

## Qatar Electricity & Water Company (QEWS)

Recommendation	OUTPERFORM	Risk Rating	R-2
Share Price	QR209.40	Current Target Price	QR256.00
Implied Upside	22.3%		

### Significant Growth on Tap for 2017/18; Stay Outperform

*We rate QEWS an Outperform with an unchanged price target of QR256. Our price target continues to reflect the Umm Al Houl project beginning in 2017. We expect this 2,520 MW and 136.5 MIGD project to add about QR23 per share to QEWS' fair value. QEWS is a low-risk play deeply linked to Qatar's growth story. Our fair value implies ~22% price upside and we retain our long-term bullish stance.*

#### Highlights

- Growing with Qatar: Buoyed by economic and population growth, Qatar's electricity & water demand is set to grow by a CAGR of 8-10% over the next few years.** State-backed QEWS (43% ownership + ~11% held by Qatar Petroleum), practically Qatar's sole power & water producer, should benefit from this growth. QEWS owns 62% and 81%, respectively, of the overall power and water desalination capacity of 8,750 MW and 364 MIGD installed in Qatar.
- Watertight contracts ensure visible earnings & cash flows.** Essentially a capacity provider, QEWS buys natural gas (primary feedstock; 68% of cash direct costs, 2012-15; 66% in 1Q2016) from QP (supplier; 100% government-owned) through long-term take-or-pay contracts and sells power and water to Kahramaa (buyer; 100%) under long-term off-take power & water purchase agreements. Fuel cost hikes are passed through to Kahramaa. These agreements lead to stable margins and any expansion should grow revenue/EPS.
- Stable operating profile and solid dividend yield should pave the way for future earnings acceleration.** Our model shows EBITDA margins remaining at industry highs of 51.7% over 2014-20. We project EPS to grow at a CAGR of 5.2% over 2014-20, despite the marginal decline seen in 2015. After a 5.0% growth in 2016, we expect EPS growth to accelerate to 10.8% and 12.4% in 2017 and 2018, respectively. Dividend payout was a solid 53.8% over 2007-15 and we expect this trend to continue.
- 1Q2016 results were in-line with our estimates:** QEWS reported a net profit of QR347mn in 1Q2016, indicating a fall of 3.5% QoQ (flattish YoY), in-line with our estimate of QR356mn. The company's revenue declined 7.1% QoQ (up 7.6% YoY) to QR718mn in 1Q2016; top-line was in-line with our modeled estimate of QR705mn. JV income was bit softer-than-expected at QR81mn (-9.8% QoQ, -17.1% YoY) given maintenance at Q-Power; Ras Laffan Power also faced some maintenance-related issues but both facilities are back to normal levels. Depreciation expense was also affected with the useful life of RAF B extended to Oct. 2017 vs. end-2016 previously.

#### 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. QEWS should also start construction of its 500-MW-solar power JV with QP by 1Q2017. Newsflow regarding domestic expansion could act as catalysts.

#### Recommendation, Valuation and Risks

- Recommendation and valuation:** *We rate QEWS an Outperform with a price target of QR256.00.* The stock trading at a 2016 P/E of 14.6x.
- Risks:** **Volatile oil prices are a major risk to regional equities.** Decrease in tariff rates could negatively impact business model.

#### Key Financial Data and Estimates

	FY2014	FY2015	FY2016e	FY2017e
Revenue (QR mn)	2,898	2,983	3,256	3,508
Revenue Growth	(0.2%)	2.9%	9.2%	7.7%
EPS (QR)	13.91	13.64	14.33	15.88
EPS Growth	10.5%	(1.9%)	5.0%	10.8%
P/E (x)	15.1	15.4	14.6	13.2
DPS (QR)	7.50	7.50	7.75	8.00
Dividend Payout	53.9%	55.0%	54.1%	50.4%
Dividend Yield	3.6%	3.6%	3.7%	3.8%
ROE	22.6%	20.4%	19.5%	19.4%

Source: Company data, QNBFS estimates

#### Key Data

Current Market Price (QR)	209.40
Dividend Yield – 2016 (%)	3.7
Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWQ.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	228.00/175.10
3-m Average Volume ('000)	38.0
Mkt. Cap. (\$ bn/QR bn)	6.3/23.0
Shares Outstanding (mn)	110.0
FO Limit* (%)	25.0
Current FO* (%)	11.3
1-Year Total Return (%)	0.6
Fiscal Year End	December 31

