

Qatar Electricity & Water Company (QEWS)

Recommendation	ACCUMULATE	Risk Rating	R-2
Share Price	QR18.00	Target Price	QR22.00
Implied Upside	22.2%		

2Q2023 Earnings Miss On Lower Margins/JV Income; Maintain Accumulate

- **QEWS reported 2Q2023 earnings of QR367.9mn (EPS: QR0.33), up 24.3% YoY but down 8.2% QoQ, which was 11.3% shy of our estimate of QR414.9mn (EPS: QR0.38).** Higher-than-expected cash direct costs/D&A expenses, along with lower-than-anticipated JV income, more than offset an in-line revenue performance and better-than-modeled G&A expenses/other income. We note YoY comparisons generally remain skewed given the Nebras purchase/consolidation in July 2022.
- **Total revenue for 2Q2023 came in at QR721.6mn, up 13.6% YoY/9.7% QoQ and bang in-line with our estimate of QR722.6mn.** Revenue from power of QR370.4mn (20.0% YoY, 15.4% QoQ) exceeded our forecast by 3.1%. Water sales of QR331.6mn (7.3% YoY, 4.3% QoQ), however, fell short of our model by 3.8%. Direct cash costs of QR408.7mn (18.2% YoY, 9.7% QoQ) grew faster than revenue YoY and exceeded our estimate of QR386.6mn by 5.7%. Consequently, cash gross margin fell to 43.4% from 45.6% in 2Q2022 but remained flat sequentially; we were modeling a GM of 46.5%. In hindsight, we were probably a bit too optimistic on our GM assumption for the quarter given it was a seasonally stronger quarter (with usually higher sent out power/water) that serve to increase gas costs/lower margins.
- **G&A/other (dividend & miscellaneous) income were positive surprises but were offset by increased D&A expenses and lower-than-expected JV income.** G&A expenses of QR28.0mn (-2.5% YoY, -49.2% QoQ) came in 49.0% below our estimate of QR54.9mn; we note YoY comparisons are generally skewed across the board given the Nebras purchase in July 2022 but the sequential fall-off in G&A remains surprising and we will seek color from management about the G&A run rate going forward. Other income (dividend/miscellaneous income) of QR54.7mn was more than double our estimate of QR24.1mn but these line items remain difficult to model. D&A costs of QR110.3mn (213.0% YoY, 25.6% QoQ) exceeded our estimate of QR87.9mn by 25.4%. JV income of QR205.4mn (181.2% YoY, 82.2% QoQ) fell below our model of QR262.4mn by 21.7%. We do note 2Q2023 EBITDA of QR284.9mn (9.1% YoY, 23.7% QoQ) was bang in-line with our model of QR281.1mn (1.3% divergence) as higher-than-expected cash costs almost offset the upside in G&A expenses.
- **We maintain our overall estimates but could tweak some items given 1H2023 results.** We continue to expect a 7.8% earnings decline in 2023 to QR1,578.1mn. This implies a growth of 5.3% from QR768.6mn in 1H2023 to QR809.5mn in 2H2023.
- **This year will continue to be impacted by the RAF B1 extension.** The new PPA, valid until end-2029, for RAF B1 (376 MW, 100% interest, roughly 17% of consolidated power capacity) was agreed in principle in March. As newer PPAs usually exhibit reduced tariff/higher gas costs, we continue to factor in lower profitability for 2023.
- **We expect a conservative EPS CAGR of 0.2% over 2022-2027e.** Our estimates factor in the assumption of higher revenue given the change in revenue recognition at RAF B, which makes up ~28% of consolidated power capacity, offset by higher net finance costs, especially over 2024-2027, given higher rates and debt levels.
- **QEWS enjoys decent EBITDA margins & dividend/FCF yields.** Despite modeled compression, QEWS retains solid EBITDA margins (2022-27 avg.: ~37%). Over 2022-27, we expect dividend yields to average 5.6%, while FCF yields should average 9.2% over the same period. ROEs average 10.2% for 2022-27. *We note we are fairly conservative with our margin assumptions so there is room for upside to our estimates.*

Continued on next page.

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)	11.6	12.5	12.5	12.1
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)	18.00
Dividend Yield (%)	5.3
Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWQ.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	20.00/16.00
3-m Average Volume ('000)	390.3
Mkt. Cap. (\$ bn/QR bn)	5.4/19.8
EV (\$ bn/QR bn)	6.4/23.3
Shares Outstanding (bn)	1.10
FO Limit* (%)	49.0
Institutional FO* (%)	9.6
1-Year Total Return (%)	1.5
Fiscal Year End	December 31

*Source: Bloomberg (as of August 7, 2023), *Qatar Exchange (as of August 7, 2023); Note: FO is foreign ownership*

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- 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. QEWS trades at P/E multiples of 12.5x for both 2023 and 2024, which is attractive relative to its historical five-year average of 13.3x. Dividend yields are also attractive at 5.3% 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.

