

Qatar Electricity & Water Company (QEWS)

Recommendation	ACCUMULATE	Risk Rating	R-2
Share Price	QR17.85	Target Price	QR21.00
Implied Upside	17.6%		

Updating Model Post Nebras Acquisition; Retaining Accumulate & QR21 PT

We are updating our estimates and maintaining our price target for QEWS. The company reported generally **weaker-than-expected** results for 3Q2022, excluding one-offs concerning the purchase of its remaining 40% share in Nebras for \$530mn in July 2022. For 4Q2022, we expect a modest 3.5% YoY growth in earnings. For FY2022, we expect a 5.7% YoY growth in earnings from QR1.47bn (EPS: QR1.33) to QR1.55bn (EPS: QR1.41); however, on a normalized basis, 2022 EPS should fall ~1%. We also expect QR0.80 in DPS for 2022, which is flat vs. 2021 and translates into a dividend yield of 4.5%. We continue to like the company as a long-term play with a relatively defensive business model, especially in light of current market conditions. QEWS still enjoys decent EBITDA margins and dividend/FCF yields. LT catalysts (which are not in our model) abound, including additional domestic expansions (like Facility E in 2025-2026, etc.). Nebras remains on the hunt for growth and has plans to increase its capacity significantly, which currently stands at more than 1.8 GW (+6.0 GW gross).

Highlights

- 4Q2022 preview: we expect QR302.2mn in net income (EPS: QR0.27), up 3.5% YoY but down 9.8% sequentially, on a normalized basis, due to seasonality.** We note on a reported basis, QEWS recorded QR565.4mn in 3Q2022 net income that included QR230.4mn in one-time gains due its purchase of the remaining 40% stake in Nebras in July 2022.
- We project 2022 earnings to increase 5.7% YoY to QR1.55bn (EPS: QR1.41) and DPS to remain flat at QR0.80 (DY: 4.5%).** Our model incorporates Nebras @100% from 3Q2022 onward. QEWS reported earnings of QR1.47bn or EPS of QR1.33 in 2021. However, on a normalized basis, 2022 EPS should fall ~1% from QR1.30 in 2021 to QR1.29 in 2022. We continue to expect flat DPS of QR0.80 in 2022. With cash (and bank balances) of QR7.6bn (including QR3.1bn received from Nebras) as of September 2022, we do not expect any challenges in paying QR880mn in dividends despite QEWS paying off its \$550mn (QR2.0bn) bridge loan in January 2023.
- We expect a conservative EPS CAGR of 2.0% over 2021-27e.** Overall, we forecast reported EPS to decline 3.7% from QR1.41 in 2022 to QR1.36 in 2023. The PPA for RAF B1 (376 MW, 100% interest) ended in August 2022 and was extended until December. We expect the company to sign a new PPA (at a reduced tariff/higher gas costs) in 2023 that should impact profitability somewhat. We also expect lower sent-out power/water post the World Cup. QEWS should also complete the sale of its stake in Siraj in 1Q2023 and record a gain. Looking forward, we expect a modest 1.3% YoY in EPS growth to QR1.38 in 2024.
- QEWS enjoys decent EBITDA margins & dividend/FCF yields.** Despite modeled compression, QEWS retains solid EBITDA margins (2021-27 avg.: ~38%). Over 2021-27, we expect dividend yields to average 4.7%, while FCF yields should average 8.3% over 2023-27 after turning negative in 2022 given the \$530mn Nebras acquisition. ROEs average 10.0% for 2021-27. We note we are fairly conservative with our margin assumptions so there is room for upside to our estimates.

Catalysts

- New opportunities currently not in our model: 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. Ultimately, our **earnings forecasts could be conservative.**

Recommendation, Valuation and Risks

- Recommendation & valuation: We continue to rate QEWS an Accumulate with a PT of QR21.00.** QEWS trades at P/E multiples of 12.7x and 13.1x for 2022 and 2023, respectively. Dividend yields are also decent at 4.5% for 2022 and 2023.
- Risks: Geopolitical risks** cannot be modeled. Besides **foreign expansion risks, domestic projects could also be delayed. Kahramaa could renegotiate existing contracts.** The next contract renewal (RAF B1) is due now but we have adjusted our forecasts to account for some tariff reduction/margin compression. **Operational risks include availability of capacity below contracted levels,** which could lead to penalties.

