

Vodafone Qatar (VFQS)

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	QR1.766	Target Price	QR2.070
Implied Upside	17.2%		

In-Line 3Q2023 As Boost in Margins Offsets Revenue Miss; Accumulate

- VFQS reported 3Q2023 net profit of QR132.3mn (12.0% YoY, 4.6% QoQ) that was right in-line with our estimate of QR133.0mn.** The beat this quarter primarily came higher-than-expected cash margins, which offset a 5.1% miss on the top-line. The lower-than-expected revenue was mostly due to weakness in lower-margin equipment sales and prepaid/postpaid mobile service revenue. Non-service revenue continued to impress, particularly on a YoY basis. Despite the revenue miss, we note that 3Q2023 was the 23rd consecutive quarter of YoY revenue growth.
- Quarterly revenue of QR747.4mn (1.0% YoY, 3.5% QoQ) came in 5.1% below our top-line forecast of QR787.6mn. (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 3Q2023 revenue of ~QR235mn (45% YoY, 1% QoQ). **(2) Equipment revenue declined** to ~QR71mn (-34% YoY/-18% QoQ) vs. our estimate of QR90mn. While the decline in equipment revenue was expected, especially on a YoY basis, given the WC effect, the magnitude of the falloff was more than what we had anticipated. As equipment sales are typically lower-margin in nature, this did not have a significant impact on the company's profitability. **(3) We note that prepaid revenue also declined** roughly 16% YoY/5% QoQ to ~QR122mn, after falling ~10% YoY/~9% YoY in 2Q2023/1Q2023, driven by ARPU weakness. During the 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. However, VFQS also noted that it was able to stem its prepaid revenue decline to 9.3% in 1H2023 vs. an overall market decline of 14.5%. **(4) Finally, the postpaid business also stagnated** with flattish subs and modest ARPU declines YoY/QoQ. Consequentially, postpaid revenue of ~QR319mn modestly softened ~2% YoY/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. *For details on revenue segments, subs and ARPUs, see table on page 3.*
- Costs optimization remains evident with VFQS reporting a healthy 3Q2023 EBITDA margin of 42.3% vs. 39.0% in 3Q2022 and 40.5% in 2Q2023.** We were modeling an EBITDA margin of 40.9%. Quarterly EBITDA of QR316.0mn grew 9.5% YoY/0.6% QoQ and was modestly lower than our estimate of QR321.8mn given the top-line miss.
- Management reiterated 2023 guidance of revenue growth, EBITDA margin growth of 1-1.5 ppts & capex intensity of 17-18%.** Our 2023 forecast implies QR144.0mn in 4Q2023 earnings, which could be a bit aggressive but VFQS remains optimistic about 4Q2023.
- We rate VFQS an Accumulate.** The stock is trading at EV/EBITDA multiples of 5.9x/5.6x for 2023/2024. As we had expected in our [report](#), the stock had broken out of its trading range (up as much as 23% YTD soon after reporting its 2Q2023 results) as its dividend yield finally became compelling – VFQS paid QR0.10 in DPS for 2022 (DY: 5.7%) – and we expect DPS to climb 20% YoY to QR0.12 (DY: 6.8%) this year. While the stock has sold off, much like rest of the market, since then, it is still up 11.4% YTD outperforming the QE Index (down 11.3%). The company's longer-term growth prospects as a 2nd operator in a market of Qatar's size and dynamics (population size of 3.1mn in Sep. 2023, along with a mobile penetration of 177% as of June 2023; VFQS already has revenue market share of 29.9% and subscriber market share of 44.6% as of 2Q2023, with postpaid and prepaid market shares of 41.6% and 45.8%, respectively) is more of an open question. We believe there is room for improvement (as of 2Q2023, VFQS has an EBITDA margin of 40.5% vs. ORDS' 45.2%, an ARPU of QR72.2 vs. ORDS' QR104.2, along with 570K high-ARPU/margin postpaid customers relative to Ooredoo's 799K postpaid subscribers). As VFQS demonstrates progress in closing some of this gap beyond our modeled expectations, the stock could have more room to run. With FCF yields increasing from 4.7% in 2022 to 12.5% in 2027, we believe there could be upside to DPS, which could also act as a catalyst for the stock.
- 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	CY2023e	CY2024e	CY2025e	CY2026e
EPS (QR)	0.12	0.13	0.13	0.14	0.15
EV/EBITDA	6.5x	5.9x	5.6x	5.3x	5.0x
Dividend Yield	5.7%	6.8%	7.4%	7.9%	8.5%

