

Qatar Electricity & Water Company (QEWS)

Recommendation	OUTPERFORM	Risk Rating	R-2
Share Price	QR186.90	Current Target Price	QR230.00
Implied Upside	23.1%	Old Target Price	QR242.00

Significant LT Growth on Tap; Upgrading to Outperform

We continue to prefer QEWS as a LT growth story; upgrading the stock from an Accumulate to an Outperform. 4Q2017 should be strong YoY and we expect DPS to improve 7% from QR7.50 in 2016 to QR8. While 2018 could be subdued given YE2017 expiration of a key project, RAF A, we expect decent growth beyond along with an average 8.9% FCF yield over 2017-2023e.

Highlights

- 4Q2017 preview: Seasonally weak quarter but yearly growth to be driven by the full contribution of RAF A3 water plant.** RAF A3's annual capacity improved from 22 MIGD in 4Q2016 to 36 MIGD. 4Q2017 earnings should also grow YoY helped by revenue growth and increase in contribution from JVs. We further note 4Q2016 performance was also impacted by RLPC, which was down for maintenance and startup costs related to RAF A3. **We expect an increase in DPS from QR7.50 to QR8 for 2017.**
- We like QEWS as a solid long-term play with a defensive business model.** Essentially a capacity provider, QEWS takes on insignificant demand/costs/funding risks holding secure contracted assets with long-term (~25 years) fuel agreements/PWPAs and committed funding. This also leads to visible cash flows and a stable operating profile. The State of Qatar (through various entities) owns 60% of the company.
- Market leader in Qatar with international expansion gathering steam.** Essentially a monopoly, QEWS owns stakes in all domestic IWPPs/PPPs/IWPs. Moreover, the company has diversified internationally with close to 15% of its net income expected to be driven by 60%-owned international JV (Nebras) in 2018. Nebras has operations in Indonesia, Jordan and Oman and is actively seeking opportunities in MENA and SE Asia.
- Solid growth profile with industry leading EBITDA margins and attractive dividend/FCF yields.** 2018 will be a subdued year given expiration of RAF A in Qatar, which serves to lower EPS by 10%. Going forward, we expect EBITDA CAGR of ~2% over 2019-2023 and FCF to grow around 4% over the same period driven by Facility D (Um Al Houli) and inflation-driven capacity charge increases. Despite modeled compression, QEWS should maintain above-average EBITDA margins (avg. of ~48%; 52% for fully-consolidated Qatar biz) relative to its peer group. We expect dividend yield to average 4.6% over 2017-2023 and FCF yield to average 8.9% over the same period (despite a dip in 2018 given an expected \$250mn equity infusion into the Facility D JV).
- Blockade remains an overhang but impact limited thus far.** The blockade obviously crimps any opportunities for Nebras in the opposing countries. Construction delays are possible although Um Al Houli is reportedly on track for July 2018 commissioning.

Catalysts

- New opportunities currently not in our model:** Besides Um Al Houli, our model does not account for additional expansions domestically (like Facility E; a solar project called Siraj, etc.) which will lead to LT upside. Beyond Paiton in Indonesia, we do not have color on other Nebras projects, which could lead to growth relative to our model.

Recommendation, Valuation and Risks

- Recommendation & valuation:** *Our 12-month target is QR230.* Our new target reflects a higher CoE and other model changes. The stock has shed 11% since the blockade, lagging the overall market (QE Index down 8%) despite limited impact of the blockade. Shares have generated 83% in total returns over five years (DSM Index returned 32%).
- Risks:** Geopolitical risks cannot be modeled. Besides risks inherent in international expansion, there is always a chance domestic projects get delayed or shelved. It is possible Kahramaa renegotiates the terms of existing contracts; however, this is not an imminent risk. Operational risks include availability of capacity below contracted levels, which could lead to penalties.

Key Financial Data and Estimates

	FY2015	FY2016	FY2017e	FY2018e
Revenue (QR mn)	2,983	3,103	3,164	2,761
Revenue Growth	2.9%	4.0%	2.0%	-12.7%
EPS (QR)	13.64	14.02	15.79	14.14
EPS Growth	(1.9%)	2.8%	12.6%	(10.5%)
P/E (x)	13.7	13.3	11.8	13.2
DPS (QR)	7.50	7.50	8.00	8.00
Dividend Payout	55.0%	53.5%	50.7%	56.6%
ROE	20.4%	18.6%	19.2%	16.0%

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

Key Data

Current Market Price (QR)	186.90
Current Dividend Yield (%)	4.0
Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWC.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	247.90/161.99
3-m Average Volume ('000)	58.3
Mkt. Cap. (\$ bn/QR bn)	5.6/20.6
Shares Outstanding (mn)	110.0
FO Limit* (%)	25.0
Current FO* (%)	11.5
1-Year Total Return (%)	(19.4)
Fiscal Year End	December 31

