

Vodafone Qatar (VFQS)

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	QR1.915	Target Price	QR2.070
Implied Upside	8.1%		

In-Line 4Q2023 As Revenue Upside Offset By Higher Costs; Accumulate

We maintain our Accumulate rating. VFQS reported an in-line 4Q2023 that was mostly unsurprising. Overall, VFQS continues to make progress in its growth & costs optimization initiatives – for 2023, the company posted revenue growth of 1.5% (6.1%, excl. the WC), an EBITDA increase of 4.2% and earnings growth of 7.5%. VFQS also declared a DPS of QR0.11 for 2023 that implies a decent yield of 5.7%. VFQS trades at EV/EBITDA multiples of 6.1x/5.7x for 2024/2025.

- **VFQS reported 4Q2023 net profit of QR147.9mn (-11.9% YoY, 11.8% QoQ) that was right in-line with our estimate of QR148.6mn (-0.5% divergence).** Revenue upside of 3.9% this quarter was offset by higher-than-expected cash interconnections & other direct costs and higher cash opex (network, employee and other opex). The better-than-expected top-line was mostly due to strength in lower-margin equipment sales (including related services & accessories) and upside from prepaid mobile service revenue. The company has not yet disclosed full details about ARPU/subs for postpaid/prepaid but overall subscribers of 2.15mn is lower than our estimate of 2.17mn, implying ARPU upside vs. our model.
- **Quarterly revenue of QR812.6mn (-8.7% YoY, 8.7% QoQ) came in 3.9% above our top-line forecast of QR782.0mn. (1) The non-mobile service segment** continues to benefit from traction in managed services from projects that commenced in 4Q2022, along with growth in IoT, wholesale, fixed and roaming revenue. This segment continues to impress, posting in-line 4Q2023 revenue of ~QR253mn (-1% YoY, 8% QoQ). **(2) Equipment revenue increased sequentially** to ~QR100mn (-26% YoY/39% QoQ), up 28% vs. our estimate of QR78mn. The YoY decline in equipment revenue was expected given the WC effect but the extent of the falloff was less than anticipated. As equipment sales are typically lower-margin, this did have an impact on lowering profitability in 4Q2023. **(3) We note that prepaid revenue posted its 4th consecutive quarter of a yearly decline**, down roughly 16% YoY but up 12% QoQ to ~QR136mn; segment revenue previously fell ~16%/~10%/~9% YoY in 3Q2023/2Q2023/1Q2023. Prepaid top-line, however, beat our estimate of QR124mn by 9%. During the 3Q2023 conference call, management pointed to a declining prepaid market in 9M2023 post the World Cup as certain sectors, mainly construction, came under pressure, along with persistent competitive pricing pressure. **(4) Finally, the postpaid business was almost in-line with our model** with revenue of ~QR324mn, down ~4% YoY but up 2% QoQ. Overall, as far as the mobility segment is concerned, the company remains positive going forward as VFQS expects project activity (especially related to O&G and the North Field, along with projects put on hold because of the World Cup) and population to bounce back helping boost the mobility segment. Moreover, the company expects major events, such as the AFC Asian Cup Qatar 2023, to help going forward
- **Costs optimization remains evident with VFQS reporting a healthy 4Q2023 EBITDA margin of 41.3% vs. 39.9% in 4Q2022 and 42.3% in 3Q2023.** We were modeling an EBITDA margin of 42.7%. Quarterly EBITDA of QR335.5mn fell 5.5% YoY but increased 6.2% QoQ and was modestly higher than our estimate of QR334.1mn given the top-line beat.
- **FY2023 net income expanded 7.5% from QR502.4mn (EPS: QR0.12) to QR540.0mn (EPS: QR0.13).** EBITDA expanded 4.2% from QR1,233.6mn in 2022 (EBITDA margin: 40.2%) to QR1,285.9mn in 2023 (41.3%). **The company declared a DPS of QR0.11 (DY: 5.7%) vs. QR0.10 in 2022 and our estimate of QR0.12.**
- **We will update our estimates shortly but our current 2024 earnings estimate of QR568.6mn (EPS: 0.13) implies a 5.3% growth and looks reasonable.**
- **We rate VFQS an Accumulate.** The company's longer-term growth prospects as a 2nd operator in a market of Qatar's size and dynamics (population size of 2.97mn in Dec. 2023, along with a mobile penetration of 154% as of Sep. 2023; VFQS already has revenue market share of 30.1% and sub. market share of 44.6% as of 3Q2023, with postpaid and prepaid market shares of 41.2% and 45.9%, respectively) is more of an open question. We believe there is room for improvement (as of 3Q2023, VFQS has an EBITDA margin of 42.3% vs. ORDS' 51.2%, an ARPU of QR70.3 vs. ORDS' QR104.2, along with 566K high-ARPU/margin postpaid customers relative to Ooredoo's 807K postpaid subs). As VFQS demonstrates progress in closing this gap beyond our expectations, the stock could benefit. With FCF yields growing from 4.3% in 2022 to 11.5% in 2027, we think there could be DPS upside.
- **Risks:** 1) Increased competition leading to ARPU erosion and/or market share loss; 2) Weakening of postpaid, broadband, fixed-line and managed services traction/stickiness and 3) Fall in population/industry growth rates.

