Equity | Qatar | Gas, Water & Multiutilities

5 October 2011

Qatar Electric & Water Co.

Where to now?

QEWC is well positioned to capitalise on strong free cash flow through a stable and defensive business model. Given that the company's power-generation and water-desalination capacity additions are completed, we see limited growth opportunities going forward. We initiate coverage with a Hold recommendation.

Initiation of coverage

Hold

Target price
QR146.30

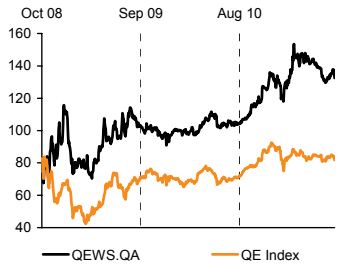
Price
QR136.60

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (QR)	131.7	144.2	109.9
Absolute (%)	3.7	-5.3	24.3
Rel market (%)	6.2	-1.5	17.5
Rel sector (%)	n/a	n/a	n/a



Market capitalisation
QR13.66bn (€2.84bn)

Average (12M) daily turnover
QR9.47m (€1.79m)

Sector: European-DS Tot Mrkt
RIC: QEWS.QA, QEWS QD
Priced QR136.60 at close 3 Oct 2011.
Source: Bloomberg

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (QRm)	2,651	3,430	4,571	4,834	4,904
EBITDA (QRm)	1,362	1,835	2,437	2,575	2,613
Reported net profit (QRm)	944.9	1,163	1,238	1,358	1,424
Normalised net profit (QRm)	944.9	1,163	1,236	1,358	1,424
Normalised EPS (QR)	9.45	11.63	12.36	13.58	14.24
Dividend per share (QR)	5.00	6.00	7.70	8.30	8.70
Dividend yield (%)	3.66	4.39	5.64	6.08	6.37
Normalised PE (x)	14.50	11.70	11.10	10.10	9.60
EV/EBITDA (x)	17.20	14.20	10.50	9.54	9.11
EV/invested capital (x)	1.75	1.60	1.56	1.52	1.48
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00

Accounting standard: IFRS year to Dec, fully diluted
Source: Company data, Rasmala forecasts

Long-term pricing/cost agreements provide stable earnings visibility

Qatar Electricity and Water Company (QEWC) has long-term pricing and offtake agreements with Kahramaa (transmission and distribution) for all electricity and water produced, in addition to pass-through clauses for fuel costs. For its portfolio of wholly owned plants and independent power projects/independent water & power projects (IPP/IWPPs), we understand that tariffs are made up of 1) a capacity charge dependent upon plant availability and 2) an output charge encompassing fuel, operating costs and planned maintenance. As a result, QEWC enjoys fairly predictable revenues and earnings visibility.

Capacity additions complete

The commissioning of Ras Girtas in April this year marked the end of a major expansion capex plan for QEWC, with no immediate expansion plans outside of the company's Oman Investment, expected to come on line in 2013. In the absence of new growth opportunities and given the current surplus in Qatar electricity capacity, we view the current price as fair.

Largest player in Qatar

QEWC is the largest electricity and water player in Qatar. Through its various stakes in several power-generation and water-desalination projects, it holds equity-adjusted market shares of more than 60% in power and more than 70% in water. About 53% of the company's equity is owned by the government of Qatar, and the business is supported by its long-term contracts for both revenue and costs with government-owned Kahramaa.

Valuation and risks

We value QEWC using SOTP, implying a fair value of QR146.3. Our blue-sky scenario implies a fair value of QR162.6, where we consider an additional Qatari expansion project and extended lives for the company's legacy plants.

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The basics

Versus consensus

EBITDA (QRm)	Ours	Cons	% diff
2011F	2,436.8	2,477.6	-1.6%
2012F	2,575.4	2,588.0	-0.5%
2013F	2,613.0	2,636.1	-0.9%

Source: Bloomberg, Rasmala forecasts

Forced ranking*

Company	Rec	Upside / Downside
Dana Gas	Buy	+74%
NSCSA	Hold	+38%
Nakilat	Hold	+9%

* by difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page.
Source: Rasmala forecasts

Key events

Date	Event
Oct 20 2011	3Q results

Source: Company

Catalysts for share price performance

We view the current price as fair, given that the company has completed all planned capacity additions and has no new growth opportunities in Qatar. Catalysts that we think could drive the share price beyond our fair value include announcements regarding potential for local expansion to cover the expected demand increases associated with preparation and execution of the 2022 FIFA World Cup, possible incremental earnings from the sale of excess capacity and the potential for accretive international expansion opportunities.

Earnings momentum

We believe earnings momentum over the next two years will be driven by QEWC's increased stake in Ras Laffan Power (from 25% to 80%), accompanied by the commissioning of Ras Girtas, which in April 2011 added an additional 1,000MW of power and 59m imperial gallons per day (MIGD) of water. For 2010-12, we forecast a revenue CAGR of 18.7% and an EBITDA CAGR of 18.5%. We expect growth to come from inflation allowances in the power and water purchase agreements (PWPAs). Growth beyond our estimates could stem from higher-than-expected inflationary allowances in the PWPAs and international expansion projects.

Valuation and target price

We value QEWC using SOTP (Table 3) which yields a fair value of QR146.3. At the current price of QR136.6, the stock is trading at 2012F EV/EBITDA of 9.5x and a PE of 10.1x. Our base-case scenario implies EV/EBITDA of 10.5x and a PE of 10.8x for 2012F. Our blue-sky scenario implies a fair value of QR162.6, in which we assume an additional investment in a Qatari IWPP and extended plant lives for the legacy plants.

How we differ from consensus

We initiate coverage with a Hold rating. Bloomberg consensus shows other analyst ratings totalling one Hold and nine Buys. We believe our recommendation deviates because of the way we forecast revenue from new plant capacity given the results of the first half of this year and our forecasts for the remaining capex commitment for Ras Girtas. Our revenue, EBITDA and net income are slightly lower than that of QEWC's peers.

Risks to central scenario

QEWC's greatest risk lies in its ability to deliver power and water capacity as agreed upon with Kahramaa. Each QEWC plant has a pre-determined load factor and operational schedule, which lasts for the life of each plant and is mutually agreed upon on commissioning of the plant. Any inability to deliver as per the schedule could incur penalties from Kahramaa, which is QEWC's only buyer of electricity and water and has complete power in deciding on bids and setting future capacity. Other risks include the possibility that Kahramaa may instigate a change in regulation with regard to PWPAs and expansion outside of Qatar, which has the potential to be value-destructive given the political unrest in the neighbouring markets and the favourable environment for current projects in Qatar.

Key assumptions and sensitivities

Our main assumptions

Base case

- **Inflation allowances –** We grow electricity and water tariffs at 2.0% per year to account for inflation allowances in PWPAs.
- **Lease portfolio –** We assume an 8.5% yield on the lease portfolio.
- **Capex –** Outside of the planned Omani plant, which is expected to cost QR1.024bn over a four-year period (2011-14), we do not forecast any expansion capex, in line with company guidance. We forecast maintenance capex at 5% of revenues.
- **Salvage value –** We take salvage value at 10% of the original cost of the company's seven wholly owned plants, but we do not consider salvage value for the company's four JV plants as they operate under the build, own, operate and transfer (BOOT) scheme.
- **Profitability –** We assume EBITDA margins of 51-53% for the life of the business, and we keep margins flat, in line with company guidance and due to the expected nature of the PWPAs.
- **WACC –** We use a WACC of 7.5%. Assumptions made include a cost of debt of 5.0% and a cost of equity of 12.0%, made up of a risk-free rate of 5.0% and a beta of 1.0.

Bull case

- **Salvage value –** We assume the company's seven legacy plants' lives are extended by two years.
- **Additional Qatari expansion –** We assume QEWC has a 50% stake in an additional plant, equivalent to the capacity of Ras Girtas. Construction of the new plant is scheduled to begin in 2017, and it is scheduled to be operational by 2020.

Next, we include a sensitivity analysis based on the inflation allowance in PWPAs and the weighted average cost of capital.

Table 1 : Inflation allowance and WACC sensitivity analysis

		WACC				
		6.5%	7.0%	**7.5%**	8.0%	8.5%
Inflation Allowance	1.0%	152.3	141.5	131.4	121.9	113.0
	1.5%	160.5	149.2	138.6	128.7	119.4
	2.0%	169.2	157.4	**146.3**	136.0	126.3
	2.5%	178.5	166.1	154.5	143.7	133.5
	3.0%	188.3	175.3	163.2	151.8	141.2

Source: Rasmala forecasts

Contents

Executive summary

We initiate coverage with a Hold rating and a TP of QR146.3, implying 7.1% upside from the current price. Potential upside to our forecasts includes domestic and international capacity expansion as well as the possibility of selling excess capacity.

