

# QEWS Alert – A Weak Set of Results in 1Q2019; Maintain Accumulate

- **QEWS reports weak 1Q2019 results** – QEWS' net profit declines 22% YoY and 19% QoQ in 1Q2019 to QR309mn in 1Q2019, missing our estimate of QR362mn (variation of -15%). Overall performance was weak driven by seasonality and impact of lower tariff structures at key plants with QEWS' top-line declining 18% YoY and 8% QoQ to QR539mn, 10% below our forecast of QR598mn. The company attributed the decline to seasonality along with tariff impact from RAF B, RAF B1 and RAF B2. This is evident in gross margin of 50.6% in 1Q2019, which dropped from 59.6% in 1Q2018 but improved slightly from 50.2% in 4Q2018. EBITDA margin also declined to 42.4% vs. 52.2% in 1Q2018 and 43.7% in 4Q2018. Moreover, 1Q2019 operating margin also fell to 28.8% vs. 38.2% in 1Q2018 and 41.9% in the fourth quarter of last year. We were under the impression that the impact of RAF B was evident in 2H2018 results but the further decline was a surprise to us, which we need to better understand. We will provide more color on these results and could adjust our full year estimates once we speak to management.
- **We continue to like the company as a solid long-term play with a defensive business model.** QEWS enjoys a solid long-term growth profile with attractive EBITDA margins and compelling dividend/FCF yields. LT catalysts (which we have not yet factored into our estimates) abound, including additional expansions domestically (like Facility E; the Siraj solar project, etc.). Beyond Paiton (Indonesia), we do not have color on other Nebras projects, which could lead to growth relative to our model. Given that seasonality alone implies an improvement in 2Q and 3Q performance, we would be buyers into any weakness. We maintain our Accumulate rating with a price target of QR204.

### 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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