QEWS Alert – In-Line 2Q2020 Results; Maintain Accumulate

- **QEWS reports 2Q2020 results that are in-line with our model –** QEWS' net profit rose 9.7% YoY and 6.4% QoQ in 2Q2020 to QR340.5mn, in-line with our estimate of QR328.3mn (variation of +3.7%). Overall performance remained generally consistent with our modeled estimates.

- **Total 2Q2020 revenue (power+water+lease interest) of QR655.5mn (8.5% YoY, 9.4% QoQ) was also in-line with our forecast of QR636.2mn (divergence of +3.0%).** As we had expected in our earnings preview, 2Q2020 marked the third consecutive quarter of YoY revenue increases, with QEWS' top-line registering gains of 3.0% and 11.1% in 4Q2019 and 1Q2020, respectively, after posting yearly declines through 1Q2019-3Q2019.

- **Margin improvement, along with lower finance charges, helped boost profitability.** Gross margin came in at 48.1% in 2Q2020, which was modestly lower than 48.8% in 2Q2019 but improved from 47.5% in 1Q2020. EBITDA margin, however, gained vs. both YoY and QoQ comparisons, coming in at 42.5% vs. 42.4% in 2Q2019 and 40.6% in 1Q2020; EBITDA margin was helped by lower G&A expenses on a YoY basis and higher GM/lower G&A sequentially. Operating margin also improved, increasing from 30.6% in 2Q2019 to 31.2% in 2Q2020; operating margin also gained QoQ vs. 29.2% in 1Q2020.

- **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's ramp up. 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 look better in 2020. This was evident in 1H2020 earnings performance 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 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. LT catalysts (which are not in our model) abound, including additional domestic expansions (like Facility E in 2022-2023; Siraj solar project in 2021-2022, etc.). Nebras remains on the hunt for growth with a goal of increasing its net capacity to 6 GW by 2023 from 1.7 GW in September 2019. However, beyond Paiton (Indonesia), we do not have color on other major Nebras projects, which could lead to growth relative to our model.

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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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