

## Vodafone Qatar (VFQS)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR7.70	Current Target Price	QR8.50
Implied Upside	10.4%		

### Updating Estimates; Stay Market Perform Given Valuation

*We are tweaking our estimates but retaining our Market Perform rating and QR8.50 price target on VFQS. Our estimate revisions are marginal and include the impact of IFRS 16. Our view on the stock remains unchanged – we continue to like the company's momentum in postpaid (4Q2018 revenue up 21% YoY, excluding a one-off in 4Q2017, driven by subs increasing 24% offsetting a moderate 3% decline in ARPU) 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. Despite these positive moves, profitability metrics remain subdued with ROIC to remain below WACC until at least CY2023. VFQS trades at 9.0x and 7.6x CY2019 and CY2020 EV/EBITDA, respectively, which is markedly more expensive than its peers. We maintain our rating/PT of Market Perform/QR8.50 given rich valuation.*

#### Highlights

- Revenue, margins and earnings should continue their growth trajectory.** For 2019, we still expect earnings to almost double to QR216mn (previous estimate: QR224mn) driven by revenue growth and margin expansion. We also project revenue/EBITDA of QR2.3bn/QR783mn, which imply increases of 7% and 34%, respectively; our previous revenue/EBITDA estimates for 2019 were QR2.3bn/QR707mn. We expect EBITDA margins to expand from 28.0% in 2018 to 35% in 2019 (previous estimate: 31%). We note we have not materially changed our EBITDA estimates as our increase in EBITDA/EBITDA margin is mostly due to an accounting change, namely the adoption of IFRS 16 that is projected to increase EBITDA by QR80mn p.a. adding roughly 4pp to the EBITDA margin. However, net income is expected to decline by ~QR10mn due to the aforementioned accounting change partially driving our modestly lowered 2019 earnings forecast.
- Capital spending to remain elevated for the next couple of years potentially putting a lid on dividends in 2019.** VFQS declared a better-than-expected QR0.25 in DPS for 2018, paying almost its entire free cash flow of QR225mn. However we note, trade payables also increased significantly by QR183mn QoQ in 4Q2018 due to higher capex, which should be paid down back to normal levels by 2Q2019. Moreover, after capex of QR489mn (before disposals) which translated into a capex intensity of 23% in 2018, management is guiding to similar levels (very early 20% capex intensity) for the next couple of years. In light of this, our forecast for FCF is QR120mn for 2019, which could restricted DPS to around QR0.15 for 2019 before increasing to QR0.35 in 2020. VFQS also has its debt (a \$300mn Wakala contract with QR820mn outstanding) coming up for repayment in November 2019 but has secured long-term financing of QR911mn to settle this upcoming repayment.

#### Catalysts

- With QF assuming substantial ownership of VFQS, we expect increased traction in higher-value segments.**

#### Recommendation, Valuation and Risks

- Recommendation and valuation: We rate VFQS a Market Perform with a PT of QR8.50.** VFQS trades at 9.0x and 7.6x 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	CY2018	CY2019e	CY2020e
Revenue (QR mn)	1,998	2,101	2,258	2,424
EPS (QR)	(0.30)	0.14	0.26	0.38
EV/EBITDA	13.2x	11.9x	9.0x	7.6x
Dividend Yield		3.2%	1.9%	4.5%

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)	9.76/7.55
3-m Avg. Volume ('000)	554.6
Mkt. Cap. (\$ bn/QR bn)	1.9/7.0
EV (\$ bn/QR bn)	2.0/7.4
Shares Outstanding (mn)	845.4
FO Limit* (%)	49.0
Current FO* (%)	6.6
1-Year Total Return (%)	(11.2)
Fiscal Year End	December 31

Source: Bloomberg (as of April 10, 2019), \*Qatar Exchange (as of April 9, 2019); Note: FO is foreign ownership

