

QEWS Alert –1Q2023 Earnings Miss Excluding Siraj Sale Gain; Maintain Accumulate With QR21 Target

- **QEWS reports 1Q2023 net income of QR400.7mn (EPS: QR0.36), up 3.1% YoY but down 13.1% QoQ, which was in-line with our estimate of QR398.7mn (0.5% divergence).** Reported earnings, however, included a QR77.7mn gain on sale of Siraj Energy, which was expected during the quarter but was not in our model. Excluding this one-off item, 1Q2023 earnings came in at QR323.0mn. Higher-than-expected cash direct costs, along with lower-than-expected JV income, more than offset upside in revenue and better-than-expected G&A expenses/depreciation & amortization costs. *We note YoY comparisons generally remain skewed on account of the Nebras purchase/consolidation in July.*
- **Total revenue for 1Q2023 came in at QR658.0mn, up 16.5% YoY but down 18.8% QoQ and also 5.9% ahead of our estimate of QR621.3mn.** Revenue from power of QR321.0mn (26.1% YoY, -16.9% QoQ) and from water of QR318.0mn (9.4% YoY, -21.4% QoQ) exceeded our forecasts by 7.0% and 5.2%, respectively. However, **direct cash costs** of QR372.7mn (28.7% YoY, 2.9% QoQ) grew faster than revenue and exceeded our estimate of QR319.4mn. Consequently, **cash gross margin** fell to 43.4% from 48.7% in 1Q2022/55.3% in 4Q2022 and our estimate of 48.6%.
- **G&A and deprecation expenses were positive surprises but were offset by lower-than-expected JV income.** **G&A expenses** of QR55.1mn (49.9% YoY, -65.1% QoQ) came in 27.3% below our estimate of QR75.7mn; we note YoY comparisons are generally skewed across the board given the Nebras purchase in July and G&A in 4Q2022 included a QR83.1mn impairment loss (QR63.4mn for RAF B1 and QR19.7mn for the Dukhan plant). **D&A costs** of QR87.8mn (17.5% YoY, -16.7% QoQ) also beat our estimate of QR117.4mn by 25.1%. **JV income** of QR112.8mn (22.0% YoY, -59.7% QoQ), however, fell below our model of QR214.8mn. **Finance costs** of QR136.7mn (331.7% YoY, 20.8% QoQ) was 17.2% ahead of our estimate of QR116.6mn and **dividend income** of QR91.2mn (down 33.1% YoY) was 22.5% below our model of QR117.7mn. *We do note that, as expected, QEWS paid off its \$550mn loan, which was used to help fund the \$530mn Nebras purchase, during the quarter; as a result, total debt dropped 18.2% QoQ from QR11.1bn in 4Q2022 to 9.1bn in 1Q2023.*
- **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). Nebras remains on the hunt for growth and has plans to increase its capacity significantly.
- **Risks:** Geopolitical risks cannot be modeled. Besides foreign expansion risks, domestic projects could also be delayed. Operational risks include availability of capacity below contracted levels, which could lead to penalties.

QEWs Alert –1Q2023 Earnings Miss Excluding Siraj Sale Gain; Maintain Accumulate With QR21 Target

Income Statement (QR mn)

Particulars	1Q2022	4Q2022	1Q2023	1Q2023e	A Vs. E	YoY	QoQ
Revenue	564.868	809.983	658.049	621.343	5.9%	16.5%	-18.8%
Electricity	254.587	386.225	320.993	299.968	7.0%	26.1%	-16.9%
Water	290.733	404.473	317.968	302.143	5.2%	9.4%	-21.4%
Lease Income from JVs and Associates	19.548	19.285	19.088	19.233	-0.8%	-2.4%	-1.0%
Cost of Sales (Ex. Depreciation)	(289.513)	(362.087)	(372.729)	(319.430)	16.7%	28.7%	2.9%
Gross Profit	275.355	447.896	285.320	301.914	-5.5%	3.6%	-36.3%
General and Administrative Expenses	(36.759)	(157.832)	(55.086)	(75.722)	-27.3%	49.9%	-65.1%
EBITDA	238.596	290.064	230.234	226.192	1.8%	-3.5%	-20.6%
Depreciation (CoS)	(70.832)	(108.729)	(81.453)	(104.923)	-22.4%	15.0%	-25.1%
Depreciation (G&A)	(2.015)	5.174	(4.475)	(10.498)	-57.4%	122.1%	N/M
Amortization	(1.899)	(1.919)	(1.916)	(1.934)	-0.9%	0.9%	-0.2%
Depreciation & Amortization	(74.746)	(105.474)	(87.844)	(117.355)	-25.1%	17.5%	-16.7%
EBIT	163.850	184.590	142.390	108.836	30.8%	-13.1%	-22.9%
Finance Costs	(31.659)	(113.177)	(136.675)	(116.608)	17.2%	331.7%	20.8%
Interest income	25.168	73.862	76.338	79.860	-4.4%	203.3%	3.4%
Finance Costs, Net	(6.491)	(39.315)	(60.337)	(36.748)	64.2%	829.5%	53.5%
Dividend Income	136.340	-	91.247	117.747	-22.5%	-33.1%	
Other & Misc. Income / Exp.	6.917	33.588	106.853	7.304	1362.9%	1444.8%	218.1%
JV Income	92.405	280.120	112.766	214.845	-47.5%	22.0%	-59.7%
Profit from Discontinued Operations		3.223	19.019				490.1%
Profit Before Tax	393.021	462.206	411.938	411.985	0.0%	4.8%	-10.9%
Tax		0.680	(2.385)	(2.266)	5.3%		N/M
Profit after Tax	393.021	462.886	409.553	409.719	0.0%	4.2%	-11.5%
Minority Interest	(4.327)	(2.050)	(8.890)	(11.062)	-19.6%	105.5%	333.7%
Net Income	388.694	460.836	400.663	398.657	0.5%	3.1%	-13.1%
<i>Net Margin</i>	<i>68.8%</i>	<i>56.9%</i>	<i>60.9%</i>	<i>64.2%</i>			
EPS (QR)	0.35	0.42	0.36	0.36	0.5%	3.1%	-13.1%
	1Q2022	4Q2022	1Q2023	1Q2023e			
Cost of Sales	51.3%	44.7%	56.6%	51.4%			
SG&A	6.5%	19.5%	8.4%	12.2%			
EBITDA margin	42.2%	35.8%	35.0%	36.4%			
Operating Margin	29.0%	22.8%	21.6%	17.5%			
Net Margin	68.8%	56.9%	60.9%	64.2%			
GM	48.7%	55.3%	43.4%	48.6%			

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

Saugata Sarkar, CFA, CAIA
 Head of Research
 +974 4476 6534
 saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
 Senior Research Analyst
 +974 4476 6509
 shahan.keushgerian@qnbfs.com.qa

Phibion Makuwerere, CFA
 Senior Research Analyst
 +974 4476 6589
 phibion.makuwerere@qnbfs.com.qa

DISCLAIMER: This publication has been prepared by QNB Financial Services Co. WLL (“QNBFS”) a wholly-owned subsidiary of Qatar National Bank Q.P.S.C. (“QNB”). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report.

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNBFS.