

QEWS Alert – In-Line 4Q2022 Earnings, Excluding One-Offs; DPS Up ~19% to QR0.95 (DY: 5.4%); Accumulate

- **QEWS reports 4Q2022 net income of QR460.8mn (EPS: QR0.42), up 57.9% YoY but down 18.5% QoQ, which is significantly above our estimate of QR302.2mn (EPS: QR0.27) – Surprisingly, total revenue for 4Q2022 jumped up to QR810.0mn, up 27.7% YoY and 13.9% QoQ and also 28.9% ahead of our estimate of QR628.4mn; most of the upside in revenue came from water revenue, which shot up to QR404.5mn in 4Q2022 (25.6% YoY, 32.8% QoQ) vs. our estimate of QR294.0mn. We did not anticipate this sequential uptick in water revenue relative to our model, especially given that the fourth quarter is usually seasonally weak. Management stated that QEWS benefited from a take-or-pay agreement in RAF B, which allowed the company to record a large increase in water revenue in 4Q2022. Several other one-offs during the quarter muddles up the picture, including (1) an additional QR24.5mn in non-cash gains for Nebras (bargain-purchase gain and step-acquisition gain), (2) a QR83.1mn impairment loss recorded in SG&A (QR63.4mn for RAF B1 which should get a revised PPA until end-2029 and QR19.7mn for the Dukhan plant, which is a small 2MIGD desalination plant that has been written-off completely) and (3) QR113.6mn in operating margin for Umm Al Houli (recorded in JV income) for K-factor-related revenue that had been previously deferred. Finally, (4) QEWS also recorded a small QR3.2mn in gain from discontinued operations (Nebras' subsidiary Carthage Power). *If we adjust for these one-offs, QEWS recorded ~QR303mn in 4Q2022 earnings, which is right in-line with our estimate.***
- **Recommended DPS of QR0.95 was stronger than our estimate of QR0.80 and implies a dividend yield of 5.4%. DPS also grew 18.8% YoY vs. QR0.80 in 2021.**
- **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, which is currently in the bidding stage, 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). *We continue to rate QEWS an Accumulate with a PT of QR21.00.***
- **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.