Source: Bloomberg (as of January 16, 2018), *Qatar Exchange (as of January 16, 2018); Note: FO is foreign ownership

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4Q2017 and 2017 Preview

Seasonally weak quarter but yearly growth to be driven by the full contribution of RAF A3 water plant. RAF A3's annual capacity improved from 22 MIGD in 4Q2016 to 36 MIGD. 4Q2017 earnings should also grow YoY helped by revenue growth and increase in contribution from JVs. We further note 4Q2016 performance was also impacted by RLPC, which was down for maintenance and startup costs related to RAF A3.

4Q2017 and 2017 Key Metrics

	4Q2017	3Q2017	4Q2016	QoQ	YoY	2017e	2016	YoY
Revenue	800.06	826.22	776.55	-3%	3%	3,164.43	3,103.15	2%
Gross Profit	452.03	523.68	424.38	-14%	7%	1,871.77	1,820.06	3%
EBITDA	399.63	481.49	365.10	-17%	9%	1,681.42	1,628.49	3%
JV Income	133.01	161.21	59.80	-17%	122%	580.81	372.31	56%
Net Income	425.63	500.82	308.41	-15%	38%	1,737.02	1,541.99	13%
DPS						8.00	7.50	7%
Gross Margin	56.5%	63.4%	54.6%			59.2%	58.7%	
EBITDA Margin	50.0%	58.3%	47.0%			53.1%	52.5%	
Net Margin	53.2%	60.6%	39.7%			54.9%	49.7%	

Source: Company data, QNBFS estimates

Valuation

We think the stock is worth QR230.00 without accounting for any other major projects beyond Um Al Houli (Facility D) on the domestic front and factoring in no significant growth internationally post Paiton, which was included in Nebras figures from 2016. Our other assumptions include, COE: 11.7%, WACC: 9.1% and terminal growth rate of 2.5%.

Discounted Cash Flow Valuation

Particulars	FY18E	FY19E	FY20E	FY21E	FY22E
EBIT	949	968	987	1,008	1,030
Social/Sports Support Deduction	(39)	(41)	(42)	(44)	(45)
Depreciation & Amortization	483	487	491	495	499
Changes in Working Capital	(34)	(16)	(33)	(11)	(4)
Capex	(100)	(100)	(100)	(100)	(100)
EBITDA - JVs	1,120	1,255	1,287	1,319	1,352
Capex (Equity Portion) - JVs	(910)	(80)	(80)	(80)	(80)
Changes in WC - JVs	(31)	(16)	(33)	(11)	(4)
Net Free Cash Flow from JVs	179	1,159	1,173	1,227	1,268
Free Cash Flow to Firm	1,438	2,458	2,477	2,576	2,648

PV of FCFE	1,318	2,064	1,906	1,817	1,712
Cumulative PV of FCFE	1,318	3,382	5,289	7,106	8,818

Terminal Value	41,052
PV of Terminal Value	26,544

PV of Cash Flows	35,363
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Add:

Cash Balances	3,315
Investments in Associates/AFS	542
Cash Balances (JVs)	751

Less:

Debt Balances	6,007
Debt Balances (JVs)	8,360
Net Debt (JVs)	7,609
Minority Interest	261

Fair Value of Equity	25,344
Fair Value of Equity (Per Share)	230.00

Source: Company data, QNBFS estimates

Valuation Metrics

Particulars	2014	2015	2016	2017e	2018e	2019e	2020e	2021e	2022e	2023e
Valuation										
EV/Sales	8.2	7.9	7.5	7.1	8.1	7.6	7.1	6.6	6.1	5.6
EV/EBITDA - Consolidated	15.8	14.9	14.2	13.4	15.7	14.8	13.8	12.9	11.9	11.0
EV/EBITDA - Total (Incl. JVs)	14.7	14.1	13.8	12.9	13.3	12.2	11.6	10.9	10.3	9.7
EV/EBIT	22.6	21.0	19.2	18.7	23.7	22.2	20.7	19.2	17.7	16.2
P/E	13.4	13.7	13.3	11.8	13.2	12.6	12.2	11.8	11.4	11.0
P/CF	9.3	11.1	10.0	11.6	10.6	10.1	9.5	9.2	8.9	8.7
P/BV	3.0	2.8	2.5	2.3	2.1	2.0	1.8	1.7	1.6	1.5
Dividend Yield	4.0%	4.0%	4.0%	4.3%	4.3%	4.4%	4.5%	4.7%	4.8%	4.9%
FCF Yield	(2.3%)	4.0%	6.0%	8.1%	4.5%	9.0%	9.6%	10.0%	10.3%	10.6%

