

QNBFS Alert – VFQS Posts In-Line FY2015 Profits; Maintain Reduce

- **Vodafone Qatar’s earnings bang in line with our estimate but continued ARPU erosion due to prepay competition remains a concern; stay Reduce.** VFQS reported a net loss of QR66mn for the quarter ended March 2015, right in line with our estimate of QR65mn. Revenue however dipped 3% QoQ (up 4% YoY) to QR571.2mn vs. our estimate of QR611.6mn. While mobile subs at 1.444mn were in line with our estimate of 1.445mn, quarterly ARPU fell yet again, down 4% QoQ from QR120 to QR115 and a significant 10% YoY fall from QR128; we had been expecting a flattish QR120 in ARPU for the March quarter. Profitability metrics improved with gross margin of 53.5% (3QFY2015: 50.1%/our estimate: 50.1%) and EBITDA margin of 23.5% (3QFY2015: 21.3%/our estimate: 22.1%) driven by costs enhancements and scale benefits.
- **Dividends of QR0.21 also in line with our expectation of QR0.20.** This translates into a yield of 1.3% at yesterday’s close of QR16.73. VFQS declared a dividend of QR0.17 in FY2014.
- **Still room to fall – management believes 1QFY2016 top-line will decline YoY.** VFQS reported QR584.8mn in 1Q2015 revenue. This would imply a further downward adjustment in our model. Pricing pressure in prepay since June 2014 has taken QR600mn off the mobile market and has hurt VFQS disproportionately. New moves by ORDS in postpay will hurt further. VFQS has seen good traction from the recently introduced Red plan offering 10GB local internet, unlimited local calls/SMS for QR250/month. However, competition’s move to cut postpay pricing by 30% (QR55/month and above for one year) could impact ARPUs further.
- **Recommendation and valuation: We rate VFQS a Reduce with a QR14.60 price target.** The stock continues to benefit from buying appetite fueled by VFQS’ transformation into a Shari’ah-compliant business. However, VFQS remains expensive at almost 16x FY2018e EV/EBITDA.

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

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