

Qatar Electricity and Water Co (QEWS)

Recommendation	OUTPERFORM	Risk Rating	R-2
Share Price	QR141.90	Target Price	QR176.2
Implied Unside	24%		

A Positive Start to 2012; Maintain Our Bullish Stance

QEWS' 1Q2012 results benefit from improved profitability and lack of one-off expenses. Overall, we view the company's 1Q2012 results positively with in-line revenue and better-than expected profits. Our thesis on the company remains unchanged. We view QEWS as a low-risk defensive play deeply linked to the Qatar growth story. While dividend growth was muted in 2011, substantial free cash flows leave open the potential for growth through acquisitions and/or dividend upside in the future. Thus, we maintain our Outperform rating on QEWS.

Financial Results and Key Takeaways

- seasonally weak, with revenue declining 11.1% sequentially to a little above QR1bn. Reported revenue came in-line with Bloomberg's consensus estimate. Our conversation with management indicated that there were no one-off issues or stoppages that affected the top-line during the quarter. By segment: (1) Electricity generation recorded a top-line of QR399mn, up 12.1% YoY (down 22.9% QoQ). (2) Water desalination revenue at QR354mn was up 9.5% versus 1Q2011 and flattish sequentially. (3) Finally, lease income of QR251mn was up 3.5% YoY but down 2.1% QoQ. 1Q is usually a seasonally slow quarter especially for the power segment and we expect sequential upticks in 2Q/3Q as we move into the summer months. We remain comfortable with our full year 2012 overall revenue forecast of QR4.72bn (Bloomberg consensus is QR4.75bn).
- Net income benefits from an improved profitability profile. The company reported QR291mn in 1Q2012 net income, up 28.3% and 14.3% on a YoY and QoQ basis, respectively. We note that our comparisons with 4Q2011 figures are slightly off as the company has restated 2011 results marginally but we do not have the exact quarterly breakout of the restatement (besides 1Q2011). The gross profit (excluding depreciation) margin expanded to 61.8% in 1Q2012 versus 55.6% in the last quarter of 2011 and an average of 59.6% in FY2011. The net margin also improved to 29% as compared to 22.5% in 4Q2011 with QEWS benefiting from lower finance costs and a lack of liquidated damages expense (versus QR54mn in 4Q2011).
- Update on new projects: Hassyan IPP on hold. According to the company, the Hassyan IPP project in Dubai, which was in bid clarification phase (QEWS was the 2nd lowest bidder), seems to be in a hold mode as DEWA ponders its decision. In Qatar, QEWS continues to await Kahramaa's decision on a new 71 MIGD water desalination plant. Over the longer-term, significant domestic catalysts abound given recent comments by Qatar's Minister of Energy and Industry who voiced the state's intention to invest around QR70bn on power and water projects over the 10 years ending in 2021.

Key Data:

Bloomberg ticker	QEWS QD
ADR/GDR ticker	N/A
Reuters ticker	QEWS.QA
ISIN	QA0006929812
Sector	Industrials
52wk high/52wk low (QR)	150.00/124.60
3-m average volume ('000)	33.4
Mkt. cap.(USD bn/QR bn)	3.9/14.2
Shares outstanding (mn)	100
FO Limit* (%)	25.0
FO* (%)	7.8
1-year total return (%)	1.8
Fiscal year end	Dec. 31

Source: Bloomberg (as of April 23, 2012), *Qatar Exchange

Broker Recommendations

Recommendation	Number
Buy	10
Hold	3
Sell	1

Source: Bloomberg

Saugata Sarkar +974 4476 6534 saugata.sarkar@qnbfs.com.qa

Key Financial Data and Estimates

•					
QAR mn	FY2009	FY2010	FY2011	FY2012e	FY2013e
Revenue	2,651	3,430	4,473	4,721	4,824
Net Profit	945	1,198	1,300	1,475	1,527
EPS (QAR)	9.45	11.98	13.00	14.75	15.27
P/E (x)	15.0	11.8	10.9	9.6	9.3
Dividend Yield %	3.5	4.2	4.6	5.3	5.9

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	Lowerthan -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		

DISCLAIMER: This publication has been prepared by QNB Financial Services SPC ("QNBFS") a wholly-owned subsidiary of Qatar National Bank ("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.

Contacts

Ahmed M. Shehada	Keith Whitney	Saugata Sarkar	Sahbi Kasraoui
Head of Trading	Head of Sales	Head of Research	Manager – HNWI
Tel: (+974) 4476 6535	Tel: (+974) 4476 6533	Tel: (+974) 4476 6534	Tel: (+974) 4476 6544
ahmed.shehada@qnb.com.qa	keith.whitney@qnb.com.qa	saugata.sarkar@qnb.com.qa	sahbi.alkasraoui@qnb.com.qa

QNB Financial Services SPC

Contact Center: (+974) 4476 6666

PO Box 24025 Doha, Qatar