

## Qatar Electricity & Water Company (QEWS)

Recommendation	ACCUMULATE	Risk Rating	R-2
Share Price	QR233.70	Current Target Price	QR256.00
Implied Upside	9.5%		

### Growth to Accelerate Post 8% EPS Uptick in 2016; Accumulate

We expect QEWS to report 5% and 8% growth in 2016 top-line and earnings, respectively. We rate QEWS an Accumulate with an unchanged QR256 price target. Our PT continues to reflect the Umm Al Houl project beginning in 2017. We continue to expect this 2,520 MW and 136.5 MIGD project to add about QR23 per share to QEWS' fair value with the remaining business worth around QR233, which is in-line with the current stock price. QEWS is a low-risk play deeply linked to Qatar's growth story and we retain our long-term bullish stance.

#### Highlights

- 4Q2016 EPS and revenue to dip sequentially on seasonality.** We forecast net income of QR388mn for 4Q2016 (-12% QoQ, +8% YoY) and revenue of QR794mn (-2% QoQ, +3% YoY). Yearly growth should be driven by the RAF A3 plant and tariff growth.
- 2016 earnings and revenue should increase by 8% and 5%, respectively along with a DPS of QR7.75.** We expect net income of QR1.6bn and a top-line of QR3.1bn. QEWS paid a dividend of QR7.50 a share for 2015 and we forecast the company to increase this to QR7.75 a share, which translates to a 3.3% yield.
- Adjusting estimates to reflect 3Q2016 results and other model changes.** Overall we have lowered our 2017 and 2018 net income estimates moderately by around 2%. We still expect earnings growth to accelerate to 11% in 2017 and 15% in 2018, respectively, after an 8% expected uptick in 2016 on the back of full contribution from RAF A3 and the Umm Al Houl mega project.
- Nebras adds potential upside to our forecasts/PT.** Nebras (60%-owned JV) was in the news recently as the company purchased a 35.5% stake in IPM Indonesia and a 35% ownership in IPM Asia for \$1.27bn. This will allow the company a 35.5% stake in PT Pation Energy, which owns a 2,045 MW power plant in East Java. While the financing mix of this acquisition is still unclear, this deal could add at least 10% to QEWS' bottom-line. We currently value Nebras at net book value so there is upside to our target price once details of this project become available.

#### Catalysts

- New projects on the horizon:** QEWS should benefit from two new 100%-owned water plants, RAF A2 (36 MIGD) from 3Q2015 and RAF A3 (36 MIGD) from Sep.2016 (fully functional by 2017), adding ~28% to QEWS' net water capacity. Further, Umm Al Houl (Facility D) should be on-line in 2018 after its initial phase in 2017. Overall, these three projects should expand QEWS' net electricity & water capacity by 28% and 60%, respectively, in 2018. Newsflow regarding expansion projects could act as catalysts.

#### Recommendation, Valuation and Risks

- Recommendation and valuation:** We rate QEWS an Accumulate with an unchanged price target of QR256.00. Our previous rating was Outperform. The stock is trading at a 2017 P/E of 14.3x.
- 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

	FY2014	FY2015	FY2016e	FY2017e
Revenue (QR mn)	2,898	2,983	3,120	3,354
Revenue Growth	(0.2%)	2.9%	4.6%	7.5%
EPS (QR)	13.91	13.64	14.74	16.32
EPS Growth	10.5%	(1.9%)	8.1%	10.7%
P/E (x)	16.8	17.1	15.9	14.3
DPS (QR)	7.50	7.50	7.75	8.00
Dividend Payout	53.9%	55.0%	52.6%	49.0%
Dividend Yield	3.2%	3.2%	3.3%	3.4%
ROE	22.6%	20.4%	20.0%	19.9%

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

#### Key Data

Current Market Price (QR)	233.70
Dividend Yield – 2016 (%)	3.3
Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWQ.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	235.80/175.10
3-m Average Volume ('000)	27.9
Mkt. Cap. (\$ bn/QR bn)	7.1/25.7
Shares Outstanding (mn)	110.0
FO Limit* (%)	25.0
Current FO* (%)	12.1
1-Year Total Return (%)	20.0
Fiscal Year End	December 31

