

Vodafone Qatar (VFQS)

Recommendation	REDUCE	Risk Rating	R-4
Share Price	QR17.90	Current Target Price	QR14.60
Implied Upside	(18.4%)	Old Target Price	QR16.50

Lowering Price Target/Estimates; Switching to Reduce

Revising price target to QR14.60 from QR16.50 given model changes; lowering rating to Reduce from Market Perform in light of stock price strength.

Highlights

- Lowering our long-term revenue and profitability estimates:** Factoring in weaker-than-expected reported results for December 2014 given a persistently weak pricing environment, we have adjusted our model. Overall, we have lowered our FY2016-18e revenue estimates by an average of ~10%, while our EBITDA forecast has declined by an average of around 22%. We now expect EBITDA margins to grow to 31.0% by FY2018 versus 25.0% in FY2014 and an expected 23.7% in FY2015. We now expect the company to post a full year profit beginning in FY2018. In term of capex, we roughly maintain ~QR500mn for FY2015. We continue to expect the near-term peak in capex to be driven by 4G LTE along with ongoing network expansion and enhancements.
- For the March 2015 quarter, we expect slight sequential improvement; FY2015 dividends projected at QR0.20/share (1.1% yield).** During the December 2014 quarter, mobile ARPU witnessed a QoQ dip to QR120 vs. QR124 in 2QFY2015 and QR131 in 1QFY2015. VFQS management has noted that the company is facing significant pricing pressure, since June 2014, especially in the prepaid and international calling and data services. For 4QFY2015, we are projecting a sequentially flattish mobile ARPU along with a 2% QoQ growth in mobile subscribers to 1.45mn. Overall revenue should come in at QR611.8mn (+3% QoQ, +11% YoY), while net loss should dip to QR65.0mn vs. QR68.9mn in 3QFY2015 and QR32.7mn during the similar quarter in FY2014. EBITDA for the fourth quarter is modeled at QR135.3mn (22.1% margin) vs. QR125.8mn (21.3%) in the December 2014 quarter and QR152.6mn (27.7%) in 4QFY2014.

Catalysts

- Continued improvement in quarterly KPIs, including growing profitability, should act as catalysts; valuation remains expensive, however.** Mobile network improvements and growth in data services, along with focus on higher-value segments such as mobile postpaid, enterprise and nationwide fixed-line, should drive the next leg of growth. Prospects of higher dividends also remain a positive catalyst.

Recommendation, Valuation and Risks

- Recommendation and valuation: We rate VFQS a Reduce with a price target of QR14.60.** The stock continues to benefit from buying appetite fueled by the company's transformation into a fully Shari'ah-compliant business. However, the stock remains expensive at 16.2x FY2018e EV/EBITDA.
- Risks:** Declining oil prices remain a substantial risk to regional equity prices. Risks specific to VFQS include: 1) ARPU pressure due to promotional activity/unlicensed VoIP; 2) Lack of postpaid traction/stickiness and 3) Slow growth and penetration in fixed line.

Key Financial Data and Estimates

	FY2013	FY2014	FY2015e	FY2016e
Revenue (QR mn)	1,527	1,982	2,347	2,584
Revenue Growth	25.0%	29.8%	18.4%	10.1%
EPS (QR)	(0.47)	(0.29)	(0.25)	(0.18)
EV/EBITDA (x)	56.8	32.2	28.9	23.7
DPS (QR)		0.17	0.20	0.25
Dividend Yield		0.9%	1.1%	1.4%

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)	23.00/13.90
3-m Avg. Volume ('000)	2,053.6
Mkt. Cap. (\$ bn/QR bn)	4.2/15.1
Shares Outstanding (mn)	845.4
FO Limit* (%)	No Limit
Current FO* (%)	7.4
1-Year Total Return (%)	17.2
Fiscal Year End	March 31

Source: Bloomberg (as of April 16, 2015), *Qatar Exchange (as of April 16, 2015); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (In QR mn)	FY2013	FY2014	FY2015e	FY2016e	FY2017e	FY2018e	FY2019e	FY2020e
Revenue	1,527	1,982	2,347	2,584	2,831	3,069	3,261	3,449
Direct Costs	(689)	(872)	(1,100)	(1,156)	(1,203)	(1,274)	(1,337)	(1,380)
Gross Profit	837	1,110	1,248	1,428	1,628	1,795	1,924	2,069
Other Expenses, Excluding D&A	(553)	(613)	(692)	(758)	(793)	(844)	(897)	(948)
EBITDA	284	496	556	670	835	951	1,027	1,121
Depreciation & Amortization	(659)	(717)	(752)	(803)	(835)	(868)	(902)	(936)
EBIT	(375)	(220)	(196)	(133)	0	83	125	185
Interest Income	0	0	1	0	0	1	1	2
Interest Expense	(27)	(26)	(20)	(20)	(20)	(20)	(20)	(20)
Profit Before Tax	(401)	(246)	(215)	(153)	(19)	64	107	167
Income Tax Expense	0	0	0	0	0	0	0	0
Profit for Shareholders	(401)	(246)	(215)	(153)	(19)	64	107	167
EPS (QR)	(0.47)	(0.29)	(0.25)	(0.18)	(0.02)	0.08	0.13	0.20
DPS (QR)		0.17	0.20	0.25	0.40	0.45	0.50	0.55

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2013	FY2014	FY2015e	FY2016e	FY2017e	FY2018e	FY2019e	FY2020e
Non-Current Assets								
Property, Plant and Equipment	1,095	1,136	1,314	1,319	1,289	1,235	1,149	1,030
Intangible Assets	6,555	6,136	5,706	5,287	4,864	4,431	3,989	3,541
Trade and Other Receivables	11	9	24	24	24	24	24	24
Total Non-Current Assets	7,660	7,281	7,045	6,630	6,178	5,691	5,162	4,595
Current Assets								
Inventory	17	14	31	35	36	40	42	45
Trade and Other Receivables	218	304	285	315	330	360	386	409
Cash and Cash Equivalents	162	97	116	259	506	769	1,067	1,419
Total Current Assets	396	415	432	609	872	1,168	1,496	1,873
Total Assets	8,056	7,696	7,477	7,239	7,050	6,858	6,658	6,467
Equity								
Total Equity	6,172	5,926	5,566	5,245	5,014	4,740	4,466	4,210
Non-Current Liabilities								
Trade and Other Payables	37	41	41	41	41	41	41	41
Provisions	36	34	39	39	39	39	39	39
Long-Term Borrowings	1,160	951	1,033	1,033	1,033	1,033	1,033	1,033
Total Non-Current Liabilities	1,233	1,026	1,112	1,112	1,112	1,112	1,112	1,112
Current Liabilities								
Trade and Other Payables	651	744	798	881	924	1,006	1,080	1,144
Short-Term Borrowings	0	0	0	0	0	0	0	0
Total Current Liabilities	651	744	798	881	924	1,006	1,080	1,144
Total Liabilities	1,884	1,770	1,911	1,994	2,036	2,119	2,192	2,257
Equity and Liabilities	8,056	7,696	7,477	7,239	7,050	6,858	6,658	6,467

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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