Source: Bloomberg (as of April 27, 2016), \*Qatar Exchange (as of April 26, 2016); Note: FO is foreign ownership

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## Detailed Financial Statements

Income Statement (In QR mn)	FY2015	FY2016e	FY2017e	FY2018e
<b>Revenue</b>	<b>2,983</b>	<b>3,256</b>	<b>3,508</b>	<b>3,566</b>
Cost of Sales, Excluding Depreciation	(1,225)	(1,354)	(1,476)	(1,519)
<b>Gross Profit</b>	<b>1,757</b>	<b>1,902</b>	<b>2,032</b>	<b>2,048</b>
General & Administrative Expenses	(173)	(195)	(210)	(214)
<b>EBITDA</b>	<b>1,584</b>	<b>1,707</b>	<b>1,821</b>	<b>1,834</b>
Deferred Income	7	7	0	0
Depreciation & Amortization	(463)	(491)	(561)	(563)
<b>EBIT</b>	<b>1,128</b>	<b>1,223</b>	<b>1,260</b>	<b>1,271</b>
Finance Costs	(121)	(123)	(131)	(129)
Interest Income, Dividend Income & Gain on Sale of AFS	39	36	40	45
Other & Miscellaneous Income/Expense & Share of Profits from JVs	474	476	618	822
Share of Associates	16	0	0	0
Profit Before Tax	1,536	1,613	1,787	2,009
Income Tax Expense	0	0	0	0
<b>Profit After Tax (Continuing Operations)</b>	<b>1,536</b>	<b>1,613</b>	<b>1,787</b>	<b>2,009</b>
Discontinued Operations				
Minority Interest	(35)	(37)	(41)	(46)
<b>Profit for Shareholders</b>	<b>1,501</b>	<b>1,576</b>	<b>1,747</b>	<b>1,963</b>
<b>EPS (QR)</b>	<b>13.64</b>	<b>14.33</b>	<b>15.88</b>	<b>17.85</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	6,212	6,650	6,256
Available-for-Sale Investments	344	341	341	341
Finance Lease Receivables	1,491	1,376	1,262	1,147
JV Loans and Investments in JVs	2,627	3,021	3,459	3,947
Other Non-Current assets	311	303	295	288
<b>Total Non-Current Assets</b>	<b>10,487</b>	<b>11,253</b>	<b>12,008</b>	<b>11,979</b>
<b>Current Assets</b>				
Finance Lease Receivables & Others	146	141	141	141
Inventories	178	260	283	291
Accounts Receivables & Prepayments	888	847	913	928
Cash and Short-Term Deposits	1,751	2,058	2,517	3,202
<b>Total Current Assets</b>	<b>2,963</b>	<b>3,306</b>	<b>3,853</b>	<b>4,562</b>
<b>Total Assets</b>	<b>13,450</b>	<b>14,559</b>	<b>15,861</b>	<b>16,541</b>
<b>Equity</b>				
Equity to the Parent	7,346	8,088	8,982	10,065
Minority Interest	256	270	285	302
<b>Total Equity</b>	<b>7,602</b>	<b>8,357</b>	<b>9,267</b>	<b>10,367</b>
<b>Non-Current Liabilities</b>				
Loans and Borrowings	3,791	4,149	4,471	4,024
Deferred Income	0	0	0	0
Employees' End of Service Benefits	49	52	56	59
Derivatives	20	35	35	35
<b>Total Non-Current Liabilities</b>	<b>3,860</b>	<b>4,236</b>	<b>4,562</b>	<b>4,118</b>
<b>Current Liabilities</b>				
Accounts Payables & Others	756	742	809	832
Loans and Borrowings	1,124	1,116	1,116	1,116
Derivatives	107	107	107	107
<b>Total Current Liabilities</b>	<b>1,988</b>	<b>1,965</b>	<b>2,032</b>	<b>2,056</b>
<b>Equity and Liabilities</b>	<b>13,450</b>	<b>14,559</b>	<b>15,861</b>	<b>16,541</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

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