Source: Bloomberg, QNBFS estimates

In terms of multiples, QEWS seems to be in-line to expensive vs. its closest peer Saudi Electricity and expensive vs. other EM/FM peers. However, we point to the company's above average dividend yield and strong FCF yield. We also note 2018 is a down year (13% decline in revenue; 10% decline in net income) for QEWS given the expiration of a key project (RAF A) which inflates multiples. We further point out the company benefits from a virtually risk-free business model given domestic (and international, to an extent) contracted assets with strong cash flow visibility and no fuel cost/demand/funding risks. This can be seen in QEWS' solid growth profile after 2018; FCF yield also averages more than 10% as we move beyond 2018.

Relative Valuation Versus Peers

Company	Ticker	Div. Yield	P/E		P/CFPS		EV/EBITDA		FCF Yield	
			FY2017e	FY2018e	FY2017e	FY2018e	FY2017e	FY2018e	FY2017e	FY2018e
Saudi Electricity Co	SECO	3.3%	18.9x	16.2x	NA	NA	11.5x	11.8x	(21.8%)	(0.8%)
Taqa Morocco	TQM	3.6%	22.2x	21.0x	NA	NA	10.0x	9.7x	8.8%	7.2%
Abu Dhabi National Energy Co PJSC	TAQA	NA	1.5x	2.0x	NA	NA	8.2x	7.9x	77.4%	121.2%
National Central Cooling Co PJSC	TABREED	3.4%	12.2x	12.0x	NA	NA	12.8x	12.4x	9.3%	8.4%
Montauk Holdings Ltd	MNK	0.7%	NA	NA	NA	NA	NA	NA	NA	NA
Sembcorp Salalah Power & Water Co	SSPW	4.5%	NA	NA	NA	NA	NA	NA	NA	NA
Kenya Electricity Generating Co Ltd	KEGC	NA	6.7x	6.5x	NA	NA	NA	NA	NA	NA
Lyonnaise des Eaux de Casablanca	LYD	3.6%	18.8x	17.7x	NA	NA	5.9x	5.7x	5.7%	5.7%
Severn Trent PLC	SVT	4.1%	nmf	nmf	nmf	nmf	11.3x	10.7x	2.1%	2.5%
United Utilities Group PLC	UU/	5.1%	nmf	nmf	nmf	nmf	12.4x	11.7x	3.0%	5.5%
Tata Power Co Ltd/The	TPWR	1.4%	47.1x	16.7x	6.8x	6.8x	9.9x	9.3x	15.0%	17.5%
CESC Ltd	CESC	0.9%	16.7x	12.9x	8.5x	7.0x	8.7x	8.0x	8.7%	14.7%
NTPC Ltd	NTPC	2.8%	14.0x	10.9x	7.9x	6.3x	10.0x	8.5x	(7.1%)	(4.5%)
EDP - Energias do Brasil SA	ENBR3	0.9%	13.5x	10.6x	7.8x	6.5x	6.5x	5.8x	7.9%	10.9%
Average		2.9%	17.2x	12.6x	7.7x	6.7x	9.7x	9.2x	9.9%	17.1%
Median		3.4%	15.3x	12.4x	7.8x	6.7x	10.0x	9.3x	7.9%	7.2%
Qatar Electricity & Water Co QSC	QEWS	4.0%	11.8x	13.2x	11.6x	10.6x	12.9x	13.3x	8.1%	4.5%

Note: Where coverage is not available, estimates are based on Bloomberg consensus, if available

Mean/Median calculated if more than 3 observations are present

NA: Not Applicable

nmf: Not Meaningful (typically refers to negative or exceedingly large values)