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Income Statement (QR mn)												
Particulars	4Q2021	3Q2022	4Q2022	4Q2022e	A Vs. E	YoY	QoQ	2021	2022	2022e	A Vs. E	YoY
Revenue	634.474	711.129	809.983	628.369	28.9%	27.7%	13.9%	2,474.514	2,721.413	2,539.799	7.2%	10.0%
Electricity	292.112	387.222	386.225	316.268	22.1%	32.2%	-0.3%	1,115.946	1,336.778	1,266.821	5.5%	19.8%
Water	322.059	304.570	404.473	294.037	37.6%	25.6%	32.8%	1,265.014	1,308.905	1,198.469	9.2%	3.5%
Lease Income from JVs and Associates	20.303	19.337	19.285	18.064	6.8%	-5.0%	-0.3%	93.554	75.730	74.509	1.6%	-19.1%
Cost of Sales (Ex. Depreciation)	(307.511)	(390.175)	(362.087)	(319.632)	13.3%	17.7%	-7.2%	(1,235.059)	(1,387.441)	(1,344.986)	3.2%	12.3%
Gross Profit	326.963	320.954	447.896	308.737	45.1%	37.0%	39.6%	1,239.455	1,333.972	1,194.813	11.6%	7.6%
General and Administrative Expenses	(38.790)	(52.770)	(157.832)	(52.574)	200.2%	306.9%	199.1%	(134.642)	(276.170)	(170.912)	61.6%	105.1%
EBITDA	288.173	268.184	290.064	256.163	13.2%	0.7%	8.2%	1,104.813	1,057.802	1,023.901	3.3%	-4.3%
Depreciation (CoS)	(69.311)	(70.903)	(108.729)	(70.938)	53.3%	56.9%	53.3%	(273.920)	(281.677)	(243.886)	15.5%	2.8%
Depreciation (G&A)	(1.431)	(15.041)	5.174	(15.049)	N/M	N/M	N/M	(5.903)	(13.899)	(34.122)	-59.3%	135.5%
Amortization	(1.837)	(1.985)	(1.919)	(1.990)	-3.6%	4.5%	-3.3%	(7.654)	(7.735)	(7.806)	-0.9%	1.1%
Depreciation & Amortization	(72.579)	(87.929)	(105.474)	(87.977)	19.9%	45.3%	20.0%	(287.477)	(303.311)	(285.814)	6.1%	5.5%
EBIT	215.594	180.255	184.590	168.186	9.8%	-14.4%	2.4%	817.336	754.491	738.087	2.2%	-7.7%
Finance Costs, Net	(10.567)	(49.574)	(39.315)	(50.882)	-22.7%	272.1%	-20.7%	(43.379)	(110.836)	(122.403)	-9.5%	155.5%
Dividend Income	(9.395)	-	-	-	-	-100.0%	-	81.411	160.909	160.909	0.0%	97.7%
Other & Misc. Income / Exp.	16.102	241.806	33.588	(10.000)	N/M	108.6%	-86.1%	64.606	275.582	231.994	18.8%	326.6%
JV Income	83.995	223.843	280.120	212.651	31.7%	233.5%	25.1%	570.121	669.418	601.949	11.2%	17.4%
Profit from Discontinued Operations	-	-	3.223	-	-	-	-	-	3.223	-	-	-
Profit Before Tax	295.729	596.330	462.206	319.955	44.5%	56.3%	-22.5%	1,490.095	1,752.787	1,610.536	8.8%	17.6%
Tax	-	(3.019)	0.680	(2.868)	N/M	-	N/M	-	(2.339)	(5.887)	-60.3%	-
Profit after Tax	295.729	593.311	462.886	317.087	46.0%	56.5%	-22.0%	1,490.095	1,750.448	1,604.649	9.1%	17.5%
Minority Interest	(3.810)	(27.913)	(2.050)	(14.918)	-86.3%	-46.2%	-92.7%	(22.230)	(39.639)	(52.507)	-24.5%	78.3%
Net Income	291.919	565.398	460.836	302.169	52.5%	57.9%	-18.5%	1,467.865	1,710.809	1,552.142	10.2%	16.6%
<i>Net Margin</i>	<i>46.0%</i>	<i>79.5%</i>	<i>56.9%</i>	<i>48.1%</i>	-	-	-	<i>59.3%</i>	<i>62.9%</i>	<i>61.1%</i>	-	-
EPS (QR)	0.27	0.51	0.42	0.27	52.5%	57.9%	-18.5%	1.33	1.56	1.41	10.2%	16.6%
DPS (QR)	-	-	-	-	-	-	-	0.80	0.95	0.80	18.8%	18.8%

	4Q2021	3Q2022	4Q2022	4Q2022e	2021	2022	2022e
Cost of Sales	48.5%	54.9%	44.7%	50.9%	49.9%	51.0%	53.0%
SG&A	6.1%	7.4%	19.5%	8.4%	5.4%	10.1%	6.7%
Depreciation/Sales	10.9%	10.0%	13.4%	11.3%	11.1%	10.4%	9.6%
EBITDA margin	45.4%	37.7%	35.8%	40.8%	44.6%	38.9%	40.3%
Operating Margin	34.0%	25.3%	22.8%	26.8%	33.0%	27.7%	29.1%
Min Interest (as a % of NI)	1.3%	4.9%	0.4%	4.9%	1.5%	2.3%	3.4%
Net Margin	46.0%	79.5%	56.9%	48.1%	59.3%	62.9%	61.1%
GM	51.5%	45.1%	55.3%	49.1%	50.1%	49.0%	47.0%

Recommendations	
<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>	
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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
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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