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## Estimate Changes

### Key Forecast Revisions

	CY2019E			CY2020E			CY2021E			CY2022E			CY2023E		
	Current	Previous	▲	Current	Previous	▲	Current	Previous	▲	Current	Previous	▲	Current	Previous	▲
<b>Mobile Subscribers (in 000s)</b>															
Pre-Paid Subs*	1,360	1,100	24%	1,401	1,133	24%	1,428	1,148	24%	1,457	1,151	27%	1,486	1,152	29%
YoY Growth	33%	8%		3%	3%		2%	1%		2%	0%		2%	0%	
Post-Paid Subs	415	415	0%	436	436	0%	448	445	1%	459	449	2%	470	450	4%
YoY Growth	5%	5%		5%	5%		3%	2%		2%	1%		2%	0%	
<b>Total Mobile Subs*</b>	<b>1,775</b>	<b>1,515</b>	<b>17%</b>	<b>1,837</b>	<b>1,569</b>	<b>17%</b>	<b>1,876</b>	<b>1,593</b>	<b>18%</b>	<b>1,916</b>	<b>1,600</b>	<b>20%</b>	<b>1,956</b>	<b>1,602</b>	<b>22%</b>
YoY Growth	25%	7%		3%	4%		2%	2%		2%	0%		2%	0%	
<b>Mobile ARPU (in QR)</b>															
Pre-Paid ARPU*	54	71	-24%	55	71	-23%	56	72	-22%	57	73	-21%	58	74	-21%
YoY Growth	-22%	4%		3%	0%		2%	1%		2%	1%		2%	1%	
Post-Paid ARPU	210	210	0%	218	218	0%	225	222	1%	230	225	2%	235	228	3%
YoY Growth	5%	5%		4%	4%		3%	2%		2%	1%		2%	1%	
<b>Blended Mobile ARPU*</b>	<b>92</b>	<b>110</b>	<b>-16%</b>	<b>93</b>	<b>112</b>	<b>-16%</b>	<b>96</b>	<b>113</b>	<b>-15%</b>	<b>98</b>	<b>115</b>	<b>-15%</b>	<b>100</b>	<b>117</b>	<b>-14%</b>
YoY Growth	-12%	5%		2%	2%		3%	2%		2%	2%		2%	1%	
<b>Mobile Service Revenue (in QR mn)</b>															
Pre-Paid Service Revenue	851	878	-3%	911	951	-4%	951	979	-3%	987	1,000	-1%	1,024	1,016	1%
YoY Growth	0%	3%		7%	8%		4%	3%		4%	2%		4%	2%	
Post-Paid Service Revenue	1,013	1,005	1%	1,113	1,113	0%	1,193	1,173	2%	1,252	1,207	4%	1,307	1,230	6%
YoY Growth	20%	19%		10%	11%		7%	5%		5%	3%		4%	2%	
<b>Total Mobile Service Revenue</b>	<b>1,864</b>	<b>1,884</b>	<b>-1%</b>	<b>2,024</b>	<b>2,064</b>	<b>-2%</b>	<b>2,144</b>	<b>2,152</b>	<b>0%</b>	<b>2,238</b>	<b>2,207</b>	<b>1%</b>	<b>2,331</b>	<b>2,245</b>	<b>4%</b>
YoY Growth	10%	11%		9%	10%		6%	4%		4%	3%		4%	2%	
Other Service Revenue (Incl. Fixed)	227	227	0%	240	240	0%	260	260	0%	280	280	0%	300	300	0%
Other Revenue (Incl. Handsets)	167	160	5%	160	160	0%	160	160	0%	160	160	0%	160	160	0%
<b>Total Revenue (in QR mn)</b>	<b>2,258</b>	<b>2,271</b>	<b>-1%</b>	<b>2,424</b>	<b>2,464</b>	<b>-2%</b>	<b>2,564</b>	<b>2,572</b>	<b>0%</b>	<b>2,678</b>	<b>2,647</b>	<b>1%</b>	<b>2,791</b>	<b>2,705</b>	<b>3%</b>
YoY Growth	7%	8%		7%	9%		6%	4%		4%	3%		4%	2%	
<b>EBITDA (in QR mn)</b>															
EBITDA	783	707	11%	904	838	8%	1,008	926	9%	1,079	993	9%	1,125	1,042	8%
EBITDA Margin	35%	31%		37%	34%		39%	36%		40%	38%		40%	39%	
YoY Growth	34%	21%		15%	18%		11%	11%		7%	7%		4%	5%	
<b>Net Income (in QR mn)</b>															
Net Income	216	224	-4%	320	336	-5%	421	414	2%	502	480	5%	569	537	6%
Net Margin	10%	10%		13%	14%		16%	16%		19%	18%		20%	20%	
YoY Growth	83%	90%		48%	50%		31%	23%		19%	16%		13%	12%	
<b>Capex (in QR mn)</b>															
Capex	486	472	3%	486	472	3%	456	452	1%	416	392	6%	396	372	6%
Capex Intensity	22%	21%		20%	19%		18%	18%		16%	15%		14%	14%	
YoY Growth	-1%	-3%		0%	0%		-6%	-4%		-9%	-13%		-5%	-5%	
<b>Free Cash Flow (in QR mn)</b>															
Free Cash Flow	120	275	-56%	436	349	25%	563	451	25%	665	554	20%	721	606	19%
YoY Growth	-47%	22%		265%	27%		29%	29%		18%	23%		8%	9%	

Source: Company data, QNB FS estimates; Note: \* Effective January 1, 2019, VFQS adopted a new definition of prepaid subs aligning it more closely to customer definition of ITU and CRA, which would act to increase prepaid subs by ~300k lowering prepaid and overall blended ARPU