Source: Bloomberg, QNBFS Research

Key Growth Rates/CAGRs

Particulars	2014	2015	2016	2017e	2018e	2019e	2020e	2021e	2022e	2023e	CAGR ('19-'23)
Growth Rates											
Revenue	(0.2%)	2.9%	4.0%	2.0%	(12.7%)	2.1%	2.1%	2.1%	2.2%	2.2%	2.2%
Gross Profit	(1.8%)	1.9%	3.6%	2.8%	(13.1%)	1.6%	1.7%	1.7%	1.7%	1.8%	1.7%
EBITDA - Consolidated	(2.5%)	5.4%	2.8%	3.3%	(14.8%)	1.6%	1.6%	1.7%	1.7%	1.7%	1.7%
EBITDA - Joint Ventures	(2.3%)	2.2%	(4.1%)	8.4%	17.5%	12.1%	2.5%	2.5%	2.5%	2.5%	2.5%
EBITDA - Total (Incl. JVs)	(2.4%)	4.2%	0.3%	5.1%	(3.1%)	6.2%	2.0%	2.1%	2.1%	2.1%	2.1%
EBIT	(3.5%)	7.3%	7.2%	(0.5%)	(21.1%)	2.0%	2.0%	2.1%	2.1%	2.2%	2.1%
PBT	11.0%	(2.0%)	2.5%	12.2%	(10.3%)	4.7%	3.5%	3.5%	3.5%	3.5%	3.5%
PAT/EPS	10.5%	(1.9%)	2.8%	12.6%	(10.5%)	4.7%	3.5%	3.6%	3.5%	3.5%	3.5%
CFPS	30.7%	(16.6%)	11.7%	(14.4%)	10.0%	4.5%	6.5%	3.5%	2.9%	2.2%	3.8%
FCFPS	NM	NM	50.5%	35.7%	(44.1%)	98.6%	7.1%	3.9%	3.2%	2.4%	4.1%

Source: Bloomberg, QNBFS estimates

Company Overview

Company Description

QEWS is Qatar's leading listed utility capacity provider. The company owns and operates power generation and water desalination plants in the State of Qatar. Essentially a monopoly, QEWS has significant stakes in all IWPPs/PPPs/IWPs in Qatar. QEWS is considered one of the first private sector companies to operate in the field of power and water production in the GCC, accounting for 59% and 74% of Qatar's electricity and water capacity, respectively (as of July 2018, when mega project Um Al Houl is fully commissioned). Essentially a capacity provider, QEWS procures natural gas (primary feedstock) from Qatar Petroleum (supplier; 100% government-owned) through long-term (mostly 25 years) take-or-pay contracts and sells power and water to Kahramaa (buyer; 100%) under long-term off-take power and water purchase agreements. Moreover, fuel costs are passed through to Kahramaa. These agreements result in stable operating margins and any expansion should lead to growing revenue and bottom-line.

In terms of market cap., QEWS is the 2nd largest utility in the MENA region after Saudi Electricity. In Qatar, QEWS has a Strategic National Investor status participating and retaining significant stakes in all IPPs/IWPs/IWPPs. Internationally, Nebras has leveraged QEWS' close ties to Japanese conglomerates such as Mitsubishi, Marubeni, Mitsui, Chubu Electric Power, etc. (given these entities have served/serve as key partners in Qatari projects) to successfully bid for several projects.

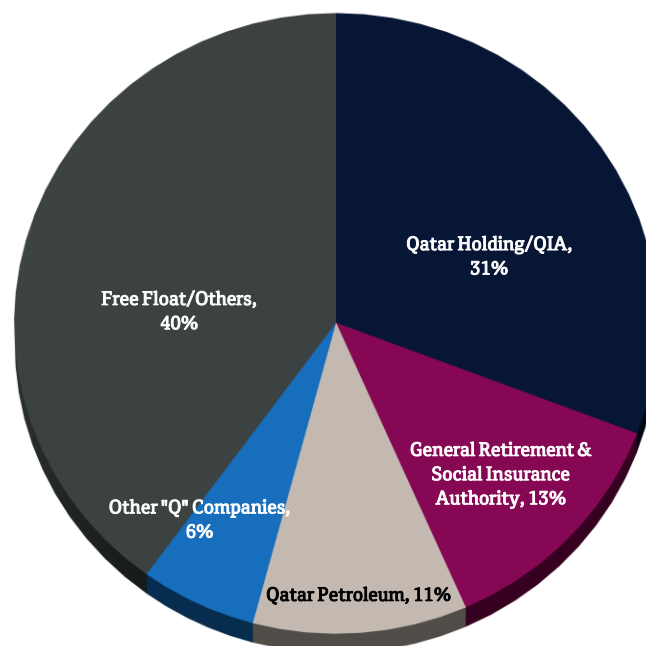
History

QEWS was established in 1992 for the purpose of acquiring and managing power generation and water desalination plants in Qatar. However, up until 1999, electricity and water production, transmission and distribution services were carried out by the former Ministry of Electricity and Water (MEW). In 2000, to achieve some degree of deregulation and to encourage private investment, the production of power and water was separated and partially privatized under Qatar Electricity and Water Co. (QEWS), while the government retained the responsibility of transmitting power and forwarding water and distributing them to end customers under a new government corporation named Kahramaa (Qatar General Electricity and Water Corp.).

Ownership

Given QEWS' vital position, the Qatari government owns around 54% of the company through the QIA (31%), the General Retirement Authority - Pension Fund (13%) and QP (11%). Other government affiliates own around 6% of the company.

