

Qatar Electricity & Water Company (QEWS)

Recommendation	ACCUMULATE	Risk Rating	R-2
Share Price	QR14.92	Target Price	QR17.00
Implied Upside	13.9%		

Still Expected to Generate Decent Upside; Accumulate

We **recently upgraded QEWS' stock from a Market Perform to an Accumulate rating**. Reported results for 1Q2020 were in-line with our forecasts and we continue to believe YoY comparisons should become better as we progress through 2020. The near-term impact of the COVID-19 pandemic could remain muted on QEWS' business model as the company is paid based on power and water availability and is not affected by the vagaries of end demand. We **slightly tweak our forward estimates, increasing our 2020e earnings estimate by 0.5%, while moderately lowering QEWS' 2021-2022 EPS forecasts by an average of 1.3%**. 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 2022-2023; Siraj solar project in 2021-2022, etc.). Nebras remains on the hunt for growth with a goal of increasing its net capacity to 6 GW by 2023 from 1.7 GW in September 2019. However, beyond Paiton (Indonesia), we do not have color on other major Nebras projects, which could lead to growth relative to our model.

Highlights

- No major surprises in 1Q2020:** QEWS' 1Q2020 net profit rose 3.6% YoY (but fell 31.0% QoQ) to QR320.11mn, in-line with our estimate of QR311.85mn (variation: +2.6%). The QoQ decline was mostly due to QR192mn in 4Q2019 provision reversals for Umm Al Houl; excluding this, 1Q2020 net income grew 17.8% QoQ. GM came in at 47.5%, down from 50.6% in 1Q2019 but up from 44.9% in 4Q2019. EBITDA margin also fell to 40.6% vs. 42.4% in 1Q2019 but gained vs. 38.6% in 4Q2019. However, 1Q2020 operating margin improved on a YoY basis from 28.8% in 1Q2019 to 29.2% given lower D&A charges; OM also gained QoQ vs. 4Q2019's 26.8%.
- Earnings should enjoy better YoY comparisons as we progress through 2020.** As we have noted previously, RAF B, which witnessed lowered tariffs under a 12-year contract extension from July 2018, also faces lower offtake in 2019/2020 given Umm Al Houl's ramp up. Moreover, RAF B1/B2 are going through a contractually agreed dip in tariff rates. Costs have also increased beyond modeled expectations given higher-than-expected gas costs for RAF B's renewal. However, with these items already affecting 2019 performance, YoY comparisons should start to look better in 2020, as was evident in 1Q2020 earnings, in our view. **We note 2020 EPS, adjusting for the aforementioned provision reversal, implies a 7.0% YoY growth.**
- QEWS enjoys decent EBITDA margins & dividend/FCF yields.** Despite modeled compression, QEWS retains solid EBITDA margins (2019-25 avg.: ~40%). Over 2019-25, we expect dividend yields & FCF yields to average 5.2% and 8.4%, respectively. ROEs average 13.6% for 2019-25.

Catalysts

- New opportunities currently not in our model:** Besides Umm Al Houl (Facility D), our model does not account for other domestic JV expansions (like Facility E; Siraj, etc.) which could lead to LT upside. **Facility E** (55% stake; power: 2,300 MW & water: 100 MIGD), should be commissioned around summer 2022, reaching full capacity in 2023. **Siraj** should start operations in 1Q2021 (350 MW) with a possible expansion to 800 MW by 1Q2022. QEWS will own a 36% net stake in this solar project. Beyond Paiton in Indonesia, we do not have color on other major Nebras projects, which could lead to growth vs. our model. **Nebras** remains on the hunt for growth with a goal of upping its net capacity to 6 GW by 2023 from 1.7 GW (3Q2019). Ultimately, our JV income forecasts could be conservative – following its one-off driven spike to QR806.14mn in 2019, we expect QR631.71mn in 2020 and a 3.4% CAGR over 2020-25.

Recommendation, Valuation and Risks

- Recommendation & valuation:** *Our rating/1-year PT is Accumulate/QR17.00.* 2021 P/E is 12.0x.
- Risks:** Geopolitical risks cannot be modeled. Besides **foreign expansion risks, domestic projects could also be delayed/shelved, especially given the ongoing pandemic. Kahramaa could renegotiate existing contracts** and recent discussions on K-Factors gives us pause. We note lower-than-expected rates for RAF B involve a contract renewal on a fully depreciated plant. However, contract terms are proprietary and we cannot rule out unforeseen declines in tariffs/offtake. The next contract renewal (B1), however, is not until Aug. 2022. **Operational risks include availability of capacity below contracted levels**, which could lead to penalties.

