

Qatar Electricity & Water Company (QEWS)

Recommendation	ACCUMULATE	Risk Rating	R-2
Share Price	QR17.15	Target Price	QR22.00
Implied Upside	28.3%		

3Q2023 Miss On Lower Margins/JV Income/Impairment; Accumulate

- **QEWS posted 3Q2023 earnings of QR340.4mn (EPS: QR0.31), down 39.8% YoY/7.5% QoQ, which was 15.7% shy of our estimate of QR404.0mn (EPS: QR0.37).** Higher-than-expected direct cash costs, a small impairment, increased net finance charges, along with lower-than-modeled JV income, more than offset a decent top-line beat.
- **Seasonality helped boost 3Q2023 total revenue to QR798.1mn, up 12.2% YoY/10.6% QoQ, which came in 7.8% higher than our estimate of QR740.7mn.** Electricity revenue of QR432.2mn (11.6% YoY, 16.7% QoQ) exceeded our forecast by 13.7%. Water sales of QR347.2mn (14.0% YoY, 4.7% QoQ) was also modestly ahead by 1.8%.
- **Increased gas costs likely passed through higher power sales in 3Q2023 compressing margins.** Direct cash costs of QR480.7mn (23.2% YoY, 17.6% QoQ), grew faster than revenue YoY (as has been the case thus far in 2023 likely due to RAF B1's PPA renegotiation in early 2023 that boosted fuel costs) and exceeded our estimate of QR420.0mn by 14.5%. Consequently, cash gross margin fell to 39.8% from 45.1% in 3Q2022 and 43.4% in 2Q2023; we were modeling a GM of 43.3%. The increase in direct costs could be attributed to the 27.5% YoY/19.4% QoQ increase in cost of gas to QR366.2mn in 3Q2023. Most of this cost seems to have been passed through the top-line with cash gross profit flattish on both a YoY and a QoQ basis.
- **A small impairment (likely reported in the G&A line), higher-than-modeled net finance costs and lower-than-expected JV income, also crimped earnings.** Reported G&A expenses of QR85.4mn (22.4% YoY, 56.0% QoQ) came in significantly ahead of our forecast. On its cash flow statement, QEWS reported QR30.2mn in impairment and amortization expense for 9M2023, which is likely included in its G&A for 3Q2023. The company provided no further details regarding this impairment. Our cash G&A estimate of QR28.0 for 3Q2023 is not strictly comparable, as the company also did not disclose its amortization charge separately (as it usually does) for 3Q2023. The G&A line continues to remain erratic on a quarterly basis and we will seek color from management about its run rate going forward. Net finance costs of QR51.4mn (3.7% YoY, -2.7% QoQ) was also 19.4% ahead of our estimate of QR43.1mn. JV income of QR209.2mn (-6.5% YoY, 1.8% QoQ) fell 5.9% below our model of QR222.2mn.
- **We will have to lower our 2023 estimate given 9M2023 results.** Our current forecast envisages a 7.8% earnings decline in 2023 to QR1,578.1mn. **However, given 9M2023 profit of QR1,109.0mn, we are possibly looking at a ~5% haircut to 2023 earnings.**
- **2023 will continue to be impacted by the RAF B1 extension.** The new PPA, valid until end-2029, for RAF B1 (376 MW) was agreed in principle in March. As newer PPAs usually exhibit lower tariff/higher gas costs, we will have to continue to factor in lower profitability for 2023.
- **We continue to like QEWS as a long-term play with a relatively defensive business model, especially in light of current market conditions. LT catalysts (which are not in our model) abound: Facility E** (55% stake; power: 2,600 MW & water: 100 MIGD) is currently in the bidding stage and should be operational around 2025, reaching full capacity in 2026. **Nebras also has roughly 0.8 GW net capacity under construction/development that is not incorporated in our model.**
- **Recommendation & valuation: We continue to rate QEWS an Accumulate with a PT of QR22.00.** Assuming a 5% cut to 2023 EPS, the stock is trading at a 2023 P/E of ~12.5x, which is attractive relative to its historical five-year average of 13.3x. Dividend yields are also decent at 5.5% for 2023/2024.
- **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

