QEWS Alert – An In-Line Set of Results in 1Q2020; Maintain Accumulate

- **QEWS reports an in-line 1Q2020 –** QEWS' net profit rises 3.6% YoY but declines 31.0% QoQ in 1Q2020 to QR320.11mn, in-line with our estimate of QR311.85mn (variation of +2.6%). *We note the sequential decline is primarily due to QR192mn in provision reversals for Umm Al Houl taken in 4Q2019 and excluding this, 1Q2020 net income actually increased 17.8% QoQ*. Overall performance was generally consistent with our modeled estimates. As we had expected, 1Q2020 results were affected by seasonality but YoY comparisons have started to ease off. Gross margin came in at 47.5% in 1Q2020, which dropped from 50.6% in 1Q2019 but improved from 44.9% in 4Q2019. EBITDA margin also fell to 40.6% vs. 42.4% in 1Q2019 but increased from 38.6% in 4Q2019. However, 1Q2020 operating margin improved on a YoY basis from 28.8% in 1Q2019 to 29.2% in the first quarter of 2020 given lower D&A expenses; operating margin also gained sequentially vs. 26.8% in 4Q2019.
- **Earnings should continue to enjoy better YoY comparisons as we progress through 2020.** As we have noted previously, RAF B, which already witnessed lowered tariffs under a 12-year contract extension from July 2018, also faces lower offtake in 2019/2020 given Umm Al Houl (which is running at full capacity). Moreover, RAF B1/B2 are going through a contractually agreed dip in tariff rates. Costs have also increased beyond modeled expectations given higher-than-expected gas costs for RAF B's renewal. *However, with these items already affecting 2019 performance, YoY comparisons should start to look better in 2020. This was evident in 1Q2020 earnings, in our view.*
- **We remain Accumulate on QEWS with a price target of QR17.00.** *We continue to like the company as a long-term play with a relatively defensive business model, especially considering current market conditions.* QEWS still enjoys decent EBITDA margins and dividend/FCF yields. LT catalysts (which are not in our model) abound, including additional domestic expansions (like Facility E starting by 2022-2023; Siraj solar project starting in 2021, etc.). Beyond Paiton (Indonesia), we do not have color on other major Nebras projects, which could lead to growth relative to our model.

QNB FINANCIAL SERVICES

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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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