Shareholders



Source: Company data

Business Overview

Demand for electricity and water has grown rapidly, with the average growth of 6-7% in peak demand for power and water. While demand has slowed recently in conjunction with the decline in GDP growth, the future outlook remains solid given expected growth rates in GDP, infrastructure spending and population ahead of the 2022 World Cup.

In terms of the domestic Qatari market, QEWS started operations by acquiring the RAF B plant from the State in February 1999. Since then, it has made several purchases from the government (of which, the Dukhan Desalination plant still remains in operation), increased its stake in a major project, Ras Laffan Power, from 25% to 80% and grown its operations organically (RAF B1, RAF B2, RAF A1, RAF A2 and RAF A3). QEWS also participates in all power/water production projects in Qatar and retains a strategic stake in them through JVs. These include Qatar Power or Q Power (55%), Mesaieed Power (40%), Ras Girtas Power (45%) and its largest project to date, Umm Al Houli Power (60%).

More recently, QEWS has ventured beyond Qatar, forming a JV called Nebras Power in 2013 with a 60% stake, along with the QIA (40% through Qatar Holding). Nebras' major venture thus far is PT Paiton Energy, the largest IPP operating in Indonesia. This 2,045 MW venture is 35.5% owned by Nebras and has a long-term PPA with the government-owned PT PLN (Persero). Nebras also has other smaller projects in Jordan and Oman. The company recently announced plans to develop an 800 MW project in Indonesia.

Domestic Plant/Project Details

	2017	2018	2019	2020	2021	2022	2023	QEWS Interest	Net Capacity (2019)	Contract End	Contract Length (Years)	Commission Date	Purchase
Total Plant Capacity Power (in MW)													
RAF A	497	-	-	-	-	-	-	100%	-	Dec. 31 2017	12+2	1977-1980	2003
RAF B	609	609	609	609	609	609	609	100%	609	Oct. 31 2029	17.75+12	1995-1996	1999
RAFB1	377	377	377	377	377	377	377	100%	377	Aug. 31 2022	20	2002	
RAFB2	567	567	567	567	567	567	567	100%	567	Dec. 03 2033	25	2008	
Satellite Stations	-	-	-	-	-	-	-	100%	-	Dec. 31 2014	12	1983-1984	2003
Ras Laffan Power Company	756	756	756	756	756	756	756	80%	605	Dec. 20 2029	25	2003-2004	2010
Q Power Project (Qatar Power) - JV	1,025	1,025	1,025	1,025	1,025	1,025	1,025	55%	564	June 13 2033	25	2006-2008	
Mesaieed Power Company - JV	1,998	1,998	1,998	1,998	1,998	1,998	1,998	40%	799	June 30 2035	25	2009-2010	
Ras Girtas Power Company - JV	2,730	2,730	2,730	2,730	2,730	2,730	2,730	45%	1,229	March 30 2036	25	2010-2011	
Umm Al Houli (Facility D) - JV	630	1,890	2,520	2,520	2,520	2,520	2,520	60%	1,512	June 30 2043	25	2018	
Total	9,189	9,952	10,582	10,582	10,582	10,582	10,582	QEWS Share	6,261 59%				
Water (in MIGD - Million Gallons/Day)													
RAF A	55	-	-	-	-	-	-	100%	-	Dec. 31 2017	12+2	1977-1980	2003
RAF A1	44	44	44	44	44	44	44	100%	44	Dec. 07 2035	25	2010	
RAF A2 (July 2015)	35	35	35	35	35	35	35	100%	35	June 30 2040	25	2015	
RAF A3 (Sep. 2016 & 2017)	36	36	36	36	36	36	36	100%	36	Dec. 31 2041	25	2017	
RAFB	33	33	33	33	33	33	33	100%	33	Oct. 31 2029	17.75+12	1995-1996	1999
RAFB2	29	29	29	29	29	29	29	100%	29	Dec. 03 2033	25	2008	
Dukhan Desalination Plant	2	2	2	2	2	2	2	100%	2	Dec. 31 2027	25	1997	2003
Ras Laffan Power Company	40	40	40	40	40	40	40	80%	32	Dec. 20 2029	25	2003-2004	2010
Q Power Project - JV	60	60	60	60	60	60	60	55%	33	June 13 2033	25	2006-2008	
Ras Girtas Power Company - JV	63	63	63	63	63	63	63	45%	28	March 30 2036	25	2010-2011	
Umm Al Houli (Facility D) - JV	34	102	137	137	137	137	137	60%	82	June 30 2043	25	2018	
Total	432	445	479	479	479	479	479	QEWS Share	355 74%				

Source: Company data, QNBFS estimates

Potential Domestic Plant/Project Details

Facility E (2020): Similar in size to Facility D (Umm Al Houli), the Facility E project will be located in the north with net power capacity in the range of 2,000–2,500 MW and net water production capacity in the range of 100-130 MIGD. QEWS is expected to have a similar 60% interest with total capex again around \$2bn.