Key Financial Data and Estimates

	FY2019	FY2020e	FY2021e	FY2022e
Revenue (QR mn)	2,389	2,445	2,484	2,506
Revenue Growth	-8.2%	2.4%	1.6%	0.9%
EPS (QR)	1.29	1.19	1.25	1.26
EPS Growth	-8.0%	-7.3%	4.6%	0.9%
P/E (x)	11.6	12.5	12.0	11.9
DPS (QR)	0.78	0.78	0.78	0.78
ROE	14.1%	14.4%	14.2%	13.6%

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

Key Data

Current Market Price (QR)	14.92
Current Dividend Yield (%)	5.2
Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWC.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	17.34/13.20
3-m Average Volume ('000)	832.9
Mkt. Cap. (\$ bn/QR bn)	4.5/16.4
EV (\$ bn/QR bn)	5.5/19.9
Shares Outstanding (bn)	1.10
FO Limit* (%)	49.0
Current FO* (%)	11.3
1-Year Total Return (%)	(1.9)
Fiscal Year End	December 31

Source: Bloomberg (as of May 21, 2020), *Qatar Exchange (as of May 21, 2020); Note: FO is foreign ownership

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Valuation and Key Ratios

Valuation Metrics

Particulars	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e	2023e	2024e	2025e
Valuation												
EV/EBITDA - Consolidated	13.1	12.3	11.7	11.9	13.6	18.4	19.2	18.1	17.9	17.4	16.4	15.6
EV/EBIT	18.7	17.3	15.8	16.8	17.5	26.1	27.0	25.3	25.3	24.9	23.3	22.2
P/E	10.7	10.9	11.1	10.2	10.7	11.6	12.5	12.0	11.9	11.6	11.2	11.0
P/CF	7.4	8.9	8.0	9.8	7.9	13.0	9.6	10.4	10.3	10.3	10.1	9.9
P/BV	2.4	2.2	2.0	1.8	1.6	1.6	1.8	1.7	1.6	1.5	1.4	1.4
Dividend Yield	5.0%	5.0%	5.0%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%
FCF Yield	(2.9%)	5.0%	7.5%	9.8%	6.4%	7.1%	8.1%	8.5%	8.6%	8.6%	8.8%	9.0%

Source: Bloomberg, QNB FS estimates

Peer Comparison

Company	Sh. Price (LCY)	Mcap USDmn	Beta 5yr adj.	P/E		EV/EBITDA		P/BV		P/FCF		ROE		EBITDA Margin		Dividend Yld.	
				2020e	2021e	2020e	2021e	2020e	2021e	2020e	2021e	2020e	2021e	2020e	2021e	2020e	2021e
SAUDI ELECTRICITY CO	16.9	18,740	0.80	51.5	39.5	9.7	9.1	1.0	1.1	30.4	10.9	2.7%	0.5%	37.2%	38.1%	3.7	3.6
TAQA MOROCCO	870.0	2,079	0.78	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
ABU DHABI NATIONAL ENERGY CO	0.7	1,123	0.81	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TABREED	2.0	1,442	0.65	11.3	10.7	8.8	8.8	1.0	0.9	8.5	7.5	9.6%	9.8%	54.0%	50.2%	5.6	5.8
MONTAUK ENERGY HOLDINGS LTD	3,960.0	314	0.31	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
SEBPCORP SALALAH POWER & WAJ	0.1	238	0.50	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
KENYA ELECTRICITY GENERATING	4.9	300	0.88	2.1	2.1	5.6	5.4	0.2	0.1	4.7	5.3	8.0%	8.0%	64.7%	63.8%	14.5	15.6
LYONNAISE DES EAUX DE CASABL	330.0	267	0.86	18.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
SEVERN TRENT PLC	2,396.0	7,025	0.77	17.7	20.9	13.0	13.3	4.5	4.1	-127.4	26.8	24.2%	21.7%	51.5%	50.7%	4.2	4.3
UNITED UTILITIES GROUP PLC	892.2	7,496	0.78	14.9	19.5	12.2	13.1	1.9	1.8	28.1	20.0	10.5%	9.9%	61.0%	59.5%	4.8	4.8
TATA POWER CO LTD	35.4	1,265	1.09	8.6	7.0	7.8	7.4	0.5	0.5	1.8	2.2	7.6%	8.8%	23.9%	24.6%	3.8	4.3
CESC LTD	552.6	968	1.01	6.1	5.9	5.4	5.3	0.7	0.6	4.5	3.7	11.9%	12.2%	27.5%	27.6%	3.3	3.7
NTPC LTD	93.0	12,152	0.83	7.5	6.8	8.9	7.9	0.8	0.7	25.8	20.6	11.7%	12.3%	28.1%	28.8%	6.1	6.7
EDP - ENERGIAS DO BRASIL SA	17.2	1,920	0.80	11.6	9.3	7.1	6.0	1.0	1.0	-13.3	15.9	13.4%	17.3%	19.3%	21.4%	4.5	5.3
Peer Group Median			0.80	11.4	9.3	8.8	7.9	1.0	0.9	4.7	10.9	10.5%	9.9%	37.2%	38.1%	4.5%	4.8%
Peer Group Average			0.78	15.0	13.5	8.7	8.5	1.3	1.2	14.8	12.5	11.1%	11.2%	40.8%	40.5%	5.6%	6.0%
Peer Group Normalized Av.			0.79	12.1	11.4	8.6	8.3	1.0	0.9	40.1	12.0	10.4%	11.2%	40.5%	39.9%	4.7%	5.0%
Peer Group Normalized Av.2			0.79	11.9	10.7	8.4	7.8	0.9	0.9	62.0	11.9	10.3%	10.6%	39.7%	39.1%	4.6%	4.9%

