

VFQS Alert – 4Q2020 Margins Drive Earnings Beat; Flat DPS; Stay Accumulate

- **VFQS' net profit jumps 65.6% YoY and 27.9% QoQ in 4Q2020 and exceeds our estimate – Vodafone Qatar's (VFQS) net profit of QR58.4mn in 4Q2020 beat our estimate of QR49.1mn by 19.0%. Quarterly revenue of QR588.1mn was moderately (-2.7%) below our estimate of QR604.1mn, increasing 2.9% YoY and 9.0% QoQ. The company reported mobile subs of 1.662mn, which was down 4.3% YoY and also modestly below our estimate. Total revenue for 2020 improved by 3.5% YoY to QR2.2bn helped by postpaid service revenue growth of 4.5% from QR1.0bn in 2019 to QR1.1bn in 2020; fixed broadband (GigaHome) also contributed to the growth in overall revenue.**
- **Reported 4Q2020 EBITDA margin of 36.8% improved vs. 4Q2019's 31.5% but eased off relative to 3Q2020's 37.4%. Quarterly EBITDA of QR216.7mn grew 20.2% YoY and 7.4% QoQ. Higher revenue, along with lower direct costs on a yearly basis, helped drive the improvement in EBITDA/EBITDA margins on a YoY basis. According to the company's press release, higher service revenue and continued costs optimization helped 2020 EBITDA margin reach an all-time high of 36.7%.**
- **DPS of QR0.05 was flat relative to 2019 and below our estimate of QR0.06. This implies a DY of 3.3% and a payout of 114.2%.**
- **Our view on the stock remains unchanged – we continue to like VFQS' momentum in postpaid and higher value-added services. Our LT thesis on VFQS remains intact – we continue to believe postpaid, 5G, home broadband, enterprise and bundled solutions should continue to drive future growth. We rate VFQS an Accumulate and will likely revise our QR1.40 price target upward.**

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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