

VFQS Alert – Beats 4Q2021 as Equipment Sales Soar; In-Line DPS; Stay Accumulate

- **VFQS' 4Q2021 net profit jumps 117.6% YoY/91.4% QoQ and beats our estimate** – Vodafone Qatar's (VFQS) net profit of QR127.0mn in 4Q2021 substantially beat our estimate of QR69.4mn. Quarterly revenue of QR780.2mn (32.7% YoY, 33.9% QoQ) also exceeded our estimate of QR637.2mn, with majority of the beat in both earnings/revenue driven by “sale of equipment, related services and accessories.” Overall service revenue of ~QR600mn in 4Q2021 was only modestly ahead of our estimate.
- **FY2021 earnings grew 76.9% YoY; recommended DPS of QR0.06 is in-line with our estimate (with a dividend yield of 3.4%).** Performance was helped by continued growth in postpaid and fixed broadband (GigaHome), managed services and equipment & related services. Total revenue jumped 14.8% to reach QR2.53bn. Service revenue increased by 10.4% YoY to come in at QR2.23bn in 2021. Vodafone Qatar also reported mobile subs of 1.934mn, which was roughly in-line with our mobile subs forecast. We note VFQS grew its mobile subs YoY/QoQ (4Q2020 subs: 1.662mn, 3Q2021 subs: 1.797mn) despite overall flattish YoY (but 1.6% increase QoQ) performance in Qatar’s total population to 2.677mn in December 2021.
- **Reported 4Q2021 EBITDA margin of 39.8% improved vs. 36.8% in 4Q2020.** EBITDA margin, however, declined vs. its record level of 42.7% in 3Q2021 given the higher mix of equipment revenue during the quarter. Quarterly EBITDA of QR310.4mn grew 43.3% YoY and 24.9% QoQ and was above our estimate of QR242.2mn. Continued costs optimization, especially in G&A and network, rentals and other opex, helped drive the improvement in EBITDA/EBITDA margins.
- **Our view on the stock remains unchanged** – we continue to like the company’s momentum in postpaid (2021 segment revenue up 7.6% YoY to QR1.15bn, making up 51.5% of total service revenue as subs continue to grow and ARPUs remain healthy). We also believe postpaid, 5G (more than 85% population coverage), fixed, home broadband, enterprise and bundled solutions should continue to drive future momentum. While capex levels remain elevated due to 5G deployment and coverage/capacity expansion ahead of the 2022 FIFA World Cup, dividend and FCF yields should improve going forward. **We maintain our Accumulate rating on VFQS shares and could reassess our price target of QR1.800.**

VFQS Alert – Beats 4Q2021 as Equipment Sales Soar; In-Line DPS; Stay Accumulate

INCOME STATEMENT	4QCY20 A	3QCY21 A	4QCY21 A	4QCY21 E	A v E	YoY	QoQ	CY2020 A	CY2021 A	CY2021 E	A v E	YoY
<i>(In QR mn Unless Specified)</i>	9%		34%									
Revenue	588.097	582.749	780.240	637.245	22.4%	32.7%	33.9%	2,199.624	2,525.918	2,382.923	6.0%	14.8%
<i>YoY Growth (%)</i>	2.9%	8.0%	32.7%	8.4%				3.5%	14.8%	8.3%		
Direct Costs (Interconnection & Other Opex)	(210.571)	(184.936)	(320.870)	(223.036)	43.9%	52.4%	73.5%	(759.363)	(884.605)	(786.771)	12.4%	16.5%
<i>as a % of Total Revenue (%)</i>	35.8%	31.7%	41.1%	35.0%				34.5%	35.0%	33.0%		
Gross Profit (Loss)	377.526	397.813	459.370	414.210	10.9%	21.7%	15.5%	1,440.261	1,641.313	1,596.153	2.8%	14.0%
<i>Gross Margin (%)</i>	64.2%	68.3%	58.9%	65.0%				65.5%	65.0%	67.0%		
Other Expenses (Employee and Other Expenses)	(160.866)	(149.241)	(148.989)	(172.056)	-13.4%	-7.4%	-0.2%	(632.249)	(610.787)	(633.854)	-3.6%	-3.4%
<i>as a % of Total Revenue (%)</i>	27.4%	25.6%	19.1%	27.0%				28.7%	24.2%	26.6%		
Depreciation and Amortization	(136.548)	(170.076)	(155.616)	(155.501)	0.1%	14.0%	-8.5%	(538.871)	(627.746)	(613.055)	2.4%	16.5%
Total Operating Expenses	(297.414)	(319.317)	(304.605)	(327.557)	-7.0%	2.4%	-4.6%	(1,171.120)	(1,238.533)	(1,261.485)	-1.8%	5.8%
EBITDA	216.660	248.572	310.381	242.153	28.2%	43.3%	24.9%	808.012	1,030.526	962.298	7.1%	27.5%
<i>EBITDA Margin (%)</i>	36.8%	42.7%	39.8%	38.0%				36.7%	40.8%	40.4%		
<i>YoY Growth (%)</i>	20.2%	23.2%	43.3%	11.8%				14.0%	27.5%	19.1%		
<i>QoQ Growth (%)</i>	7.4%	4.8%	24.9%	-2.6%								
Operating Profit (Loss) - EBIT	80.112	78.496	154.765	86.653	78.6%	93.2%	97.2%	269.141	402.780	334.668	20.4%	49.7%
<i>EBIT Margin (%)</i>	13.6%	13.5%	19.8%	13.6%				12.2%	15.9%	14.0%		
Interest Income	0.183	1.049	0.149	0.500	-70.2%	-18.6%	-85.8%	1.676	1.327	1.678	-20.9%	-20.8%
Interest Expense/Lease Interest Expense	(14.868)	(4.519)	(11.790)	(9.626)	22.5%	-20.7%	160.9%	(64.672)	(36.671)	(34.507)	6.3%	-43.3%
Other Income/Expense	(7.063)	(8.692)	(16.145)	(8.112)	99.0%	128.6%	85.7%	(21.054)	(40.039)	(32.006)	25.1%	90.2%
Profit (Loss) Before Tax	58.364	66.334	126.979	69.415	82.9%	117.6%	91.4%	185.091	327.397	269.833	21.3%	76.9%
Net Profit (loss) - Adjusted	58.364	66.334	126.979	69.415	82.9%	117.6%	91.4%	185.091	327.397	269.833	21.3%	76.9%
<i>Net Margin (%)</i>	9.9%	11.4%	16.3%	10.9%				8.4%	13.0%	11.3%		
EPS (QR)	0.01	0.02	0.03	0.02	82.9%	117.6%	91.4%	0.04	0.08	0.06	21.3%	76.9%
DPS (QR)								0.05	0.06	0.06	0.0%	20.0%

Recommendations

Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price

OUTPERFORM Greater than +20%

ACCUMULATE Between +10% to +20%

MARKET PERFORM Between -10% to +10%

REDUCE Between -10% to -20%

UNDERPERFORM Lower than -20%

Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

R-1 Significantly lower than average

R-2 Lower than average

R-3 Medium / In-line with the average

R-4 Above average

R-5 Significantly above average

Saugata Sarkar, CFA, CAIA
Head of Research
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
+974 4476 6509
shahan.keushgerian@qnbfs.com.qa

DISCLAIMER: This publication has been prepared by QNB Financial Services Co. WLL (“QNB FS”) a wholly-owned subsidiary of Qatar National Bank (“Q.P.S.C.”). QNB FS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNB FS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNB FS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNB FS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. QNB FS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report.

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNB FS.