

QEWS Alert – 4Q2020 Earnings Miss on Weak JV Income; Accumulate

- **QEWS reports 4Q2020 earnings that falls below our modeled estimate even after adjusting for one-offs –** QEWS' net profit fell 73.4% YoY and 67.0% QoQ in 4Q2020 to QR123.4mn. However, if we adjust for QR139.5mn in provision for claim received from Kahramaa related to excess capacity charges, then QEWS would have recorded QR262.9mn, which is below our QR319.3mn estimate by 17.7%. JV income also softened to QR89.4mn in 4Q2020 (-73.0% YoY, -54.1% QoQ) because of lower-than-expected profits from Nebras and seasonality.
- **Total 4Q2020 revenue (power+water+lease interest) of QR635.3mn (5.2% YoY, -8.7% QoQ) was in-line with our forecast of QR616.5mn (divergence of 3.1%).** As has been our view throughout 2020, 4Q2020 marked the fifth consecutive quarter of YoY revenue increases, with QEWS' top-line registering gains of 3.0%, 11.1%, 8.5% and 8.4% in 4Q2019, 1Q2020, 2Q2020 and 3Q2020, respectively, after posting yearly declines through 1Q2019-3Q2019.
- **JV income falls given weakness in Nebras and difficult YoY comparisons.** Gross margin came in at 47.0% in 4Q2020, which was higher than 45.2% in 4Q2019 and the 43.6% metric posted in 3Q2020. EBITDA margin at 20.1% was impacted by the aforementioned provision; excluding this item, EBITDA margin climbed to 42.0% in 4Q2020 vs. 38.6% in 4Q2019 and 38.5% in 3Q2020. JV income declined as overall profits from Nebras fell to QR171.0mn in 2020 vs. QR213.5mn in 2019. We suspect this decline is due to weakness in Nebras' major project, Paiton, in Indonesia; however, we await management confirmation in this regard. YoY comparisons were also challenging as QEWS recorded QR192mn in profits at the Umm Al Houl JV in 4Q2019 given a settlement with Kahramaa. QoQ decline in JV income was also impacted by seasonality.
- **DPS was weaker than our estimate at QR0.63 in 2020 vs. QR0.775 in 2019.** Dividend yield is 3.5%, which is still decent.
- **We remain Accumulate on QEWS.** 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 could remain 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. LT catalysts (which are not in our model) abound, including additional domestic expansions (like Facility E in 2022-2023; Siraj solar project in 2021-2022, etc.). Nebras remains on the hunt for growth with a goal of increasing its net capacity to 6 GW by 2023 from 1.7 GW in September 2019. However, beyond Paiton (Indonesia), we do not have color on other major Nebras projects, which could lead to growth relative to our model.

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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