Largest power and water player in Qatar

Largest water and power player in the country

QEWC owns stakes in all IPP/IWPP projects in Qatar in addition to seven wholly owned plants, making it the largest water and power player in the country. With the completion of the projects in progress in 2Q11, QEWC's portfolio of power-generation capacity reached more than 60% of the total power-generation capacity in Qatar and more than 70% of the total water-desalination capacity in Qatar.

End of the capex track

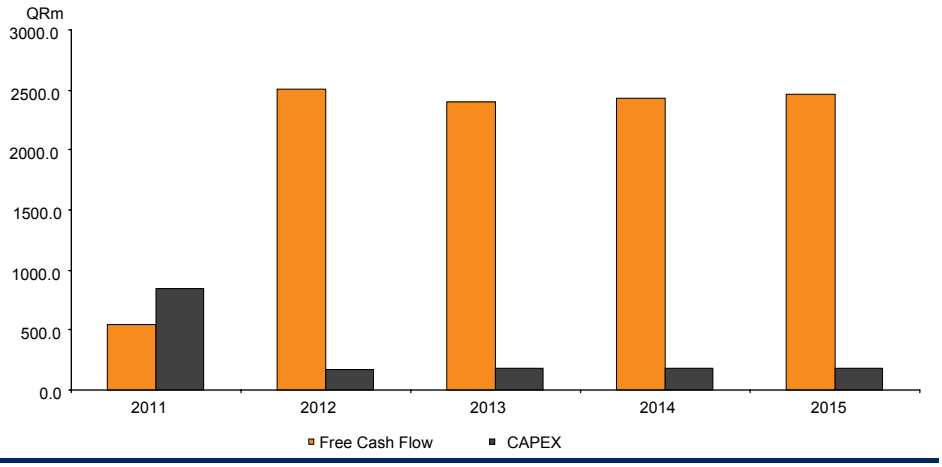
Commissioning of Ras Girtas marked end of major expansion capex plan for QEWC, with no immediate expansion plans, outside of Oman Investment, expected in 2013

The commissioning of Ras Girtas in April this year marked the end of a major expansion capex plan for QEWC, with no immediate expansion plans outside of the company's Oman Investment expected to come on line in 2013. 2012 will be the first full year in which all planned capacity will be online and generating revenue. For 2010-12, we forecast a revenue CAGR of 18.7%, an EBITDA CAGR of 18.5% and a net profit CAGR of 8.1%.

We project a considerable drop in expansion capex

We project a considerable drop in expansion capex, with total capex limited to maintenance on existing plants. We project free cash flow of QR546m in 2011 followed by QR2,503m in 2012, the company's first full year of earnings generation from agreed availability of planned capacity additions.

Chart 1 : Free cash flow and capex for 2011-15



Source: Rasmala forecasts

State support

Strong support from the government of Qatar

QEWC enjoys strong support from the government of Qatar, as the business is maintained by its long-term contracts for both revenue and fuel costs, through Qatar Petroleum, with government-owned Kahramaa. In return, QEWC has achieved high levels of performance and continues to positively affect the overall growth of the country. The government of Qatar directly holds 43% of the company's equity and indirectly an additional 10% through the fully owned Qatar Petroleum.

Fuel costs

Gas represents about 70% of company's total cash costs, and QEWC has fixed its fuel cost through take-or-pay agreements with Qatar Petroleum for both price and quantity for the life of their plants

Fuel (gas) represents around 70% of the company's total cash costs, and QEWC has fixed its fuel cost through take-or-pay agreements with Qatar Petroleum for both price and quantity for the life of their plants. In addition, QEWC's fuel costs are passed on through to Kahramaa, allowing the company to maintain strong EBITDA margins between 50% and 55% from 2007 to 2010, significantly higher than the emerging market peer average of 33.0%. We forecast an average EBITDA margin of 52% for 2011-13.

Revenue contribution from electricity

For 2011-15, we expect split to be around 44% for electricity, 30% for water and 26% for lease income

Historically, electricity has been QEWC's highest revenue-generating business segment. The segment's contribution has consistently increased, with 2006-10 CAGR of 14.4%, although its share of revenue has been decreasing. Electricity's contribution decreased from 57.2% in 2009 to 52.5% in 2010. Meanwhile, lease income from plants increased from 7.7% to 15.1% over the same period. In 1H11, this trend continued as incomes from electricity, water and plant leases made revenue contributions of 44%, 32% and 24%, respectively. For 2011-15, we expect the split to be around 44% for electricity, 30% for water and 26% for lease income.

Table 2 : Key forecasts

(QRm)	2008	2009	2010	2011F	2012F	2013F	2014F	2015F
Electricity	1,361	1,516	1,801	1,992	2,076	2,117	2,159	2,203
Water	788	931	1,111	1,423	1,451	1,480	1,510	1,540
Lease income from plant leases	124	204	518	1,157	1,307	1,307	1,307	1,307
TOTAL	**2,273**	**2,651**	**3,430**	**4,572**	**4,834**	**4,904**	**4,976**	**5,050**
Electricity as %	*60%*	*57%*	*53%*	*44%*	*43%*	*43%*	*43%*	*44%*
Water as %	*35%*	*35%*	*32%*	*31%*	*30%*	*30%*	*30%*	*30%*
Lease income from plant leases as %	*5%*	*8%*	*15%*	*25%*	*27%*	*27%*	*26%*	*26%*

Source: Rasmala forecasts

Current price is fair, in our view

We believe the current share price accurately discounts steady and stable free cash flow from recent capacity additions

We believe the current share price accurately discounts steady and stable free cash flow from recent capacity additions. We believe there is a lack of opportunity for growth, given the nature of the tariff models encompassing pre-agreed pricing and guaranteed off-take in addition to the company's lack of intent to invest in any new plant outside of Oman currently, a situation that could change.

Given the current surplus of productive electricity capacity in Qatar, we expect an opportunity to arise given the GCC grid, the tight demand-supply environments of power in the GCC and the potential to sell excess capacity to this grid. However, management has stated that it does not intend to sell excess capacity into the grid, because QEWC sells electricity and water to only Kahramaa, and its plants' ability to generate profit depends upon capacity made available, rather than electricity and water delivered. We understand that any production above and beyond the agreed capacities would not result in any incremental profit for QEWC as returns are pre-determined.

Forecast 2011 dividend yield of 5.0%

QEWC averaged a dividend-payout ratio of 57% in 2007-10, and we forecast this ratio at 55% going forward

Investors in QEWC have enjoyed consistent dividends, and management maintains that the dividend policy is of key importance to the company. In 2009 and 2010, QEWC announced dividends of QR5 and QR6 per share, respectively. QEWC averaged a dividend-payout ratio of 57% in 2007-10, and we forecast this ratio at 55% going forward. Given the nature of this utility business, the fact that the company has maintained this policy is encouraging for shareholders, as returning cash to shareholders is obviously a key priority of the business.

Valuation

We value QEWC using a sum-of-the-parts methodology and look at two scenarios: a base case and a bull case. In both cases, the majority of the value comes from a DCF of QEWC's electricity and water businesses.

Table 3 : Base-case SOTP valuation

	Value (QRm)	Per share (QR)	% of asset value	Valuation methodology
Qatar Electricity and Water	26,462	264.6	181%	DCF
Oman Power Project	102	1.0	1%	DCF
AFS Investments	371	3.7	3%	Book value
Total EV	**26,935**	**269.4**	**184%**	
Net debt	12,044	120.4	82%	Net debt as of 30/06/2011
Minority interests	190	1.9	1%	Book value
Employee benefits	71	0.7	0%	Book value
Total equity value	**14,630**	**146.3**	**100%**	
Shares outstanding	100			
Equity value per share	**146.3**			
Current price	136.6			
Upside/downside	7.1%			
Recommendation	Hold			

Source: Company data, Rasmala forecasts

Our main assumptions

Electricity

With the Ras Girtas plant fully commissioned in April 2011 and incremental gross capacity of 1,000MW of electricity, total gross capacity by end-2Q11 stood at 8,745MW per day and net capacity at 5,578MW per day.

We increase electricity tariffs by 2.0% pa in line with inflation allowance for the life of the business.

Water

By end-2Q11, the company's total gross capacity stood at 327MIGD of water per day, with net capacity of 265MIGD per day. As communicated by the company, we assume that RAF A1 was fully commissioned at the start of 2011.

We increase water tariffs by 2.0% pa in line with inflation allowance for the life of the business.

Lease income

We assume an 8.5% yield on the portfolio, in line with 1H11 and previous yields.