Key Financial Data and Estimates

	FY2021	FY2022e	FY2023e	FY2024e
Revenue (QR mn)	2,475	2,540	2,679	2,724
Revenue Growth	-4.3%	2.6%	5.5%	1.7%
EPS (QR)	1.33	1.41	1.36	1.38
EPS Growth	26.8%	5.7%	-3.7%	1.3%
P/E (x)	13.4	12.7	13.1	13.0
DPS (QR)	0.80	0.80	0.80	0.85
ROE	12.4%	10.6%	9.8%	9.6%

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

Key Data

Current Market Price (QR)	17.85
Dividend Yield (%)	4.5
Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWC.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	20.00/16.76
3-m Average Volume ('000)	686.8
Mkt. Cap. (\$ bn/QR bn)	5.4/19.6
EV (\$ bn/QR bn)	6.2/22.6
Shares Outstanding (bn)	1.10
FO Limit* (%)	49.0
Institutional FO* (%)	9.1
1-Year Total Return (%)	2.5
Fiscal Year End	December 31

Source: Bloomberg (as of January 30, 2023), *Qatar Exchange (as of January 30, 2023); Note: FO is foreign ownership

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Valuation and Key Ratios

Valuation Metrics

Particulars	2014	2015	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e
Valuation														
EV/EBITDA - Consolidated	15.2	14.3	13.7	14.0	16.1	21.7	22.6	16.9	19.1	19.0	18.3	18.0	17.4	16.7
EV/EBIT	21.8	20.1	18.4	19.7	20.7	30.9	33.7	22.9	26.5	29.3	28.1	27.9	27.0	26.0
P/E	12.8	13.1	12.7	12.1	12.8	13.9	17.0	13.4	12.7	13.1	13.0	12.6	12.3	11.9
P/CF	8.9	10.6	9.5	11.8	9.5	15.5	11.1	12.0	10.1	11.5	11.2	10.9	10.7	10.4
P/BV	2.9	2.7	2.4	2.2	1.9	2.0	2.0	1.7	1.3	1.3	1.2	1.2	1.1	1.1
Dividend Yield	4.2%	4.2%	4.2%	4.3%	4.3%	4.3%	3.5%	4.5%	4.5%	4.5%	4.8%	4.8%	4.8%	5.0%
FCF Yield	(2.5%)	4.2%	6.3%	8.2%	5.3%	5.2%	8.6%	7.0%	(0.6%)	7.8%	8.1%	8.3%	8.5%	8.7%

Source: Bloomberg, QNB FS Research

Peer Comparisons

Company	Mcap \$ MN	P/E		EV/EBITDA		P/B		ROE		EBITDA Margin		Dividend Yield	
		2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e
SAUDI ELECTRICITY CO	25,734	N/A	N/A	5.1	5.0	N/A	N/A	16.6%	14.7%	53.6%	54.6%	3.0	3.0
TAQA MOROCCO	2,176	17.1	16.6	8.1	7.8	N/A	N/A	22.4%	21.0%	30.7%	32.0%	4.0	4.0
ABU DHABI NATIONAL ENERGY CO	99,486	40.6	21.7	N/A	N/A	N/A	N/A	12.0%	20.7%	N/A	N/A	N/A	N/A
TABREED	2,130	N/A	N/A	N/A	n.a.	N/A	N/A	9.0%	N/A	N/A	N/A	N/A	N/A
SEVERN TRENT PLC	8,833	30.7	48.5	15.4	14.7	7.21	7.91	11.7%	24.7%	46.4%	43.8%	3.6	3.8
UNITED UTILITIES GROUP PLC	9,064	22.0	n.a.	14.8	17.2	2.86	3.01	0.9%	8.7%	54.8%	47.5%	4.0	4.2
TATA POWER CO LTD	8,379	34.7	20.1	15.9	14.8	2.66	2.38	12.7%	12.2%	18.3%	15.7%	0.8	0.9
CESC LTD	1,182	7.0	6.8	6.0	5.9	0.87	0.80	12.9%	13.0%	26.8%	24.1%	6.3	6.6
NTPC LTD	20,319	9.5	9.5	9.5	8.4	1.15	1.07	12.3%	13.0%	31.3%	28.6%	3.8	4.7
EDP - ENERGIAS DO BRASIL SA	2,294	7.1	7.7	5.2	5.5	1.01	0.96	14.5%	12.7%	29.5%	28.5%	7.7	7.0
Peer Group Average		21.1	18.7	10.0	9.9	2.63	2.69	12.5%	15.6%	36.4%	34.3%	4.2%	4.3%
Peer Group Median		19.6	16.6	8.8	8.1	1.90	1.73	12.5%	13.0%	31.0%	30.3%	3.9%	4.1%
QATAR ELECTRICITY & WATER	5,392	12.7	13.1	19.1	19.0	1.35	1.29	10.6%	9.8%	40.3%	37.3%	4.5%	4.5%

