QNBFS Alert – QEWS 4Q2013 Falls Below Estimates Due to Higher Costs

- **In-line revenue but lowered profitability leads to 4Q2013 earnings miss.** QEWS reported a 4Q2013 bottom-line of QR330mn (-21% QoQ, -28% YoY) versus our estimate of QR371mn. The company generated revenue of QR692mn (-14% QoQ, flattish YoY), which was only 3% shy of our estimate of QR717mn. Reported revenue was comprised of: (1) QR350mn in electricity revenue (-23% QoQ, -3% YoY), which was below our estimate moderately; (2) QR295mn in water desalination sales (-2% QoQ, +3% YoY) was ahead of our estimate; and (3) QR48mn in lease income (flattish QoQ and YoY) that was slightly ahead of our modeled expectation. Direct costs expanded during the quarter, lowering the gross margin to 59.4% vs. 61.6% in 3Q2013 and 67.6% in 4Q2012; EBITDA came in at QR368mn (-18% QoQ, -14% YoY) lowering the EBITDA margin to 53.1% vs. 55.4% in 3Q2013 and 61.7% in 4Q2012; according to management, 4Q2012 costs were affected by a reversal of QR59.3mn in EOS benefits, leading to an adjusted EBITDA margin of 53.2%. Finally, share of profits from JVs (Q Power, Mesaieed Power & RGPC) was QR100mn (-14% QoQ, +122% YoY) which was right in line with our estimate.

- **Cash dividends in line with our estimate:** The company proposed a cash DPS of QR7.50 (DY: 4.1%) plus a 10% bonus share issue vs. our estimate of QR7.50 in cash DPS.

- **We maintain our Accumulate rating on QEWS with a price target of QR203.37.** Our price target, adjusted for the bonus shares, would be QR184.89. Over the longer term, significant catalysts abound. On the domestic front, QEWS should benefit from a new water plant, RAF A2 (36 MIGD), which we expect to begin significantly contributing from 2016. Further, Facility D (2,400 MW & 130 MIGD) should be commissioned around 2017. QEWS continues to seek regional expansion opportunities and has set up a $1bn joint venture (60% stake) called Nebras Power with QPI and QH to achieve this goal. Potential announcements of successful regional bids could act as catalysts, while commencement of full commercial production from RAF A2 in 2016 should reignite earnings growth.

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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