Capex

In terms of expansion capex, we assume that Ras Girtas is the last plant addition for the next three years as communicated by the company, and there is around QR760m left of expansion capex related to Ras Girtas this year.

For the Omani plant, we forecast the plant construction will begin by early 2012 and be finished by April 2014. As per company announcements, we expect the plant to cost QR6.825bn in total, with QEWC's 15% stake costing QR1.024bn. We expect the plant to be financed with 80% debt and 20% equity and that the forecast capex will be spread evenly over 2012-14.

We forecast maintenance capex to be 5% of total revenue.

Salvage value

We consider plant lives for the legacy plants of 28 years assuming an additional three years of life from the assumed depreciated life. For those same plants we use 10% of the original cost of the plant for salvage value for all legacy plants We do not consider salvage value for the jointly operated plants because they operate under the BOOT arrangements, under this arrangement the plants will be transferred to Kahramaa at the end of the 25 years.

WACC

We use a WACC of 7.5%. Assumptions made include a cost of debt of 5.0% and a cost of equity of 12.0%, made up of a risk-free rate of 5.0% and a beta of 1.0.

Bull-case scenario valuation

Table 4 : Bull-case SOTP valuation

	Value (QRm)	Per share (QR)	% of asset value	Valuation methodology
Qatar Electricity and Water	27,046	270.5	166%	DCF
Future Qatari Projects	1,048	10.5	6%	DCF
Oman Power Project	102	1.0	1%	DCF
AFS Investments	371	3.7	2%	Book value
Total EV	**28,567**	**285.7**	**176%**	
Net debt	12,044	120.4	74%	Net debt as of 30/06/2011
Minority interests	190	1.9	1%	Book value
Employee benefits	71	0.7	0%	Book value
Total equity value	**16,263**	**162.6**	**100%**	
Shares outstanding	100			
Equity value per share	**162.6**			
Current price	136.6			
Upside/downside	19.1%			
Recommendation	Buy			

Source: Company data, Rasmala forecasts

Our main assumptions

Salvage value – We extend the lives of the legacy plants by another two years.

Here we assume an additional plant the same size as Ras Girtas will be brought online in 2020, to account for our expected supply demand gap in 2020, driven by industrial output and preparation for the 2022 FIFA World Cup. We assume QEWC takes a 50% stake in the plant and the plant returns a target return on equity of 25.0%, in line with other Qatari plants.

Investment positives

Investment positives include strong earnings visibility, QEWC's status as the largest power and water player in Qatar and limited commodity price risk.

Earnings visibility

Nature of the QEWC's business model ensures strong earnings visibility for the life of the company's operation

The nature of the QEWC's business model ensures strong earnings visibility for the life of the company's operations. All power and water is sold to Kahramaa, a fully owned government entity, at a pre-determined price under power and water purchase agreements.

Tariffs are a product of capex, operational expenditures and a desirable profit margin. QEWC does not publish its tariff models and PWPAs for each plant. However, as per a Kahramaa IWPP presentation, we understand the typical tariff model comprises a capacity charge, an output charge and other charges.

The capacity charge is made up of a capital recovery charge, a fixed operations and maintenance charge, a fixed seawater charge, and penalties for differences between contracted capacity (minimum capacity availability mentioned in PWPA) and dependable capacity. The output charge is made up of a variable fuel charge, a variable maintenance and operations charge, and a variable seawater charge, and is usually driven by the efficiency of the plant. This charge is affected by the plant's load factor. Other charges include start-up charges, standby charges and black starts (plant recovery after a major blackout).

Most offtake agreements are set to expire in mid to early 2030s, with few contracts due for renewal over the next five years. Of QEWC's 11 wholly and jointly owned plants, seven were commissioned from 2002-11 and only three in the 1990s.

Dominant market player

QEWC controls more than 70% of all water capacity and more than 60% of all power capacity in the country

QEWC is by far the largest power and water provider in Qatar, with stakes in all of the country's IPPs and IWPPs. QEWC controls more than 70% of all water capacity and more than 60% of all power capacity in the country. QEWC has partnered with all IPPs and IWPPs in Qatar to date in any new capacity brought online. However, the company's return on investment is generally determined by what the consortium of QEWC and the international bidder is happy to bid. Management has communicated that the return on invested capital for Ras Girtas is lower than for some of QEWC's wholly owned plants; this also has the effect of lower EBITDA margins than those that have been enjoyed historically. QEWC has partnered with some of the most experienced power and water players in the world market, including International Power, Mitsui, Chubu Yonden, International Power and the Marubeni Corporation.

Fuel cost pass-through eliminates commodity risk

Fuel represents around 70% of the company's total cash costs, and QEWC has fixed its fuel cost through take-or-pay agreements with Qatar Petroleum for both price and quantity for the life of their plants. As a percentage of revenue, fuel cost has represented on average around 33% from 2006-10. Although gas prices in the region are low, in a global perspective, higher costs to develop offshore and/or sour/tight gas fields and global demand growth from East and South Asia are expected to put upward pressure on future pricing, a risk QEWC has limited exposure to.

Sovereign support

Strong support from the State of Qatar, as the business is maintained by its long-term contracts for both revenue and fuel costs, through Qatar Petroleum, with government-owned Kahramaa

QEWC enjoys strong support from the State of Qatar, as the business is maintained by its long-term contracts for both revenue and fuel costs, through Qatar Petroleum, with government-owned Kahramaa. In return, QEWC has achieved high levels of performance and continues to positively affect the overall growth of the country. The government of Qatar directly holds 43% of the company's equity and indirectly an additional 10% through the fully owned Qatar Petroleum for a total of 53%. Sovereign support for QEWC also suggests that with new capacity QEWC is assured financing at favourable terms in tight credit environments.

Risks

Investment risks include operational and contractual risks as well as that in global expansion due to the political tension in the Middle East.

Operational

QEWC generates plant income based on pre-determined load factors in the PWPAs. To qualify for the capacity tariff, typically plants have to be available for a pre-determined time considering factors such as plant age and planned maintenance and service. For the capacity tariff, regardless of whether the plant delivers power or not, QEWC is paid. If the hurdle availability rate is missed, penalties are charged.

Kahramaa and contractual risk

Both electricity and water are heavily subsidised in the State of Qatar and we understand that QEWC's power and water purchase agreement terms are favourable when compared globally. Such high levels of subsidisation increase the risk that favourable contract terms may be renegotiated in the future. Kahramaa is QEWC's single buyer of electricity and water and, as such, has complete power in deciding on bids and setting future capacity. The risk of having one buyer arises in the event of an economic crisis in the country or a contractual dispute, as QEWC cannot substitute Kahramaa for another buyer and continue to generate revenue. We place low probability on both scenarios given that the government of Qatar is an owner of both companies and shares a common interest and that the probability of economic risk in Qatar is low.

Global expansion and political tension in the Middle East

The cancellation of plans in May 2011 to expand operations into Syria, after a memorandum of understanding was signed, due to the political unrest in the country is an example of the risk involved in global expansion. Last year, QEWC and Syrian-Qatar Holding had planned to develop two 450MW power plants in Syria at a cost of US$1bn.

On the other hand, as there is limited near-term growth potential within the Qatari market, QEWC may be enticed to invest internationally in IPPs or assets that may be value-destructive. Paying a premium for assets has been a common trait of some of the region's larger telecom players that have had excess amounts of cash from their utility-like cash flow generating operations.

Unplanned contractor delays

Although QEWC's current capacity additions have been reached, there is an inherent risk regarding future additions and penalties for failure to achieve target power and water capacity on specific dates as agreed with Kahramaa. This is evidenced in 2010 by the failure of Mesaieed Power Company Q.S.C. and Ras Girtas Power Company Limited to achieve the target power on the scheduled dates, resulting in the delay of electricity and water supply. Another instance is RAF A1's failure to commence production on scheduled date, resulting in delay of water supply and RAF A not generating the required level of electricity in 2010. QEWC usually passes all of these costs onto the EPC contractor, but, in the past, it has been unclear whether the full amount has always been covered. Also, unplanned delays push out earnings of a plant and hence reduce the NPV of projects.

QEWC

QEWC is a publicly listed utilities company in Qatar. Founded in 1990, the company acquires and manages power-generation and water-desalination plants. The company sells its electricity and water to government-owned Kahramaa.

