

**Qatar Electricity & Water Company (QEWS)**

Recommendation	ACCUMULATE	Risk Rating	R-2
Share Price	QR15.30	Target Price	QR19.00
Implied Upside	24.2%	Old Target Price	QR22.00

**1Q2024 Falls Below Forecasts; Reducing Estimates & PT; Accumulate**

*QEWS missed our 1Q2024 earnings estimate on weaker-than-expected operating performance and a dip in interest/other income. We are lowering our forecasts to reflect these results; our model changes lead to an average earnings decline of 8.0% over 2024-27 vs. our previous forecasts. We also adjust our target price from QR22 to QR19 but stay Accumulate.*

**Highlights**

- **QEWS posted 1Q2024 earnings of QR318.5mn (EPS: QR0.29), down 20.5% YoY/28.0% QoQ, which was 28.6% shy of our estimate of QR445.8mn (EPS: QR0.41). We do note that earnings on a normalized basis increased around 7% YoY/2% QoQ after we exclude one-offs, including a QR78mn profit from the sale of Siraj Energy and a ~QR26mn reversal of provisions in 1Q2023; 4Q2023 also included an ~QR80mn fuel gas provision reversal related to RAF B's take-or-pay agreement and a QR51mn Ukraine provision reversal.**
- **Top-line of QR687.3mn (4.5% YoY, -6.3% QoQ) came in moderately below our estimate of QR706.0mn (-2.6% divergence).** Electricity revenue of QR336.6mn (4.9% YoY, -9.4% QoQ) missed our forecast by 6.5%. Water sales of QR328.1mn (3.2% YoY, -4.7% QoQ) was in-line with our model (-0.4% difference). QEWS reported a 2% increase in sent out power and 4% increase in sent out water, helping top-line YoY.
- **Gross margins dipped below our model.** Cash gross margin came in at 44.4% in 1Q2024 vs. 43.4% in 1Q2023 and 58.4% (boosted by ~QR80mn in reversals) in 4Q2023; we were modeling a GM of 47.6%, which was admittedly a bit on the optimistic side. Overall, 1Q2024 gross profit of QR305.5mn (7.1% YoY, -28.7% QoQ) fell below our estimate of QR335.9mn by 9.1%.
- **Finance and other income also came in markedly below our expectations.** Finance income of QR59.2mn (-22.5% YoY, -25.3% QoQ) was also 34.3% below our estimate of QR90.1mn. Other/miscellaneous income came in at only QR3.0mn vs. QR106.9mn in 1Q2023 (which included a ~QR78mn in gain on Siraj sale) and QR77.2mn in 4Q2023; we were modeling QR39.9mn. Finally, JV income of QR143.7mn (27.5% YoY, -0.8% QoQ) fell 8.2% below our model of QR156.6mn.
- **We expect a conservative EPS CAGR of 0.9% over 2023-2027e.** We have lowered our earnings estimates, over our forecast horizon, by around 8.0% relative to our previous model. While our current estimates call for an improved outlook for the consolidated assets in terms of top-line performance and EBITDA/operating margins, we are taking a more measured approach for income for JVs/associates and are also forecasting higher net finance charges and lower dividend/other income.
- **QEWS enjoys decent EBITDA margins & dividend/FCF yields.** Despite modeled compression, EBITDA margins average ~36% (2023-27). Over 2023-27, dividend yields and FCF yields could average 5.6% and 9.0%, respectively.

**Catalysts**

- **We like QEWS as a long-term play with a relatively defensive business model, especially given current market conditions. LT catalysts (not in our model) include Facility E (55% stake; power: 2,300 MW & water: 100 MIGD) that should be operational, in phases from, 2027. Nebras also has several medium-term projects in the pipeline. Investors could also perceive an increase in DPS positively.**

**Recommendation, Valuation and Risks**

- **Recommendation & valuation: We rate QEWS an Accumulate with a PT of QR19.00.** Dividend yield is 5.2% for 2024 and 5.5% for 2025.
- **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**

