

## Vodafone Qatar (VFQS)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR8.29	Current Target Price	QR8.50
Implied Upside	2.5%		

### 4Q2018 Preview: Seasonality Should Help; Market Perform

We expect VFQS to report an overall strong 4Q2018; possible resumption of dividends could be a positive. We continue to like the company's momentum in postpaid (3Q2018 revenue up 36% YoY driven by subs increasing 24% and ARPU growing 8%) fueled by traction in Flex, Red and enterprise plans. With control moving to Qatar Foundation (50% owner), we expect traction in the postpaid segment to continue, along with a renewed push into fixed-line services. Moreover, we continue to forecast a resumption in dividends in 2018 after an almost 4-year hiatus; indeed our 2018 DPS forecast of QR0.10 a share could prove to be conservative. Despite these positive moves, profitability metrics remain subdued with ROIC to remain below WACC until at least CY2023. VFQS trades at 10.5x and 8.7x CY2019 and CY2020 EV/EBITDA, respectively, which is markedly more expensive than peers. We maintain our rating/PT of Market Perform/QR8.50 given expensive valuation.

#### Highlights

- **VFQS should continue its trend of positive earnings in 4Q2018.** Our forecasts are in-line with management's 2018 guidance. Revenue should grow 1% YoY and 12% QoQ, with the sequential boost driven by seasonality and handset sales. Profitability YoY continues to benefit from favorable license amortization costs comparison with VFQS' license extension for an additional 40 years (until 2068) helping reduce annual license amortization costs from QR403mn to QR84mn. Sequentially, earnings growth is helped by the top-line. In terms of dividends, we continue to forecast a resumption in dividends in 2018; our forecast of QR0.10 a share could prove to be conservative.
- **We project revenue/EBITDA/net income of QR2.1bn/QR582mn/QR114mn for 2018.** Our forecasts are in-line with management guidance.
- **For 2019, we expect earnings to almost double to QR224mn driven by revenue growth and margin expansion.** We also project revenue/EBITDA of QR2.3bn/QR707mn, which imply increases of 9% and 22%, respectively. We expect EBITDA margins to expand from 28.0% in 2018 to 31.1% in 2019. We also expect capex intensity to decrease from 22.0% in 2018 to 20.8% in 2019. Finally, we project DPS of QR0.25 in 2019.

#### Catalysts

- **With QF assuming majority ownership of VFQS, we expect increased traction in higher-value mobile segments and fixed broadband.** However, this effect is hard to quantify. Moreover, we are not convinced if VFQS could ever reach the scale to sport EBITDA margins in the mid-40s range (In 2Q2018, ORDS reported 53% EBITDA margins at a QR2bn quarterly revenue run-rate).

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate VFQS a Market Perform with a PT of QR8.50.** VFQS trades at 10.5x and 8.7x CY2019 and CY2020 EV/EBITDA, respectively, which is significantly more expensive than its regional peers.
- **Risks: 1) Increased competition** leading to ARPU erosion and/or market share loss; **2) Weakening of postpaid and fixed-line** traction/stickiness and **3) Fall in population/industry growth** rates.

#### Key Financial Data and Estimates

	CY2017	CY2018e	CY2019e	CY2020e
Revenue (QR mn)	1,998	2,076	2,271	2,464
EPS (QR)	(0.30)	0.14	0.26	0.40
EV/EBITDA	14.2x	13.0x	10.5x	8.7x
Dividend Yield		1.2%	3.0%	4.2%

Source: Company data, QNB FS estimates; Note: All data based on current number of shares

#### Key Data

Bloomberg Ticker	VFQS QD
ADR/GDR Ticker	N/A
Reuters Ticker	VFQS.QA
ISIN	QA000A0Q5NE9
Sector	Telecoms
52wk High/52wk Low (QR)	9.76/6.80
3-m Avg. Volume ('000)	574.6
Mkt. Cap. (\$ bn/QR bn)	1.9/7.0
EV (\$ bn/QR bn)	2.1/7.5
Shares Outstanding (mn)	845.4
FO Limit* (%)	49.0
Current FO* (%)	6.3
1-Year Total Return (%)	19.3
Fiscal Year End	December 31

Source: Bloomberg (as of February 6, 2019), \*Qatar Exchange (as of February 6, 2019); Note: FO is foreign ownership

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## 4Q2018 Preview

### QNB FS Estimates and Comparisons

In QR mn	4QCY18 E	4QCY17	3QCY18	YoY	QoQ	CY2018 E	CY2017	YoY
Subscribers (000)	1,400	1,390	1,381	1%	1%	1,400	1,390	1%
ARPU (QR)	103	105	103	-2%	0%	104	100	4%
Revenue	541.1	535.8	483.6	1%	12%	2,075.9	1,998.4	4%
Gross Profit (Loss)	343.1	343.6	313.3	0%	10%	1,307.8	1,279.4	2%
EBITDA	156.4	171.0	141.8	-9%	10%	581.9	538.3	8%
Operating Profit (Loss) - EBIT	52.1	(18.4)	37.5	N/M	39%	158.4	(224.2)	N/M
Net Profit (Loss)	38.8	(28.6)	26.7	N/M	45%	114.2	(256.4)	N/M
EPS (QR)	0.05	(0.03)	0.03	N/M	45%	0.14	(0.30)	N/M
DPS (QR)						0.10	0.00	N/M
Gross Margin	63.4%	64.1%	64.8%			63.0%	64.0%	
EBITDA Margin	28.9%	31.9%	29.3%			28.0%	26.9%	
EBIT Margin	9.6%	-3.4%	7.8%			7.6%	-11.2%	
Net Margin	7.2%	-5.3%	5.5%			5.5%	-12.8%	
Depreciation and Amortization	104.3	189.4	104.3	-45%	0%	423.5	762.5	-44%