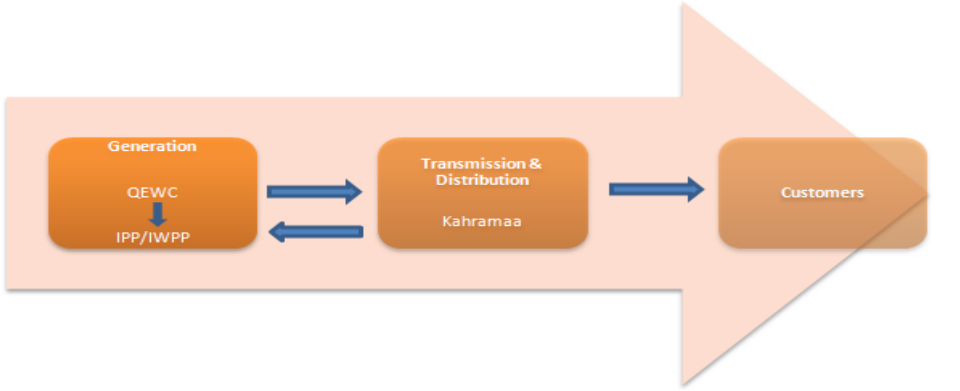
Qatar began the privatisation of power in 1999 when its power-generation and water-desalination plants were transferred from the Ministry of Electricity and Water to QEWC

QEWC was established in 1990 in Doha, Qatar, with a paid -up capital of QR1bn divided into 100m shares of QR10 each. Qatar began the privatisation of power in 1999 when its power-generation and water-desalination plants were transferred from the Ministry of Electricity and Water to QEWC. It is one of the first private sector companies in the region dedicated to electricity and water production.

Qatar is planning to privatise the transmission and distribution segment, which would increase the transparency and efficiency of the process

The company owns and operates power plants and desalination stations to meet the electricity and water consumption needs of Qatar. QEWC offers exposure to the IPP/IWPP model. The power-generation segment of QEWC's business model is privatised. However, it sells its products through long-term PWPAs to Kahramaa, fully owned by the Qatari government. Kahramaa is the Qatari utilities regulator responsible for transmission and distribution of electricity and water, development of policies and procedures for the management and supervision of the water and electricity sectors in Qatar. Qatar is planning to privatise the transmission and distribution segment, which would increase the transparency and efficiency of the process.

Figure 1 : QEWC's business model



Source: Company data

In the past 20 years, QEWC has continued to expand its production capacity through fully and jointly owned plants

In the past 20 years, QEWC has continued to expand its production capacity through fully and jointly owned plants. In 3Q11, the company reached electricity generation capacity of 5,578 MW and water-desalination capacity of 265 MIGD, representing more than 60% and 70% of Qatar's total power- and water-production capacities, respectively.

QEWC's current power-generation capacity exceeds the needs of Qatar. Thus, the company may be able to sell electricity to other members of the GCC through Kahramaa. This process may be facilitated by the completion of the GCC Interconnection Power Grid. Qatar has already completed the first phase of this project with the remaining two phases set to conclude this year.

On 14 July 2011, QEWC joined three other international partners in setting up the 2,000MW Sur Independent Power Project in Oman

On 14 July 2011, QEWC joined three other international partners (Marubeni Corporation, Chubu Electric and Multitech LLC) in setting up the 2,000MW Sur Independent Power Project in Oman at an investment of US$1.82bn and will be the largest in the sultanate. The first 433MW unit is expected to go online in April 2013 and completion of the project is expected in April 2014. QEWC has a 15% share in the project, while Marubeni, Chubu and Multitech own the remaining 50%, 30% and 5%, respectively.

Table 5 : QEWC's group structure

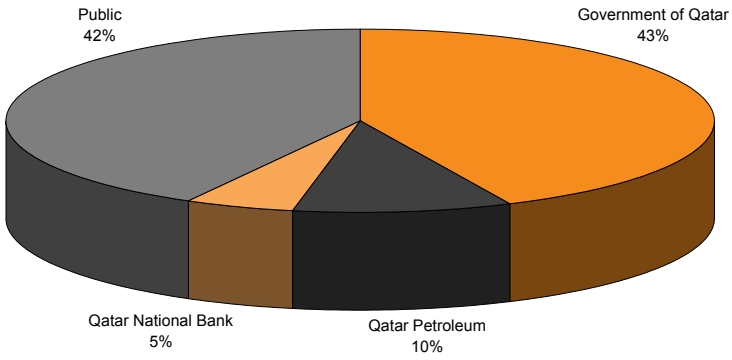
Subsidiaries and jointly controlled entities	Country of incorporation	Percentage of holding
Ras Laffan Power Company Limited (Q.S.C.)	Qatar	80%
Q Power Q.S.C.	Qatar	55%
Mesaieed Power Company Limited	Qatar	40%
Ras Girtas Power Company Limited	Qatar	45%

Source: Company data

One of the largest companies listed in Qatar by market capitalisation (QR13.7bn as of 2 October 2011)

QEWC is listed on the Qatar Stock Exchange and is one of the largest companies listed in Qatar by market capitalisation (QR13.7bn as of 2 October 2011). The government of Qatar holds 53% of the company's equity and the remaining 47% is held by institutions and private individuals.

Chart 2 : The government of Qatar owns 53% of QEWC

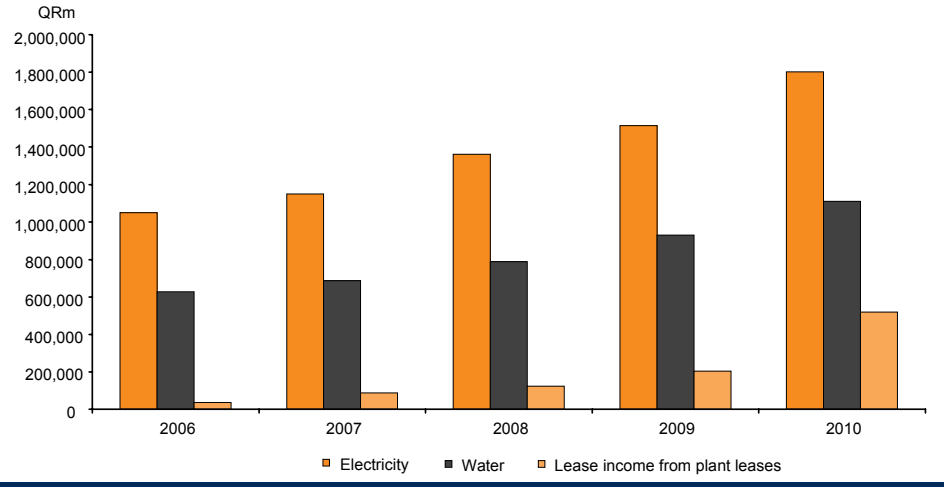


Source: Company data

QEWC also receives revenue in the form of lease income from plant of Q Power, Mesaieed Power Company and Ras Girta

In addition to electricity and water revenues from JV plants, QEWC also receives revenue in the form of lease income from plant of Q Power, Mesaieed Power Company and Ras Girtas. Of these three segments, electricity has historically been the highest in terms of revenue. The segment's contribution has seen consistent growth with 2006-10 CAGR of 14.4%, although its share of revenue has been decreasing. Electricity's contribution decreased from 57.2% in 2009 to 52.5% in 2010. Meanwhile, lease income from plant leases increased from 7.7% to 15.1% over the same period. In 2Q11, this trend continued as electricity, water and lease income from plants made revenue contributions of 48%, 30% and 22%, respectively.

Chart 3 : Electricity is QEWC's largest contributor to revenue



Source: Company data

QEWC's main projects

Table 6 : QEWC's electricity and water plants as of 2011

Plant	Stake	Electricity (MW)	Water (MIGD)	Combined capacity	Expected last year of operation
RAF A	100%	497	55	552	2018
RAF A1	100%	0	45	45	2035
RAF B	100%	609	33	642	2022
RAF B1	100%	377	0	377	2030
RAF B2	100%	567	29	596	2036
Ras Laffan A	80%	750	40	790	2033
Ras Laffan B (Q Power)	55%	1,025	60	1,085	2033
Ras Laffan C (Ras Girtas)	45%	2,480	63	2,543	2036
Mesaieed	40%	2,007	0	2,007	2035
Dukhan	100%	0	2	2	2031
Satellite Stations	100%	183	0	183	2018
Total	**-**	**8,495**	**327**	**9,528**	**-**

Source: Company data

Fully owned plants

Ras Abu Fontas (RAF)

RAF A is an electricity and water production plant built during 1970-93 in different phases under the Qatar General Electricity and Water Corporation's (Kahramaa) supervision. The plant has the capacity to generate 626 MW of electricity and 70 MIGD) of potable water. QEWC acquired RAF A in 2003 and it operates under a PWPA under which the plant will sell its production to the government for 12 years.

RAF A1 is an extension of the RAF A project completed in December 2010, with an additional capacity of 45MIGD of fresh water. The project operates under a 25-year agreement. There was a delay in the completion of the project and QEWC is currently finalising delay-liquidated damage claims with its engineering, procurement and construction (EPC) contractor and Qatar General Electricity and Water Corporation.

