

## Qatar Electricity & Water Company (QEWS)

Recommendation	ACCUMULATE	Risk Rating	R-2
Share Price	QR208.00	Current Target Price	QR242.00
Implied Upside	16.3%	Old Target Price	QR256.00

### In-Line 1Q2017; Stay Accumulate But Lowering PT to QR242

We rate QEWS an Accumulate with a new price target of QR242. 1Q2017 results were bang in-line with our estimates but we have taken a somewhat conservative view on margins going forward. We continue to remain positive on QEWS longer term as a low-risk play deeply linked to Qatar's growth story and we retain our long-term bullish stance.

#### Highlights

- **QEWS reported an in-line 1Q2017.** The company's reported net income of QR350mn (+14% QoQ, +1% YoY) came right in-line with our estimate. The QoQ growth in net income came on the back of one-offs in 4Q2016 with EBITDA margins ticking up sequentially to 47.8% vs. 47.2% in 4Q2016. 1Q2017 revenue of QR720mn (-7% QoQ, flat YoY) was also broadly in-line with a divergence of -4% vs. our forecast.
- **We are adjusting our model to reflect 1Q2017 results and moderate margin compression going forward.** QEWS' EBITDA margin declined to an average of around 47.5% over 4Q2016-1Q2017. While margins do tend to decline during the shoulder months, QEWS also faced several one-offs due to major maintenance at RLPC and shifting of water sales from RAF B and RAF A to RAF A3 that increased costs due to O&M service fees and expenses on consumables. We remain optimistic that margins will bounce back in 2Q-3Q2017 but have conservatively lowered our margin estimates. Overall, we are now projecting EBITDA margins of 50.3% and 50.8% in 2017 and 2018, respectively, vs. our prior estimates of 52.0% and 51.5%. QEWS generated EBITDA margins of 52.5% and 53.1% in 2016 and 2015, respectively. Our revenue numbers are also 1% lower for both 2017 and 2018 based purely on assumptions of lower lease income.

#### Catalysts

- **New projects on the horizon:** QEWS should benefit from RAF A3 (36 MIGD) from Sep.2016 (fully functional by 2017). Further, Umm Al Houli (Facility D) should be on-line in 2018 after its initial phase in 2017. Overall, these two projects should expand QEWS' net electricity & water capacity by 28% and 40%, respectively. Beyond these projects, another mega-project (Facility E) should begin construction in 2018-2019, with commissioning by 2020-2021. QEWS (60% stake) has also entered into a JV with QP called Seraj Energy, which will invest in a solar energy project in Qatar with a 500 MW Phase I expected to come on-line in 2019. On the international front, through 60%-owned Nebras, we expect QEWS to seek out other diversification opportunities.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation:** We rate QEWS an Accumulate but lower our price target from QR256 to QR242. The stock is trading at a 2017 P/E of 13.7x.
- **Risks:** Volatile oil prices are a major risk to regional equities. Decrease in tariff rates could negatively impact QEWS' business model.

#### Key Financial Data and Estimates

	FY2015	FY2016	FY2017e	FY2018e
Revenue (QR mn)	2,983	3,103	3,328	2,757
Revenue Growth	2.9%	4.0%	7.2%	-17.2%
EPS (QR)	13.64	14.02	15.21	14.36
EPS Growth	-1.9%	2.8%	8.5%	-5.6%
P/E (x)	15.2	14.8	13.7	14.5
DPS (QR)	7.50	7.50	7.75	8.00
Dividend Payout	55.0%	53.5%	51.0%	55.7%
Dividend Yield	3.6%	3.6%	3.7%	3.8%
ROE	20.4%	18.6%	18.0%	15.8%

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

#### Key Data

Current Market Price (QR)	208.00
Dividend Yield – 2016 (%)	3.7
Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWC.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	247.90/199.00
3-m Average Volume ('000)	39.9
Mkt. Cap. (\$ bn/QR bn)	6.3/22.9
Shares Outstanding (mn)	110.0
FO Limit* (%)	25.0
Current FO* (%)	12.0
1-Year Total Return (%)	3.4
Fiscal Year End	December 31

Source: Bloomberg (as of April 27, 2017), \*Qatar Exchange (as of April 27, 2017); Note: FO is foreign ownership