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

Key Data

Current Market Price (QR)	1.766
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)	1.950/1.539
3-m Average Volume ('000)	4.3
Mkt. Cap. (\$ bn/QR bn)	2.0/7.5
EV (\$ bn/QR bn)	2.2/8.0
Shares Outstanding (mn)	4,227.0
FO Limit* (%)	49.0
Institutional FO* (%)	7.9
1-Year Total Return (%)	14.4
Fiscal Year End	December 31

Source: Bloomberg (as of October 25, 2023), *Qatar Exchange (as of October 24, 2023); Note: FO is foreign ownership

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QNB FS 3Q2023 Estimates and Comparisons

INCOME STATEMENT		3QCY22 A	2QCY23 A	3QCY23 A	3QCY23 E	A Vs. E	YoY	QoQ
<i>(In QR mn Unless Specified)</i>								
Revenue		740.173	774.883	747.418	787.612	-5.1%	1.0%	-3.5%
	<i>YoY Growth (%)</i>	27.0%	9.9%	1.0%	6.4%			
Direct Costs (Interconnection & Other Opex)		(262.725)	(267.706)	(253.050)	(271.316)	-6.7%	-3.7%	-5.5%
	<i>as a % of Total Revenue (%)</i>	35.5%	34.5%	33.9%	34.4%			
Gross Profit (Loss)		477.448	507.177	494.368	516.296	-4.2%	3.5%	-2.5%
	<i>Gross Margin (%)</i>	64.5%	65.5%	66.1%	65.6%			
Other Expenses (Employee and Other Expenses)		(188.996)	(193.011)	(178.420)	(194.540)	-8.3%	-5.6%	-7.6%
	<i>as a % of Total Revenue (%)</i>	25.5%	24.9%	23.9%	24.7%			
Depreciation and Amortization		(148.480)	(157.322)	(156.475)	(155.733)	0.5%	5.4%	-0.5%
Total Operating Expenses		(337.476)	(350.333)	(334.895)	(350.273)	-4.4%	-0.8%	-4.4%
EBITDA		288.452	314.166	315.948	321.756	-1.8%	9.5%	0.6%
	<i>EBITDA Margin (%)</i>	39.0%	40.5%	42.3%	40.9%			
Operating Profit (Loss) - EBIT		139.972	156.844	159.473	166.023	-3.9%	13.9%	1.7%
	<i>EBIT Margin (%)</i>	18.9%	20.2%	21.3%	21.1%			
Interest Income		1.575	2.665	2.639	2.745	-3.9%	67.6%	-1.0%
Interest Expense/Lease Interest Expense		(10.474)	(20.653)	(18.114)	(22.687)	-20.2%	72.9%	-12.3%
Other Income/Expense		(13.008)	(12.405)	(11.716)	(13.050)	-10.2%	-9.9%	-5.6%
Profit (Loss) Before Tax		118.065	126.451	132.282	133.030	-0.6%	12.0%	4.6%
Net Profit (loss) - Adjusted		118.065	126.451	132.282	133.030	-0.6%	12.0%	4.6%
	<i>Net Margin (%)</i>	16.0%	16.3%	17.7%	16.9%			
	<i>Net Profit YoY Growth</i>	78.0%	16.1%	12.0%	12.7%			
EPS (QR)		0.03	0.03	0.03	0.03	-0.6%	12.0%	4.6%