	FY2022	FY2023e	FY2024e	FY2025e
Revenue (QR mn)	2,721	2,857	2,901	2,924
<i>Revenue Growth</i>	<i>10.0%</i>	<i>5.0%</i>	<i>1.5%</i>	<i>0.8%</i>
EPS (QR)	1.56	1.43	1.44	1.48
<i>EPS Growth</i>	<i>16.6%</i>	<i>-7.8%</i>	<i>0.1%</i>	<i>3.2%</i>
P/E (x)	11.0	12.0	11.9	11.6
DPS (QR)	0.95	0.95	0.95	1.00
ROE	11.3%	10.4%	10.1%	10.0%

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

Key Data

Current Market Price (QR)	17.15
Dividend Yield (%)	5.5
Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWQ.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	19.68/16.00
3-m Average Volume ('000)	357.0
Mkt. Cap. (\$ bn/QR bn)	5.4/19.8
EV (\$ bn/QR bn)	6.1/22.2
Shares Outstanding (bn)	1.10
FO Limit* (%)	100.0
Institutional FO* (%)	9.6
1-Year Total Return (%)	1.1
Fiscal Year End	December 31

Source: Bloomberg (as of October 22, 2023), *Qatar Exchange (as of October 22, 2023); Note: FO is foreign ownership

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QNB FS 3Q2023 Estimates and Comparisons

Income Statement (QR mn)							
Particulars	3Q2022	2Q2023	3Q2023	3Q2023e	A Vs. E	YoY	QoQ
Revenue	711.129	721.599	798.123	740.712	7.8%	12.2%	10.6%
Electricity	387.222	370.383	432.206	380.003	13.7%	11.6%	16.7%
Water	304.570	331.582	347.191	341.114	1.8%	14.0%	4.7%
Lease Income from JVs and Associates	19.337	19.634	18.726	19.595	-4.4%	-3.2%	-4.6%
Cost of Sales (Ex. Depreciation)	(390.175)	(408.701)	(480.724)	(419.984)	14.5%	23.2%	17.6%
Gross Profit	320.954	312.898	317.399	320.728	-1.0%	-1.1%	1.4%
General and Administrative Expenses	(52.770)	(28.010)	(79.855)	(28.032)	184.9%	51.3%	185.1%
EBITDA	268.184	284.888	237.545	292.696	-18.8%	-11.4%	-16.6%
Depreciation (CoS)	(70.903)	(83.539)	(87.801)	(83.623)	5.0%	23.8%	5.1%
Depreciation (G&A)	(15.041)	(21.425)	(1.931)	(21.436)	-91.0%	-87.2%	-91.0%
Amortization	(1.985)	(5.325)	(3.616)	(5.325)	-32.1%	82.1%	-32.1%
Depreciation & Amortization	(87.929)	(110.289)	(93.348)	(110.383)	-15.4%	6.2%	-15.4%
EBIT	180.255	174.599	144.197	182.313	-20.9%	-20.0%	-17.4%
Finance Costs	(102.820)	(126.803)	(133.777)	(121.858)	9.8%	30.1%	5.5%
Interest income	53.246	73.960	82.345	78.767	4.5%	54.7%	11.3%
Finance Costs, Net	(49.574)	(52.843)	(51.432)	(43.090)	19.4%	3.7%	-2.7%
Dividend Income		22.701					-100.0%
Other & Misc. Income / Exp.	241.806	32.015	30.881	35.000	-11.8%	-87.2%	-3.5%
JV Income	223.843	205.424	209.213	222.228	-5.9%	-6.5%	1.8%
Profit from Discontinued Operations		(6.517)	(0.660)	15.725	N/M		-89.9%
Profit Before Tax	596.330	375.379	332.199	412.175	-19.4%	-44.3%	-11.5%
Tax	(3.019)	(2.020)	7.989	(2.218)	N/M	N/M	N/M
Profit after Tax	593.311	373.359	340.188	409.957	-17.0%	-42.7%	-8.9%
Minority Interest	(27.913)	(5.442)	0.243	(5.975)	N/M	N/M	N/M
Net Income	565.398	367.917	340.431	403.982	-15.7%	-39.8%	-7.5%
<i>Net Margin</i>	<i>79.5%</i>	<i>51.0%</i>	<i>42.7%</i>	<i>54.5%</i>			
EPS (QR)	0.51	0.33	0.31	0.37	-15.7%	-39.8%	-7.5%
	3Q2022	2Q2023	3Q2023	3Q2023e			
Cost of Sales	54.9%	56.6%	60.2%	56.7%			
SG&A	7.4%	3.9%	10.0%	3.8%			
Depreciation/Sales	10.0%	11.6%	11.0%	11.3%			
EBITDA margin	37.7%	39.5%	29.8%	39.5%			
Operating Margin	25.3%	24.2%	18.1%	24.6%			
Min Interest (as a % of NI)	4.9%	1.5%	-0.1%	1.5%			
Net Margin	79.5%	51.0%	42.7%	54.5%			
GM	45.1%	43.4%	39.8%	43.3%			