	FY2023	FY2024e	FY2025e	FY2026e
Revenue (QR mn)	2,911	3,044	3,081	3,133
Revenue Growth	7.0%	4.6%	1.2%	1.7%
EPS (QR)	1.41	1.30	1.36	1.41
EPS Growth	-9.3%	-7.8%	4.7%	3.4%
P/E (x)	10.8	11.8	11.2	10.9
DPS (QR)	0.86	0.80	0.84	0.87
ROE	10.4%	9.3%	9.4%	9.3%

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

**Key Data**

Current Market Price (QR)	15.30
Dividend Yield (%)	5.6
Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWC.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	18.80/15.30
3-m Average Volume ('000)	657.0
Mkt. Cap. (\$ bn/QR bn)	4.6/16.8
EV (\$ bn/QR bn)	5.8/21.1
Shares Outstanding (bn)	1.10
FO Limit* (%)	100.0
Institutional FO* (%)	9.8
1-Year Total Return (%)	(2.7)
Fiscal Year End	December 31

Source: Bloomberg (as of April 25, 2024), \*Qatar Exchange (as of April 24, 2024); Note: FO is foreign ownership

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

## QNB FS 1Q2024 Estimates and Comparisons

Income Statement (QR mn)							
Particulars	1Q2023	4Q2023	1Q2024	1Q2024e	A Vs. E	YoY	QoQ
<b>Revenue</b>	<b>658.049</b>	<b>733.449</b>	<b>687.335</b>	<b>705.758</b>	<b>-2.6%</b>	<b>4.5%</b>	<b>-6.3%</b>
Electricity	320.992	371.512	336.601	359.936	-6.5%	4.9%	-9.4%
Water	317.969	344.431	328.146	329.456	-0.4%	3.2%	-4.7%
Lease Income from JVs and Associates	19.088	17.506	22.588	16.365	38.0%	18.3%	29.0%
<b>Cost of Sales (Ex. Depreciation)</b>	<b>(372.729)</b>	<b>(304.933)</b>	<b>(381.827)</b>	<b>(369.817)</b>	<b>3.2%</b>	<b>2.4%</b>	<b>25.2%</b>
<b>Gross Profit</b>	<b>285.320</b>	<b>428.516</b>	<b>305.508</b>	<b>335.941</b>	<b>-9.1%</b>	<b>7.1%</b>	<b>-28.7%</b>
General and Administrative Expenses	(55.096)	(96.982)	(60.465)	(57.052)	6.0%	9.7%	-37.7%
<b>EBITDA</b>	<b>230.224</b>	<b>331.534</b>	<b>245.043</b>	<b>278.889</b>	<b>-12.1%</b>	<b>6.4%</b>	<b>-26.1%</b>
Depreciation (CoS)	(81.453)	(82.412)	(80.846)	(83.180)	-2.8%	-0.7%	-1.9%
Depreciation (G&A)	(4.475)	15.380	(3.303)	(3.564)	-7.3%	-26.2%	-121.5%
Amortization	(1.906)	(1.960)	(1.912)	(1.960)	-2.4%	0.3%	-2.4%
<b>Depreciation &amp; Amortization</b>	<b>(87.834)</b>	<b>(68.992)</b>	<b>(86.061)</b>	<b>(88.704)</b>	<b>-3.0%</b>	<b>-2.0%</b>	<b>24.7%</b>
<b>EBIT</b>	<b>142.390</b>	<b>262.542</b>	<b>158.982</b>	<b>190.185</b>	<b>-16.4%</b>	<b>11.7%</b>	<b>-39.4%</b>
Finance Costs	(136.675)	(110.047)	(113.777)	(107.296)	6.0%	-16.8%	3.4%
Interest income	76.338	79.263	59.183	90.130	-34.3%	-22.5%	-25.3%
Finance Costs, Net	(60.337)	(30.784)	(54.594)	(17.166)	218.0%	-9.5%	77.3%
Dividend Income	91.247	-	74.140	83.143	-10.8%	-18.7%	N/M
Other & Misc. Income / Exp.	106.853	77.158	3.016	39.877	-92.4%	-97.2%	-96.1%
JV Income	112.766	144.881	143.744	156.632	-8.2%	27.5%	-0.8%
Profit from Discontinued Operations	19.019	(18.998)	0.114	(1.698)	N/M	-99.4%	N/M
<b>Profit Before Tax</b>	<b>411.938</b>	<b>434.799</b>	<b>325.402</b>	<b>450.973</b>	<b>-27.8%</b>	<b>-21.0%</b>	<b>-25.2%</b>
Tax	(2.385)	2.453	(2.262)	(2.611)	-13.4%	-5.2%	N/M
<b>Profit after Tax</b>	<b>409.553</b>	<b>437.252</b>	<b>323.140</b>	<b>448.362</b>	<b>-27.9%</b>	<b>-21.1%</b>	<b>-26.1%</b>
Minority Interest	(8.890)	5.173	(4.648)	(2.562)	81.4%	-47.7%	N/M
<b>Net Income</b>	<b>400.663</b>	<b>442.425</b>	<b>318.492</b>	<b>445.800</b>	<b>-28.6%</b>	<b>-20.5%</b>	<b>-28.0%</b>
<i>Net Margin</i>	<i>60.9%</i>	<i>60.3%</i>	<i>46.3%</i>	<i>63.2%</i>			
<b>EPS (QR)</b>	<b>0.36</b>	<b>0.40</b>	<b>0.29</b>	<b>0.41</b>	<b>-28.6%</b>	<b>-20.5%</b>	<b>-28.0%</b>