Key Financial Data and Estimates

	CY2022	CY2023	CY2024e	CY2025e	CY2026e
EPS (QR)	0.12	0.13	0.13	0.14	0.15
EV/EBITDA	7.0x	6.5x	6.1x	5.7x	5.4x
Dividend Yield	5.2%	5.7%	6.3%	6.8%	7.3%

Source: Company data, QNB FS Research; Note: All data based on current number of shares

Key Data

Current Market Price (QR)	1.915
Dividend Yield (%)	5.7
Bloomberg Ticker	VFQS QD
ADR/GDR Ticker	N/A
Reuters Ticker	VFQS.QA
ISIN	QA000A0Q5NE9
Sector*	Telecoms
52wk High/52wk Low (QR)	1.950/1.566
3-m Average Volume (mn)	5.8
Mkt. Cap. (\$ bn/QR bn)	2.2/8.1
EV (\$ bn/QR bn)	2.3/8.4
Shares Outstanding (mn)	4,227.0
FO Limit* (%)	49.0
Institutional FO* (%)	7.8
1-Year Total Return (%)	14.9
Fiscal Year End	December 31

Source: Bloomberg (as of January 24, 2024), *Qatar Exchange (as of January 24, 2024); Note: FO is foreign ownership

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QNB FS 4Q2023 Estimates and Comparisons

INCOME STATEMENT		4QCY22 A	3QCY23 A	4QCY23 A	4QCY23 E	A Vs. E	YoY	QoQ
<i>(In QR mn Unless Specified)</i>								
Revenue		889.745	747.418	812.640	782.008	3.9%	-8.7%	8.7%
	<i>YoY Growth (%)</i>	14.0%	1.0%	-8.7%	-12.1%			
Direct Costs (Interconnection & Other Opex)		(314.577)	(253.050)	(287.530)	(267.383)	7.5%	-8.6%	13.6%
Gross Profit (Loss)		575.168	494.368	525.110	514.625	2.0%	-8.7%	6.2%
	<i>Gross Margin (%)</i>	64.6%	66.1%	64.6%	65.8%			
Operating Expenses (Network, Employee & Other Expenses)		(220.275)	(178.420)	(189.568)	(180.520)	5.0%	-13.9%	6.2%
Depreciation and Amortization		(157.803)	(156.475)	(157.779)	(156.429)	0.9%	0.0%	0.8%
EBITDA		354.893	315.948	335.542	334.105	0.4%	-5.5%	6.2%
	<i>EBITDA Margin (%)</i>	39.9%	42.3%	41.3%	42.7%			
Operating Profit (Loss) - EBIT		197.090	159.473	177.763	177.676	0.0%	-9.8%	11.5%
	<i>EBIT Margin (%)</i>	22.2%	21.3%	21.9%	22.7%			
Interest Income		2.067	2.639	4.486	2.687	66.9%	117.0%	70.0%
Interest Expense/Lease Interest Expense		(14.828)	(18.114)	(21.256)	(17.403)	22.1%	43.4%	17.3%
Other Income/Expense		(16.357)	(11.716)	(13.073)	(14.319)	-8.7%	-20.1%	11.6%
Profit (Loss) Before Tax		167.972	132.282	147.920	148.640	-0.5%	-11.9%	11.8%
Net Profit (loss) - Adjusted		167.972	132.282	147.920	148.640	-0.5%	-11.9%	11.8%
	<i>Net Margin (%)</i>	18.9%	17.7%	18.2%	19.0%			
	<i>Net Profit YoY Growth</i>	32.3%	12.0%	-11.9%	-11.5%			
EPS (QR)		0.04	0.03	0.03	0.04	-0.5%	-11.9%	11.8%