## Ratio Analysis

### Key Ratios and Valuation Metrics

Growth Rates	FY2017	CY2017	CY2018	CY2019E	CY2020E	CY2021E	CY2022E	CY2023E
Revenue	-2.9%	-2.9%	5.1%	7.5%	7.4%	5.8%	4.5%	4.2%
Gross Profit	11.4%	1.3%	2.9%	10.7%	9.8%	7.4%	6.0%	4.2%
EBIT	41.4%	33.5%	N/M	86.4%	40.8%	24.8%	13.8%	7.7%
EBITDA	33.8%	16.0%	8.5%	34.1%	15.4%	11.4%	7.1%	4.2%
Net Income	42.2%	31.6%	N/M	83.1%	48.5%	31.3%	19.3%	13.3%
DPS				-40.0%	133.3%	14.3%	12.5%	11.1%
CFPS	39.0%	29.6%	43.7%	-14.4%	52.3%	10.5%	6.1%	3.3%
FCPS	165.9%	158.8%	80.7%	-46.9%	264.8%	29.0%	18.2%	8.4%

### Operating Ratios

Gross Margin	64.1%	64.0%	62.6%	64.5%	66.0%	67.0%	68.0%	68.0%
EBIT Margin	(11.8%)	(11.2%)	7.6%	13.1%	17.2%	20.3%	22.1%	22.9%
EBITDA Margin	26.1%	26.9%	27.8%	34.7%	37.3%	39.3%	40.3%	40.3%
Net Margin	(13.1%)	(12.8%)	5.6%	9.6%	13.2%	16.4%	18.7%	20.4%
Capex Intensity	15.1%	18.4%	23.3%	21.5%	20.0%	17.8%	15.5%	14.2%

### Finance Ratios

Debt - Equity Ratio	20.3%	18.3%	17.9%	17.4%	16.7%	16.3%	10.5%	3.4%
Net Debt - Equity Ratio	16.7%	13.9%	9.1%	12.6%	7.1%	2.9%	(2.4%)	(8.2%)
Net Debt-to-Capital	14.3%	12.2%	8.4%	11.2%	6.6%	2.9%	(2.5%)	(8.9%)
Cash Interest Coverage	19.0x	18.1x	16.7x	11.8x	12.6x	14.0x	18.0x	35.2x
Ave. Effective Borrowing rate %	3.0%	3.6%	4.3%	8.3%	9.0%	9.0%	11.2%	18.0%

### Return Ratios

ROIC	(4.3%)	(4.2%)	2.9%	5.1%	6.9%	8.4%	9.7%	10.7%
ROE	(5.8%)	(5.7%)	2.6%	4.7%	6.7%	8.6%	9.9%	10.8%
ROA	(4.1%)	(4.1%)	1.8%	3.4%	4.9%	6.2%	7.5%	8.6%
Dividend Payout %			179.4%	58.8%	92.4%	80.4%	75.8%	74.3%

### Valuation

EV/Sales	3.5x	3.6x	3.3x	3.1x	2.8x	2.6x	2.4x	2.2x
EV/EBITDA	13.6x	13.2x	11.9x	9.0x	7.6x	6.6x	5.9x	5.4x
EV/EBIT	N/M	N/M	43.6x	23.9x	16.4x	12.8x	10.8x	9.5x
P/E	N/M	N/M	55.3x	30.2x	20.3x	15.5x	13.0x	11.4x
P/BV	1.4x	1.5x	1.4x	1.4x	1.4x	1.3x	1.3x	1.2x
Dividend Yield	0.0%	0.0%	3.2%	1.9%	4.5%	5.2%	5.8%	6.5%

### Liquidity Ratios

Current Ratio	0.7x	0.7x	0.4x	0.8x	1.0x	0.9x	0.8x	0.9x
Quick Ratio	0.6x	0.6x	0.4x	0.7x	1.0x	0.9x	0.8x	0.9x

