

## Qatar Electricity & Water Company (QEWS)

Recommendation	ACCUMULATE	Risk Rating	R-2
Share Price	QR183.70	Target Price	QR206.41
Implied Upside	12.4%		

### A Core Long-Term Play; Maintain Accumulate Rating

*QEWS is a low-risk play deeply linked to Qatar's growth story. We continue to remain bullish longer term on QEWS. The company is Qatar's leading listed electricity/desalinated water producer and possesses a low-risk business model (minimal demand/cost risk), with secure and visible earnings and cash flows. We maintain our Accumulate rating on QEWS with a new price target of QR206.41.*

#### Highlights

- In-line revenue but lowered profitability leads to 4Q2013 earnings miss.** QEWS reported a 4Q2013 bottom-line of QR330mn (-21% QoQ, -28% YoY) versus our estimate of QR371mn. The company generated revenue of QR692mn (-14% QoQ, flattish YoY), which was only 3% shy of our estimate of QR717mn. Reported revenue was comprised of: (1) QR350mn in electricity revenue (-23% QoQ, -3% YoY), which was below our estimate moderately; (2) QR295mn in water desalination sales (-2% QoQ, +3% YoY) was ahead of our estimate; and (3) QR48mn in lease income (flattish QoQ and YoY) that was slightly ahead of our modeled expectation. Direct costs expanded during the quarter, lowering the gross margin to 59.4% vs. 61.6% in 3Q2013 and 67.6% in 4Q2012; EBITDA came in at QR368mn (-18% QoQ, -14% YoY) lowering the EBITDA margin to 53.1% vs. 55.4% in 3Q2013 and 61.7% in 4Q2012; according to management, 4Q2012 costs were affected by a reversal of QR59.3mn in EOS benefits, leading to an adjusted EBITDA margin of 53.2%. Finally, share of profits from JVs (Q Power, Mesaieed Power & RGPC) was QR100mn (-14% QoQ, +122% YoY) which was right in line with our estimate.
- Cash dividends come in line with our estimate.** QEWS proposed a cash DPS of QR7.50 (DY: 4.1%) plus a 10% bonus share issue vs. our estimate of QR7.50 in cash DPS. We maintain our forecast for QR8.00 in DPS for 2014.

#### Catalysts

- Significant catalysts abound longer term.** QEWS should benefit from a new water plant, RAF A2 (36 MIGD), which we expect to begin significantly contributing from 2016. Further, Facility D (2,400 MW & 130 MIGD) should be commissioned around 2017. QEWS continues to seek regional expansion opportunities and has set up a \$1bn JV (60% stake) called Nebras Power with QPI and QH to achieve this goal. Potential announcements of successful regional bids could act as catalysts, while commencement of full production from RAF A2 in 2016 should reignite earnings growth.

#### Recommendation, Valuation and Risks

- Recommendation and valuation: We rate QEWS an Accumulate with a price target of QR206.41.** Our price target, adjusted for the bonus shares, would be QR187.65. Valuation remains reasonable with the stock trading at a 2014 P/E of 12.7x. Our target price implies an upside of 12.4%.
- Risks:** 1) EBITDA margin erosion and 2) International expansion risks.

#### Key Financial Data and Estimates

	FY2012*	FY2013*	FY2014e*	FY2015e*
Revenue (QR mn)	2,838	2,904	2,960	2,641
Revenue Growth	N/A	2.3%	1.9%	(10.8%)
EPS (QR)	14.32	13.84	14.52	12.56
EPS Growth	10.2%	(3.3%)	4.9%	(13.5%)
P/E (x)	12.8	13.3	12.7	14.6
DPS (QR)	7.30	7.50	8.00	8.50
Dividend Payout (%)	51.0%	54.2%	55.1%	67.7%
Dividend Yield	4.0%	4.1%	4.4%	4.6%

Source: Company data, QNBFS estimates; Note: \*IFRS 11

#### Key Data

Current Market Price (QR)	183.70
Dividend Yield (%)	4.4
Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWC.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	186.00/130.00
3-m Average Volume ('000)	53.2
Mkt. Cap. (\$ bn/QR bn)	5.0/18.2
Shares Outstanding (mn)	100.0
FO Limit* (%)	25.0
Current FO* (%)	7.7
1-Year Total Return (%)	36.4
Fiscal Year End	December 31