Source: Company data, QNB FS Research

QNB FS 2023 Estimates and Comparisons

INCOME STATEMENT		CY2022 A	CY2023 A	CY2023 E	A Vs. E	YoY
<i>(In QR mn Unless Specified)</i>						
Revenue		3,065.861	3,110.819	3,080.187	1.0%	1.5%
	<i>YoY Growth (%)</i>	21.4%	1.5%	0.5%		
Direct Costs (Interconnection & Other Opex)		(1,067.905)	(1,076.651)	(1,056.504)	1.9%	0.8%
Gross Profit (Loss)		1,997.956	2,034.168	2,023.683	0.5%	1.8%
	<i>Gross Margin (%)</i>	65.2%	65.4%	65.7%		
Operating Expenses (Network, Employee & Other Expenses)		(764.371)	(748.293)	(739.245)	1.2%	-2.1%
Depreciation and Amortization		(634.981)	(630.503)	(629.153)	0.2%	-0.7%
EBITDA		1,233.585	1,285.875	1,284.438	0.1%	4.2%
	<i>EBITDA Margin (%)</i>	40.2%	41.3%	41.7%		
Operating Profit (Loss) - EBIT		598.604	655.372	655.285	0.0%	9.5%
	<i>EBIT Margin (%)</i>	19.5%	21.1%	21.3%		
Interest Income		6.228	12.903	11.104	16.2%	107.2%
Interest Expense/Lease Interest Expense		(48.345)	(77.602)	(73.749)	5.2%	60.5%
Other Income/Expense		(54.107)	(50.629)	(51.875)	-2.4%	-6.4%
Profit (Loss) Before Tax		502.380	540.044	540.764	-0.1%	7.5%
Net Profit (loss) - Adjusted		502.380	540.044	540.764	-0.1%	7.5%
	<i>Net Margin (%)</i>	16.4%	17.4%	17.6%		
	<i>Net Profit YoY Growth</i>	53.4%	7.5%	7.6%		
EPS (QR)		0.12	0.13	0.13	-0.1%	7.5%
DPS (QR)		0.10	0.11	0.12	-8.3%	10.0%

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	CY2020	CY2021	CY2022	CY2023	CY2024e	CY2025e	CY2026e	CY2027e
Revenue	2,200	2,526	3,066	3,111	3,232	3,307	3,381	3,457
Direct Costs	(759)	(885)	(1,068)	(1,077)	(1,084)	(1,103)	(1,122)	(1,142)
Gross Profit	1,440	1,641	1,998	2,034	2,148	2,204	2,259	2,315
Operating Expenses, Excl. D&A	(632)	(611)	(764)	(748)	(789)	(800)	(811)	(823)
EBITDA	808	1,031	1,234	1,286	1,360	1,403	1,447	1,492
Depreciation & Amortization	(539)	(628)	(635)	(631)	(677)	(693)	(711)	(729)
EBIT	269	403	599	655	682	710	736	763
Interest Income	2	1	6	13	13	14	14	14
Interest Expense	(65)	(37)	(48)	(78)	(65)	(54)	(44)	(37)
Other Income/Expense	(21)	(40)	(54)	(51)	(61)	(65)	(69)	(72)
Profit Before Tax	185	327	502	540	569	605	637	669
Income Tax Expense								
Profit for Shareholders	185	327	502	540	569	605	637	669
EPS (QR)	0.04	0.08	0.12	0.13	0.13	0.14	0.15	0.16
DPS (QR)	0.05	0.06	0.10	0.11	0.12	0.13	0.14	0.15

Source: Company data, QNB FS Research

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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