RAF B was commissioned in 1995 and acquired by QEWC in 1999. The plant is south of Qatar, 25 km from Doha. RAF B can generate 609MW of electricity and 33MIGD of potable water. It operates according to a 20-year PWPA.

RAF B1 is an extension of the RAF B project and was commissioned in 2002 by QEWC. It has a capacity of 377 MW. RAF B1 has a 20-year PPA.

RAF B2 is an extension of the RAF B and RAF B1 projects. Kahramaa and QEWC signed a PWPA in October 2005 under which RAF B2 will provide Kahramaa an additional 567MW and 29MIGD of desalinated water for 25 years. The project was expected to be completed in October 2008, but a contractual dispute extended it to December 2008.

Dukhan Desalination Plant was commissioned in 1997 and acquired by QEWC from Qatar Petroleum in 2003 for QR72m. The plant has a capacity of 2MIGD of potable water. It is located 70km east of Doha, Qatar, and operates under a 25-year WPA.

Satellite Stations comprise Al Saliayah, Al Wajbah and Doha South Super power plants, all located in Doha's outskirts, and generate 134MW, 301MW and 67MW, respectively. The plants were built in 1980 to meet the growing electricity demand in Qatar. The satellite stations began operating under 12-year PWPAs with Kahramaa in January 2003 after being acquired along with RAF A for QR600m.

Jointly owned plants

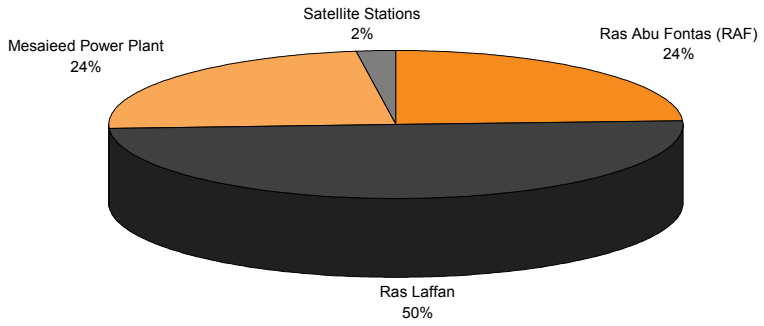
Ras Laffan A is an 80%-owned power and water plant associated with Ras Laffan Power . In October 2010, QEWC increased its ownership in Ras Laffan Power from 55% using its surplus cash balance. Ras Laffan A began operations in the Ras Laffan Industrial City in 2003 with a total capacity of 750MW and 40MIGD of potable water. The Ras Laffan Operating Company has a 30% share in QEWC and is responsible for the plant's daily operations. Ras Laffan A operates according to a 25-year PWPA.

Ras Laffan B (Q Power) is a 55%-owned power and water plant associated with Qatar Power Company. UK's International Power and Japan's Chubu Electric Power Company hold the remaining 40% and 5%, respectively. The project is divided into two phases: Phase 1 started in 2006 and generates 600MW and 15MIGD of fresh water and Phase 2 started in mid-2008 and generates 425MW and 45MIGD of fresh water.

Ras Laffan C (Ras Girtas) is a 45%-owned power and water plant associated with Ras Girtas Power Company. Qatar Petroleum owns 15%, and International Power, Mitsui, Chubu and Yonden together hold the remaining. Ras Laffan C has a planned capacity of 2,730MW and 63MIGD at a cost of around US$3.9bn. The project is in progress to be completed in April 2011 and, at completion, Ras Laffan C will be the largest power and water plant in Qatar and among the largest in the Middle East.

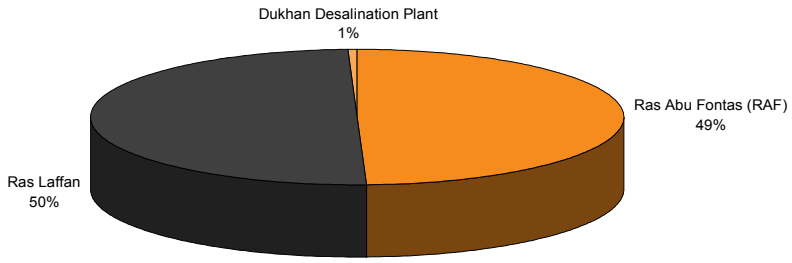
Mesaieed Power Plant is a 40%-owned power plant developed and managed by Mesaieed Power Company. Qatar Petroleum owns 20%, and Japan's Marubeni Corporation holds the remaining 40%. There is also delay-liquidated damage claims associated with the Mesaieed Power Plant, which are expected to be finalised this year.

Chart 4 : QEWC's 2011 power capacity breakdown



Source: Company data

Chart 5 : QEWC's 2011 water capacity breakdown



Source: Company data

Company forecasts

For 2010-15, we forecast a revenue CAGR of 8.0% and an EBITDA CAGR of 8.0%.

Table 7 : Company financials

(QRm)	2010	2011F	2012F	2013F	2014F	2015F	2016F
Electricity	1,801	1,992	2,076	2,117	2,159	2,203	2,247
Water	1,111	1,423	1,451	1,480	1,510	1,540	1,571
Lease income	518	1,157	1,307	1,307	1,307	1,307	1,307
Gross revenue	**3,430**	**4,572**	**4,834**	**4,904**	**4,976**	**5,050**	**5,125**
COGS	-1,892	-2,545	-2,666	-2,693	-2,720	-2,748	-2,777
Gross profit	1,538	2,027	2,168	2,211	2,256	2,302	2,348
SG&A	-167	-229	-240	-246	-252	-258	-264
Other costs	463	639	647	647	647	647	647
EBITDA	**1,835**	**2,437**	**2,575**	**2,613**	**2,651**	**2,691**	**2,731**
Net income	**1,163**	**1,238**	**1,358**	**1,424**	**1,504**	**1,614**	**1,704**

Source: Rasmala forecasts

Financials

We forecast an EBITDA CAGR of 18.5% over 2010-12 and an EPS CAGR of 8.1%

- We forecast 2011 EBITDA of QR2,437m and net income of QR1,238m.
- We forecast an EBITDA CAGR of 18.5% over 2010-12 and an EPS CAGR of 8.1% for the same period. We expect EBITDA to remain between 51 and 53%.
- We forecast maintenance capex to be 5% of total revenue.
- We project a yearly 55% dividend payout ratio in line with previous years.

Potential upside to our forecasts

Potential upside to our forecasts includes domestic and international capacity expansion as well as the possibility of selling excess capacity.

Domestic capacity expansion

We estimate another plant the size of Ras Girtas may be required in the next decade to cover the demand increase

While we forecast Qatar will enjoy a power surplus over the next four years, we estimate another plant the size of Ras Girtas may be required in the next decade to cover the demand increase, driven by increased industrial production and infrastructure spending for the 2022 FIFA World Cup, and the removal of capacity due to plant decommissioning.

We assume QEWC takes a 50% stake in the plant and the plant has a return on equity of 25%, in line with other QEWC plants

We assume QEWC takes a 50% stake in the plant and the plant has a return on equity of 25%, in line with other QEWC plants. We assume debt/equity at 80/20%, in line with past plants and industry standards, and value the project using an equity DCF. We assume construction will begin in 2017, and that 2020 will be the first full year of operation. We arrive at an NPV of QR1,048m, or an addition of QR10.5 per share. This is a scenario we factor into the bull case.

PWPAs and potential to sell outside of Kahramaa

Upside could come from either QEWC or Kahramaa selling excess capacity to neighbouring countries, and a favourable change to the PWPAs

For QEWC, we understand that tariffs are a product of capex, operational expenditures and a pre-agreed profit margin. QEWC does not publish its tariff models and PWPAs for each plant, so we are forced to make assumptions regarding these agreements. As per management guidance and a presentation made by Kahramaa, we understand that QEWC's plant cash flow generation is dependant upon plant availability rather than water and electricity delivered. All power and electricity is sold to Kahramaa based on pre-agreed pricing and capacity quotas, and as long as those quotas are met, QEWC's returns are pre-determined. Upside could come from either QEWC or Kahramaa selling excess capacity to neighbouring countries, and a favourable change to the PWPAs.

International capacity expansion

We believe QEWC's FCF profile perfectly positions it to consider expansion opportunities in undersupplied neighbouring markets

Although we do not consider this scenario in our bull case, we believe QEWC's free cash flow (FCF) profile perfectly positions the company to consider expansion opportunities in undersupplied neighbouring markets, already evident with the recently announced Oman power project. We do not expect the same level of government support or favourable PWPA terms QEWC currently enjoys in Qatar, but we believe QEWC's strong tie to the Qatari government and its access to capital will allow the company to seek out value opportunities in markets on favourable terms. A value-accretive plant addition could result in further upside to our valuation.

