

## Qatar Electricity & Water Company (QEWS.QA)

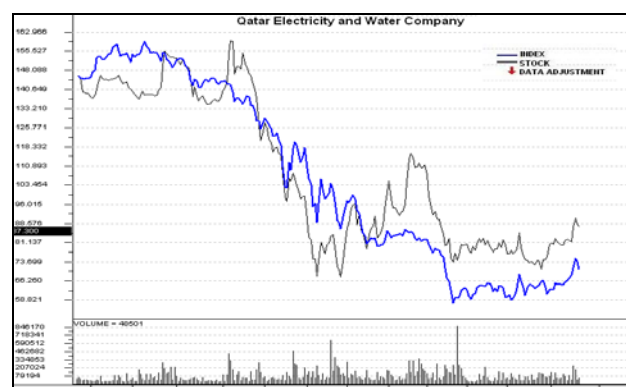
April 30, 2009

### Key Data

Listing	Doha Securities Market
CMP (QAR)	88.40
YTD Change (%)	-20.72
52-week High/Low (QAR)	160.10 / 67.30
Mkt. Capitalisation (QAR millions)	8,840.00
Basic EPS (QAR)	1.32
BVPS	14.48
P/E	15.43
P/BV	6.11
Div. Yield (%)	5.09

Source: Doha Securities Market, Zawya

### Price History



### Financial Summary

QAR (in millions)	1Q09	1Q08	% chg
Sales	516.00	413.51	24.8
Cost of Sales	332.51	261.47	27.2
Gross profit	183.50	152.05	20.7
General & Admin Expenses	34.27	41.30	-17.0
Operating Profit	149.22	110.75	34.7
Finance Costs	43.39	17.91	142.3
Net Profit	143.26	131.95	8.6
Share Capital	1,000.00	1,000.00	0.0
Shareholders' Equity	1,447.84	3,270.95	-55.7
Total Assets	13,906.81	9,673.66	43.8
EPS (QAR)*	5.73	5.28	-
Return on Equity (%)*	39.58	16.14	-
Return on Assets (%)*	4.12	5.46	-
Cost of Sales Ratio (%)	64.44	63.23	-
EBITDA Margin (%)	48.56	46.35	-
Net Profit Margin (%)	27.76	31.91	-

\*Annualised

For the quarter ended March 31, 2009, Qatar Electricity & Water Company (QEWC) reported that its net profits increased 8.6% to QAR 143.26 million, on higher growth in operating profits offset by increased finance costs and liquidated damages to Kahramaa. Despite an increase of 27.2% to QAR 332.51 million in cost of sales, the operating profit surged 34.7% to QAR 149.22 million during the quarter from QAR 110.75 million in the prior year period. This was mainly driven by a sustained momentum in total revenue and decrease in general & administrative expenses by 17.0% to QAR 34.27 million during the quarter. Total sales grew 24.8% to QAR 516.00 million during the quarter from QAR 413.51 million in 1Q08 on higher growth in electricity and water supply. The revenue derived by electricity and water augmented 22.1% and 30.3% to QAR 269.09 million and QAR 212.77 million, respectively.

For 1Q09, the company's EBITDA increased 30.7% YoY to QAR 250.56 million from QAR 191.66 million in 1Q08. Consequently, QEWC's EBITDA margin soared 221 bps to 48.6% from 46.4% in the first quarter of last year. Meanwhile, finance costs and liquidated damages to Kahramaa stood at QAR 43.39 million and QAR 10.23 million as against QAR 17.91 million and QAR 0.24 million in 1Q08, respectively. On the other hand, a considerable increase in interest income to QAR 18.27 million during the quarter from QAR 5.35 million in 1Q08, saved the company from a significant fall in the net profit.

During the period under review, the company's total assets soared 43.8% to QAR 13.91 billion from QAR 9.67 billion on the back of 50.9% hike in property, plant and equipment to QAR 10.13 billion (accounted for 72.8% of total assets). On the other hand, total shareholders' equity slumped 55.7% to QAR 1.45 billion from QAR 3.27 billion in 1Q08 on account of losses in cumulative changes in fair value. As a result, the company's annualized RoE improved to 39.6% from 16.1% in 1Q08, whereas RoA dipped to 4.1% from 5.7% in the same period of 2008 as growth in total assets surpassed the growth in net profit.

### Company Profile

QEWC was established in 1990. With the Qatari government deciding to privatise the electricity sector, it transferred its electricity generating assets to the company in May 2000. QEWC's core business includes ownership and operations of power plants and water desalination plants. The company currently accounts for approximately 68% of all electricity generation and a majority of the nation's desalinated water. QEWC had a total installed capacity of 2,113MW and desalination capacity of 105 MIGD in 2007.