Saugata Sarkar

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

## Detailed Financial Statements

Income Statement (In QR mn)	FY2015	FY2016	FY2017e	FY2018e
<b>Revenue</b>	<b>2,983</b>	<b>3,103</b>	<b>3,328</b>	<b>2,757</b>
Cost of Sales, Excluding Depreciation	(1,225)	(1,283)	(1,448)	(1,185)
<b>Gross Profit</b>	<b>1,757</b>	<b>1,820</b>	<b>1,880</b>	<b>1,571</b>
General & Administrative Expenses	(173)	(192)	(205)	(170)
<b>EBITDA</b>	<b>1,584</b>	<b>1,628</b>	<b>1,675</b>	<b>1,401</b>
Deferred Income	7	7	0	0
Depreciation & Amortization	(463)	(427)	(485)	(489)
<b>EBIT</b>	<b>1,128</b>	<b>1,208</b>	<b>1,190</b>	<b>912</b>
Finance Costs, Net	(102)	(134)	(146)	(142)
Dividend Income & Gain on Sale of AFS	20	43	54	64
Other & Miscellaneous Income/Expense & Share of Profits from JVs	474	456	609	778
Share of Associates	16	0	0	0
Profit Before Tax	1,536	1,573	1,707	1,611
Income Tax Expense	0	0	0	0
<b>Profit After Tax (Continuing Operations)</b>	<b>1,536</b>	<b>1,573</b>	<b>1,707</b>	<b>1,611</b>
<b>Discontinued Operations</b>				
Minority Interest	(35)	(31)	(34)	(32)
<b>Profit for Shareholders</b>	<b>1,501</b>	<b>1,542</b>	<b>1,673</b>	<b>1,579</b>
<b>EPS (QR)</b>	<b>13.64</b>	<b>14.02</b>	<b>15.21</b>	<b>14.36</b>

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2015	FY2016	FY2017e	FY2018e
<b>Non-Current Assets</b>				
Property, Plant and Equipment	5,714	6,130	6,588	6,207
Available-for-Sale Investments	344	511	536	536
Finance Lease Receivables	1,491	1,366	1,252	1,148
JV Loans and Investments in JVs	2,627	2,825	2,957	4,043
Other Non-Current assets	311	303	379	371
<b>Total Non-Current Assets</b>	<b>10,487</b>	<b>11,136</b>	<b>11,712</b>	<b>12,304</b>
<b>Current Assets</b>				
Finance Lease Receivables & Others	146	124	123	123
Inventories	178	281	297	244
Accounts Receivables & Prepayments	888	674	775	642
Cash and Short-Term Deposits	1,751	3,011	3,541	3,269
<b>Total Current Assets</b>	<b>2,963</b>	<b>4,090</b>	<b>4,736</b>	<b>4,277</b>
<b>Total Assets</b>	<b>13,450</b>	<b>15,226</b>	<b>16,448</b>	<b>16,582</b>
<b>Equity</b>				
Equity to the Parent	7,346	8,275	9,270	9,997
Minority Interest	256	254	252	249
<b>Total Equity</b>	<b>7,602</b>	<b>8,529</b>	<b>9,522</b>	<b>10,246</b>
<b>Non-Current Liabilities</b>				
Loans and Borrowings	3,791	4,675	4,738	4,264
Employees' End of Service Benefits	49	53	57	61
Derivatives	20	8	20	20
<b>Total Non-Current Liabilities</b>	<b>3,860</b>	<b>4,736</b>	<b>4,814</b>	<b>4,345</b>
<b>Current Liabilities</b>				
Accounts Payables & Others	756	704	670	549
Loans and Borrowings	1,124	1,237	1,421	1,421
Derivatives	107	20	20	20
<b>Total Current Liabilities</b>	<b>1,988</b>	<b>1,961</b>	<b>2,112</b>	<b>1,990</b>
<b>Equity and Liabilities</b>	<b>13,450</b>	<b>15,226</b>	<b>16,448</b>	<b>16,582</b>

Source: Company data, QNBFS estimate

### Recommendations

Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

## Contacts

### Contacts

#### Saugata Sarkar

Head of Research

Tel: (+974) 4476 6534

[saugata.sarkar@qnbfs.com.qa](mailto:saugata.sarkar@qnbfs.com.qa)

#### Mohamed Abo Daff

Senior Research Analyst

Tel: (+974) 4476 6589

[mohd.abodaff@qnbfs.com.qa](mailto:mohd.abodaff@qnbfs.com.qa)

#### Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

[shahan.keushgerian@qnbfs.com.qa](mailto:shahan.keushgerian@qnbfs.com.qa)

#### Zaid Al Nafsoosi, CMT, CFTE

Senior Research Analyst

Tel: (+974) 4476 6535

[zaid.alnafsoosi@qnbfs.com.qa](mailto:zaid.alnafsoosi@qnbfs.com.qa)

#### QNB Financial Services Co. WLL

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

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