Qatar utilities industry

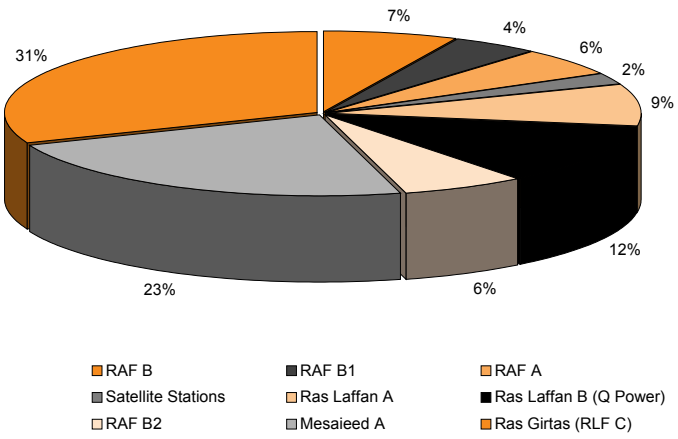
In the Qatar utilities industry, we examine Qatar's country profile and Qatar's power and water demand forecasts and analyse the GCC power sector, including the GCC Power Grid project.

Qatar country profile

According to the IMF, Qatar recorded real GDP growth of 16% in 2010, and this is projected to accelerate to 20% in 2011

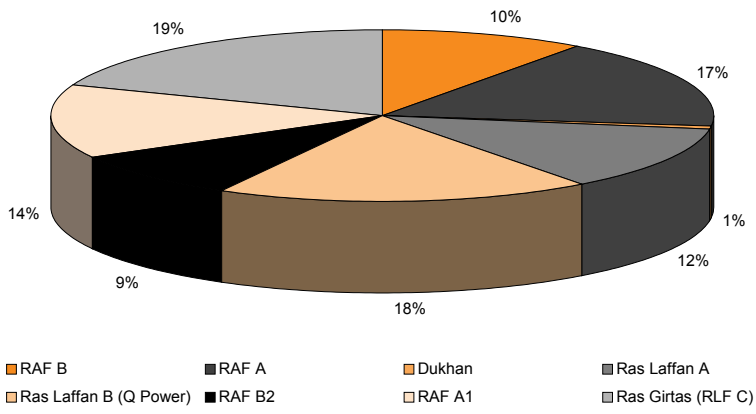
Qatar has experienced some of the highest economic growth in the world in recent years and is forecast by the IMF to become the third largest economy in the GCC, behind Saudi Arabia and the UAE, and fifth-largest in the Middle East by the end of 2011. Between 2004 and 2009, Qatar's real GDP growth averaged 17.1% per year, and it was one of the few countries in the world to record considerable growth during the global financial crisis. According to the IMF, Qatar recorded real GDP growth of 16% in 2010, and this is projected to accelerate to 20% in 2011. The main drivers of this growth are Qatar's exports of LNG (where Qatar is the world leader), oil, and petrochemicals. Most of Qatar's power and water plants are gas-fired, as a result, with Qatar Petroleum being the sole supplier. Qatar's impressive GDP growth has led to a population growth that requires higher energy consumption levels and, therefore, a greater demand for electricity and water.

Chart 6 : Qatar's 2012F electricity capacity breakdown by plant



Source: Rasmala forecasts

Chart 7 : Qatar's 2012F water capacity breakdown by plant



Source: Rasmala forecasts

Current consumption

According to the EIU, electricity consumption is expected to more than double from 21bn kWh in 2009 to 47bn kWh in 2015

Electricity consumption per capita in Qatar is among the highest in the world because of the country's large industrial sector and cheap prices due to government subsidies on power and water. In 2008, Qatar only trailed Kuwait in the GCC in electricity consumption per capita and was ranked ninth in the world. With additional industrial projects on the way, electricity consumption is set to increase even further in Qatar. By 2014, Qatar is expected to rank third in the world in electricity consumption behind only Iceland and Norway. According to the EIU, electricity consumption is expected to more than double from 21bn kWh in 2009 to 47bn kWh in 2015.

Government subsidies

Electricity and water are provided at no cost to the nationals, which make up about 13% of Qatar's population, and at a subsidised price to expatriates

The government of Qatar subsidises the cost of power and water in the country. Electricity and water are provided at no cost to the nationals, which make up about 13% of Qatar's population, and at a subsidised price to expatriates. The industrial tariff is US$19.00 per MWh, or about one-fourth the cost in the US. Residents and companies pay about US$30.00 per MWh, or around one-third the cost in the US. These subsidies could be one another reason why Qatar has one of the highest per capita consumption of power and water in the world.

Qatar's power and water demand forecasts

Power

Table 8 : Qatar electricity market analysis

TWh	2009	2010	2011F	2012F	2013F	2014F	2015F	2020F
Gross generation capacity	23.0	33.6	43.4	44.7	44.7	44.7	44.7	41.5
yoy growth (%)		*46%*	*29%*	*3%*	*0%*	*0%*	*0%*	*-7%*
Projected consumption	20.6	25.4	31.6	35.3	38.9	42.9	46.8	72.2
yoy growth (%)		*24%*	*24%*	*12%*	*10%*	*10%*	*9%*	*9%*
Capacity margin	12%	32%	37%	27%	15%	4%	-5%	-43%

Source: EIU, Rasmala forecasts

We have built our supply demand projections based on data from EIU and QEWC. We expect a generation capacity increase of 11.1TWh (+32%) in 2010-15F, reflecting the Ras Girtas capacity addition of 1,000MW in 2011, and we expect demand to increase 84% over 2010-15, fuelled by Qatar's expanding industrial sector. We expect a demand increase of an additional 54% for 2015-20 on the back of continued growth in the industrial sector and preparation for the 2022 FIFA World Cup. We expect the capacity margin to peak come 2011, with 41% surplus, before falling to a deficit of 2% in 2015 and a further deficit of 46% in 2020. In the absence of announcements for Qatari plant additions, we expect generation capacity to fall from 46TWh in 2015 to 2020 as older plants are retired.

Water

Table 9 : Qatar water market analysis

MIGD	2009	2010	2011F	2012F	2013F	2014F	2015F	2020F
Supply	220	259	327	327	327	342	342	349
yoy growth (%)		*18%*	*26%*	*0%*	*0%*	*5%*	*0%*	*2%*
Projected consumption	193	205	222	238	257	275	291	382
yoy growth (%)		*6%*	*8%*	*7%*	*8%*	*7%*	*6%*	*6%*
Capacity margin	14%	26%	48%	37%	27%	24%	17%	-9%

Source: Kahramaa, EIU, Rasmala forecasts

We have built our supply demand projections based on data from EIU, Kahramaa and QEWC. We expect water supply to increase by 83MIGD (32%) in 2010-15F with the addition of Ras Girtas and RAF A1. We expect consumption to increase by 42% over 2010-15, driven by the residential segment and agricultural use. Although we expect capacity margin to peak in 2011 at 48%, it should be noted that desalinated water losses due to leaks are high by international standard at

30-35%. Taking this into account, the surplus is more or less nonexistent. According to Kahramaa, there is a target in place to cut leaks of desalinated water to 10% by 2013 from the current estimate. In the absence of leakage data, we expect supply increases of 2% from 2015-20, which accounts for plant retirements and inviting bids in 2Q11 for 71m gpd of water-desalination baseload capacity, which is planned to come on stream by 2015 before rising to 95m gpd by 2016.

GCC power sector analysis

Population growth, as well commercial and industrial growth, in the GCC countries has led to an increasing demand for power and thus has resulted in a transformation of the power sector in the GCC. The governments of GCC countries have begun to restructure the power sector by privatising it and separating the different stages of generation, transmission and distribution. The combined demand for power in the GCC countries is around 70 GW and this number is expected to treble over the next 25 years.

According to research by RNCOS, a leading market research and information analysis company, the GCC power sector has been growing strongly for several years and is expected to continue to grow at impressive rates.

In Qatar, the government has already undergone the restructuring process of privatising the power sector and separating the generation, transmission and distribution phases. The Qatar General Electricity and Water Corporation (Kahramaa) is responsible for the transmission and distribution phases, while QEWC is responsible for the generation phase. The government of Qatar is currently considering privatising Kahramaa to create a power transmission and distribution company.

GCC Power Grid

The GCC countries established the GCC Interconnection Authority (GCCIA) in 2001 to eventually develop the GCC Power Grid. The US$1.4bn (QR5.1bn) GCC Power Grid is the region's latest attempt to integrate the six GCC economies by providing and sharing electricity across the GCC to meet the region's rising power demand. It is expected to save the participating countries up to US$5bn (QR18.2bn) in costs over its lifetime by reducing long-term infrastructure investment costs and the level of reserves each country would need as energy trading would be possible.

