

QEWS Alert – 4Q2021 Earnings Modestly Below Est. But DPS of QR0.80 Higher; Retain Accumulate

- **QEWS reports 4Q2021 net income of QR291.9mn, up 136.5% YoY but down 25.4% QoQ, below our estimate of QR311.2mn (-6.2% difference) – While overall top-line was right in-line with our estimate and margins gained vs. our modeled expectations, downside in JV income reduced earnings, relative to our expectations, for the quarter.**
- **Total 4Q2021 revenue (power+water+lease interest) of QR634.5mn (-0.1% YoY, -0.7% QoQ) was in-line our forecast of QR631.6mn (divergence of 0.5%). We note that 4Q2021 top-line stabilized on a YoY basis after declining for two consecutive quarters YoY.**
- **JV income decreased 6.1% YoY and 55.5% QoQ to QR84.0mn driven by Nebras and Q-Power/M-Power (to a lesser extent). Gross margin came in at 50.8% in 4Q2021, which was higher than 46.4% in 4Q2020 and 47.4% posted in 3Q2021. EBITDA margin came in at 45.4% in 4Q2021 vs. 18.7% in 4Q2020 (one-offs) and 41.8% in 3Q2021. JV income decreased to QR84.0mn from QR89.4mn in 4Q2020 (which was already a depressed number) and QR188.6mn in 3Q2021. Some one-time tax adjustments in Nebras and scheduled maintenance in Q-Power and M-Power led to the decline in JV income.**
- **DPS was stronger than our estimate at QR0.80 in 2021 vs. QR0.63 in 2020. We were expecting QR0.775 in DPS for 2021, which would have been in-line with the DPS for 2019. Dividend yield is a fairly decent 4.5%.**
- **We remain Accumulate on QEWS with a QR17.0 price target for now. We continue to like the company as a long-term play with a relatively defensive business model, especially in light of current market conditions. The near-term impact of the COVID-19 pandemic remains muted on QEWS' business model as the company is paid based on power and water availability and is not affected by the vagaries of end demand. QEWS still enjoys decent EBITDA margins and dividend/FCF yields. As expected, the UAH water expansion (61.45 MIGD) was commissioned during 1Q2021. LT catalysts (which are not in our model) abound, including additional domestic expansions (like Facility E in 2024-2025, etc.). Nebras remains on the hunt for growth but beyond Paiton (Indonesia), we do not have color on other major Nebras projects, which could lead to growth relative to our model.**

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Income Statement (QR mn)							
Particulars	4Q2020	3Q2021	4Q2021	4Q2021e	A Vs. E	YoY	QoQ
Revenue	635.318	639.081	634.474	631.564	0.5%	-0.1%	-0.7%
Electricity	286.171	298.076	292.112	288.514	1.2%	2.1%	-2.0%
Revenue from Customers - Output Charges	204.824	198.375	204.425			-0.2%	3.0%
Revenue from Customers - Variable O&M	33.694	44.484	41.812			24.1%	-6.0%
Capacity Charges - Operating Lease Revenue	47.653	55.217	45.875			-3.7%	-16.9%
Water	325.304	318.569	322.059	319.614	0.8%	-1.0%	1.1%
Revenue from Customers - Output Charges	100.216	90.512	101.756			1.5%	12.4%
Revenue from Customers - Variable O&M	63.026	64.131	57.477			-8.8%	-10.4%
Capacity Charges - Operating Lease Revenue	162.062	163.926	162.826			0.5%	-0.7%
Lease Income from JVs and Associates	23.843	22.436	20.303	23.436	-13.4%	-14.8%	-9.5%
Cost of Sales (Ex. Depreciation)	(340.517)	(336.206)	(311.983)	(322.097)	-3.1%	-8.4%	-7.2%
Gross Profit	294.801	302.875	322.491	309.466	4.2%	9.4%	6.5%
General and Administrative Expenses	(175.781)	(36.050)	(34.318)	(37.894)	-9.4%	-80.5%	-4.8%
EBITDA	119.020	266.825	288.173	271.572	6.1%	142.1%	8.0%
Depreciation	(77.140)	(70.825)	(70.742)	(71.622)	-1.2%	-8.3%	-0.1%
Amortization	(1.918)	(1.989)	(1.837)	(2.066)	-11.1%	-4.2%	-7.6%
Depreciation & Amortization	(79.058)	(72.814)	(72.579)	(73.688)	-1.5%	-8.2%	-0.3%
EBIT	39.962	194.011	215.594	197.885	8.9%	439.5%	11.1%
Finance Costs	(30.143)	(29.270)	(28.235)	(29.810)	-5.3%	-6.3%	-3.5%
Interest income	16.825	23.806	17.668	24.000	-26.4%	5.0%	-25.8%
Finance Costs, Net	(13.318)	(5.464)	(10.567)	(5.810)	81.9%	-20.7%	93.4%
Dividend Income	(25.793)	19.750	(57.899)	(5.000)	1058.0%	124.5%	N/M
Other & Misc. Income / Exp.	38.860		64.606			66.3%	
Share of Profits of Associates	-	-	-	-			
JV Income	89.427	188.596	83.995	128.576	-34.7%	-6.1%	-55.5%
Other Income, Miscellaneous Income/Expense	128.287	188.596	148.601	128.576	15.6%	15.8%	-21.2%
Profit Before Tax	129.138	396.893	295.729	315.651	-6.3%	129.0%	-25.5%
Profit after Tax	129.138	396.893	295.729	315.651	-6.3%	129.0%	-25.5%
Minority Interest	(5.696)	(5.631)	(3.810)	(4.478)	-14.9%	-33.1%	-32.3%
Net Income	123.442	391.262	291.919	311.172	-6.2%	136.5%	-25.4%
Net Margin	19.4%	61.2%	46.0%	49.3%			
EPS (in QR)	0.11	0.36	0.27	0.28	-6.2%	136.5%	-25.4%
	4Q2020	3Q2021	4Q2021	4Q2021e			
Cost of Sales	53.6%	52.6%	49.2%	51.0%			
SG&A	27.7%	5.6%	5.4%	6.0%			
Depreciation/Sales	12.1%	11.1%	11.1%	11.3%			
EBITDA margin	18.7%	41.8%	45.4%	43.0%			
Operating Margin	6.3%	30.4%	34.0%	31.3%			
Min Interest (as a % of NI)	4.6%	1.4%	1.3%	1.4%			
Net Margin	19.4%	61.2%	46.0%	49.3%			
GM	46.4%	47.4%	50.8%	49.0%			

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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