Source: Bloomberg (as of Feb. 13, 2014), \*Qatar Exchange (as of Feb. 13, 2014); Note: FO is foreign ownership

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## Detailed Financial Statements

Income Statement (In QR mn)	FY2012*	FY2013*	FY2014e*	FY2015e*
<b>Revenue</b>	<b>2,838</b>	<b>2,904</b>	<b>2,960</b>	<b>2,641</b>
Cost of Sales, Excluding Depreciation	(1,079)	(1,146)	(1,168)	(1,056)
<b>Gross Profit</b>	<b>1,759</b>	<b>1,757</b>	<b>1,792</b>	<b>1,585</b>
General & Administrative Expenses	(179)	(218)	(222)	(198)
<b>EBITDA</b>	<b>1,580</b>	<b>1,540</b>	<b>1,570</b>	<b>1,387</b>
Deferred Income	7	7	7	7
Depreciation & Amortization	(473)	(458)	(495)	(548)
<b>EBIT</b>	<b>1,114</b>	<b>1,089</b>	<b>1,082</b>	<b>846</b>
Finance Costs	(193)	(178)	(125)	(102)
Interest Income, Dividend Income & Gain on Sale of AFS	65	92	42	36
Other & Miscellaneous Income/Expense & Share of Profits from JVs	465	389	462	482
Share of Associates	5	19	19	19
Profit Before Tax	1,457	1,412	1,481	1,281
Income Tax Expense	0	0	0	0
Profit After Tax	1,457	1,412	1,481	1,281
Minority Interest	(25)	(27)	(29)	(25)
<b>Profit for Shareholders</b>	<b>1,432</b>	<b>1,384</b>	<b>1,452</b>	<b>1,256</b>
<b>EPS (QR)</b>	<b>14.32</b>	<b>13.84</b>	<b>14.52</b>	<b>12.56</b>

Source: Company data, QNBFS estimates; Note: \*IFRS 11

Balance Sheet (In QR mn)	FY2012*	FY2013*	FY2014e*	FY2015e*
<b>Non-Current Assets</b>				
Property, Plant and Equipment	4,748	5,055	5,580	6,027
Available-for-Sale Investments	424	454	454	454
Finance Lease Receivables	1,913	1,775	1,641	1,508
JV Loans and Investments in JVs	446	721	834	957
Other Non-Current assets	263	267	280	293
<b>Total Non-Current Assets</b>	<b>7,794</b>	<b>8,272</b>	<b>8,790</b>	<b>9,239</b>
<b>Current Assets</b>				
Finance Lease Receivables & Others	126	168	168	168
Inventories	369	276	281	254
Accounts Receivables & Prepayments	572	585	597	532
Cash and Short-Term Deposits	2,690	1,726	1,234	727
<b>Total Current Assets</b>	<b>3,757</b>	<b>2,754</b>	<b>2,280</b>	<b>1,681</b>
<b>Total Assets</b>	<b>11,551</b>	<b>11,026</b>	<b>11,069</b>	<b>10,920</b>
<b>Equity</b>				
Equity to the Parent	5,167	6,111	6,813	7,268
Minority Interest	215	230	234	238
<b>Total Equity</b>	<b>5,382</b>	<b>6,341</b>	<b>7,047</b>	<b>7,506</b>
<b>Non-Current Liabilities</b>				
Loans and Borrowings	3,494	3,361	2,689	2,151
Deferred Income	20	14	7	0
Employees' End of Service Benefits	35	39	42	46
<b>Total Non-Current Liabilities</b>	<b>3,550</b>	<b>3,414</b>	<b>2,738</b>	<b>2,197</b>
<b>Current Liabilities</b>				
Accounts Payables & Others	874	689	703	636
Loans and Borrowings	1,455	413	413	413
Derivatives	289	169	169	169
<b>Total Current Liabilities</b>	<b>2,619</b>	<b>1,272</b>	<b>1,285</b>	<b>1,218</b>
<b>Equity and Liabilities</b>	<b>11,551</b>	<b>11,026</b>	<b>11,069</b>	<b>10,920</b>

Source: Company data, QNBFS estimates; Note: \*IFRS 11

### 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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