net income of QR412.7mn, up 21.2% YoY and 11.0% QoQ, exceeding our estimate of QR387.9mn by 6.4%** – While overall top-line was below our estimate, improved margins and upside in JV income drove the earnings beat for the quarter.
- **Total 2Q2021 revenue (power+water+lease interest) of QR600.2mn (-8.4% YoY, -0.1% QoQ) was below our forecast of QR666.5mn (divergence of -10.0%).** We note that 2Q2021 was the first quarter of YoY revenue decline after six consecutive quarters of YoY revenue increases. We will seek color from management regarding the softer-than-expected top-line performance for the quarter despite expected seasonal strength.
- **JV income increases 3.3% YoY and 26.8% QoQ to QR166.3mn.** Gross margin came in at 51.8% in 2Q2021, which was higher than 45.9% in 2Q2020 and 50.4% posted in 1Q2021. EBITDA margin came in at 47.1% in 2Q2021 vs. 40.3% in 2Q2020 and 44.5% in 1Q2021. JV income increased to QR166.3mn from QR160.9mn in 2Q2020 and QR131.2mn in 1Q2021.
- **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

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