

July 25, 2010

QATAR ELECTRICITY AND WATER COMPANY (QEWC.QA)

12-Month Fair Value: QAR 131

Last Close (25 July, 2010): QAR 103.10

Recommendation: Buy – Risk Level 2

- QEWC reported its financial results for 2Q2010 that were generally in line with our expectations. Total revenue increased by 17% in 2Q2010 compared to the same period last year, reaching QAR 807.7 million. This result came in 4% below our forecast of QAR 842 million.
- Revenue generated from electricity remained the largest contributor to total revenue (54.4%); however, 2Q2010 saw increased contributions from water desalination (35.2%) and lease income (10.4%). Lease income is directly related to the production of electricity and water but differs as a result of the accounting treatment of the new plants (which are accounted for as finance leases). Going forward, we expect revenue from leases to continue to be the fastest-growing revenue segment as a result of accounting for both Mesaieed and Ras Laffan C as finance leases.
- At the operating level, the company reported a 19% year-on-year growth in EBITDA in 2Q2010 to reach QAR 448 million. This is just 2% higher than our forecast of QAR 440 million. General and administration expenses declined by 8% year-on-year in 2Q2010, aiding the expansion in the EBITDA margin from 54.5% in 2Q2009 to 55.5% in 2Q2010.
- The company recorded a 16% growth in net income in 2Q2010, compared to 2Q2009, reaching QAR 314.7 million. Despite the improvement in the EBITDA margin, QEWC's net profit margin remained stable at 39% due to an increase in finance costs.
- The company's performance was generally in line with our forecasts. We still expect the company to be able to increase its dividends this year to QAR 5.5 (dividend yield of 5.3%). As a result, we maintain our 12-month fair value of QAR 131 per share. This gives the company an upside potential of 27% as of the latest closing price. Hence, we maintain our recommendation on the stock as a "Buy".

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Related Research

- QEWC Initiation of Coverage - 10 June 2010

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION		UPSIDE (DOWNSIDE) POTENTIAL		
BUY		MORE THAN 20%		
ACCUMULATE		BETWEEN 5% AND 20%		
HOLD		BETWEEN -10% AND 5%		
REDUCE		BETWEEN -25% AND -10%		
SELL		LESS THAN -25%		
RISK LEVEL				
LOW RISK		HIGH RISK		
1	2	3	4	5

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