  

	1Q2023	4Q2023	1Q2024	1Q2024e
Cost of Sales	56.6%	41.6%	55.6%	52.4%
SG&A	8.4%	13.2%	8.8%	8.1%
Depreciation/Sales	12.4%	11.2%	11.8%	11.8%
EBITDA margin	35.0%	45.2%	35.7%	39.5%
Operating Margin	21.6%	35.8%	23.1%	26.9%
Min Interest (as a % of NI)	2.2%	-1.2%	1.5%	0.6%
Net Margin	60.9%	60.3%	46.3%	63.2%
GM	43.4%	58.4%	44.4%	47.6%

Source: Company data, QNB FS Research

## QNB FS New Vs. Previous Estimates

Income Statement (QR mn)	Current		Previous		Current		Previous	
	2023	2024e	2024e	▲	2025e	2025e	▲	
<b>Revenue</b>	<b>2,911.220</b>	<b>3,044.338</b>	<b>2,901.321</b>	<b>4.9%</b>	<b>3,080.733</b>	<b>2,924.350</b>	<b>5.3%</b>	
Gross Profit	1,344.133	1,392.656	1,306.139	6.6%	1,393.902	1,287.262	8.3%	
EBITDA	1,079.215	1,109.536	1,084.426	2.3%	1,107.397	1,063.790	4.1%	
EBIT	723.728	759.578	734.329	3.4%	762.880	714.551	6.8%	
<b>Profit for Equity Holders</b>	<b>1,551.436</b>	<b>1,430.105</b>	<b>1,579.449</b>	<b>-9.5%</b>	<b>1,497.535</b>	<b>1,630.633</b>	<b>-8.2%</b>	
<b>Basic and Diluted EPS</b>	<b>1.41</b>	<b>1.30</b>	<b>1.44</b>	<b>-9.5%</b>	<b>1.36</b>	<b>1.48</b>	<b>-8.2%</b>	
<b>DPS</b>	<b>0.86</b>	<b>0.80</b>	<b>0.95</b>	<b>-15.8%</b>	<b>0.84</b>	<b>1.00</b>	<b>-16.0%</b>	
Margins/Ratios	2023	2024e	2024e		2025e	2025e		
Gross Margin	46.2%	45.7%	45.0%		45.2%	44.0%		
EBITDA Margin	37.1%	36.4%	37.4%		35.9%	36.4%		
EBIT Margin	24.9%	25.0%	25.3%		24.8%	24.4%		
Net Profit Margin	53.3%	47.0%	54.4%		48.6%	55.8%		
Dividend Payout Ratio	61.0%	61.5%	66.2%		61.7%	67.5%		