Source: Bloomberg (as of January 11, 2017), \*Qatar Exchange (as of January 10, 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	FY2016e	FY2017e	FY2018e
<b>Revenue</b>	<b>2,983</b>	<b>3,120</b>	<b>3,354</b>	<b>3,409</b>
Cost of Sales, Excluding Depreciation	(1,225)	(1,248)	(1,359)	(1,398)
<b>Gross Profit</b>	<b>1,757</b>	<b>1,872</b>	<b>1,995</b>	<b>2,011</b>
General & Administrative Expenses	(173)	(178)	(191)	(194)
<b>EBITDA</b>	<b>1,584</b>	<b>1,694</b>	<b>1,804</b>	<b>1,817</b>
Deferred Income	7	7	0	0
Depreciation & Amortization	(463)	(435)	(468)	(404)
<b>EBIT</b>	<b>1,128</b>	<b>1,266</b>	<b>1,337</b>	<b>1,413</b>
Finance Costs, Net	(102)	(136)	(137)	(135)
Dividend Income & Gain on Sale of AFS	20	21	24	29
Other & Miscellaneous Income/Expense & Share of Profits from JVs	474	503	607	801
Share of Associates	16	0	0	0
Profit Before Tax	1,536	1,654	1,831	2,108
Income Tax Expense	0	0	0	0
<b>Profit After Tax (Continuing Operations)</b>	<b>1,536</b>	<b>1,654</b>	<b>1,831</b>	<b>2,108</b>
Discontinued Operations				
Minority Interest	(35)	(32)	(36)	(41)
<b>Profit for Shareholders</b>	<b>1,501</b>	<b>1,622</b>	<b>1,795</b>	<b>2,067</b>
<b>EPS (QR)</b>	<b>13.64</b>	<b>14.74</b>	<b>16.32</b>	<b>18.79</b>

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2015	FY2016e	FY2017e	FY2018e
<b>Non-Current Assets</b>				
Property, Plant and Equipment	5,714	6,261	6,787	6,544
Available-for-Sale Investments	344	399	399	399
Finance Lease Receivables	1,491	1,376	1,262	1,147
JV Loans and Investments in JVs	2,627	3,015	3,448	3,929
Other Non-Current assets	311	302	294	287
<b>Total Non-Current Assets</b>	<b>10,487</b>	<b>11,354</b>	<b>12,190</b>	<b>12,306</b>
<b>Current Assets</b>				
Finance Lease Receivables & Others	146	130	130	130
Inventories	178	294	320	329
Accounts Receivables & Prepayments	888	769	827	841
Cash and Short-Term Deposits	1,751	1,997	2,416	3,057
<b>Total Current Assets</b>	<b>2,963</b>	<b>3,190</b>	<b>3,693</b>	<b>4,357</b>
<b>Total Assets</b>	<b>13,450</b>	<b>14,544</b>	<b>15,883</b>	<b>16,663</b>
<b>Equity</b>				
Equity to the Parent	7,346	8,094	9,036	10,223
Minority Interest	256	268	282	297
<b>Total Equity</b>	<b>7,602</b>	<b>8,362</b>	<b>9,318</b>	<b>10,520</b>
<b>Non-Current Liabilities</b>				
Loans and Borrowings	3,791	4,149	4,471	4,024
Employees' End of Service Benefits	49	52	56	59
Derivatives	20	6	6	6
<b>Total Non-Current Liabilities</b>	<b>3,860</b>	<b>4,207</b>	<b>4,533</b>	<b>4,089</b>
<b>Current Liabilities</b>				
Accounts Payables & Others	756	657	715	735
Loans and Borrowings	1,124	1,210	1,210	1,210
Derivatives	107	107	107	107
<b>Total Current Liabilities</b>	<b>1,988</b>	<b>1,974</b>	<b>2,032</b>	<b>2,053</b>
<b>Equity and Liabilities</b>	<b>13,450</b>	<b>14,544</b>	<b>15,883</b>	<b>16,663</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

#### Saugata Sarkar

Head of Research

Tel: (+974) 4476 6534

[saugata.sarkar@qnbfs.com.qa](mailto:saugata.sarkar@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-Nafoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

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

QNB Financial Services Co. WLL

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

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