The company was listed on Doha Securities Market in 1990. Currently, the Qatari government holds 52% stake that includes Qatar Petroleum's 10%. Qatar National Bank owns 10% and 1.5% is held by Qatar Insurance Company. The rest is held by the public. QEWC has long-term take or pay purchase contract with Kahramaa (the sole distributor of water & electricity in Qatar) on a fixed tariff. Also, the company has fixed-price contract with Qatar Petroleum for the supply of gas, which is subject to adjustments as per changes in price of natural gas (inflation adjusted).

## Industry Overview

Being amongst the top-ten power consumers in the world, the GCC nations are now seeking to increase their power generation capacity and reduce costs. This includes a GCC-wide power grid project to be commissioned by 2010, which will link the six GCC states through an integrated electricity network. According to experts, demand for electricity in GCC nations is growing more than 6% annually. This calls for doubling the electrical power generation capacity in the region over the next decade. Given the continuous progress in the industrial and infrastructure projects in Qatar, the country is witnessing increased demand for power. With an installed capacity at 3.3GW, Qatar accounts for 2.4% of the total Middle East power market. Local demand for electricity averaged 8% per annum for the last five years. According to a recent report, the country's power generation is estimated to grow on an average by 14% per annum by 2015 partly owing to QEWC's Ras Girtas and Mesaieed projects, which are expected to increase the country's generation capacity to 8.5MW by 2015 from 5.8MW in 2009. On the other hand, according to the Qatar General Electricity & Water Corporation (Kahramaa), Qatar's water production capacity spiraled 300% over the last 18 years. The country's water production capacity reached 187.6 million imperial gallons per day (MIGD) in 2008 as compared to 46.9 MIGD in 1990, while the demand for water jumped by 281% to 173 MIGD in 2008 from 45.4 MIGD in 1990. As per the latest Kahramaa's Corporate Performance Review report, Qatar's monthly water production during 4Q08 was up 28% over the same period in 2007.

In January 2009, Kahramaa announced plans to install 99 additional substations across the country to meet the increasing demand for water and electricity from the fast-growing population. Of these, 14 substations will be exclusively for bulk customers, like industrial units. The commissioning of the new substations is expected to take place during 2012-13. Simultaneously, to meet emergency in water supply, it is also working on a water project to create a seven-day strategic water storage capacity. The project will include a number of reservoirs with a total capacity of 19.2 million gallons.

## Recent Developments

During March 2009, the Deputy Premier and Minister of Energy & Industry announced that the Ras Abu Fontas (A-1) water desalination project fully owned by the QEWC, is expected to start production in December this year. Apart from this, the Mesaieed Power Station, in which the company owns 40% stake is expected to operate at full capacity this year. These projects are well-positioned to provide considerable value to the company and to the country's electricity and water sector over the next few years. After the completion of these projects, QEWC likely to own 60% of Qatar's 9,000 MWH total electricity production capacity and the company's share in water production capacity will likely reach 70% of the country's 340 MIGD capacity. The company already made an investment of more than QAR 15 billion in the above said projects.

## Outlook

Experts believe that Qatar's economy will remain strong in the near-term despite the prevailing global financial distress. According to industry estimates, Qatar's real GDP jumped nearly 19.6% in 2008 and is estimated to rise by about 19% this year before easing to 5% in 2010. Qatar is set to almost double its production of liquefied natural gas (LNG) to more than 60 million tonnes in 2009 before output peaks at 77 million tonnes by end-2011, which is the main growth driver. During 2008, the electricity, gas and water supply sector registered growth rate of 26.0% YoY. Amidst the volatile global environment, QEWC can benefit from the buoyant local economic situation. The company holds the inherent advantage of being the largest power player in Qatar and controls approximately 68% of electricity generation and most of the desalinated water. Given the strong government support, the company is likely to be the largest beneficiary of the investments planned in the sector. Alongside, QEWC is developing its projects at a faster pace with work on Mesaieed Power project (capacity of 2,000 MW) and Ras Girtas Power project being 90% and 40% complete, respectively. Therefore, the company's planned capacity expansions would significantly boost its top- and bottom-line in the long run.

Currently, QEWC's stock is trading at a P/E multiple of 15.43x and at a P/B multiple of 6.11x. Meanwhile, the stock has lost 20.7% since the beginning of this year, as against a fall of 23.2% registered by the DSM Index. We therefore, continue to be positive on QEWC's stock and reiterate our OVERWEIGHT opinion.

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