Source: Bloomberg, QNB FS Research

Key Growth Rates/CAGRs/Ratios

Particulars	2014	2015	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e	CAGR ('21-'27)
Growth Rates															
Revenue	(0.2%)	2.9%	4.0%	(1.0%)	(15.3%)	(8.2%)	8.3%	(4.3%)	2.6%	5.5%	1.7%	0.9%	1.2%	1.2%	2.2%
Gross Profit	(1.8%)	1.9%	3.6%	(3.3%)	(15.8%)	(23.6%)	4.2%	5.2%	(3.6%)	2.0%	0.6%	(1.3%)	(0.2%)	0.0%	(0.4%)
EBITDA - Consolidated	(2.5%)	5.4%	2.8%	(4.9%)	(15.8%)	(25.8%)	(8.2%)	24.4%	(7.3%)	(2.3%)	0.3%	(1.8%)	(0.5%)	(0.2%)	(2.0%)
EBIT	(3.5%)	7.3%	7.2%	(9.3%)	(7.2%)	(33.1%)	(12.5%)	37.2%	(9.7%)	(12.1%)	0.6%	(2.7%)	(0.7%)	(0.2%)	(4.3%)
JV Income	3.6%	4.1%	(8.9%)	52.3%	(4.4%)	48.7%	(31.7%)	3.5%	5.6%	42.8%	2.4%	2.0%	2.0%	2.0%	8.6%
PBT	11.0%	(2.0%)	2.5%	4.2%	(4.5%)	(8.0%)	(17.9%)	26.0%	8.1%	(1.9%)	1.3%	2.6%	3.0%	3.1%	2.7%
Net Income/EPS	10.5%	(1.9%)	2.8%	4.8%	(4.9%)	(8.0%)	(18.1%)	26.8%	5.7%	(3.7%)	1.3%	2.6%	3.0%	3.1%	2.0%
DPS	10.0%	0.0%	0.0%	3.3%	0.0%	0.0%	(18.7%)	27.0%	0.0%	0.0%	6.3%	0.0%	0.0%	5.9%	2.0%
CFPS	30.7%	(16.6%)	11.7%	(19.1%)	24.2%	(38.8%)	40.1%	(7.9%)	19.3%	(12.8%)	3.5%	2.4%	2.0%	2.3%	2.4%
FCFPS	N/M	N/M	50.5%	30.9%	(35.1%)	(1.7%)	65.2%	(18.3%)	N/M	N/M	3.9%	2.6%	2.2%	2.5%	3.7%
Operating Ratios															
Gross Margin	59.5%	58.9%	58.7%	57.3%	56.9%	47.3%	45.6%	50.1%	47.0%	45.5%	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%	40.3%	37.3%	36.8%	35.8%	35.2%	34.7%	
EBIT Margin	36.3%	37.8%	38.9%	35.7%	39.1%	28.5%	23.0%	33.0%	29.1%	24.2%	24.0%	23.1%	22.7%	22.4%	
Net Margin	52.8%	50.3%	49.7%	52.6%	59.1%	59.2%	44.8%	59.3%	61.1%	55.8%	55.6%	56.5%	57.5%	58.6%	
Finance Ratios															
Debt-Equity Ratio	0.8	0.7	0.7	0.7	0.7	0.7	0.6	0.5	0.7	0.5	0.5	0.4	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	0.1	0.1	0.1	0.0	0.0	
Interest Coverage	9.7	9.4	8.1	6.1	4.5	2.8	4.0	7.1	2.6	1.7	2.0	2.2	2.4	2.6	
Return Ratios															
ROIC	8.8%	9.2%	8.5%	7.4%	5.9%	4.1%	3.7%	4.7%	3.0%	2.8%	2.8%	2.7%	2.6%	2.6%	
ROE	22.6%	20.4%	18.6%	18.0%	14.7%	14.1%	11.9%	12.4%	10.6%	9.8%	9.6%	9.4%	9.4%	9.3%	
ROA	11.8%	11.2%	10.1%	10.2%	8.4%	8.1%	6.8%	7.9%	5.9%	6.1%	6.1%	6.2%	6.3%	6.5%	
FCF Yield	-2.5%	4.2%	6.3%	8.2%	5.3%	5.2%	8.6%	7.0%	-0.6%	7.8%	8.1%	8.3%	8.5%	8.7%	
Liquidity Ratios															
Current Ratio	1.2	1.5	2.1	2.3	1.6	1.4	1.4	1.6	1.8	1.7	1.7	1.8	1.9	2.0	
Quick Ratio	1.1	1.4	1.9	2.2	1.6	1.4	1.4	1.6	1.8	1.6	1.7	1.8	1.8	1.9	
Valuation															
EV/EBITDA - Consolidated	15.2	14.3	13.7	14.0	16.1	21.7	22.6	16.9	19.1	19.0	18.3	18.0	17.4	16.7	
EV/EBIT	21.8	20.1	18.4	19.7	20.7	30.9	33.7	22.9	26.5	29.3	28.1	27.9	27.0	26.0	
P/E	12.8	13.1	12.7	12.1	12.8	13.9	17.0	13.4	12.7	13.1	13.0	12.6	12.3	11.9	
P/CF	8.9	10.6	9.5	11.8	9.5	15.5	11.1	12.0	10.1	11.5	11.2	10.9	10.7	10.4	
P/BV	2.9	2.7	2.4	2.2	1.9	2.0	2.0	1.7	1.3	1.3	1.2	1.2	1.1	1.1	
Dividend Yield	4.2%	4.2%	4.2%	4.3%	4.3%	4.3%	3.5%	4.5%	4.5%	4.5%	4.8%	4.8%	4.8%	5.0%	
FCF Yield	(2.5%)	4.2%	6.3%	8.2%	5.3%	5.2%	8.6%	7.0%	(0.6%)	7.8%	8.1%	8.3%	8.5%	8.7%	

