

QEWS Alert – 1Q2021 Earnings Exceed Estimates on Higher Margins; Accumulate

- QEWS reports 1Q2021 net income of QR372.0mn, up 16.2% YoY and 201.3% QoQ to QR372.0mn, exceeding our estimate of QR351.2mn by 5.9% – While overall top-line was moderately below our estimate, improved margins and a modest upside in JV income drove the earnings beat for the quarter. The significant increase in sequential earnings was because of a one-off provision of QR139.5mn recorded in 4Q2020 (more details below).
- Total 1Q2021 revenue (power+water+lease interest) of QR600.8mn (0.2% YoY, -5.4% QoQ) was modestly below our forecast of QR624.9mn (divergence of -3.9%). The stable revenue trend YoY remains noteworthy despite the pandemic and is the sixth consecutive quarter of YoY revenue increase.
- JV income increases 24.2% YoY and 46.7% QoQ to QR131.2mn. Gross margin came in at 50.4% in 1Q2021, which was higher than 47.5% in 1Q2020 and the 47.0% metric posted in 4Q2020. EBITDA margin came in at 44.5% in 1Q2021 vs. 40.6% in 1Q2020 and 20.1% in 4Q2020 (EBITDA margin was 42.0% in 4Q2020 if we exclude QR139.5mn in provision for claim received from Kahramaa related to excess capacity charges). JV income increased to QR131.2mn from QR105.6mn in 1Q2020 and QR89.4mn in 4Q2020.
- We remain Accumulate on QEWS and will likely adjust our QR17.0 price target upward . 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. 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; Siraj solar project in 2021-2022, 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.

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

Saugata Sarkar, CFA, CAIA
Head of Research
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
+974 4476 6509
shahan.keushgerian@qnbfs.com.qa

Zaid Al Nafsoosi, CMT, CFTE
Senior Research Analyst
+974 4476 6535
zaid.alnafsoosi@qnbfs.com.qa

Mehmet Aksoy, PhD
Senior Research Analyst
+974 4476 6589
mehmet.aksoy@qnbfs.com.qa

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