

QNBFS Alert – 2Q2013 Trumps Estimates Driven by Power Sales

- **Better-than-expected electricity revenue leads to earnings beat.** QEWS reported a 2Q2013 bottom-line of QR436mn (+117% QoQ, 26% YoY), 25% ahead of our estimate of QR347mn and 33% ahead of a thin Bloomberg consensus of QR328mn (only one other estimate at QR309mn). The company generated revenue of QR784mn (+26% QoQ, +4% YoY), which was made of: (1) QR441mn in electricity revenue (+45% QoQ, +4% YoY) vs. our estimate of QR340mn; (2) QR293mn in water desalination sales (+6% QoQ, +4% YoY) that came in line with our estimate; and (3) QR50mn in lease income (+25% QoQ, -3% YoY) that was slightly ahead of our modeled expectation. The uptick in power sales caused quarterly EBITDA to improve to QR444mn (+58% QoQ, +7% YoY). Share of profits from JVs (Q Power, Mesaieed Power & RGPC) climbed to QR101mn (+64% QoQ, +10% YoY) but was below our estimate of QR124mn. Finally, the company reported a substantial uptick in realized gains in sales of AFS of QR44mn, up 103% sequentially.
- **Lack of major maintenance-related disruptions and impact of seasonality boosted 2Q2013 results; estimates under review for upward revision.** The company suffered from QR108mn in one-time charges in 1Q2013, mostly related to plant maintenance/outages. While we were expecting some lingering impact of major maintenance work at RLPC, this was not the case. As a result, we are likely to increase our full-year estimates upward in the near-term once we meet management. Our price target of QR174.72 also remains subject to an upward reversion but we maintain our Accumulate rating.
- **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.

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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