QATAR ELECTRICITY & WATER CO	14.9	4,476	0.79	12.5	12.0	19.2	18.1	1.8	1.7	12.3	11.7	14.4%	14.2%	39.7%	40.2%	5.2	5.2
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Source: Bloomberg, QNB FS estimates

Key Growth Rates/CAGRs/Ratios

Particulars	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e	2023e	2024e	2025e	CAGR ('19-'25)
Growth Rates													
Revenue	(0.2%)	2.9%	4.0%	(1.0%)	(15.3%)	(8.2%)	2.4%	1.6%	0.9%	1.0%	1.3%	0.4%	1.2%
Gross Profit	(1.8%)	1.9%	3.6%	(3.3%)	(15.8%)	(23.6%)	0.2%	2.7%	(1.3%)	(0.1%)	2.4%	1.4%	0.9%
EBITDA - Consolidated	(2.5%)	5.4%	2.8%	(4.9%)	(15.8%)	(25.8%)	0.4%	2.9%	(1.7%)	(0.4%)	2.6%	1.4%	0.8%
EBIT	(3.5%)	7.3%	7.2%	(9.3%)	(7.2%)	(33.1%)	1.6%	3.5%	(3.0%)	(1.2%)	3.1%	1.5%	0.9%
JV Income	3.6%	4.1%	(25.1%)	85.4%	(4.4%)	48.7%	(21.6%)	3.5%	5.2%	3.5%	2.7%	2.3%	(1.2%)
PBT	11.0%	(2.0%)	(1.9%)	8.8%	(4.5%)	(8.0%)	(7.2%)	4.6%	0.9%	1.9%	3.5%	2.7%	1.0%
Net Income/EPS	10.5%	(1.9%)	(1.7%)	9.5%	(4.9%)	(8.0%)	(7.3%)	4.6%	0.9%	1.9%	3.5%	2.7%	1.0%
DPS	10.0%	0.0%	0.0%	3.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CFPS	30.7%	(16.6%)	11.7%	(19.1%)	24.2%	(38.9%)	34.9%	(7.3%)	0.3%	0.3%	1.8%	1.9%	4.5%
FCFPS	NM	NM	50.5%	30.9%	(35.1%)	11.8%	14.1%	5.4%	0.4%	0.4%	2.1%	2.1%	4.0%
Operating Ratios													
Gross Margin	59.5%	58.9%	58.7%	57.3%	56.9%	47.3%	46.3%	46.8%	45.8%	45.3%	45.8%	46.3%	
EBITDA Margin - Consolidated	51.8%	53.1%	52.5%	50.4%	50.2%	40.5%	39.7%	40.2%	39.2%	38.7%	39.1%	39.6%	
EBIT Margin	36.3%	37.8%	38.9%	35.7%	39.1%	28.5%	28.3%	28.8%	27.7%	27.1%	27.6%	27.9%	
Net Margin	52.8%	50.3%	47.5%	52.6%	59.1%	59.2%	53.6%	55.2%	55.2%	55.7%	56.9%	58.3%	
Finance Ratios													
Debt-Equity Ratio	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.5	0.4	0.4	
Net Debt-Equity Ratio	0.5	0.4	0.4	0.3	0.3	0.3	0.4	0.3	0.3	0.2	0.2	0.1	
Interest Coverage	9.7	9.4	8.1	6.1	4.5	2.8	4.4	5.7	5.0	5.0	5.3	5.6	
Return Ratios													
ROIC	8.8%	9.2%	8.5%	7.4%	5.9%	4.1%	4.5%	4.6%	4.4%	4.3%	4.3%	4.3%	
ROE	22.6%	20.4%	17.8%	18.0%	14.7%	14.1%	14.4%	14.2%	13.6%	13.1%	12.9%	12.5%	
ROA	11.8%	11.2%	9.7%	10.2%	8.4%	8.1%	8.0%	8.2%	8.2%	8.2%	8.4%	8.5%	
FCF Yield	-2.9%	5.0%	7.5%	9.8%	6.4%	7.1%	8.1%	8.5%	8.6%	8.6%	8.8%	9.0%	
Liquidity Ratios													
Current Ratio	1.2	1.5	2.1	2.3	1.6	1.4	1.1	1.2	1.3	1.4	1.6	1.8	
Quick Ratio	1.1	1.4	1.9	2.2	1.6	1.4	1.1	1.2	1.3	1.4	1.6	1.7	

