

VFQS Alert – Higher Costs Dent 4Q2019 Earnings; In-line DPS; Accumulate

- **VFQS posts 16.8% YoY decrease but 16.1% QoQ increase in 4Q2019 net profit** – Vodafone Qatar's 4Q2019 earnings of QR35.3mn dipped below our estimate of QR47.6mn (variation of -26.0%). The company's 4Q2019 revenue of QR571.3mn (0.9% YoY, 16.4% QoQ), however, came in 8.6% higher than our forecast of QR525.9mn. 4Q2019 marked the 8th consecutive quarter of YoY growth in total revenue but VFQS continued its trend of reporting lower-than-expected quarterly earnings seen over 1Q2019-3Q2019. With total subs in-line (1.74mn) vs. our modeled estimate, the revenue beat stemmed from higher-than-expected handset and equipment revenue (generally lower-margin), followed by prepaid and postpaid revenue implying modest improvement in quarterly ARPUs. Reported 4Q2019 EBITDA margin of 31.5% in 4Q2019 improved vs. 4Q2018's 28.0% but dipped below both 3Q2019's 34.8% and our estimate of 35.7%. This, along with higher-than-expected depreciation and amortization expenses, explains the majority of the earnings miss (*detailed table on page 2*).
- **Total revenue grew 1.1% YoY to QR2.1bn in 2019, while earnings increased 22.0% to QR143.7mn.** Revenue growth dipped below guidance of 2.5-3.5% YoY growth. Service revenue grew by 2.4% to reach QR1.95bn. EBITDA for 2019 stood at QR709.0mn representing an increase of 21.4% compared to 2018 helped by higher service revenue, lower costs and adoption of IFRS 16. EBITDA margin improved by 5.6 percentage points from 27.8% in 2018 to reach 33.4% in 2019; management guidance was for EBITDA margin between 33.5-34.5%.
- **In-line DPS of QR0.05 implies 4.2% yield.** As expected VFQS proposed a flat DPS for 2019.
- **Our view on the stock remains unchanged – we continue to like the company's momentum in postpaid** (4Q2019 segment revenue up 21.6% YoY/5.8% QoQ). We also believe postpaid, 5G (more than 70% of Doha under coverage as of 3Q2019), home broadband, enterprise and bundled solutions should continue to drive future momentum. ***We rate VFQS an Accumulate with a QR1.40 price target.***

VFQS Alert – Higher Costs Dent 4Q2019 Earnings; In-line DPS; Accumulate

INCOME STATEMENT	4QCY18 A	3QCY19 A	4QCY19 A	4QCY19 E	A v E	YoY	QoQ
<i>(In QR mn Unless Specified)</i>							
Revenue	566.270 ▼	490.976	571.337	525.923	8.6%	0.9%	16.4%
Direct Costs (Interconnection & Other Opex)	(214.738) ▼	(172.273)	(230.215)	(183.021)	25.8%	7.2%	33.6%
<i>as a % of Total Revenue (%)</i>	37.9%	35.1%	40.3%	34.8%			
Gross Profit (Loss)	351.532	318.703	341.122	342.902	-0.5%	-3.0%	7.0%
<i>Gross Margin (%)</i>	62.1%	64.9%	59.7%	65.2%			
Other Expenses (Employee and Other Expenses)	(192.790) ▼	(147.845)	(160.881)	(155.000)	3.8%	-16.6%	8.8%
<i>as a % of Total Revenue (%)</i>	34.0%	30.1%	28.2%	29.5%			
Depreciation and Amortization	(105.943)	(120.501)	(125.352)	(120.172)	4.3%	18.3%	4.0%
Total Operating Expenses	(298.733)	(268.346)	(286.233)	(275.172)	4.0%	-4.2%	6.7%
EBITDA	158.742	170.858	180.241	187.902	-4.1%	13.5%	5.5%
<i>EBITDA Margin (%)</i> ▼	28.0% ▼	34.8% ▼	31.5% ▼	35.7%			
Operating Profit (Loss) - EBIT	52.799	50.357	54.889	67.730	-19.0%	4.0%	9.0%
<i>EBIT Margin (%)</i>	9.3%	10.3%	9.6%	12.9%			
Interest Income	2.255	0.708	1.416	0.837	69.2%	-37.2%	100.0%
Interest Expense/Lease Interest Expense	(9.729)	(16.232)	(16.289)	(16.232)	0.4%	67.4%	0.4%
Other Income/Expense	(2.958)	(4.477)	(4.766)	(4.710)	1.2%	61.1%	6.5%
Profit (Loss) Before Tax	42.367	30.356	35.250	47.625	-26.0%	-16.8%	16.1%
Net Profit (loss) - Adjusted	42.367	30.356	35.250	47.625	-26.0%	-16.8%	16.1%
<i>Net Margin (%)</i>	7.5%	6.2%	6.2%	9.1%			
EPS (QR)	0.01	0.01	0.01	0.01	-26.0%	-16.8%	16.1%

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

Saugata Sarkar, CFA, CAIA
Head of Research
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Mehmet Aksoy, PhD
Senior Research Analyst
+974 4476 6589
mehmet.aksoy@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
+974 4476 6509
shahan.keushgerian@qnbfs.com.qa

Zaid Al Nafsoosi, CMT, CFTe
Senior Research Analyst
+974 4476 6535
zaid.alnafsoosi@qnbfs.com.qa

DISCLAIMER: This publication has been prepared by QNB Financial Services Co. WLL ("QNB FS") a wholly-owned subsidiary of Qatar National Bank ("Q.P.S.C."). QNB FS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNB FS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNB FS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNB FS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. QNB FS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report.

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNB FS.