Source: Company data, QNB FS Research

## Valuation and Key Ratios

### Valuation Metrics

Particulars	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
<b>Valuation</b>														
EV/EBITDA - Consolidated	13.4	12.6	12.0	12.1	14.0	18.8	19.5	14.4	16.8	16.8	15.8	15.2	14.6	13.9
EV/EBIT	19.1	17.7	16.1	17.2	17.9	26.8	29.0	19.4	23.6	25.1	23.1	22.1	21.1	19.8
P/E	11.0	11.2	10.9	10.4	11.0	11.9	14.5	11.5	9.8	10.8	11.8	11.2	10.9	10.5
P/CF	7.6	9.1	8.2	10.1	8.1	13.3	9.5	10.3	9.8	10.3	8.9	8.9	8.7	8.5
P/BV	2.5	2.3	2.0	1.9	1.6	1.7	1.7	1.4	1.1	1.1	1.1	1.1	1.0	1.0
Dividend Yield	4.9%	4.9%	4.9%	5.1%	5.1%	5.1%	4.1%	5.2%	6.2%	5.6%	5.2%	5.5%	5.7%	5.9%
FCF Yield	(2.9%)	4.8%	7.3%	9.5%	6.2%	6.1%	10.1%	8.2%	11.8%	6.6%	9.4%	9.3%	9.6%	9.9%

Source: Bloomberg, QNB FS Research

### Key Growth Rates/CAGRs/Ratios

Particulars	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e	CAGR ('23-'27)
<b>Growth Rates</b>															
Revenue	(0.2%)	2.9%	4.0%	(1.0%)	(15.3%)	(8.2%)	8.3%	(4.3%)	10.0%	7.0%	4.6%	1.2%	1.7%	1.7%	2.3%
Gross Profit	(1.8%)	1.9%	3.6%	(3.3%)	(15.8%)	(23.6%)	4.2%	5.2%	7.6%	0.8%	3.6%	0.1%	0.3%	1.0%	1.3%
EBITDA - Consolidated	(2.5%)	5.4%	2.8%	(4.9%)	(15.8%)	(25.8%)	(8.2%)	24.4%	(4.3%)	2.0%	2.8%	(0.2%)	(0.0%)	0.8%	0.9%
EBIT	(3.5%)	7.3%	7.2%	(9.3%)	(7.2%)	(33.1%)	(12.5%)	37.2%	(7.7%)	(4.1%)	5.0%	0.4%	0.7%	1.9%	2.0%
JV Income	3.6%	4.1%	(8.9%)	52.3%	(4.4%)	48.7%	(31.7%)	3.5%	17.4%	0.4%	9.9%	4.1%	3.3%	2.8%	5.0%
PBT	11.0%	(2.0%)	2.5%	4.2%	(4.5%)	(8.0%)	(17.9%)	26.0%	17.6%	(11.3%)	(7.3%)	4.7%	3.4%	3.6%	1.0%
Net Income/EPS	10.5%	(1.9%)	2.8%	4.8%	(4.9%)	(8.0%)	(18.1%)	26.8%	16.6%	(9.3%)	(7.8%)	4.7%	3.4%	3.6%	0.9%
DPS	10.0%	0.0%	0.0%	3.3%	0.0%	0.0%	(18.7%)	27.0%	18.8%	(9.5%)	(7.0%)	5.0%	3.6%	3.4%	(1.1%)
CFPS	30.7%	(16.6%)	11.7%	(19.1%)	24.2%	(38.8%)	40.1%	(7.9%)	4.6%	(4.9%)	16.5%	(0.5%)	2.4%	2.3%	2.9%
FCFPS	N/M	N/M	50.5%	30.9%	(35.1%)	(1.7%)	65.2%	(18.2%)	42.9%	(43.7%)	42.0%	(0.6%)	2.9%	2.8%	(3.4%)
<b>Operating Ratios</b>															
Gross Margin	59.5%	58.9%	58.7%	57.3%	56.9%	47.3%	45.6%	50.1%	49.0%	46.2%	45.7%	45.2%	44.6%	44.3%	
EBITDA Margin - Consolidated	51.8%	53.1%	52.5%	50.4%	50.2%	40.5%	34.4%	44.6%	38.9%	37.1%	36.4%	35.9%	35.3%	35.0%	
EBIT Margin	36.3%	37.8%	38.9%	35.7%	39.1%	28.5%	23.0%	33.0%	27.7%	24.9%	25.0%	24.8%	24.5%	24.6%	
Net Margin	52.8%	50.3%	49.7%	52.6%	59.1%	59.2%	44.8%	59.3%	62.9%	53.3%	47.0%	48.6%	49.4%	50.4%	
<b>Finance Ratios</b>															
Debt-Equity Ratio	0.8	0.7	0.7	0.7	0.7	0.7	0.6	0.5	0.7	0.5	0.4	0.4	0.3	0.3	
Net Debt-Equity Ratio	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	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	1.4	1.6	1.6	1.7	1.7	
<b>Return Ratios</b>															
ROIC	8.8%	9.2%	8.5%	7.4%	5.9%	4.1%	3.7%	4.7%	2.9%	3.3%	3.5%	3.5%	3.4%	3.4%	
ROE	22.6%	20.4%	18.6%	18.0%	14.7%	14.1%	11.9%	12.4%	11.3%	10.4%	9.3%	9.4%	9.3%	9.3%	
ROA	11.8%	11.2%	10.1%	10.2%	8.4%	8.1%	6.8%	7.9%	6.2%	6.7%	6.1%	6.4%	6.5%	6.6%	
FCF Yield	-2.9%	4.8%	7.3%	9.5%	6.2%	6.1%	10.1%	8.2%	11.8%	6.6%	9.4%	9.3%	9.6%	9.9%	
<b>Liquidity Ratios</b>															
Current Ratio	1.2	1.5	2.1	2.3	1.6	1.4	1.4	1.6	1.8	1.7	1.8	1.9	2.0	2.2	
Quick Ratio	1.1	1.4	1.9	2.2	1.6	1.4	1.4	1.6	1.8	1.7	1.8	1.8	2.0	2.1	
<b>Valuation</b>															
EV/EBITDA - Consolidated	13.4	12.6	12.0	12.1	14.0	18.8	19.5	14.4	16.8	16.8	15.8	15.2	14.6	13.9	
EV/EBIT	19.1	17.7	16.1	17.2	17.9	26.8	29.0	19.4	23.6	25.1	23.1	22.1	21.1	19.8	
P/E	11.0	11.2	10.9	10.4	11.0	11.9	14.5	11.5	9.8	10.8	11.8	11.2	10.9	10.5	
P/CF	7.6	9.1	8.2	10.1	8.1	13.3	9.5	10.3	9.8	10.3	8.9	8.9	8.7	8.5	
P/BV	2.5	2.3	2.0	1.9	1.6	1.7	1.7	1.4	1.1	1.1	1.1	1.1	1.0	1.0	
Dividend Yield	4.9%	4.9%	4.9%	5.1%	5.1%	5.1%	4.1%	5.2%	6.2%	5.6%	5.2%	5.5%	5.7%	5.9%	
FCF Yield	(2.9%)	4.8%	7.3%	9.5%	6.2%	6.1%	10.1%	8.2%	11.8%	6.6%	9.4%	9.3%	9.6%	9.9%	