Source: Company data, QNB FS Research

QNB FS 3Q2023 KPI Estimates and Comparisons

	3Q2022	2Q2023	3Q2023	3Q2023e	A Vs. E
Mobile Subscribers (000s)					
Pre-Paid Subs	1,489	1,529	1,531	1,623	(6%)
YoY Growth	12%	5%	3%	9%	
QoQ Growth	2%	0%	0%	6%	
Post-Paid Subs	567	570	566	579	(2%)
YoY Growth	20%	2%	(0%)	2%	
QoQ Growth	2%	(1%)	(1%)	2%	
Total Mobile Subs	2,056	2,099	2,097	2,202	(5%)
YoY Growth	14%	4%	2%	7%	
QoQ Growth	2%	0%	(0%)	5%	
Mobile ARPU (QR)					
Pre-Paid ARPU	33.0	28.0	26.7	28.3	(6%)
YoY Growth	(3%)	(13%)	(19%)	(14%)	
QoQ Growth	3%	(5%)	(5%)	1%	
Post-Paid ARPU	194.2	189.9	187.8	190.0	(1%)
YoY Growth	(4%)	(3%)	(3%)	(2%)	
QoQ Growth	(0%)	(0%)	(1%)	0%	
Blended Mobile ARPU	77.5	72.2	70.3	71.5	(2%)
YoY Growth	(2%)	(6%)	(9%)	(8%)	
QoQ Growth	1%	(2%)	(3%)	(1%)	
Mobile Service Revenue (QR mn)					
Pre-Paid Service Revenue	145	128	122	134	(9%)
YoY Growth	10%	(10%)	(16%)	(7%)	
QoQ Growth	2%	(4%)	(5%)	4%	
Post-Paid Service Revenue	325	326	319	327	(3%)
YoY Growth	15%	1%	(2%)	1%	
QoQ Growth	1%	(0%)	(2%)	0%	
Total Mobile Service Revenue	470	454	441	461	(4%)
YoY Growth	14%	(2%)	(6%)	(2%)	
QoQ Growth	1%	(1%)	(3%)	2%	
Other Service Revenue (Managed Services, Broadband, Roaming, Wholesale & Others)					
	162	234	235	236	(0%)
YoY Growth	17%	52%	45%	46%	
QoQ Growth	5%	3%	1%	1%	
Total Service Revenue (QR mn)					
	632	688	676	697	(3%)
YoY Growth	14%	11%	7%	10%	
QoQ Growth	2%	0%	(2%)	1%	
Other Revenue (Incl. Equipment, Handsets & Hardware Portion of Projects Revenue)					
	108	87	71	90	(21%)
YoY Growth	252%	1%	(34%)	(17%)	
QoQ Growth	25%	(2%)	(18%)	4%	
Total Revenue (QR mn)					
	740.2	774.9	747.4	787.6	(5.1%)
YoY Growth	27.0%	9.9%	1.0%	6.4%	
QoQ Growth	4.9%	(0.1%)	(3.5%)	1.6%	

