Qatar Electricity and Water Co (QEWS)

April 23, 2012

Recommendation	**OUTPERFORM**	**Risk Rating**	**R-2**
Share Price	**QR141.90**	**Target Price**	**QR176.2**
Implied Upside	**24%**		

A Positive Start to 2012; Maintain Our Bullish Stance

QEWS' 1Q2012 results benefit from improved profitability and lack of one-off expenses. Overall, we view the company's 1Q2012 results positively with in-line revenue and better-than expected profits. Our thesis on the company remains unchanged. We view QEWS as a low-risk defensive play deeply linked to the Qatar growth story. 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. Thus, we maintain our Outperform rating on QEWS.

Financial Results and Key Takeaways

- **1Q2012 revenue increases 8.9% on a YoY basis.** The first quarter is usually seasonally weak, with revenue declining 11.1% sequentially to a little above QR1bn. Reported revenue came in-line with Bloomberg's consensus estimate. Our conversation with management indicated that there were no one-off issues or stoppages that affected the top-line during the quarter. By segment: (1) Electricity generation recorded a top-line of QR399mn, up 12.1% YoY (down 22.9% QoQ). (2) Water desalination revenue at QR354mn was up 9.5% versus 1Q2011 and flattish sequentially. (3) Finally, lease income of QR251mn was up 3.5% YoY but down 2.1% QoQ. 1Q is usually a seasonally slow quarter especially for the power segment and we expect sequential upticks in 2Q/3Q as we move into the summer months. We remain comfortable with our full year 2012 overall revenue forecast of QR4.72bn (Bloomberg consensus is QR4.75bn).
- **Net income benefits from an improved profitability profile.** The company reported QR291mn in 1Q2012 net income, up 28.3% and 14.3% on a YoY and QoQ basis, respectively. We note that our comparisons with 4Q2011 figures are slightly off as the company has restated 2011 results marginally but we do not have the exact quarterly breakout of the restatement (besides 1Q2011). The gross profit (excluding depreciation) margin expanded to 61.8% in 1Q2012 versus 55.6% in the last quarter of 2011 and an average of 59.6% in FY2011. The net margin also improved to 29% as compared to 22.5% in 4Q2011 with QEWS benefiting from lower finance costs and a lack of liquidated damages expense (versus QR54mn in 4Q2011).
- **Update on new projects: Hassyan IPP on hold.** According to the company, the Hassyan IPP project in Dubai, which was in bid clarification phase (QEWS was the 2nd lowest bidder), seems to be in a hold mode as DEWA ponders its decision. In Qatar, QEWS continues to await Kahramaa's decision on a new 71 MIGD water desalination plant. Over the longer-term, significant domestic catalysts abound given recent comments by Qatar's Minister of Energy and Industry who voiced the state's intention to invest around QR70bn on power and water projects over the 10 years ending in 2021.

Key Data:

Bloomberg ticker	QEWS QD
ADR/GDR ticker	N/A
Reuters ticker	QEWS.QA
ISIN	QA0006929812
Sector	Industrials
52wk high/52wk low (QR)	150.00/124.60
3-m average volume ('000)	33.4
Mkt. cap.(USD bn/QR bn)	3.9/14.2
Shares outstanding (mn)	100
FO Limit* (%)	25.0
FO* (%)	7.8
1-year total return (%)	1.8
Fiscal year end	Dec. 31

Source: Bloomberg (as of April 23, 2012), *Qatar Exchange

Broker Recommendations

Recommendation	Number
Buy	10
Hold	3
Sell	1

Source: Bloomberg

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Key Financial Data and Estimates

QAR mn	FY2009	FY2010	FY2011	FY2012e	FY2013e
Revenue	2,651	3,430	4,473	4,721	4,824
Net Profit	945	1,198	1,300	1,475	1,527
EPS (QAR)	9.45	11.98	13.00	14.75	15.27
P/E (x)	15.0	11.8	10.9	9.6	9.3
Dividend Yield %	3.5	4.2	4.6	5.3	5.9

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*		Risk Ratings *Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*	
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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