Source: Bloomberg, QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	FY2023	FY2024e	FY2025e	FY2026e
<b>Revenue</b>	<b>2,911</b>	<b>3,044</b>	<b>3,081</b>	<b>3,133</b>
Cost of Sales, Excluding Depreciation	(1,567)	(1,652)	(1,687)	(1,734)
<b>Gross Profit</b>	<b>1,344</b>	<b>1,393</b>	<b>1,394</b>	<b>1,399</b>
General & Administrative Expenses, Excl. Depreciation & Amortization	(265)	(283)	(287)	(291)
<b>EBITDA</b>	<b>1,079</b>	<b>1,110</b>	<b>1,107</b>	<b>1,107</b>
Deferred Income	0	0	0	0
Depreciation & Amortization	(355)	(350)	(345)	(339)
<b>EBIT</b>	<b>724</b>	<b>760</b>	<b>763</b>	<b>768</b>
Finance Costs, Net	(195)	(183)	(156)	(141)
Dividend Income & Gain on Sale of AFS	114	93	99	103
Other & Miscellaneous Income/Expense & Income from JVs/Associates	919	771	802	828
<b>Profit Before Tax</b>	<b>1,561</b>	<b>1,440</b>	<b>1,508</b>	<b>1,559</b>
Income Tax Expense	6	(2)	(2)	(2)
<b>Profit After Tax (Continuing Operations)</b>	<b>1,568</b>	<b>1,438</b>	<b>1,505</b>	<b>1,557</b>
Discontinued Operations	(7)	1	1	1
Minority Interest	(9)	(8)	(9)	(9)
<b>Profit for Shareholders</b>	<b>1,551</b>	<b>1,430</b>	<b>1,498</b>	<b>1,549</b>
<b>EPS (QR)</b>	<b>1.41</b>	<b>1.30</b>	<b>1.36</b>	<b>1.41</b>