Source: Company data, QNB FS Research

Valuation and Key Ratios

Valuation Metrics

Particulars	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Valuation														
EV/EBITDA - Consolidated	14.7	13.9	13.2	13.5	15.5	20.9	21.8	16.2	18.8	18.7	17.8	17.4	16.8	16.1
EV/EBIT	21.0	19.5	17.8	19.0	19.9	29.7	32.4	21.9	26.3	27.9	26.2	25.9	25.0	24.0
P/E	12.3	12.6	12.2	11.7	12.3	13.3	16.3	12.9	11.0	12.0	11.9	11.6	11.2	10.9
P/CF	8.5	10.2	9.1	11.3	9.1	14.9	10.6	11.5	11.0	12.3	9.7	9.4	9.2	9.0
P/BV	2.8	2.6	2.3	2.1	1.8	1.9	1.9	1.6	1.2	1.2	1.2	1.2	1.1	1.1
Dividend Yield	4.4%	4.4%	4.4%	4.5%	4.5%	4.5%	3.7%	4.7%	5.5%	5.5%	5.5%	5.8%	6.1%	6.4%
FCF Yield	(2.6%)	4.3%	6.5%	8.5%	5.5%	5.4%	9.0%	7.3%	10.5%	7.3%	9.5%	9.9%	10.1%	10.3%