QNB FS 2Q2023 Estimates and Comparisons

Income Statement (QR mn)							
Particulars	2Q2022	1Q2023	2Q2023	2Q2023e	A Vs. E	YoY	QoQ
Revenue	635.433	658.049	721.599	722.648	-0.1%	13.6%	9.7%
Electricity	308.744	320.993	370.383	359.298	3.1%	20.0%	15.4%
Water	309.129	317.968	331.582	344.670	-3.8%	7.3%	4.3%
Lease Income from JVs and Associates	17.560	19.088	19.634	18.681	5.1%	11.8%	2.9%
Cost of Sales (Ex. Depreciation)	(345.666)	(372.729)	(408.701)	(386.617)	5.7%	18.2%	9.7%
Gross Profit	289.767	285.320	312.898	336.031	-6.9%	8.0%	9.7%
General and Administrative Expenses	(28.730)	(55.096)	(28.010)	(54.931)	-49.0%	-2.5%	-49.2%
EBITDA	261.037	230.224	284.888	281.101	1.3%	9.1%	23.7%
Depreciation (CoS)	(31.213)	(81.453)	(83.539)	(81.534)	2.5%	167.6%	2.6%
Depreciation (G&A)	(2.017)	(4.475)	(21.425)	(4.477)	378.5%	962.2%	378.8%
Amortization	(2.011)	(1.906)	(5.325)	(1.906)	179.4%	164.8%	179.4%
Depreciation & Amortization	(35.241)	(87.834)	(110.289)	(87.918)	25.4%	213.0%	25.6%
EBIT	225.796	142.390	174.599	193.183	-9.6%	-22.7%	22.6%
Finance Costs	(39.877)	(136.675)	(126.803)	(126.561)	0.2%	218.0%	-7.2%
Interest income	24.421	76.338	73.960	73.437	0.7%	202.9%	-3.1%
Finance Costs, Net	(15.456)	(60.337)	(52.843)	(53.124)	-0.5%	241.9%	-12.4%
Dividend Income	24.569	91.247	22.701	4.140	448.3%	-7.6%	-75.1%
Other & Misc. Income / Exp.	(6.729)	106.853	32.015	19.928	60.7%	N/M	-70.0%
Share of Profits of Associates	-	-	-	-	-	-	-
JV Income	73.050	112.766	205.424	262.432	-21.7%	181.2%	82.2%
Profit from Discontinued Operations	-	19.019	(6.517)	-	-	-	N/M
Profit Before Tax	301.230	411.938	375.379	426.559	-12.0%	24.6%	-8.9%
Tax	-	(2.385)	(2.020)	(2.470)	-18.2%	-	-15.3%
Profit after Tax	301.230	409.553	373.359	424.090	-12.0%	23.9%	-8.8%
Minority Interest	(5.349)	(8.890)	(5.442)	(9.206)	-40.9%	1.7%	-38.8%
Net Income	295.881	400.663	367.917	414.884	-11.3%	24.3%	-8.2%
<i>Net Margin</i>	<i>46.6%</i>	<i>60.9%</i>	<i>51.0%</i>	<i>57.4%</i>	-	-	-
EPS (QR)	0.27	0.36	0.33	0.38	-11.3%	24.3%	-8.2%
DPS (QR)	0.00	0.00	0.00	0.00	-	-	-
	2Q2022	1Q2023	2Q2023	2Q2023e			
Cost of Sales	54.4%	56.6%	56.6%	53.5%			
SG&A	4.5%	8.4%	3.9%	7.6%			
Depreciation/Sales	4.9%	12.4%	11.6%	11.3%			
EBITDA margin	41.1%	35.0%	39.5%	38.9%			
Operating Margin	35.5%	21.6%	24.2%	26.7%			
Min Interest (as a % of NI)	1.8%	2.2%	1.5%	2.2%			
Net Margin	46.6%	60.9%	51.0%	57.4%			
GM	45.6%	43.4%	43.4%	46.5%			

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	15.3	14.4	13.8	14.1	16.2	21.9	22.8	17.1	19.6	19.6	18.6	18.2	17.6	17.0
EV/EBIT	21.9	20.3	18.6	19.9	20.8	31.1	34.0	23.1	27.5	29.2	27.5	27.2	26.3	25.4
P/E	12.9	13.2	12.8	12.3	12.9	14.0	17.1	13.5	11.6	12.5	12.5	12.1	11.8	11.5
P/CF	8.9	10.7	9.6	11.9	9.6	15.6	11.1	12.1	11.6	12.9	10.2	9.8	9.7	9.5
P/BV	2.9	2.7	2.4	2.2	1.9	2.0	2.0	1.7	1.3	1.3	1.3	1.2	1.2	1.1
Dividend Yield	4.2%	4.2%	4.2%	4.3%	4.3%	4.3%	3.5%	4.4%	5.3%	5.3%	5.3%	5.6%	5.8%	6.1%
FCF Yield	(2.4%)	4.1%	6.2%	8.1%	5.3%	5.2%	8.6%	7.0%	10.0%	7.0%	9.1%	9.4%	9.6%	9.8%

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	-2.4%	4.1%	6.2%	8.1%	5.3%	5.2%	8.6%	7.0%	10.0%	7.0%	9.1%	9.4%	9.6%	9.8%	
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	15.3	14.4	13.8	14.1	16.2	21.9	22.8	17.1	19.6	19.6	18.6	18.2	17.6	17.0	
EV/EBIT	21.9	20.3	18.6	19.9	20.8	31.1	34.0	23.1	27.5	29.2	27.5	27.2	26.3	25.4	
P/E	12.9	13.2	12.8	12.3	12.9	14.0	17.1	13.5	11.6	12.5	12.5	12.1	11.8	11.5	
P/CF	8.9	10.7	9.6	11.9	9.6	15.6	11.1	12.1	11.6	12.9	10.2	9.8	9.7	9.5	
P/BV	2.9	2.7	2.4	2.2	1.9	2.0	2.0	1.7	1.3	1.3	1.3	1.2	1.2	1.1	
Dividend Yield	4.2%	4.2%	4.2%	4.3%	4.3%	4.3%	3.5%	4.4%	5.3%	5.3%	5.3%	5.6%	5.8%	6.1%	
FCF Yield	(2.4%)	4.1%	6.2%	8.1%	5.3%	5.2%	8.6%	7.0%	10.0%	7.0%	9.1%	9.4%	9.6%	9.8%	

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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