

QEWS Alert – In-line 2Q2022 Earnings Excl. One-Off Loss on Land; Maintain Accumulate

- **QEWS reports 2Q2022 net income of QR295.9mn, down 28.3% YoY and 23.9% QoQ, below our estimate of QR362.9mn – We note the company recorded a QR86.1mn loss on land held for sale in Lusail and if we exclude this one-off item, 2Q2022 earnings would have come in at QR382.0mn (5.3% above our estimate). Overall operating metrics were in-line with our model.**
- **Total 2Q2022 revenue (power+water+lease interest) of QR635.4mn (5.9% YoY, 12.5% QoQ) was bang in-line with our forecast of QR629.8mn (0.9% divergence). Power revenue (49% of sales) of QR308.7mn (17.9% YoY, 21.3% QoQ) was moderately below our forecast, while water sales (49% of top-line; -1.1% YoY, 6.3% QoQ) slightly exceeded our estimate.**
- **JV income took a hit on account of a QR113mn net impairment loss on Nebras' 5 solar plants located in Ukraine. Gross margin came in at 45.9% in 2Q2022, which was lower than 51.8% posted in 2Q2021 and 49.1% reported in 1Q2022. EBITDA margin came in at 41.1% in 2Q2022 vs. 47.1% in 2Q2021 and 42.2% in 1Q2022. JV income decreased to QR73.1mn from QR166.3mn in 2Q2021 (down 56.1% YoY) and QR92.4mn in 1Q2022 (down 20.9% QoQ). As mentioned above, QEWS management assumed a worst-case scenario and impaired its entire investment in 5 solar plants (via Nebras) in Ukraine. In the future, the company may be able to reverse this QR113mn impairment if the situation in Ukraine improves. If we exclude this impairment, JV income would have come in at a healthy ~QR186mn in 2Q2022.**
- **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. QEWS also recently agreed to purchase the 40% of Nebras Power it did not already own for \$530mn. 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 once the transaction closes. However, we have already incorporated this acquisition into our DCF-based valuation model. Growth in 2022 should be fueled by 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 (+6.4 GW gross). Given that Nebras will become a 100%-owned subsidiary in 2H2022, 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

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