

## Qatar Electricity and Water Co. (QEWS)

<b>Recommendation</b>	<b>OUTPERFORM</b>	<b>Risk Rating</b>	<b>R-2</b>
<b>Share Price</b>	<b>QR135.40</b>	<b>Target Price</b>	<b>QR176.20</b>
<b>Implied Upside</b>	<b>30.1%</b>		

### 2Q2012 Results Miss Estimates Due to Plant Shutdowns

**2Q2012 results miss the mark; we remain bullish longer term and maintain our Outperform rating.** The top-line and net income misses were driven by extended maintenance-related shutdowns at the newer plants (RGPC and RLPC), among other items, during the quarter. Management however informs us that all facilities are in full operation in 3Q2012. Our thesis on QEWS remains unchanged. We view the company as a low-risk defensive play deeply linked to the Qatar growth story. QEWS possesses a low-risk business model with no demand or cost risk. While dividend growth was muted in 2011, substantial free cash flows leave open the potential for growth through acquisitions and/or dividend upside in the future. QEWS continues to remain attractively valued, trading at 9.2x and 8.9x our 2012 and 2013 EPS estimates, respectively, with a 2012 ROE of 32%. Thus, we maintain our Outperform rating on QEWS.

#### Financial Results and Key Takeaways

- 2Q2012 revenue increased 18.9% QoQ but came in below estimates.** Reported revenue declined almost 1% YoY and missed our and Bloomberg consensus median estimates by 4% and 5%, respectively. Our conversation with management indicated that extended maintenance-related shutdowns at RGPC and RLPC reduced lease income. Moreover, a change in accounting treating for RAF A revenue affected YoY comparisons. By segment: (1) Electricity generation recorded a top-line of QR573mn, up 43.5% QoQ (down 1.1% YoY). (2) Water desalination revenue at QR379mn was up 4.0% and 6.9% on a YoY and QoQ basis, respectively. (3) Finally, lease income of QR243mn declined 6.0% YoY and 3.3% QoQ.
- 2Q2012 profitability was also subdued and below expectations.** The company reported QR627mn in 2Q2012 EBITDA (52.5% margin) vs. our modeled estimate of QR679mn (54.5%). The softer-than-expected top-line, a decline in gross profitability and an uptick in G&A expenses (up around 6% YoY and QoQ) impacted EBITDA. QEWS reported QR348mn in 2Q2012 net income, down 21.3% YoY (up 19.6% QoQ). Net income came in 16% below our estimate of QR412mn and 22% below the Bloomberg consensus median estimate of QR444mn. As expected, 2Q2012 net income was affected by the absence of refund from EPC contractors (QR35.3mn in 2Q2011). Further, QEWS recorded QR3.1mn in expenses in 2Q2012 related to a shutdown in its associate company in Jordan.

#### Key Data:

Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWC.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	150.00/124.60
3-m Average Volume	16,989
Mkt. Cap. (\$ bn/QR bn)	3.7/13.5
Shares Outstanding (mn)	100
FO Limit* (%)	25.0
Current FO*	7.7
1-Year Total Return (%)	2.5
Fiscal Year End	Dec. 31

Source: Bloomberg (as of August 02, 2012), \*Qatar Exchange (as of August 02, 2012); Note: FO is foreign ownership

#### Broker Recommendations

Recommendation	Number
Buy	10
Hold	2
Sell	1

Source: Bloomberg

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QR mn ex. per Share Values	2Q2012	QoQ	YoY	2Q2012e	Actual vs. Estimated
Total Revenue	1,194	18.9%	-0.6%	1,246	-4.1%
EBITDA	627	10.5%	-11.1%	679	-7.6%
Net Attributable Income	348	19.6%	-21.3%	412	-15.6%
EPS	3.48	19.6%	-21.3%	4.12	-15.6%

Source: Company data

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

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