

Qatar Electricity & Water Company (QEWS)

Recommendation	OUTPERFORM	Risk Rating	R-2
Share Price	QR210.00	Current Target Price	QR256.00
Implied Upside	21.9%		

Maintaining TP & Maintaining Outperform Rating

We rate QEWS an Outperform with an unchanged price target of QR256. Our price target continues to reflect the Facility D 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. The company's stock performed well in 2015, generating about 20% gains on a total return basis and was the best performing large-cap stock on the Qatar Stock Exchange (2nd best overall). Our fair value implies ~22% price upside and we retain our long-term bullish stance.

Highlights

- We project a sequentially flattish quarter for December 2015 with seasonal weakness partially offset by a full quarter of contribution from RAF A2 (36 MIGD).** For 4Q2015, we estimate QR792.8mn in revenue (flat QoQ) and QR391.1mn in net income (-4% QoQ, +4%YoY). QEWS posted in-line results for 3Q2015 as well, with its top-line and net income coming in roughly 4% below our estimate. For 2015, we expect flattish performance with revenue and net income expected at QR3.0bn and QR1.5bn, respectively. We continue to model QR7.75 in 2015 DPS (55.6% payout, 3.7% yield) vs. QR7.50 DPS in 2014.
- Growing with Qatar: Buoyed by significant 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; 67% of cash direct costs, 2012-14; 70% over 9M2015) 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 51.5% over 2014-20. We project EPS to grow at a CAGR of 5.4% over 2014-20, despite a flattish 2015. Dividend payout has remained a solid 53.6% over 2007-14 and we expect this trend to continue.

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 September 2016 (fully functional by 2017), adding ~28% to QEWS' net water capacity. Further, Facility D should be fully contributing 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. 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 14.4x.
- Risks: Declining oil prices are a major risk to regional equities.** Decrease in tariff rates could negatively impact business model.

Key Financial Data and Estimates

	FY2013	FY2014	FY2015e	FY2016e
Revenue (QR mn)	2,904	2,989	3,002	3,301
Revenue Growth	2.3%	2.9%	0.5%	9.9%
EPS (QR)	12.58	13.91	13.95	14.55
EPS Growth	-3.3%	10.5%	0.3%	4.3%
P/E (x)	16.7	15.1	15.1	14.4
DPS (QR)	6.82	7.50	7.75	8.00
Dividend Payout	54.2%	53.9%	55.6%	55.0%
Dividend Yield	3.2%	3.6%	3.7%	3.8%
ROE	22.6%	22.6%	20.8%	19.7%

Source: Company data, QNBFS estimates

Key Data

Current Market Price (QR)	210.00
Dividend Yield – 2016 (%)	3.8
Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWQ.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	228.00/177.00
3-m Average Volume ('000)	35.1
Mkt. Cap. (\$ bn/QR bn)	6.3/23.1
Shares Outstanding (mn)	110.0
FO Limit* (%)	25.0
Current FO* (%)	10.3
1-Year Total Return (%)	16.6
Fiscal Year End	December 31

Source: Bloomberg (as of January 05, 2016), *Qatar Exchange (as of January 05, 2016); Note: FO is foreign ownership

Saugata Sarkar

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Detailed Financial Statements

Income Statement (In QR mn)	FY2014	FY2015e	FY2016e	FY2017e
Revenue	2,989	3,002	3,301	3,554
Cost of Sales, Excluding Depreciation	(1,227)	(1,231)	(1,370)	(1,493)
Gross Profit	1,762	1,771	1,931	2,061
General & Administrative Expenses	(225)	(180)	(201)	(220)
EBITDA	1,537	1,591	1,729	1,841
Deferred Income	7	7	0	0
Depreciation & Amortization	(461)	(445)	(515)	(575)
EBIT	1,083	1,153	1,215	1,266
Finance Costs	(108)	(97)	(104)	(110)
Interest Income, Dividend Income & Gain on Sale of AFS	41	41	42	47
Other & Miscellaneous Income/Expense & Share of Profits from JVs	523	439	457	599
Share of Associates	28	36	30	30
Profit Before Tax	1,567	1,572	1,639	1,831
Income Tax Expense	0	0	0	0
Profit After Tax	1,567	1,572	1,639	1,831
Minority Interest	(37)	(37)	(39)	(43)
Profit for Shareholders	1,530	1,535	1,601	1,788
EPS (QR)	13.91	13.95	14.55	16.25

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2014	FY2015e	FY2016e	FY2017e
Non-Current Assets				
Property, Plant and Equipment	5,328	5,763	6,239	6,666
Available-for-Sale Investments	485	374	374	374
Finance Lease Receivables	1,637	1,523	1,408	1,294
JV Loans and Investments in JVs	2,567	2,638	2,835	3,121
Other Non-Current assets	424	422	420	418
Total Non-Current Assets	10,442	10,720	11,277	11,873
Current Assets				
Finance Lease Receivables & Others	138	145	145	145
Inventories	195	185	206	225
Accounts Receivables & Prepayments	552	658	723	779
Cash and Short-Term Deposits	1,622	2,272	2,783	3,395
Total Current Assets	2,507	3,261	3,859	4,544
Total Assets	12,949	13,980	15,135	16,417
Equity				
Equity to the Parent	6,782	7,379	8,127	9,034
Minority Interest	243	256	270	286
Total Equity	7,025	7,635	8,397	9,320
Non-Current Liabilities				
Loans and Borrowings	3,674	4,146	4,469	4,759
Deferred Income	7	0	0	0
Employees' End of Service Benefits	44	48	52	56
Total Non-Current Liabilities	3,725	4,194	4,521	4,815
Current Liabilities				
Accounts Payables & Others	603	654	721	785
Loans and Borrowings	1,425	1,342	1,342	1,342
Derivatives	171	155	155	155
Total Current Liabilities	2,199	2,151	2,217	2,282
Equity and Liabilities	12,949	13,980	15,135	16,417

Source: Company data, QNBFS 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

Contacts

Saugata Sarkar

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@qnbfs.com.qa

Zaid al-Nafoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

zaid.alnafoosi@qnbfs.com.qa

QNB Financial Services SPC

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

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