Siraj Power/Energy (2020): This is QEWS first foray domestically into the solar power industry. This JV is owned 60/40 by QEWS/QP with an overall committed capital of \$500mn (virtually nothing spent to-date). The partners expect to start production in 2020 with 200 MW and hope to expand to 500 MW subsequently. Another phase of 500 MW could be initiated pending success of this phase. We believe they are on the hunt for international partners who can take up to 40% interest in the project, lowering QEWS' stake to 36%.

International Plant/Project Details

International projects are conducted through 60%-owned JV Nebras Power. QEWS' international associates (primarily a 9.75% [sold down from 15% during its IPO in 2Q2015] stake in Phoenix, which owns the 2,000 MW Sur Project in Oman and a 38.89% ownership in AES Oasis, which in turn owns a 60% stake in a 370 MW plant in Jordan) were transferred over to Nebras in early 2016. Nebras was expected to require total equity capital of \$1bn and so far QEWS has slightly exceeded this figure with an investment of \$682mn as of 9M2017.

PT Paiton Energy: In February 2016, Nebras announced its largest brownfield investment to date, the purchase of Engie's 35.5% stake in Indonesia's PT Paiton Energy for \$1.27bn. PT Paiton Energy is the first and largest IPP operating in Indonesia, owning and operating three power plants at Paiton Power Complex in East Java, with a total capacity of 2,045 MW. More recently, in August 2017, the owners successfully completed a \$2.75bn mixed-sourced non-recourse financing package for Paiton.

800 MW Gas-to-Power Project in Indonesia: In October 2017, Nebras signed a HoA for developing a ~800 MW Power Plant along with a Floating Storage and Regasification Unit (FSRU) and sourcing of the LNG at Medan, Sumatra, Indonesia. The gas will be sold through a 25-year PPA. The reported cost is around \$800mn for the plant and \$200mn for the FSRU. Nebras' stake in the project is not currently disclosed.

Solar projects in Jordan: In November 2017, Nebras entered into an agreement with AES to develop a 52 MW solar power plant, in which the company will hold a 24% stake. The partners have in place a 20-year PPA. In January 2015, Nebras signed up for a 35% stake in Shams Ma'an power solar plant project in Jordan with capacity of 52.5 MW.

Other projects: Nebras has been busy on the deal making front and is reportedly considering a stake in Indian renewable assets of Equis Energy, along with its other assets in Japan, Philippines and Thailand.

SWOT Analysis

Strengths:

2nd largest player in MENA by market capitalization, QEWS is basically a monopoly/preferred player (Strategic National Investor) for all existing and future power & water projects in Qatar. QEWS is essentially a capacity provider and takes on no costs and demand risk. Any increase in gas costs can be passed through to Kahramaa and the company has long-term gas supply agreements (with QP) and capacity availability agreements in place (with Kahramaa). Secure fuel/offtake agreements are inked before plant construction and last for entire life of the plants leading to secure and visible cash flow for QEWS' infrastructure assets. Capacity charges are indexed to inflation. Moreover, any risks related to construction (delays, etc.) are passed on to the EPC contractors. The company is backed by the State of Qatar, which owns a significant stake. The company's sovereign backing and secure contracts allows it to source funding for its plants (usually at least 80% debt) through non-recourse project financing. Moreover, QEWS state backing and longstanding relationships with major international developers (through their participation in Qatari projects) allows it to leverage regional/international opportunities.

Weaknesses:

Customer/supplier concentration is a weakness but we have not seen any major revisions to contract terms in the past. Growth in Qatar is questionable after 2022 driven projects; market growth was soft in 2016 and will likely be subdued in 2017.

Opportunities:

Besides Facility D, our model does not account for additional expansions domestically (such as Facility E; the new solar project, etc.) which will lead to LT upside vs. our estimates. Beyond Paiton, we do not have color on other projects being considered by Nebras, which could lead to growth relative to our model.

Threats:

Tariff agreements for newer plants are at less favorable terms than older ones. Terms are confidential but our sense they are at least 10-15% lower. International expansion is not without its associated risks given QEWS does not enjoy favored status like it does at home. Less clarity around international expansion could lead to unforeseen shocks to our model.

Key Forecasts: Revenue and Income

100% of QEWS' top line is driven by revenue from its 80% owned subsidiary Ras Laffan Power (RLPC) and its 100% owned plants, RAF A1-A3, RAF B-B2 and the Dukhan Desalination plant. In terms of net income, joint venture net income (based on the equity method of accounting) has gained in prominence making up around 33% of net income in 2017, which increases to around 40% in the forward years. Joint-ventures include QEWS' domestic projects, Q-Power (55%), Mesaieed Power (40%), Ras Girtas Power (45%) and Umm Al Houf (60%), and its foreign operations held under Nebras Power (60%). The contribution of JV income is expected to grow given all new projects are joint ventures. Domestic JVs (essentially newer assets) are all BOOT projects (vs. BOO project structures for the older assets, except RLPC) and use finance (capital) lease accounting. QEWS also maintains an AFS book of QR542mn that contributes a small percentage to its net income; this book is primarily comprised of blue chip Qatari equities.

Net Income Split

Net Income Split	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E
Power and Water Subsidiaries	73%	72%	75%	65%	58%	57%	57%	58%	58%	59%
Power and Water Joint Ventures	26%	27%	24%	33%	41%	42%	41%	41%	41%	40%
Investment Income	2%	1%	1%	1%	2%	1%	1%	1%	1%	1%

Source: Company data, QNBFS estimates

Key Forecasts: Profitability and Growth Metrics

After a decrease in 2018 due to expiration of a key project, growth metrics should increase as Um Al Houf comes on-line and contribution from Nebras increases. Free cash flow falls significantly in 2018 before rebounding strongly in 2019 as we expect QEWS to infuse \$250mn in equity in the Um Al Houf project to cover a bridge loan. FCF profile remains strong given only maintenance level capex requirements remain in non-JV businesses. Cash flow growth ticks up in 2020 as Nebras is finally expected to begin paying dividends that year. Margins should see some decline given our conservative assumption of higher direct costs and lower margins expected for the JV businesses (newer plants have lower tariffs and international business usually have offtake agreements with lower economics as compared to the company's Qatari operations). Net margins do benefit from lower finance costs and higher contribution from JVs. ROICs also increase post the 2018 dip due to the above reasons. ROE levels remain healthy.

We expect EPS growth to average almost 4% after 2018. 2018 is going to be down year with a projected 10% decline in EPS given that a major project (RAF A) was decommissioned by end-2017. We also expect CFPS growth to average around 5% over 2018-2023.

Ratio Analysis

Particulars	2014	2015	2016	2017e	2018e	2019e	2020e	2021e	2022e	2023e
Growth Rates										
Revenue	(0.2%)	2.9%	4.0%	2.0%	(12.7%)	2.1%	2.1%	2.1%	2.2%	2.2%
Gross Profit	(1.8%)	1.9%	3.6%	2.8%	(13.1%)	1.6%	1.7%	1.7%	1.7%	1.8%
EBITDA - Consolidated	(2.5%)	5.4%	2.8%	3.3%	(14.8%)	1.6%	1.6%	1.7%	1.7%	1.7%
EBITDA - Joint Ventures	(2.3%)	2.2%	(4.1%)	8.4%	17.5%	12.1%	2.5%	2.5%	2.5%	2.5%
EBITDA - Total (Incl. JVs)	(2.4%)	4.2%	0.3%	5.1%	(3.1%)	6.2%	2.0%	2.1%	2.1%	2.1%
EBIT	(3.5%)	7.3%	7.2%	(0.5%)	(21.1%)	2.0%	2.0%	2.1%	2.1%	2.2%
PBT	11.0%	(2.0%)	2.5%	12.2%	(10.3%)	4.7%	3.5%	3.5%	3.5%	3.5%
PAT/EPS	10.5%	(1.9%)	2.8%	12.6%	(10.5%)	4.7%	3.5%	3.6%	3.5%	3.5%
CFPS	30.7%	(16.6%)	11.7%	(14.4%)	10.0%	4.5%	6.5%	3.5%	2.9%	2.2%
FCFPS	NM	NM	50.5%	35.7%	(44.1%)	98.6%	7.1%	3.9%	3.2%	2.4%
Operating Ratios										
Gross Margin	59.5%	58.9%	58.7%	59.2%	58.9%	58.7%	58.4%	58.2%	57.9%	57.7%
EBITDA Margin - Consolidated	51.8%	53.1%	52.5%	53.1%	51.9%	51.6%	51.4%	51.1%	50.9%	50.7%
EBITDA Margin - Joint Ventures	47.6%	48.9%	47.1%	44.6%	44.2%	44.2%	44.2%	44.2%	44.2%	44.2%
EBITDA Margin - Total (Incl. JVs)	50.2%	51.5%	50.5%	49.7%	48.2%	47.9%	47.8%	47.6%	47.5%	47.4%
EBIT Margin	36.3%	37.8%	38.9%	38.0%	34.4%	34.3%	34.3%	34.3%	34.3%	34.3%
Net Margin	52.8%	50.3%	49.7%	54.9%	56.3%	57.8%	58.6%	59.4%	60.2%	61.0%
Finance Ratios										
Debt-Equity Ratio	0.8	0.7	0.7	0.7	0.6	0.5	0.4	0.4	0.3	0.3
Net Debt-Equity Ratio	0.5	0.4	0.4	0.2	0.2	0.1	0.0	(0.1)	(0.2)	(0.2)
Debt-to-Capital	0.8	0.7	0.7	0.7	0.6	0.5	0.4	0.4	0.3	0.3
Interest Coverage	9.7	9.4	8.1	6.7	5.4	5.9	6.5	7.2	7.9	8.7
Return Ratios										
ROCE	8.7%	9.0%	8.4%	7.8%	6.1%	6.0%	6.0%	6.0%	5.9%	5.8%
ROIC	5.9%	5.5%	5.1%	5.6%	4.4%	4.6%	4.7%	4.7%	4.8%	4.8%
ROE	22.6%	20.4%	18.6%	19.2%	16.0%	15.5%	15.0%	14.5%	14.0%	13.6%
ROA	11.8%	11.2%	10.1%	10.7%	9.5%	9.8%	9.9%	10.0%	10.0%	10.0%
FCF Yield	-2.3%	4.0%	6.0%	8.1%	4.5%	9.0%	9.6%	10.0%	10.3%	10.6%
Liquidity Ratios										
Current Ratio	1.2	1.5	2.1	2.6	2.4	2.7	3.1	3.5	3.9	4.3
Quick Ratio	1.1	1.4	1.9	2.5	2.3	2.5	2.9	3.3	3.7	4.2

