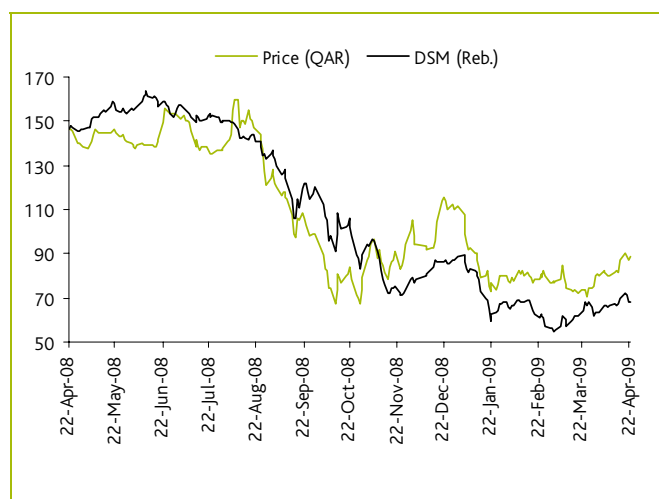


Short-Term Rec.: Buy  
Long-Term Rec. : Buy

Current Price\*: QAR 88.4  
LT Fair Value : QAR 134.8

- Revenues Up after Strong Water Sales:** Qatar Electricity & Water Company (QEWC) released its 1Q2009 results with revenues of QAR516 million (up 25% Y-o-Y), in line with our estimate of QAR524 million. While electricity sales contributed less than expected to total sales (at 59%), water sales were higher than anticipated (up 30% Y-o-Y), making up 41% of total revenues.
- EBITDA Marginally Lower:** Cost of sales were in line with expectations at QAR231 million (vs. our estimate of QAR232 million) and with SG&A expenses coming as expected at QAR33 million, this meant that EBITDA of QAR251 million was just 3% weaker than we had forecast for 1Q2009.
- Net Profit In Line with Expectations:** While operating profits were slightly below our estimates at QAR149 million (vs. QAR153 million) and interest expenses came in higher than expected for the three-month period, profits from associates were somewhat higher than we had expected and meant that the bottom line matched our expectations of QAR143 million.
- Maintain FY2009 Forecasts:** Based on these results we stand by our expectations of net profit from operations of QAR814 million for FY2009e. Meanwhile, we believe QEWC will recover liquidated damages of QAR110 million as a result of the delay in the delivery of the RAF B2 power plant, and thus expect net profit (incl. extraordinary items) of QAR924 million for the full year.
- Low Exposure to Actual Demand:** Any changes to electricity demand in Qatar will have little or no impact on QEWC as a result of the company's take-or-pay agreements with Kahramaa (the sole off-taker in Qatar). Therefore, QEWC's revenues and earnings are more dependent on capacity expansions and plants coming on line rather than actual demand, which provides a hedge against any downturn.
- Significant Upside Potential, Not in Our Numbers:** The first phase of the GCC Interconnection Grid Project was successfully launched with electricity transmitting between the Qatar and Saudi Arabia borders. We believe QEWC will be a net beneficiary of the grid given the company's anticipated spare capacity, coupled with the significant shortage of capacity in other GCC countries, in particular in Saudi Arabia, Bahrain and UAE. This is something that is not reflected in our current estimates.
- Cash Flow Visibility and Margin Stability:** We expect earnings to almost double over the next four years and therefore believe the stock offers investors a low-risk opportunity to gain exposure to Qatar. Moreover, QEWC offers a decent dividend yield (currently above 5%) and offers strong visibility in terms of revenue and cash flows given its take-or-pay agreements. The company has strong relationships with the government (which has c54% stake) and we believe this relationship will continue to provide support for QEWC in terms of cheaper feedstock and possible access to funding sources.

FLASH NOTE



\*Prices as at 22 April 2009

	2009e	2010e	2011e
EPS*	9.2	9.9	11.8
PER (x)	9.6	8.9	7.5
DPS	4.6	5.0	5.9
Div. Yield	5.2%	5.6%	6.7%
BVPS	40.3	42.7	45.7
PBV (x)	2.2	2.1	1.9
CFPS	13.7	14.9	17.2
PCF (x)	6.5	5.9	5.1

\*Attributable

Stock Data

Last Ex-Div Date	QAR4.5 on 25 Mar 09
Mkt. Val. (mn)	QAR8,840
Shares (mn)	QAR100
Av. Monthly Liqd. (mn)	QAR154
52-Week High/Low	QAR160.1 / 67.3
Bloomberg/Reuters	QEWS QD / QEWC.QA
Est. Free Float	34%

## 1Q2009 RESULTS

Figure 1: Qatar Electricity and Water 1Q2009 Results

Figures in QAR million, unless otherwise stated

	1Q2008a	1Q2009a	Y-o-Y	1Q2009e	Variance
Electricity	250	303	21%	325	
Water	163	213	30%	199	
<b>Revenues</b>	<b>414</b>	<b>516</b>	<b>25%</b>	<b>524</b>	<b>-2%</b>
Total COGS	(181)	(231)	28%	(232)	
Gross Profit	233	285	22%	292	
Gross Profit Margin	56.3%	55.2%		55.7%	
SG and A	(41)	(34)	-17%	(33)	
Other Operating Income	0	0		0	
<b>EBITDA</b>	<b>192</b>	<b>251</b>	<b>31%</b>	<b>259</b>	<b>-3%</b>
EBITDA Margin	46.3%	48.6%		49.4%	
Depreciation	(81)	(101)		(106)	
<b>Net Operating Profit</b>	<b>111</b>	<b>149</b>	<b>35%</b>	<b>153</b>	<b>-3%</b>
NOP Margin	26.8%	28.9%		29.3%	
Interest Income	5	18		3	
Dividend Income	8	4		1	
Deferred Income	7	2		7	
Misc. Income	5	(1)		(2)	
Shares of Results of Associates	10	3		12	
Share of income from Joint Ventures	5	12		6	
Liquidated Damages to KAHRAMAA	0	(10)		0	
Liquidated Damages of Masaieed Power Co.	0	10		0	
Interest Expenses	(18)	(43)		(37)	
<b>Earnings before Extraordinary Items</b>	<b>132</b>	<b>143</b>	<b>9%</b>	<b>143</b>	<b>0%</b>
Extraordinary Income / Expense	0	0		0	
<b>Net Profit</b>	<b>132</b>	<b>143</b>	<b>9%</b>	<b>143</b>	<b>0%</b>
EPS	1.32	1.43		1.43	0%

Source: Company Disclosure, EFG-Hermes estimates

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