Source: Bloomberg, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	FY2021	FY2022e	FY2023e	FY2024e
Revenue	2,475	2,540	2,679	2,724
Cost of Sales, Excluding Depreciation	(1,235)	(1,345)	(1,460)	(1,498)
Gross Profit	1,239	1,195	1,219	1,226
General & Administrative Expenses, Excl. Depreciation & Amortization	(135)	(171)	(218)	(222)
EBITDA	1,105	1,024	1,001	1,004
Deferred Income	0	0	0	0
Depreciation & Amortization	(287)	(286)	(352)	(351)
EBIT	817	738	649	653
Finance Costs, Net	(43)	(122)	(181)	(123)
Dividend Income & Gain on Sale of AFS	81	161	127	133
Other & Miscellaneous Income/Expense & Income from JVs/Associates	635	834	985	937
Profit Before Tax	1,490	1,611	1,580	1,601
Income Tax Expense	0	(6)	(9)	(9)
Profit After Tax (Continuing Operations)	1,490	1,605	1,571	1,592
Discontinued Operations				
Minority Interest	(22)	(53)	(77)	(78)
Profit for Shareholders	1,468	1,552	1,494	1,514
EPS (QR)	1.33	1.41	1.36	1.38

Source: Company data, QNB FS estimates

Balance Sheet (In QR mn)	FY2021	FY2022e	FY2023e	FY2024e
Non-Current Assets				
Property, Plant & Equipment	4,805	6,360	6,111	5,863
Available-for-Sale Investments	3,165	2,500	2,625	2,756
Finance Lease Receivables	798	765	656	547
JV Loans and Investments in JVs/Associates	5,073	7,457	7,837	8,224
Other Non-Current assets	112	291	273	255
Total Non-Current Assets	13,953	17,374	17,503	17,646
Current Assets				
Finance Lease Receivables & Others	280	141	217	217
Inventories	64	111	120	123
Accounts Receivables & Prepayments	566	731	771	784
Cash and Short-Term Deposits	3,627	7,804	5,881	5,981
Total Current Assets	4,537	8,786	6,989	7,105
Total Assets	18,490	26,159	24,492	24,751
Equity				
Total Equity	11,988	14,682	15,190	15,717
Non-Current Liabilities				
Loans and Borrowings	3,583	6,394	4,961	4,773
Employees' End of Service Benefits	76	90	91	93
Lease Liabilities	23	55	54	52
Derivatives	3	0	0	0
Total Non-Current Liabilities	3,685	6,538	5,106	4,918
Current Liabilities				
Accounts Payables & Others	688	1,105	1,200	1,231
Loans and Borrowings	2,097	3,743	2,904	2,794
Derivatives & Lease Liabilities	33	91	91	91
Total Current Liabilities	2,818	4,939	4,195	4,116
Equity and Liabilities	18,490	26,159	24,492	24,751

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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