Source: Company data, QNB FS estimates

## Ratio Analysis

### Key Ratios and Valuation Metrics

Growth Rates	FY2017	CY2017	CY2018E	CY2019E	CY2020E	CY2021E	CY2022E	CY2023E
Revenue	-2.9%	-2.9%	3.9%	9.4%	8.5%	4.4%	2.9%	2.2%
Gross Profit	11.4%	1.3%	2.2%	12.0%	11.0%	6.0%	4.4%	3.0%
EBIT	41.4%	33.5%	N/M	83.1%	45.1%	20.9%	13.1%	8.5%
EBITDA	33.8%	16.0%	8.1%	21.5%	18.5%	10.5%	7.2%	4.9%
Net Income	42.2%	31.6%	N/M	95.9%	50.0%	23.4%	16.0%	11.7%
DPS				150.0%	40.0%	14.3%	12.5%	11.1%
CFPS	39.0%	29.6%	12.8%	34.4%	9.9%	10.0%	4.7%	3.4%
FCPS	165.9%	158.8%	-16.3%	163.3%	26.9%	29.2%	22.8%	9.4%

Operating Ratios								
Gross Margin	64.1%	64.0%	63.0%	64.5%	66.0%	67.0%	68.0%	68.5%
EBIT Margin	(11.8%)	(11.2%)	7.6%	12.8%	17.1%	19.8%	21.7%	23.1%
EBITDA Margin	26.1%	26.9%	28.0%	31.1%	34.0%	36.0%	37.5%	38.5%
Net Margin	(13.1%)	(12.8%)	5.5%	9.9%	13.6%	16.1%	18.1%	19.8%
Capex Intensity	15.1%	18.4%	22.0%	20.8%	19.2%	17.6%	14.8%	13.7%

Finance Ratios								
Debt - Equity Ratio	20.3%	18.3%	18.0%	15.0%	14.6%	14.3%	9.4%	3.1%
Net Debt - Equity Ratio	16.7%	13.9%	11.9%	8.4%	6.2%	3.8%	0.2%	(3.8%)
Net Debt-to-Capital	14.3%	12.2%	10.7%	7.8%	5.9%	3.7%	0.2%	(3.9%)
Cash Interest Coverage	19.0x	18.1x	16.8x	17.6x	19.6x	21.7x	27.9x	54.2x
Ave. Effective Borrowing rate %	3.0%	3.6%	4.2%	5.7%	6.0%	6.0%	7.5%	11.8%

Return Ratios								
ROIC	(4.3%)	(4.2%)	2.7%	4.8%	6.7%	8.0%	9.1%	10.2%
ROE	(5.8%)	(5.7%)	2.5%	4.7%	6.9%	8.4%	9.5%	10.3%
ROA	(4.1%)	(4.1%)	1.8%	3.4%	5.0%	6.1%	7.1%	8.1%
Dividend Payout %			74.0%	94.5%	88.2%	81.7%	79.2%	78.8%

Valuation								
EV/Sales	3.8x	3.8x	3.6x	3.3x	3.0x	2.8x	2.7x	2.5x
EV/EBITDA	14.5x	14.2x	13.0x	10.5x	8.7x	7.8x	7.1x	6.5x
EV/EBIT	N/M	N/M	47.7x	25.5x	17.4x	14.2x	12.2x	10.9x
P/E	N/M	N/M	61.4x	31.3x	20.9x	16.9x	14.6x	13.1x
P/BV	1.5x	1.6x	1.5x	1.5x	1.4x	1.4x	1.4x	1.3x
Dividend Yield	0.0%	0.0%	1.2%	3.0%	4.2%	4.8%	5.4%	6.0%

Liquidity Ratios								
Current Ratio	0.7x	0.7x	0.8x	0.8x	0.9x	1.0x	0.9x	0.8x
Quick Ratio	0.6x	0.6x	0.8x	0.8x	0.9x	1.0x	0.9x	0.8x