Source: Company data, QNB FS Research

Ratio Analysis

Key Ratios & Valuation Metrics

Growth Rates	CY2017	CY2018	CY2019	CY2020	CY2021	CY2022	CY2023E	CY2024E	CY2025E	CY2026E	CY2027E	CAGR	
												2018-22	2022-27
Revenue	-2.9%	5.1%	1.1%	3.5%	14.8%	21.4%	2.5%	2.9%	2.3%	2.2%	2.2%	9.9%	2.4%
Gross Profit	1.3%	2.9%	0.3%	9.1%	14.0%	21.7%	4.2%	3.1%	2.6%	2.5%	2.5%	11.0%	3.0%
EBIT	33.5%	N/M	38.6%	22.0%	49.7%	48.6%	9.2%	4.4%	4.1%	3.6%	3.7%	39.3%	5.0%
EBITDA	16.0%	8.5%	21.4%	14.0%	27.5%	19.7%	6.4%	3.5%	3.2%	3.1%	3.1%	20.5%	3.9%
Net Income	31.6%	N/M	22.0%	28.8%	76.9%	53.4%	6.7%	6.1%	6.4%	5.3%	4.9%	43.7%	5.9%
Distributable Profit		37.9%	12.8%	18.1%	53.0%	43.1%	5.3%	5.2%	5.6%	4.7%	4.3%	30.7%	5.0%
DPS			0.0%	0.0%	20.0%	66.7%	20.0%	8.3%	7.7%	7.1%	6.7%	18.9%	9.9%
CFPS	29.6%	43.7%	2.7%	-7.6%	28.9%	20.1%	24.2%	-6.7%	3.3%	3.0%	3.2%	10.1%	4.9%
FCPS	158.8%	80.7%	-19.3%	0.1%	138.7%	-19.8%	111.6%	-2.5%	13.7%	8.1%	5.6%	11.5%	21.8%
Operating Ratios													
Gross Margin	64.0%	62.6%	62.1%	65.5%	65.0%	65.2%	66.3%	66.5%	66.6%	66.8%	67.0%		
EBIT Margin	(11.2%)	7.6%	10.4%	12.2%	15.9%	19.5%	20.8%	21.1%	21.5%	21.8%	22.1%		
EBITDA Margin	26.9%	27.8%	33.4%	36.7%	40.8%	40.2%	41.8%	42.1%	42.4%	42.8%	43.2%		
Net Margin	(12.8%)	5.6%	6.8%	8.4%	13.0%	16.4%	17.1%	17.6%	18.3%	18.9%	19.3%		
Capex Intensity	18.4%	23.3%	30.0%	18.7%	16.1%	21.5%	17.6%	15.0%	12.9%	11.8%	11.3%		
Finance Ratios													
Debt - Equity Ratio	18.3%	17.9%	18.1%	18.3%	15.5%	14.9%	13.5%	9.9%	6.8%	4.8%	2.8%		
Net Debt - Equity Ratio	13.9%	9.1%	11.4%	14.4%	11.4%	11.0%	6.0%	3.2%	(1.0%)	(5.8%)	(10.8%)		
Net Debt-to-Capital	12.2%	8.4%	10.3%	12.6%	10.2%	9.9%	5.7%	3.1%	(1.0%)	(6.1%)	(12.1%)		
Cash Interest Coverage	18.1x	16.7x	11.4x	12.5x	28.1x	25.5x	18.1x	20.8x	26.2x	32.9x	40.5x		
Ave. Effective Borrowing rate %	3.6%	4.3%	7.6%	7.9%	5.1%	6.7%	10.9%	13.3%	15.7%	18.2%	26.0%		
Return Ratios													
ROIC	(4.2%)	2.9%	3.8%	4.7%	6.8%	9.8%	10.6%	11.3%	12.0%	12.6%	13.3%		
ROE	(5.7%)	2.6%	3.2%	4.1%	7.1%	10.4%	10.9%	11.4%	12.1%	12.6%	13.2%		
ROA	(4.1%)	1.8%	2.0%	2.7%	4.8%	6.8%	7.1%	7.7%	8.2%	8.7%	9.2%		
Dividend Payout %		179.4%	147.1%	114.2%	77.5%	84.1%	94.6%	96.6%	97.8%	99.5%	101.1%		
Valuation													
EV/Sales	4.0x	3.8x	3.8x	3.7x	3.2x	2.6x	2.5x	2.4x	2.2x	2.1x	2.0x		
EV/EBITDA	15.0x	13.5x	11.3x	10.0x	7.8x	6.5x	5.9x	5.6x	5.3x	5.0x	4.6x		
EV/EBIT	N/M	49.6x	36.2x	30.1x	19.8x	13.4x	11.9x	11.2x	10.4x	9.7x	9.1x		
P/E	N/M	63.4x	52.0x	40.3x	22.8x	14.9x	13.9x	13.1x	12.3x	11.7x	11.2x		
P/BV	1.7x	1.6x	1.7x	1.7x	1.6x	1.5x	1.5x	1.5x	1.5x	1.5x	1.5x		
Dividend Yield	0.0%	2.8%	2.8%	2.8%	3.4%	5.7%	6.8%	7.4%	7.9%	8.5%	9.1%		
FCF Yield	1.7%	3.0%	2.4%	2.4%	5.8%	4.7%	9.9%	9.6%	11.0%	11.8%	12.5%		
Liquidity Ratios													
Current Ratio	0.7x	0.4x	0.6x	0.4x	0.4x	0.5x	0.5x	0.5x	0.6x	0.6x	0.8x		
Quick Ratio	0.6x	0.4x	0.6x	0.4x	0.4x	0.4x	0.5x	0.5x	0.5x	0.6x	0.7x		

