

## QEWS Alert – Weak 3Q2022 Results Excluding One-Off Nebras Purchase-Related Gains; Accumulate

- QEWS reports 3Q2022 net income of QR565.4mn, up 44.5% YoY and 91.1% QoQ, above our estimate of QR415.7mn – We note the reported earnings number includes one-offs concerning the company's purchase of the remaining 40% share in Nebras for \$530mn in July. QEWS recorded a total of QR230.4mn as one-time, non-cash gains (bargain-purchase gain and step-acquisition gain) related to this acquisition and excluding this, 3Q2022 net income would have come in at QR334.98mn. For the quarter, Nebras (@ 100%) contributed roughly QR66mn in earnings (after adjusting for minorities), which implies roughly QR26mn in incremental income from Nebras in 3Q2022.
- Total 3Q2022 revenue (power+water+lease interest) of QR711.1mn (11.3% YoY, 11.9% QoQ) included QR47.8mn in revenue from Nebras for the quarter. For the quarter, the top-line mix included power revenue (54.5% of sales) of QR387.2mn (29.9% YoY, 25.4% QoQ) and water sales (42.8% of top-line; -4.4% YoY, -1.5% QoQ).
- Overall operating metrics appear weak after excluding one-off impacts given higher-than-expected gas costs and operating expenses. EBITDA margins declined to 37.7% in 3Q2022 from 41.8% in 3Q2021 and 41.1% in 2Q2022. Increasing interest charges also crimped the bottom-line.
- We continue to like QEWS as a long-term play with a relatively defensive business model. The near-term impact of the COVID-19 pandemic was muted on QEWS' business model as the company is paid based on power and water availability and is relatively unaffected by the vagaries of end demand. We believe the Nebras deal (financed by a \$550mn bank loan) could be accretive (low-mid single digit % over 2022-2026e) and will update our estimates. However, we have already incorporated this acquisition into our DCF-based valuation model. Growth in 2022 could be fueled by improved power and water offtake, especially during 4Q2022, given the FIFA World Cup Qatar 2022; however, we await further color from management in this regard, especially given the soft operating performance in 3Q2022. 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 and has plans to increase its capacity significantly, which currently stands at more than 2.1 GW (+6.4 GW gross).

Recommendations	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>	
<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

Risk Ratings	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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