Source: Company data, QNBFS estimates

Detailed Financial Statements

Income Statement (In QR mn)	FY2016	FY2017e	FY2018e	FY2019e
Revenue	3,103	3,164	2,761	2,818
Cost of Sales, Excluding Depreciation	(1,283)	(1,293)	(1,135)	(1,165)
Gross Profit	1,820	1,872	1,626	1,653
General & Administrative Expenses	(192)	(190)	(194)	(198)
EBITDA	1,628	1,681	1,432	1,455
Deferred Income	7	0	0	0
Depreciation & Amortization	(427)	(479)	(483)	(487)
EBIT	1,208	1,202	949	968
Finance Costs, Net	(134)	(157)	(152)	(139)
Dividend Income & Gain on Sale of AFS	43	54	71	63
Other & Miscellaneous Income/Expense & Share of Profits from JVs	456	666	716	766
Share of Associates	0	0	0	0
Profit Before Tax	1,573	1,765	1,583	1,657
Income Tax Expense	0	0	0	0
Profit After Tax (Continuing Operations)	1,573	1,765	1,583	1,657
Discontinued Operations				
Minority Interest	(31)	(28)	(28)	(29)
Profit for Shareholders	1,542	1,737	1,555	1,628
EPS (QR)	14.02	15.79	14.14	14.80

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2016	FY2017e	FY2018e	FY2019e
Non-Current Assets				
Property, Plant and Equipment	6,130	5,759	5,384	5,004
Available-for-Sale Investments	511	542	542	542
Finance Lease Receivables	1,366	1,252	1,148	1,052
JV Loans and Investments in JVs	2,825	3,025	4,135	4,415
Other Non-Current assets	303	325	317	309
Total Non-Current Assets	11,136	10,903	11,526	11,323
Current Assets				
Finance Lease Receivables & Others	124	119	119	119
Inventories	281	301	302	303
Accounts Receivables & Prepayments	674	910	915	919
Cash and Short-Term Deposits	3,011	3,965	3,514	4,027
Total Current Assets	4,090	5,295	4,850	5,368
Total Assets	15,226	16,199	16,376	16,691
Equity				
Equity to the Parent	8,275	9,061	9,736	10,484
Minority Interest	254	254	254	254
Total Equity	8,529	9,315	9,990	10,738
Non-Current Liabilities				
Loans and Borrowings	4,675	4,738	4,264	3,838
Employees' End of Service Benefits	53	57	61	65
Derivatives	8	59	59	59
Total Non-Current Liabilities	4,736	4,854	4,385	3,962
Current Liabilities				
Accounts Payables & Others	704	588	560	549
Loans and Borrowings	1,237	1,421	1,421	1,421
Derivatives	20	20	20	20
Total Current Liabilities	1,961	2,029	2,001	1,991
Equity and Liabilities	15,226	16,199	16,376	16,691

Source: Company data, QNBFS estimates

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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