

QEWS Alert – Weaker-Than Expected 4Q2019 Earnings Ex. One-Off; Market Perform

- **QEWS' bottom-line rises 22.0% YoY and 40.2% QoQ in 4Q2019, but comes 12.8% below our estimate excluding one-offs** – Qatar Electricity & Water Company's (QEWS) net profit rose 22.0% YoY (+40.2% QoQ) to QR463.7mn in 4Q2019. However, 4Q2019 reported earnings of QR463.7mn included QR192mn in reversal of provisions at Umm Al Houf. This reversal pertains to a settlement regarding the k-factor issue at the JV; once we exclude this one-off, 4Q2019 net income would have come in at QR271.7mn vs. our estimate of QR311.6mn. The company's revenue came in at QR603.6mn in 4Q2019, which represents an increase of 3.0% YoY. However, on QoQ basis, revenue fell 5.9%. In FY2019, QEWS reported a net profit of QR1,413.9mn compared to net profit amounting to QR1,536.6mn for the previous year. EPS amounted to QR1.29 in FY2019 as compared to QR1.40 in FY2018.
- **Proposed cash dividend of QR0.775 was in-line with our estimate and flat with DPS declared in 2017 and 2018.**
- **We do not envision significant changes to our future forecasts and will update our estimates in a forthcoming report.**
- **We continue to like the company as a long-term play with a relatively defensive business model.** 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 starting by 2022-2023; Siraj solar project starting in 2021, etc.). Beyond Paiton (Indonesia), we do not have color on other major Nebras projects, which could lead to growth relative to our model. We maintain our Market Perform rating on the shares with a price target of QR17.00.

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Particulars	4Q2018	2018	3Q2019	4Q2019	4Q2019e	YoY	QoQ	A Vs. E	2019	2019e
Revenue	585.862	2,601.491	641.802 ▼	603.646	560.599	3.0%	-5.9%	7.7%	2,388.891	2,345.844 ▼
<i>Electricity</i>	255.361	1,221.006	288.618	266.889	227.969	4.5%	-7.5%	17.1%	1,027.935	989.015 ▼
<i>Water</i>	299.534	1,249.438	322.753	310.336	301.797	3.6%	-3.8%	2.8%	1,237.986	1,229.447
<i>Lease Income from JVs and Associates</i>	30.968	131.048	30.431	26.421	30.833	-14.7%	-13.2%	-14.3%	122.970	127.382
<i>Ras Laffan Power Company</i>	30.968	131.048	30.431	26.421	30.833	-14.7%	-13.2%	-14.3%	122.970	127.382
Cost of Sales (Ex. Depreciation)	(291.965)	(1,120.129)	(349.334)	(332.657)	(282.920)	13.9%	-4.8%	17.6%	(1,257.847)	(1,208.110)
Gross Profit	293.897	1,481.362	292.468	270.989	277.679	-7.8%	-7.3%	-2.4%	1,131.044	1,137.734
General and Administrative Expenses	(37.904)	(176.408)	(42.326)	(38.194)	(44.548)	0.8%	-9.8%	-14.3%	(163.290)	(169.644)
EBITDA	255.993	1,304.954	250.142	232.795	233.131	-9.1%	-6.9%	-0.1%	967.754	968.090
Depreciation	(8.796)	(279.525)	(69.010)	(68.806)	(68.429)	682.2%	-0.3%	0.6%	(278.877)	(278.500)
Amortization	(1.935)	(7.949)	(2.012)	(1.953)	(2.065)	0.9%	-2.9%	-5.4%	(7.837)	(7.949)
Depreciation & Amortization	(10.731)	(287.474)	(71.022)	(70.759)	(70.494)	559.4%	-0.4%	0.4%	(286.714)	(286.449)
EBIT	245.262	1,017.480	179.120	162.036	162.637	-33.9%	-9.5%	-0.4%	681.040	681.641
Finance Costs	(64.804)	(226.835)	(59.137)	(55.050)	(63.127)	-15.1%	-6.9%	-12.8%	(244.568)	(252.645)
Interest income	35.125	112.386	29.359	27.513	39.222	-21.7%	-6.3%	-29.9%	128.212	139.921
Finance Costs, Net	(29.679)	(114.449)	(29.778)	(27.537)	(23.905)	-7.2%	-7.5%	15.2%	(116.356)	(112.724)
Dividend Income	(70.408)	38.049	0.480	(3.358)	(7.421)	-95.2%	-799.6%	-54.8%	64.063	60.000
Other & Misc. Income / Exp.	81.914	81.914		5.778	60.000	-92.9%		-90.4%	5.778	60.000
Share of Profits of Associates	-	-	-	-	-				-	-
JV Income	159.553	542.190	188.485	331.489	126.777	107.8%	75.9%	161.5%	806.141	601.429
Other Income, Miscellaneous Income/Expense	241.467	624.104	188.485	337.267	186.777	39.7%	78.9%	80.6%	811.919	661.429
Profit from Discontinued Operations										
Profit Before Tax	386.642	1,565.184	338.307	468.408	318.088	21.1%	38.5%	47.3%	1,440.666	1,290.346
Profit after Tax	386.642	1,565.184	338.307	468.408	318.088	21.1%	38.5%	47.3%	1,440.666	1,290.346
Minority Interest	(6.439)	(28.597)	(7.626)	(4.692)	(6.515)	-27.1%	-38.5%	-28.0%	(26.753)	(28.576)
Net Income	380.203	1,536.587	330.681	463.716	311.573	22.0%	40.2%	48.8%	1,413.913	1,261.770
<i>Net Margin</i>	64.9%	59.1%	51.5%	76.8%	55.6%				59.2%	53.8%
EPS (in QR)	0.35	1.40	0.30	0.42	0.28	22.0%	40.2%	48.8%	1.29	1.15

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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