Source: Bloomberg, QNB FS Research

Key Growth Rates/CAGRs/Ratios

Particulars	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e	CAGR ('22-'27)
Growth Rates															
Revenue	(0.2%)	2.9%	4.0%	(1.0%)	(15.3%)	(8.2%)	8.3%	(4.3%)	10.0%	5.0%	1.5%	0.8%	1.1%	1.1%	1.9%
Gross Profit	(1.8%)	1.9%	3.6%	(3.3%)	(15.8%)	(23.6%)	4.2%	5.2%	7.6%	(3.6%)	1.5%	(1.4%)	(0.3%)	(0.1%)	(0.8%)
EBITDA - Consolidated	(2.5%)	5.4%	2.8%	(4.9%)	(15.8%)	(25.8%)	(8.2%)	24.4%	(4.3%)	1.0%	1.5%	(1.9%)	(0.6%)	(0.4%)	(0.1%)
EBIT	(3.5%)	7.3%	7.2%	(9.3%)	(7.2%)	(33.1%)	(12.5%)	37.2%	(7.7%)	(5.0%)	2.4%	(2.7%)	(0.8%)	(0.5%)	(1.3%)
JV Income	3.6%	4.1%	(8.9%)	52.3%	(4.4%)	48.7%	(31.7%)	3.5%	17.4%	24.0%	3.9%	2.1%	2.3%	2.8%	6.7%
PBT	11.0%	(2.0%)	2.5%	4.2%	(4.5%)	(8.0%)	(17.9%)	26.0%	17.6%	(7.3%)	0.1%	3.2%	2.9%	2.8%	0.3%
Net Income/EPS	10.5%	(1.9%)	2.8%	4.8%	(4.9%)	(8.0%)	(18.1%)	26.8%	16.6%	(7.8%)	0.1%	3.2%	2.9%	2.8%	0.2%
DPS	10.0%	0.0%	0.0%	3.3%	0.0%	0.0%	(18.7%)	27.0%	18.8%	0.0%	0.0%	5.3%	5.0%	4.8%	3.0%
CFPS	30.7%	(16.6%)	11.7%	(19.1%)	24.2%	(38.8%)	40.1%	(7.9%)	4.6%	(10.6%)	27.1%	3.4%	1.9%	2.1%	4.1%
FCFPS	N/M	N/M	50.5%	30.9%	(35.1%)	(1.7%)	65.2%	(18.2%)	42.9%	(29.9%)	29.9%	3.7%	2.0%	2.2%	(0.3%)
Operating Ratios															
Gross Margin	59.5%	58.9%	58.7%	57.3%	56.9%	47.3%	45.6%	50.1%	49.0%	45.0%	45.0%	44.0%	43.4%	42.9%	
EBITDA Margin - Consolidated	51.8%	53.1%	52.5%	50.4%	50.2%	40.5%	34.4%	44.6%	38.9%	37.4%	37.4%	36.4%	35.8%	35.3%	
EBIT Margin	36.3%	37.8%	38.9%	35.7%	39.1%	28.5%	23.0%	33.0%	27.7%	25.1%	25.3%	24.4%	24.0%	23.6%	
Net Margin	52.8%	50.3%	49.7%	52.6%	59.1%	59.2%	44.8%	59.3%	62.9%	55.2%	54.4%	55.8%	56.8%	57.8%	
Finance Ratios															
Debt-Equity Ratio	0.8	0.7	0.7	0.7	0.7	0.7	0.6	0.5	0.7	0.6	0.5	0.5	0.4	0.4	
Net Debt-Equity Ratio	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.1	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	1.5	1.6	1.7	1.8	1.8	
Return Ratios															
ROIC	8.8%	9.2%	8.5%	7.4%	5.9%	4.1%	3.7%	4.7%	2.9%	3.0%	3.1%	3.0%	2.9%	2.9%	
ROE	22.6%	20.4%	18.6%	18.0%	14.7%	14.1%	11.9%	12.4%	11.3%	10.4%	10.1%	10.0%	9.9%	9.9%	
ROA	11.8%	11.2%	10.1%	10.2%	8.4%	8.1%	6.8%	7.9%	6.2%	6.2%	6.1%	6.3%	6.4%	6.5%	
FCF Yield	-2.6%	4.3%	6.5%	8.5%	5.5%	5.4%	9.0%	7.3%	10.5%	7.3%	9.5%	9.9%	10.1%	10.3%	
Liquidity Ratios															
Current Ratio	1.2	1.5	2.1	2.3	1.6	1.4	1.4	1.6	1.8	1.5	1.6	1.7	1.8	1.9	
Quick Ratio	1.1	1.4	1.9	2.2	1.6	1.4	1.4	1.6	1.8	1.5	1.6	1.6	1.8	1.9	
Valuation															
EV/EBITDA - Consolidated	14.7	13.9	13.2	13.5	15.5	20.9	21.8	16.2	18.8	18.7	17.8	17.4	16.8	16.1	
EV/EBIT	21.0	19.5	17.8	19.0	19.9	29.7	32.4	21.9	26.3	27.9	26.2	25.9	25.0	24.0	
P/E	12.3	12.6	12.2	11.7	12.3	13.3	16.3	12.9	11.0	12.0	11.9	11.6	11.2	10.9	
P/CF	8.5	10.2	9.1	11.3	9.1	14.9	10.6	11.5	11.0	12.3	9.7	9.4	9.2	9.0	
P/BV	2.8	2.6	2.3	2.1	1.8	1.9	1.9	1.6	1.2	1.2	1.2	1.2	1.1	1.1	
Dividend Yield	4.4%	4.4%	4.4%	4.5%	4.5%	4.5%	3.7%	4.7%	5.5%	5.5%	5.5%	5.8%	6.1%	6.4%	
FCF Yield	(2.6%)	4.3%	6.5%	8.5%	5.5%	5.4%	9.0%	7.3%	10.5%	7.3%	9.5%	9.9%	10.1%	10.3%	

Source: Bloomberg, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	FY2022	FY2023e	FY2024e	FY2025e
Revenue	2,721	2,857	2,901	2,924
Cost of Sales, Excluding Depreciation	(1,387)	(1,571)	(1,595)	(1,637)
Gross Profit	1,334	1,286	1,306	1,287
General & Administrative Expenses, Excl. Depreciation & Amortization	(276)	(218)	(222)	(223)
EBITDA	1,058	1,068	1,084	1,064
Deferred Income	0	0	0	0
Depreciation & Amortization	(303)	(351)	(350)	(349)
EBIT	754	717	734	715
Finance Costs, Net	(111)	(181)	(152)	(108)
Dividend Income & Gain on Sale of AFS	161	118	117	125
Other & Miscellaneous Income/Expense & Income from JVs/Associates	945	952	928	948
Profit Before Tax	1,750	1,606	1,626	1,679
Income Tax Expense	(2)	(9)	(9)	(10)
Profit After Tax (Continuing Operations)	1,747	1,597	1,617	1,669
Discontinued Operations	3	19		
Minority Interest	(40)	(37)	(38)	(39)
Profit for Shareholders	1,711	1,578	1,579	1,631
EPS (QR)	1.56	1.43	1.44	1.48

Source: Company data, QNB FS estimates

Balance Sheet (In QR mn)	FY2022	FY2023e	FY2024e	FY2025e
Non-Current Assets				
Property, Plant & Equipment	6,084	5,816	5,549	5,282
Available-for-Sale Investments	2,323	2,189	2,299	2,368
Finance Lease Receivables	765	656	546	437
JV Loans and Investments in JVs/Associates	8,905	9,112	9,325	9,540
Other Non-Current assets	344	875	857	840
Total Non-Current Assets	18,420	18,648	18,576	18,467
Current Assets				
Finance Lease Receivables & Others	400	296	296	296
Inventories	94	106	108	111
Accounts Receivables & Prepayments	779	861	874	881
Cash and Short-Term Deposits	8,117	5,683	5,859	5,963
Total Current Assets	9,389	6,947	7,138	7,251
Total Assets	27,809	25,595	25,714	25,718
Equity				
Total Equity	15,457	15,520	16,064	16,660
Non-Current Liabilities				
Loans and Borrowings	6,921	5,268	4,979	4,481
Employees' End of Service Benefits	88	89	90	91
Lease Liabilities	55	54	53	51
Derivatives	63	67	67	67
Total Non-Current Liabilities	7,126	5,478	5,188	4,691
Current Liabilities				
Accounts Payables & Others	932	1,055	1,072	1,100
Loans and Borrowings	4,154	3,372	3,220	3,098
Derivatives & Lease Liabilities	140	170	170	170
Total Current Liabilities	5,226	4,597	4,462	4,367
Equity and Liabilities	27,809	25,595	25,714	25,718

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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