

Vodafone Qatar (VFQS)

Recommendation	UNDERPERFORM	Risk Rating	R-4
Share Price	QR11.50	Current Target Price	QR8.10
Implied Upside	(29.6%)	Old Target Price	QR9.30

In-Line 1Q But Weak Fundamentals; Lowering to Underperform

We have reduced our price target for VFQS to QR8.10 a share and move to an Underperform rating. Our previous recommendation was Reduce. Key metrics remain weak across the board and the stock remains expensive. We would need to see evidence of a recovery to become more constructive on the name.

Highlights

- **VFQS reports net loss of QR99.6mn in 1QFY2017 (June 2016 quarter), which was in-line with our estimate.** Vodafone Qatar (VFQS) reported a lower net loss of QR99.6mn in 1QFY2017 as compared to a net loss of QR180.1mn in 4QFY2016 (flat YoY) and in-line with our estimated net loss of QR101.2mn. The company's revenue declined 3.0% QoQ and 7.0% YoY to QR500.5mn, in-line with our estimate of QR512.8mn (variation of -2%). EBITDA surged 71.6% QoQ to QR100.1mn in 1QFY2017. However, on YoY basis, it declined 9.1%.
- **ARPU improved marginally but outlook remains soft.** On a blended basis, VFQS reported mobile quarterly ARPU of QR101 vs. QR99 in March 2016, still around 25% below levels reached about two years ago despite an increasing mix of postpay in the business. Mobile ARPU remains well below Ooredoo's QR120. Continued competitive pressure could lead to further ARPU erosion with VFQS' prepaid ARPU around 20% higher than ORDS; but on the positive side, the closing of the postpay gap could boost ARPU/profitability as VFQS's postpaid ARPU remains almost 50% below ORDS. We project flattish ARPUs for the remaining of the year mindful of a potential shift in the population mix. We do note in June 2016 prepaid revenue grew 2.4% QoQ after eight quarters of decline.
- **Mobile customers decline sequentially by 5.8% due to the prepaid segment; we expect modest growth trends.** Prepaid subscribers (84% of the sub. base) saw a QoQ decline of 6.8% due to one-time customer base clean-up and increase in SIM pricing. Postpaid customers were marginally lower for the quarter with growth from the newly launched connect plan offset by lower data plan customers. We expect moderate sequential growth for the remainder of FY2017.
- **Our forecasts continue to reflect challenging fundamentals.** We now expect VFQS to post EBITDA of QR467mn for FY2017 and QR565mn for FY2018, implying another two years for the company to get back to its FY2015 EBITDA level.

Catalysts

- **Improvement in KPIs, including a resumption in profitability, remain as potential catalysts.** Mobile network improvements and growth in data services, along with focus on higher-value segments such as mobile postpaid, enterprise and eventually nationwide fixed-line, should drive the next leg of growth.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate VFQS an Underperform with a price target of QR8.10.** The stock is trading at 17.9x FY2018e EV/EBITDA.
- **Risks: Regional markets remain in a free fall given the decline in oil prices.** Specific risks to VFQS include: 1) resumption of market share loss to ORDS (seen recently during Sep. 2014 to June 2015 and again in June 2016); 2) ARPU pressure; 3) Lack of postpay traction/stickiness and 4) Continued lack of clarity on nationwide fixed line.

Key Financial Data and Estimates

	FY2015	FY2016	FY2017e	FY2018e
Revenue (QR mn)	2,307	2,119	2,098	2,261
Revenue Growth	16.4%	-8.1%	-1.0%	7.8%
EPS (QR)	(0.26)	(0.55)	(0.41)	(0.25)
EV/EBITDA (x)	18.5	26.5	22.3	17.9
DPS (QR)	0.21	-	0.06	0.22
Dividend Yield	1.8%	0.0%	0.5%	1.9%

Source: Company data, QNBFS 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)	15.60/9.70
3-m Avg. Volume ('000)	647.1
Mkt. Cap. (\$ bn/QR bn)	2.7/9.7
Shares Outstanding (mn)	845.4
FO Limit* (%)	No Limit
Current FO* (%)	7.5
1-Year Total Return (%)	(24.6)
Fiscal Year End	March 31

Source: Bloomberg (as August 1, 2016), *Qatar Exchange (as of August 1, 2016); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (In QR mn)	FY2015	FY2016	FY2017e	FY2018e	FY2019e	FY2020e	FY2021e	FY2022e
Revenue	2,307	2,119	2,098	2,261	2,457	2,632	2,798	2,956
Direct Costs	(1,060)	(935)	(846)	(904)	(958)	(1,013)	(1,063)	(1,108)
Gross Profit	1,247	1,184	1,252	1,356	1,499	1,618	1,735	1,847
Other Expenses, Excluding D&A	(680)	(784)	(785)	(791)	(811)	(842)	(867)	(887)
EBITDA	567	401	467	565	688	776	867	961
Depreciation & Amortization	(752)	(816)	(790)	(749)	(769)	(787)	(784)	(786)
EBIT	(186)	(415)	(323)	(184)	(81)	(11)	84	175
Interest Income	0	0	2	3	5	7	10	12
Interest Expense	(19)	(19)	(26)	(26)	(26)	(26)	(26)	(26)
Other Income/Expense	(12)	(32)	0	0	0	0	0	0
Profit Before Tax	(216)	(466)	(348)	(207)	(103)	(30)	67	161
Income Tax Expense								
Profit for Shareholders	(216)	(466)	(348)	(207)	(103)	(30)	67	161
EPS (QR)	(0.26)	(0.55)	(0.41)	(0.25)	(0.12)	(0.04)	0.08	0.19
DPS (QR)	0.21	-	0.06	0.22	0.34	0.42	0.53	0.63

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2015	FY2016	FY2017e	FY2018e	FY2019e	FY2020e	FY2021e	FY2022e
Non-Current Assets								
Property, Plant and Equipment	1,322	1,249	1,159	1,084	1,001	913	826	738
Intangible Assets	5,709	5,235	4,754	4,285	3,815	3,345	2,875	2,406
Trade and Other Receivables	21	34	38	41	44	47	50	53
Total Non-Current Assets	7,052	6,518	5,951	5,409	4,860	4,305	3,751	3,197
Current Assets								
Inventory	27	13	8	8	9	9	10	11
Trade and Other Receivables	214	330	370	384	416	449	479	507
Cash and Cash Equivalents	151	130	328	641	959	1,257	1,577	1,898
Total Current Assets	392	474	706	1,033	1,384	1,715	2,066	2,415
Total Assets	7,444	6,992	6,657	6,442	6,244	6,020	5,817	5,612
Equity								
Total Equity	5,566	4,923	4,574	4,314	4,024	3,708	3,420	3,133
Non-Current Liabilities								
Trade and Other Payables	40	48	53	58	63	67	71	75
Provisions	43	62	63	68	74	79	84	89
Long-Term Borrowings	909	1,023	1,029	1,029	1,029	1,029	1,029	1,029
Total Non-Current Liabilities	993	1,132	1,146	1,155	1,166	1,175	1,184	1,193
Current Liabilities								
Trade and Other Payables	885	937	937	974	1,054	1,137	1,213	1,285
Short-Term Borrowings	0	0	0	0	0	0	0	0
Total Current Liabilities	885	937	937	974	1,054	1,137	1,213	1,285
Total Liabilities	1,878	2,069	2,083	2,128	2,219	2,312	2,397	2,479
Equity and Liabilities	7,444	6,992	6,657	6,442	6,244	6,020	5,817	5,612

Source: Company data, QNBFS 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

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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