Source: Company data, QNB FS estimates

## Detailed Financial Statements

Income Statement (In QR mn)	FY2017	CY2017	CY2018	CY2019e	CY2020e	CY2021e	CY2022e	CY2023e
<b>Revenue</b>	<b>2,059</b>	<b>1,998</b>	<b>2,101</b>	<b>2,258</b>	<b>2,424</b>	<b>2,564</b>	<b>2,678</b>	<b>2,791</b>
Direct Costs	(740)	(719)	(785)	(801)	(824)	(846)	(857)	(893)
<b>Gross Profit</b>	<b>1,319</b>	<b>1,279</b>	<b>1,316</b>	<b>1,457</b>	<b>1,600</b>	<b>1,718</b>	<b>1,821</b>	<b>1,898</b>
Other Expenses, Excluding D&A	(782)	(741)	(732)	(673)	(696)	(710)	(742)	(773)
<b>EBITDA</b>	<b>537</b>	<b>538</b>	<b>584</b>	<b>783</b>	<b>904</b>	<b>1,008</b>	<b>1,079</b>	<b>1,125</b>
Depreciation & Amortization	(780)	(762)	(425)	(487)	(487)	(487)	(487)	(487)
<b>EBIT</b>	<b>(243)</b>	<b>(224)</b>	<b>159</b>	<b>296</b>	<b>417</b>	<b>521</b>	<b>593</b>	<b>638</b>
Interest Income	2	2	5	7	6	13	19	19
Interest Expense	(28)	(30)	(35)	(67)	(72)	(72)	(60)	(32)
Other Income/Expense	(0)	(4)	(12)	(21)	(32)	(42)	(50)	(56)
Profit Before Tax	(269)	(256)	118	216	320	421	502	569
Income Tax Expense								
<b>Profit for Shareholders</b>	<b>(269)</b>	<b>(256)</b>	<b>118</b>	<b>216</b>	<b>320</b>	<b>421</b>	<b>502</b>	<b>569</b>
<b>EPS (QR)</b>	<b>(0.32)</b>	<b>(0.30)</b>	<b>0.14</b>	<b>0.26</b>	<b>0.38</b>	<b>0.50</b>	<b>0.59</b>	<b>0.67</b>
<b>DPS (QR)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.25</b>	<b>0.15</b>	<b>0.35</b>	<b>0.40</b>	<b>0.45</b>	<b>0.50</b>

Source: Company data, QNB FS estimates

## Detailed Financial Statements

Balance Sheet (In QR mn)	FY2017	CY2017	CY2018	CY2019e	CY2020e	CY2021e	CY2022e	CY2023e
<b>Non-Current Assets</b>								
Property, Plant and Equipment	1,233	1,202	1,292	1,360	1,427	1,464	1,461	1,438
Intangible Assets	4,782	4,461	4,428	4,360	4,292	4,224	4,156	4,088
Trade and Other Receivables	25	25	26	27	29	31	32	34
<b>Total Non-Current Assets</b>	<b>6,040</b>	<b>5,688</b>	<b>5,746</b>	<b>5,748</b>	<b>5,749</b>	<b>5,720</b>	<b>5,650</b>	<b>5,561</b>
<b>Current Assets</b>								
Inventory	13	36	35	39	40	43	45	47
Contract Assets & Costs			31	31	31	31	31	31
Trade and Other Receivables	357	302	269	296	307	327	344	359
Cash and Cash Equivalents	169	199	401	223	461	656	656	610
<b>Total Current Assets</b>	<b>539</b>	<b>536</b>	<b>736</b>	<b>589</b>	<b>839</b>	<b>1,057</b>	<b>1,076</b>	<b>1,047</b>
<b>Total Assets</b>	<b>6,579</b>	<b>6,225</b>	<b>6,483</b>	<b>6,337</b>	<b>6,588</b>	<b>6,776</b>	<b>6,726</b>	<b>6,607</b>
<b>Equity</b>								
<b>Total Equity</b>	<b>4,654</b>	<b>4,472</b>	<b>4,591</b>	<b>4,595</b>	<b>4,788</b>	<b>4,913</b>	<b>5,077</b>	<b>5,265</b>
<b>Non-Current Liabilities</b>								
Trade and Other Payables	50	52	53	57	61	65	68	71
Provisions	114	105	103	111	119	126	131	137
Long-Term Borrowings	946	818	0	800	800	533	178	0
<b>Total Non-Current Liabilities</b>	<b>1,110</b>	<b>976</b>	<b>156</b>	<b>968</b>	<b>980</b>	<b>724</b>	<b>377</b>	<b>207</b>
<b>Current Liabilities</b>								
Trade and Other Payables	816	777	916	774	819	873	917	957
Short-Term Borrowings	0	0	820	0	0	267	356	178
<b>Total Current Liabilities</b>	<b>816</b>	<b>777</b>	<b>1,736</b>	<b>774</b>	<b>819</b>	<b>1,140</b>	<b>1,273</b>	<b>1,135</b>
<b>Total Liabilities</b>	<b>1,925</b>	<b>1,753</b>	<b>1,892</b>	<b>1,742</b>	<b>1,799</b>	<b>1,863</b>	<b>1,650</b>	<b>1,342</b>
<b>Equity and Liabilities</b>	<b>6,579</b>	<b>6,225</b>	<b>6,483</b>	<b>6,337</b>	<b>6,588</b>	<b>6,776</b>	<b>6,726</b>	<b>6,607</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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