There is an opportunity to exchange energy inputs between the GCC countries based on the availability of oil and gas for power generation. The GCC Power Grid could also possibly be expanded to connect to the rest of the Middle East, North Africa and Europe. As an example, an advantage of this would be that surplus power could be exported to Europe during the winter when demand is low in the GCC regions and high in Europe.

Figure 2 : GCC Power Grid map

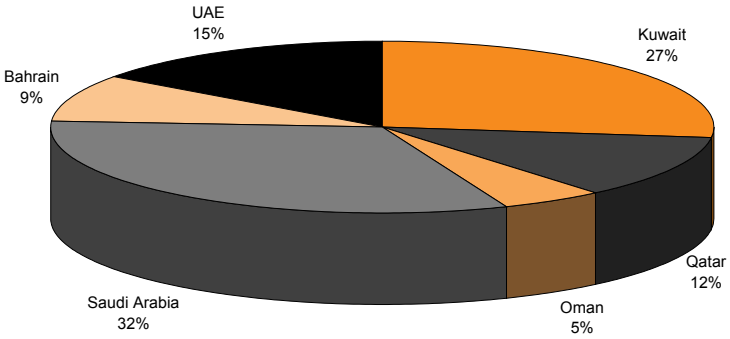
Source: GCCIA website

Three-phase GCC Power Grid project

- **Phase I:** The GCC North Grid – The first phase of the GCC Power Grid links the networks of Kuwait, Saudi Arabia, Bahrain and Qatar. It became operational in early 2009.
- **Phase II:** The GCC South Grid – The second phase of the GCC Power Grid links the networks of the UAE and Oman. It became operational in April 2011.
- **Phase III:** North-South Grids – The third and final phase of the GCC Power Grid will link the networks of Kuwait, Saudi Arabia, Bahrain and Qatar (North Grid) to the UAE and Oman (South Grid). It is currently in development and is expected to be operational by next year.

The authorised share capital of the GCCIA is US$1.1bn. Qatar's share of the Power Grid is 11.7%.

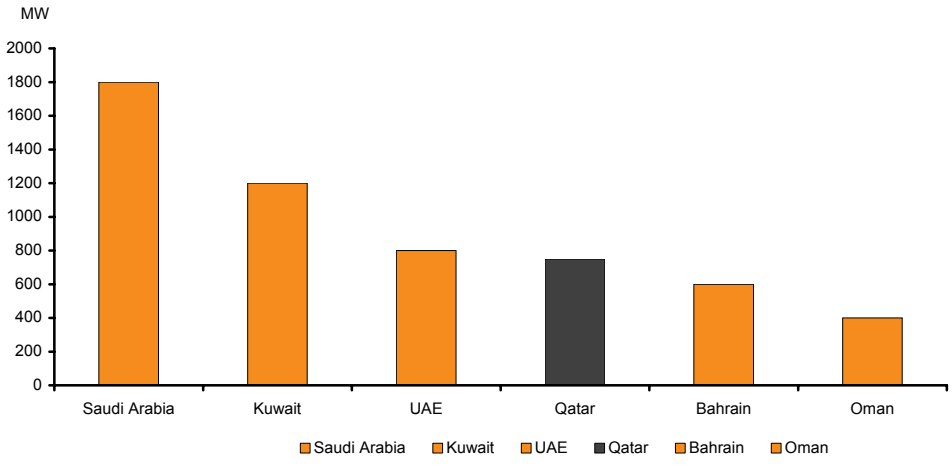
Chart 8 : GCCIA shareholder structure



Source: GCCIA website

Upon completion of the GCC Power Grid, Qatar will receive 12% of the grid's power capacity, equivalent to 750MW. Qatar's Minister of Energy and Industry Affairs has remarked that with the inauguration of the Ras Girtas power plant this year, Qatar will have 2,500MW surplus power at peak demand.

Chart 9 : Qatar will receive 750MW of power capacity once the GCC Power Grid is ready next year



Source: GCCIA website

Income statement

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	2651	3430	4571	4834	4904
Cost of sales	-1535	-1892	-2545	-2666	-2693
Operating costs	246.2	296.2	410.1	407.5	401.6
EBITDA	**1362**	**1835**	**2437**	**2575**	**2613**
DDA & Impairment (ex gw)	-489.5	-576.7	-639.4	-647.1	-647.1
EBITA	**872.1**	**1258**	**1797**	**1928**	**1966**
Goodwill (amort/impaired)	0.00	0.00	0.00	0.00	0.00
EBIT	**872.1**	**1258**	**1797**	**1928**	**1966**
Net interest	-121.3	-386.2	-644.0	-612.5	-581.0
Associates (pre-tax)	6.79	6.79	3.40	0.00	0.00
Other pre-tax items	187.3	288.2	156.4	121.5	120.5
Reported PTP	**944.9**	**1167**	**1313**	**1437**	**1505**
Taxation	0.00	0.00	0.00	0.00	0.00
Minority interests	0.00	-4.03	-42.5	-43.3	-44.2
Other post-tax items	0.00	0.00	-32.8	-35.9	-37.6
Reported net profit	**944.9**	**1163**	**1238**	**1358**	**1424**
Tot normalised items	0.00	0.00	2.27	0.00	0.00
Normalised EBITDA	1362	1835	2437	2575	2613
Normalised PTP	944.9	1167	1311	1437	1505
Normalised net profit	**944.9**	**1163**	**1236**	**1358**	**1424**

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	2307	2074	1939	2565	3031
Other current assets	734.2	1884	1769	1825	1847
Tangible fixed assets	10664	5974	5863	5392	4925
Intang assets (incl gw)	3821	11809	12209	12209	12209
Oth non-curr assets	522.6	382.1	490.5	900.5	1310
Total assets	**18048**	**22123**	**22271**	**22891**	**23322**
Short term debt (2)	668.2	1513	343.8	343.8	343.8
Trade & oth current liab	2418	3776	4028	4224	4246
Long term debt (3)	498.7	385.9	382.5	382.5	382.5
Oth non-current liab	10874	12510	13019	12724	12411
Total liabilities	**14458**	**18185**	**17774**	**17674**	**17384**
Total equity (incl min)	3590	3938	4497	5217	5938
Total liab & sh equity	**18048**	**22123**	**22271**	**22891**	**23322**
Net debt	9789	12376	11841	10920	10141

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	1362	1835	2437	2575	2613
Change in working capital	102.6	-296.0	487.1	140.0	0.29
Net interest (pd) / rec	-195.9	-470.7	-704.9	0.00	0.00
Taxes paid	0.00	0.00	0.00	0.00	0.00
Other oper cash items	62.8	140.1	134.6	-539.5	-510.6
Cash flow from ops (1)	**1331**	**1208**	**2354**	**2176**	**2103**
Capex (2)	-4050	-1477	-1171	-176.3	-179.9
Disposals/(acquisitions)	96.4	-519.1	-41.8	-397.4	-397.4
Other investing cash flow	0.00	0.00	0.00	0.00	0.00
Cash flow from invest (3)	**-3954**	**-1996**	**-1213**	**-573.8**	**-577.3**
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	0.00	0.00	0.00	0.00	0.00
Ordinary dividend paid	-450.0	-500.0	-608.7	-680.9	-746.9
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	3765	1055	-667.0	-295.7	-312.1
Cash flow from fin (5)	**3315**	**555.3**	**-1276**	**-976.6**	**-1059**
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	**692.0**	**-232.8**	**-134.7**	**625.5**	**466.4**
Equity FCF (1+2+4)	-2719	-269.0	1183	2000	1923