Source: Company data, QNB FS estimates

Balance Sheet (In QR mn)	FY2023	FY2024e	FY2025e	FY2026e
<b>Non-Current Assets</b>				
Property, Plant & Equipment	5,858	5,591	5,330	5,074
Available-for-Sale Investments	2,017	2,118	2,182	2,247
Finance Lease Receivables	595	496	397	297
JV Loans and Investments in JVs/Associates	8,305	8,622	8,942	9,265
Other Non-Current assets	1,406	1,388	1,370	1,352
<b>Total Non-Current Assets</b>	<b>18,181</b>	<b>18,215</b>	<b>18,220</b>	<b>18,235</b>
<b>Current Assets</b>				
Finance Lease Receivables & Others	369	298	298	298
Inventories	97	102	104	107
Accounts Receivables & Prepayments	856	893	906	921
Cash and Short-Term Deposits	3,787	3,941	4,006	4,369
<b>Total Current Assets</b>	<b>5,109</b>	<b>5,233</b>	<b>5,314</b>	<b>5,695</b>
<b>Total Assets</b>	<b>23,290</b>	<b>23,448</b>	<b>23,534</b>	<b>23,930</b>
<b>Equity</b>				
<b>Total Equity</b>	<b>15,209</b>	<b>15,677</b>	<b>16,278</b>	<b>16,886</b>
<b>Non-Current Liabilities</b>				
Loans and Borrowings	5,001	4,726	4,253	4,062
Employees' End of Service Benefits	92	94	95	96
Lease Liabilities	45	44	42	41
Derivatives	19	19	19	19
<b>Total Non-Current Liabilities</b>	<b>5,157</b>	<b>4,882</b>	<b>4,409</b>	<b>4,218</b>
<b>Current Liabilities</b>				
Accounts Payables & Others	916	963	986	1,014
Loans and Borrowings	1,818	1,736	1,670	1,621
Derivatives & Lease Liabilities	190	190	190	190
<b>Total Current Liabilities</b>	<b>2,924</b>	<b>2,890</b>	<b>2,847</b>	<b>2,826</b>
<b>Equity and Liabilities</b>	<b>23,290</b>	<b>23,448</b>	<b>23,534</b>	<b>23,930</b>

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>	
<b>OUTPERFORM</b>	Greater than +20%	<b>R-1</b>	Significantly lower than average
<b>ACCUMULATE</b>	Between +10% to +20%	<b>R-2</b>	Lower than average
<b>MARKET PERFORM</b>	Between -10% to +10%	<b>R-3</b>	Medium / In-line with the average
<b>REDUCE</b>	Between -10% to -20%	<b>R-4</b>	Above average
<b>UNDERPERFORM</b>	Lower than -20%	<b>R-5</b>	Significantly above average

## Contacts

### Contacts

QNB Financial Services Co. W.L.L.  
 Contact Center: (+974) 4476 6666  
[info@qnbfs.com.qa](mailto:info@qnbfs.com.qa)  
 Doha, Qatar

Saugata Sarkar, CFA, CAIA  
 Head of Research  
[saugata.sarkar@qnbfs.com.qa](mailto:saugata.sarkar@qnbfs.com.qa)

Shahan Keushgerian  
 Senior Research Analyst  
[shahan.keushgerian@qnbfs.com.qa](mailto:shahan.keushgerian@qnbfs.com.qa)

Phibion Makuwerere, CFA  
 Senior Research Analyst  
[phibion.makuwerere@qnbfs.com.qa](mailto:phibion.makuwerere@qnbfs.com.qa)

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