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	CY2020	CY2021	CY2022	CY2023e	CY2024e	CY2025e	CY2026e	CY2027e
Revenue	2,200	2,526	3,066	3,141	3,232	3,307	3,381	3,457
Direct Costs	(759)	(885)	(1,068)	(1,059)	(1,084)	(1,103)	(1,122)	(1,142)
Gross Profit	1,440	1,641	1,998	2,083	2,148	2,204	2,259	2,315
Other Expenses, Excluding D&A	(632)	(611)	(764)	(770)	(789)	(800)	(811)	(823)
EBITDA	808	1,031	1,234	1,313	1,360	1,403	1,447	1,492
Depreciation & Amortization	(539)	(628)	(635)	(660)	(677)	(693)	(711)	(729)
EBIT	269	403	599	653	682	710	736	763
Interest Income	2	1	6	13	13	14	14	14
Interest Expense	(65)	(37)	(48)	(72)	(65)	(54)	(44)	(37)
Other Income/Expense	(21)	(40)	(54)	(58)	(61)	(65)	(69)	(72)
Profit Before Tax	185	327	502	536	569	605	637	669
Income Tax Expense								
Profit for Shareholders	185	327	502	536	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	0.12	0.13	0.14	0.15	0.16

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	CY2020	CY2021	CY2022	CY2023e	CY2024e	CY2025e	CY2026e	CY2027e
Non-Current Assets								
Property, Plant and Equipment	1,647	1,638	1,885	2,023	2,088	2,093	2,066	2,027
Intangible Assets	4,280	4,169	4,050	3,917	3,771	3,611	3,438	3,249
Rights of Use Assets	372	291	430	415	415	415	415	415
Trade and Other Receivables	27	92	298	259	267	273	279	286
Total Non-Current Assets	6,325	6,190	6,662	6,614	6,541	6,393	6,197	5,976
Current Assets								
Inventory	22	35	38	48	50	51	52	53
Contract Assets & Costs	25	42	52	49	49	49	49	49
Trade and Other Receivables	279	347	483	435	447	458	469	479
Cash and Cash Equivalents	175	190	187	367	333	391	533	689
Total Current Assets	501	613	760	899	879	950	1,103	1,270
Total Assets	6,826	6,803	7,422	7,514	7,420	7,342	7,300	7,246
Equity								
Total Equity	4,489	4,596	4,833	4,933	4,980	5,020	5,050	5,068
Non-Current Liabilities								
Trade and Other Payables	29	0	0	0	0	0	0	0
Lease Liabilities	283	197	315	308	302	295	289	282
Provisions	72	83	102	105	108	110	113	115
Long-Term Borrowings	613	506	512	492	342	242	142	117
Total Non-Current Liabilities	997	786	929	905	751	647	543	514
Current Liabilities								
Trade and Other Payables	1,022	1,099	1,311	1,364	1,400	1,436	1,469	1,502
Lease Liabilities	113	115	141	140	140	139	138	137
Short-Term Borrowings	207	206	207	173	150	100	100	25
Total Current Liabilities	1,341	1,420	1,660	1,676	1,690	1,675	1,707	1,664
Total Liabilities	2,338	2,207	2,589	2,581	2,441	2,322	2,250	2,178
Equity and Liabilities	6,826	6,803	7,422	7,514	7,420	7,342	7,300	7,246

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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