Source: Bloomberg, QNB FS estimates

Detailed Financial Statements

Income Statement (In QR mn)	FY2019	FY2020e	FY2021e	FY2022e
Revenue	2,389	2,445	2,484	2,506
Cost of Sales, Excluding Depreciation	(1,258)	(1,312)	(1,320)	(1,357)
Gross Profit	1,131	1,133	1,164	1,149
General & Administrative Expenses, Excl. Depreciation & Amortization	(163)	(162)	(164)	(167)
EBITDA	968	972	1,000	982
Deferred Income	0	0	0	0
Depreciation & Amortization	(287)	(280)	(284)	(288)
EBIT	681	692	716	694
Finance Costs, Net	(116)	(66)	(40)	(48)
Dividend Income & Gain on Sale of AFS	64	80	70	77
Other & Miscellaneous Income/Expense & Share of Profits from JVs	812	632	654	688
Share of Associates	0	0	0	0
Profit Before Tax	1,441	1,338	1,399	1,411
Income Tax Expense	0	0	0	0
Profit After Tax (Continuing Operations)	1,441	1,338	1,399	1,411
Discontinued Operations				
Minority Interest	(27)	(26)	(28)	(28)
Profit for Shareholders	1,414	1,311	1,372	1,384
EPS (QR)	1.29	1.19	1.25	1.26

Source: Company data, QNB FS estimates

Balance Sheet (In QR mn)	FY2019	FY2020e	FY2021e	FY2022e
Non-Current Assets				
Property, Plant & Equipment	5,573	5,401	5,225	5,045
Available-for-Sale Investments	1,955	1,699	1,869	1,962
Finance Lease Receivables	974	848	739	644
JV Loans and Investments in JVs	4,689	5,029	5,305	5,591
Other Non-Current assets	134	119	111	103
Total Non-Current Assets	13,324	13,096	13,249	13,345
Current Assets				
Finance Lease Receivables & Others	146	148	148	148
Inventories	81	90	90	93
Accounts Receivables & Prepayments	503	515	523	528
Cash and Short-Term Deposits	3,439	2,610	2,689	2,823
Total Current Assets	4,170	3,363	3,451	3,592
Total Assets	17,494	16,459	16,699	16,937
Equity				
Equity to the Parent	9,999	9,115	9,634	10,165
Minority Interest	236	243	249	256
Total Equity	10,235	9,357	9,883	10,421
Non-Current Liabilities				
Loans and Borrowings	4,117	3,956	3,780	3,588
Employees' End of Service Benefits	87	96	104	113
Lease Liabilities	23	22	22	22
Derivatives	27	68	68	68
Total Non-Current Liabilities	4,253	4,142	3,975	3,791
Current Liabilities				
Accounts Payables & Others	558	593	579	576
Loans and Borrowings	2,437	2,341	2,237	2,123
Derivatives & Lease Liabilities	11	25	25	25
Total Current Liabilities	3,006	2,960	2,842	2,725
Equity and Liabilities	17,494	16,459	16,699	16,937

Source: Company data, QNB FS 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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