

VFQS Alert – 2Q2018 Beats Expectations; Maintain Market Perform

- **VFQS posts net profit of QR31.25mn in 2Q2018, beating our estimate** – Vodafone Qatar (VFQS) reported net profit of QR31.25mn in 2Q2018, as compared to a net loss of QR57.14mn in 2Q2017 and a net profit of QR17.46mn in 1Q2018, beating our estimate of QR13.46mn. 2Q2018 EPS amounted to QR0.04 (QR0.06 in 1H2018) as compared to a loss per share of QR0.07 in June 2017 (loss of QR0.16 in 1H2017).
- **Revenue comes broadly in-line with the earnings beat stemming from better cost management.** The company's revenue came in at QR519.33mn in 2Q2018 (in-line with our estimate of QR513.05mn), which represents an increase of 0.7% YoY. However, on a QoQ basis, revenue declined 2.4%.
- **Another strong performance on the ARPU front but lower-than-expected subs keeps 2Q2018 revenue broadly in-line with our estimate.** While we were expecting sequentially flattish subs at 1.41mn, VFQS reported 1.39mn customers, with a decline of 1.4% compared to March 2018, due to the holiday period; the company posted 1.464mn customers in June 2017. According to the press release, postpaid customers grew 22.3% YoY, given continued traction with several plans and the popularity of the FLEX, Red and Enterprise plans. We were expecting 20.8% YoY growth in postpaid subs and believe the increased mix of higher-value postpaid customers drove up the ARPU 6.2% or QR7 YoY to QR108 vs. our estimate of QR102
- **Reported EBITDA margin also improved 3.4 percentage points QoQ and stood at 28.7% in 2Q2018 vs. our estimate of 25.7%.** 2Q2017 reported EBITDA margin came in at 26.9%. The beat was primarily due to lower direct costs with GMs expanding to 63.3% in 2Q2018 vs. our estimate of 61.0% and 2Q2017 GMs of 64.7% (60.7% in 1Q2018). Depreciation and amortization for 2Q2018 at QR105.87mn was also 4.2% lower than our estimate of QR110.5mn; D&A was QR108.99mn in 1Q2018 and QR188.30mn in 2Q2017. As previously disclosed, the significant YoY reduction in amortization stems from VFQS' license extension for an additional 40 years until 2068, which helps reduce annual amortization costs from QR403mn to QR85mn ensuring sustained bottom-line profitability going forward.
- **Maintain Market Perform and price target of QR8.50.** With majority control moving to Qatar Foundation (50% owner), we expect traction in the post-paid segment to continue, along with a renewed push into fixed-line services. We continue to forecast resumption in dividends in 2018 after an almost 4-year hiatus. Despite these positive moves, profitability metrics remain subdued with ROIC to remain below WACC until at least CY2023. VFQS trades at 15x and 12x CY2018 and CY2019 EV/EBITDA, respectively, which is significantly more expensive than its regional peers. We maintain our Market Perform and QR8.50 price target on VFQS.

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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