

VFQS Alert – Beats 1Q2022 Forecast on Sustained Strength in Non-Service Projects Revenue; Accumulate

- **VFQS delivers a strong 1Q2022 with earnings of QR107.4mn (62.7% YoY, -15.4% QoQ) beating our forecast likely on the back of managed services projects revenue for the 2nd quarter in a row – Vodafone Qatar's (VFQS) reported 1Q2022 net income substantially exceeded our estimate of QR78.8mn. Quarterly revenue of QR730.6mn (24.8% YoY, -6.4% QoQ) also exceeded our estimate of QR669.1mn by 9.2%. As VFQS reported an in-line service revenue of QR611.4mn (up 14.5% YoY), our sense is that the majority of this beat in both earnings/revenue was once again driven by managed services projects revenue, much like the case in 4Q2021. This line item is a mix of long-term and one-off projects combining core telecom services with equipment, installation and managed services. We note that projects revenue is lumpy in nature and difficult to model.**
- **Vodafone Qatar also reported mobile subs of ~2mn, which was also in-line with our forecast. According to the company, its mobile subs expanded 18.6% YoY. This exceeded the 7.0% yearly growth in Qatar's population in 1Q2022. We note VFQS grew its mobile subs YoY/QoQ (1Q2021 subs: 1.697mn, 4Q2021 subs: 1.934mn).**
- **Reported 1Q2022 EBITDA margin of 41.2% improved vs. 40.0% in 1Q2021 and 39.8% in 4Q2021. EBITDA margin, however, declined vs. its record level of 42.7% in 3Q2021 given the higher mix of projects-related/equipment revenue during the quarter. Quarterly EBITDA of QR300.9mn grew 28.4% YoY but declined 3.1% QoQ and was above our estimate of QR267.0mn. Continued costs optimization helped drive the improvement in EBITDA/EBITDA margins.**
- **Our view on the stock remains unchanged – we continue to like the company's momentum in postpaid (2021 segment revenue up 7.6% YoY to QR1.15bn, making up 51.5% of total service revenue as subs continue to grow and ARPUs remain healthy). We also believe postpaid, 5G (more than 85% population coverage), fixed, home broadband, enterprise and bundled ICT solutions should continue to drive future momentum. While capex levels remain elevated due to 5G deployment and coverage/capacity expansion ahead of the 2022 FIFA World Cup, dividend and FCF yields should improve going forward. We maintain our Accumulate rating on VFQS shares and our price target of QR1.800.**

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INCOME STATEMENT		1QCY21 A	4QCY21 A	1QCY22 A	1QCY22 E	A v E	YoY	QoQ
<i>(In QR mn Unless Specified)</i>								
Revenue		585.352	780.240	730.614	669.065	9.2%	24.8%	-6.4%
	<i>YoY Growth (%)</i>	8.3%	32.7%	24.8%	14.3%			
Direct Costs (Interconnection & Other Opex)		(197.839)	(320.870)	(259.355)	(241.970)	7.2%	31.1%	-19.2%
	<i>as a % of Total Revenue (%)</i>	33.8%	41.1%	35.5%	36.2%			
Gross Profit (Loss)		387.513	459.370	471.259	427.095	10.3%	21.6%	2.6%
	<i>Gross Margin (%)</i>	66.2%	58.9%	64.5%	63.8%			
Other Expenses (Employee and Other Expenses)		(153.193)	(148.989)	(170.382)	(160.087)	6.4%	11.2%	14.4%
	<i>as a % of Total Revenue (%)</i>	26.2%	19.1%	23.3%	23.9%			
Depreciation and Amortization		(148.338)	(155.616)	(171.605)	(167.039)	2.7%	15.7%	10.3%
Total Operating Expenses		(301.531)	(304.605)	(341.987)	(327.125)	4.5%	13.4%	12.3%
EBITDA		234.320	310.381	300.877	267.008	12.7%	28.4%	-3.1%
	<i>EBITDA Margin (%)</i>	40.0%	39.8%	41.2%	39.9%			
Operating Profit (Loss) - EBIT		85.982	154.765	129.272	99.970	29.3%	50.3%	-16.5%
	<i>EBIT Margin (%)</i>	14.7%	19.8%	17.7%	14.9%			
Interest Income		0.741	0.149	0.882	1.257	-29.8%	19.0%	491.9%
Interest Expense/Lease Interest Expense		(13.298)	(11.790)	(11.083)	(12.922)	-14.2%	-16.7%	-6.0%
Other Income/Expense		(7.410)	(16.145)	(11.688)	(9.482)	23.3%	57.7%	-27.6%
Profit (Loss) Before Tax		66.015	126.979	107.383	78.823	36.2%	62.7%	-15.4%
Net Profit (loss) - Adjusted		66.015	126.979	107.383	78.823	36.2%	62.7%	-15.4%
	<i>Net Margin (%)</i>	11.3%	16.3%	14.7%	11.8%			
EPS (QR)		0.02	0.03	0.03	0.02	36.2%	62.7%	-15.4%

Recommendations	
<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>	
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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
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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