Source: Company data, Rasmala forecasts

year to Dec

Standard ratios	Qatar Electric					Verbund			United Utilities		
Performance	**FY09A**	**FY10A**	**FY11F**	**FY12F**	**FY13F**	**FY11F**	**FY12F**	**FY13F**	**FY12F**	**FY13F**	**FY14F**
Sales growth (%)	n/a	29.4	33.3	5.74	1.46	0.75	24.4	-1.02	4.40	3.52	5.44
EBITDA growth (%)	n/a	34.8	32.8	5.69	1.46	2.77	24.4	1.01	5.23	4.23	7.51
EBIT growth (%)	n/a	44.3	42.9	7.28	1.95	2.72	25.9	-0.43	-0.28	4.99	9.34
Normalised EPS growth (%)	n/a	23.1	6.25	9.90	4.83	13.6	42.7	12.3	-3.12	4.83	12.7
EBITDA margin (%)	51.4	53.5	53.3	53.3	53.3	32.7	32.7	33.3	67.7	68.2	69.5
EBIT margin (%)	32.9	36.7	39.3	39.9	40.1	25.5	25.8	26.0	37.6	38.2	39.6
Net profit margin (%)	35.6	33.9	27.0	28.1	29.0	13.7	15.7	17.8	16.3	16.5	17.6
Return on avg assets (%)	0.00	7.33	8.40	8.86	8.81	6.68	8.58	9.22	4.96	5.01	5.27
Return on avg equity (%)	0.00	23.1	21.8	21.5	20.4	11.0	14.7	15.3	15.1	15.4	16.8
ROIC (%)	n/a	9.40	11.0	11.8	12.2	8.11	9.81	9.59	6.63	6.62	6.80
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00	0.29	2.00	1.77	0.88	0.88	1.06
				year to Dec			year to Dec			year to Mar	
Valuation											
EV/sales (x)	8.85	7.59	5.58	5.08	4.85	3.25	2.57	2.56	5.88	5.92	5.80
EV/EBITDA (x)	17.2	14.2	10.5	9.54	9.11	9.95	7.87	7.68	8.68	8.68	8.34
EV/EBITDA @ tgt price (x)	17.9	14.7	10.9	9.92	9.48	12.9	10.2	10.00	9.18	9.16	8.79
EV/EBIT (x)	26.9	20.7	14.2	12.7	12.1	12.7	9.94	9.85	15.6	15.5	14.7
EV/invested capital (x)	1.75	1.60	1.56	1.52	1.48	1.32	1.28	1.22	1.37	1.34	1.31
Price/book value (x)	3.81	3.63	3.19	2.75	2.42	1.74	1.62	1.50	2.45	2.39	2.29
Equity FCF yield (%)	-19.9	-1.97	8.66	14.6	14.1	2.43	8.42	8.60	-1.68	-3.98	-2.22
Normalised PE (x)	14.5	11.7	11.1	10.1	9.60	16.33	11.44	10.19	16.47	15.71	13.94
Norm PE @ tgt price (x)	15.5	12.6	11.8	10.8	10.3	23.3	16.3	14.5	18.6	17.7	15.7
Dividend yield (%)	3.66	4.39	5.64	6.08	6.37	3.06	4.37	4.91	5.16	5.41	5.68
				year to Dec			year to Dec			year to Mar	

Per share data	**FY09A**	**FY10A**	**FY11F**	**FY12F**	**FY13F**
Tot adj dil sh, ave (m)	100.0	100.0	100.0	100.0	100.0
Reported EPS (QAR)	9.45	11.6	12.4	13.6	14.2
Normalised EPS (QAR)	9.45	11.63	12.36	13.58	14.24
Dividend per share (QAR)	5.00	6.00	7.70	8.30	8.70
Equity FCF per share (QAR)	-27.2	-2.69	11.8	20.0	19.2
Book value per sh (QAR)	35.9	37.6	42.8	49.6	56.4
				year to Dec	

Solvency	**FY09A**	**FY10A**	**FY11F**	**FY12F**	**FY13F**
Net debt to equity (%)	272.7	314.3	263.3	209.3	170.8
Net debt to tot ass (%)	54.2	55.9	53.2	47.7	43.5
Net debt to EBITDA	7.19	6.75	4.86	4.24	3.88
Current ratio (x)	0.99	0.75	0.85	0.96	1.06
Operating CF int cov (x)	7.79	3.57	4.34	0.00	0.00
Dividend cover (x)	2.10	2.33	2.03	1.99	1.91
					year to Dec

Priced as follows: QEWS.QA - QR136.60; VERB.VI - €21.01; UU.L - £6.26
Source: Company data, Rasmala forecasts

Table 10 : Base-case SOTP valuation

	Value (QRm)	Per share (QR)	% of asset value	Valuation methodology
Qatar Electricity and Water	26,462	264.6	181%	DCF
Oman Power Project	102	1.0	1%	DCF
AFS Investments	371	3.7	3%	Book value
Total EV	**26,935**	**269.4**	**184%**	
Net debt	12,044	120.4	82%	Net debt as of 30/06/2011
Minority interests	190	1.9	1%	Book value
Employee benefits	71	0.7	0%	Book value
Total equity value	**14,630**	**146.3**	**100%**	
Shares outstanding	100			
Equity value per share	**146.3**			
Current price	136.6			
Upside/downside	7.1%			
Recommendation	Hold			

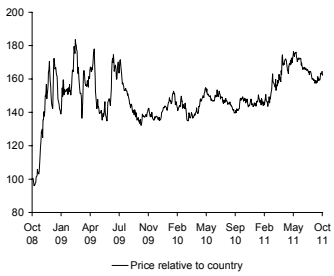
Source: Company data, Rasmala forecasts

Company description

Hold

Qatar Electricity and Water Company (QEWC) was established in 1990 in Doha, Qatar with paid-up capital of QR1bn divided into 100m shares of QR10 each. Qatar began the privatisation of power in 1999, when its power-generation and water-desalination plants were transferred from the Ministry of Electricity and Water to QEWC. It is one of the first private sector companies in the region dedicated to electricity and water production. The company owns and operates power plants and desalination stations to meet the electricity and water consumptions needs of Qatar. QEWC offers exposure to the independent power project/independent water & power project (IPP/IWPP) model. It is listed on the Qatar Stock Exchange.

Price relative to country



Strategic analysis

Average SWOT company score: 4

Strengths 5

QEWC has long-term fixed pricing agreements with Kahramaa for all electricity and water produced in addition to pass-through clauses for fuel costs. As a result, QEWC enjoys fairly predictable revenues accompanied by strong earnings visibility.

Weaknesses 4

Kahramaa is QEWC's single buyer of electricity and water and, as such, has complete power in deciding on bids and setting future capacity.

Opportunities 4

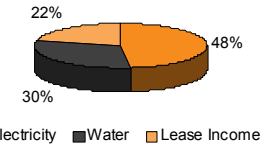
There is potential for local expansion to cover the expected demand increases associated with preparation and execution of the 2022 FIFA World Cup and potential for international expansion.

Threats 4

Major risks include operational and contractual risks.

Scoring range is 1-5 (high score is good)

Revenue split, 2Q11



Source: Company data

Market data

Headquarters
P.O. Box 22046, Qimco Building, West Bay, Doha, Qatar

Website
www.qewc.com

Shares in issue
100.0m

Freefloat
42%

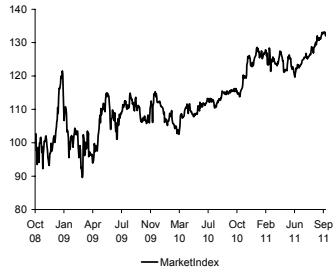
Majority shareholders
Government of Qatar (43%), Qatar Petroleum (10%), Qatar National Bank (5%)

Country view: Qatar

MENA markets are showing characteristics of a text book case of loss aversion. This is expected given the magnitude of losses investors experienced since 2008, with 2009 lagging emerging markets by a fairly wide margin. Rising oil prices and budget surpluses drove asset prices across the region higher resulting in a real-estate bubble that has negatively impacted speculators and the banking system. Bubbles do pop and recover over time if there is a legal system in place that enables the transfer of assets. The bad news is such a mechanism did not exist. The good news is that with the creation or RERA and the possibility of Strata Law, this could change and facilitate the transfer of properties from speculators to real investors.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Country rel to M East & Africa



Competitive position

Average competitive score: 4+

Supplier power 4+

Moderate - Most of QEWC's power and water plants are gas-fired, with Qatar Petroleum being the sole supplier. QEWC has fixed its fuel cost for both price and quantity for their wholly owned plants.

Barriers to entry 5+

High - Large capital requirements are necessary to enter the utilities industry, and QEWC also enjoys strong support from the State of Qatar.

Customer power 3+

Moderate - All power and water is sold to Kahramaa, a 100% government entity, at a pre-determined price under power- and water-purchase agreements.

Substitute products 4+

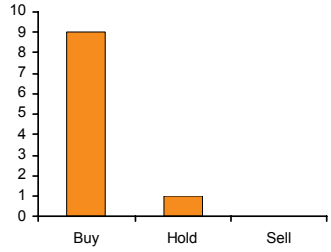
Low - The power and water plants in place provide the most cost-effective means of providing utilities services in the country.

Rivalry 4-

Moderate - QEWC faces competition from international power companies in regional expansion plans.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse

Broker recommendations



Source: Bloomberg

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Valuation and risks to target price

Qatar Electric & Water Co. (RIC: QEWS.QA, Rec: Hold, CP: QR136.60, TP: QR146.30): Downside risks to our SOTP-based target price include operational and contractual risks as well as that in global expansion due to the political tension in the Middle East. Potential catalysts include domestic capacity expansion.

Disclaimer