

QNBFS Alert – VFQS September Q In Line with QNBFS Est.; Growth Expected in 2H; Reduce with QR11 Price Target

- **Vodafone Qatar’s revenue/earnings bang in line with our estimate but miss consensus.** VFQS reported a net loss of QR113.6mn for the quarter ended September 2015, which included a QR10mn loss on property disposal. Excluding this item, net loss for the quarter came in at QR103.3mn, right in line with our estimate of QR102.2mn. Net loss, however, missed Bloomberg consensus (QR82mn). Reported revenue was also in line with our model at QR528.1mn (QNBFS estimate of QR532.3mn; Bloomberg mean of QR552.0mn).
- **Operating trends as expected.** ARPU for the quarter came in sequentially flat at QR111, with mobile subs at 1.486mn (~+5% QoQ). EBITDA margin for the quarter stood at 19.1% vs. QNBFS estimate of 19.2%. Quarterly mobile revenue market share finally improved sequentially to 29.6% (vs. 28.7% in the June quarter) after declining for the previous four quarters. More details on the results vs. our estimates/previous comparables are available on page 2.
- **2H guidance calls for improvement given traction in postpaid and relative stability in prepaid.** VFQS management witnessed positive trends in the September quarter and forecasts stronger results in 2HFY2016. Longer-term, the company also expects some regulatory relief on the fixed-line front. For FY2016, the company guided to QR2.2-2.24bn in revenue, which implies a 5-3% decline on a FY basis but a 6-10% increase over 1HFY2016. VFQS now expects an EBITDA margin of 23.5% for FY2016 (24.6% in FY2015 and 19.8% in 1HFY2016). Capex intensity is expected to come in at 17% for FY2016 vs. ~25% in FY2015.
- **Recommendation: We rate VFQS a Reduce with a QR11 price target.** 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.

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INCOME STATEMENT	Q2FY16 A	Q2FY16 E	A v E	QoQ	YoY
<i>(in QR mn unless specified)</i>					
Revenue	528.098	532.275	-0.8%	-1.8%	-5.6%
YoY growth (%)	-5.6%	-4.8%			
Direct Costs (Interconnection & Other Opex)	(238.002)	(239.524)	-0.6%	-0.6%	-4.3%
as a % of revenue (%)	45.1%	45.0%			
Gross Profit (Loss)	290.096	292.751	-0.9%	-2.8%	-6.5%
Gross Margin (%)	54.9%	55.0%			
Other Expenses (Employee and Other Expenses)	(189.417)	(190.554)	-0.6%	0.6%	8.5%
as a % of revenue (%)	35.9%	35.8%			
Depreciation and Amortization	(199.730)	(199.961)	-0.1%	1.0%	8.1%
Total Operating Expenses	(389.147)	(390.515)	-0.4%	0.8%	8.3%
EBITDA	100.679	102.197	-1.5%	-8.6%	-25.9%
EBITDA Margin (%)	19.1%	19.2%			
Operating Profit (Loss) - EBIT	(99.051)	(97.764)	1.3%	13.0%	102.4%
EBIT Margin (%)	-18.8%	-18.4%			
Interest Income	0.021	0.029	-27.1%	-8.7%	-44.7%
Interest Expense	(4.615)	(4.459)	3.5%	9.2%	-8.5%
Other Income/Expense	(10.0)	-	N/M	25.0%	-2599.0%
Net Profit (Loss)	(113.641)	(102.194)	11.2%	13.8%	112.3%

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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