Source: Company data, QNB FS estimates

## Detailed Financial Statements

Income Statement (In QR mn)	FY2016	FY2017	CY2017	CY2018e	CY2019e	CY2020e	CY2021e	CY2022e
<b>Revenue</b>	<b>2,119</b>	<b>2,059</b>	<b>1,998</b>	<b>2,076</b>	<b>2,271</b>	<b>2,464</b>	<b>2,572</b>	<b>2,647</b>
Direct Costs	(935)	(740)	(719)	(768)	(806)	(838)	(849)	(847)
<b>Gross Profit</b>	<b>1,184</b>	<b>1,319</b>	<b>1,279</b>	<b>1,308</b>	<b>1,465</b>	<b>1,626</b>	<b>1,723</b>	<b>1,800</b>
Other Expenses, Excluding D&A	(784)	(782)	(741)	(726)	(758)	(789)	(797)	(807)
<b>EBITDA</b>	<b>401</b>	<b>537</b>	<b>538</b>	<b>582</b>	<b>707</b>	<b>838</b>	<b>926</b>	<b>993</b>
Depreciation & Amortization	(816)	(780)	(762)	(423)	(417)	(417)	(417)	(417)
<b>EBIT</b>	<b>(415)</b>	<b>(243)</b>	<b>(224)</b>	<b>158</b>	<b>290</b>	<b>421</b>	<b>509</b>	<b>575</b>
Interest Income	0	2	2	5	6	5	7	9
Interest Expense	(19)	(28)	(30)	(35)	(40)	(43)	(43)	(36)
Other Income/Expense	(32)	(0)	(4)	(14)	(32)	(48)	(59)	(69)
<b>Profit Before Tax</b>	<b>(466)</b>	<b>(269)</b>	<b>(256)</b>	<b>114</b>	<b>224</b>	<b>336</b>	<b>414</b>	<b>480</b>
Income Tax Expense								
<b>Profit for Shareholders</b>	<b>(466)</b>	<b>(269)</b>	<b>(256)</b>	<b>114</b>	<b>224</b>	<b>336</b>	<b>414</b>	<b>480</b>
<b>EPS (QR)</b>	<b>(0.55)</b>	<b>(0.32)</b>	<b>(0.30)</b>	<b>0.14</b>	<b>0.26</b>	<b>0.40</b>	<b>0.49</b>	<b>0.57</b>
<b>DPS (QR)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.10</b>	<b>0.25</b>	<b>0.35</b>	<b>0.40</b>	<b>0.45</b>

Source: Company data, QNB FS estimates

## Detailed Financial Statements

Balance Sheet (In QR mn)	FY2016	FY2017	CY2017	CY2018e	CY2019e	CY2020e	CY2021e	CY2022e
<b>Non-Current Assets</b>								
Property, Plant and Equipment	1,249	1,233	1,202	1,331	1,481	1,631	1,761	1,831
Intangible Assets	5,235	4,782	4,461	4,366	4,270	4,175	4,079	3,984
Trade and Other Receivables	34	25	25	30	34	37	38	39
<b>Total Non-Current Assets</b>	<b>6,518</b>	<b>6,040</b>	<b>5,688</b>	<b>5,726</b>	<b>5,785</b>	<b>5,842</b>	<b>5,879</b>	<b>5,855</b>
<b>Current Assets</b>								
Inventory	13	13	36	15	17	17	18	19
Trade and Other Receivables	330	357	302	336	377	393	418	434
Cash and Cash Equivalents	130	169	199	280	311	406	518	464
<b>Total Current Assets</b>	<b>474</b>	<b>539</b>	<b>536</b>	<b>631</b>	<b>705</b>	<b>817</b>	<b>955</b>	<b>917</b>
<b>Total Assets</b>	<b>6,992</b>	<b>6,579</b>	<b>6,225</b>	<b>6,357</b>	<b>6,490</b>	<b>6,659</b>	<b>6,834</b>	<b>6,772</b>
<b>Equity</b>								
<b>Total Equity</b>	<b>4,923</b>	<b>4,654</b>	<b>4,472</b>	<b>4,586</b>	<b>4,719</b>	<b>4,835</b>	<b>4,943</b>	<b>5,073</b>
<b>Non-Current Liabilities</b>								
Trade and Other Payables	48	50	52	60	68	74	77	79
Provisions	62	114	105	108	123	134	139	143
Long-Term Borrowings	1,023	946	818	827	708	708	708	474
<b>Total Non-Current Liabilities</b>	<b>1,132</b>	<b>1,110</b>	<b>976</b>	<b>995</b>	<b>899</b>	<b>915</b>	<b>924</b>	<b>697</b>
<b>Current Liabilities</b>								
Trade and Other Payables	937	816	777	776	872	909	967	1,002
Short-Term Borrowings	0	0	0	0	0	0	0	0
<b>Total Current Liabilities</b>	<b>937</b>	<b>816</b>	<b>777</b>	<b>776</b>	<b>872</b>	<b>909</b>	<b>967</b>	<b>1,002</b>
<b>Total Liabilities</b>	<b>2,069</b>	<b>1,925</b>	<b>1,753</b>	<b>1,771</b>	<b>1,770</b>	<b>1,824</b>	<b>1,891</b>	<b>1,699</b>
<b>Equity and Liabilities</b>	<b>6,992</b>	<b>6,579</b>	<b>6,225</b>	<b>6,357</b>	<b>6,490</b>	<b>6,659</b>	<b>6,834</b>	<b>6,772</b>

Source: Company data, QNB FS estimates

### Recommendations

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

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

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

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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