

## Vodafone Qatar (VFQS)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR11.42	Target Price	QR11.80
Implied Upside	3.3%		

### Solid December Quarter; Raising Estimates & Target

VFQS reported a strong December quarter. We are raising our long-term estimates and fair value by 7-8% but maintain our Market Perform recommendation in light of the stock's recent strong performance.

#### Highlights

- In-line revenue and improved profitability in 3QFY2014.** VFQS reported revenue of QR507.1mn for 3QFY2014 (+9% QoQ, +28% YoY), only 1% shy of our estimate of QR512.7mn; BBG consensus was QR495.0mn. Quarterly ARPU of QR127 was slightly higher than our estimate, while reported mobile subscribers of 1,273,000 was modestly lower. Around 80% of the sequential growth in mobile service revenue was driven by customer growth with the remaining stemming from ARPU expansion helped by data and postpaid (~10% of overall subs.); handset sales also increased QoQ. Net loss narrowed sequentially to QR53.3mn vs. our estimate of QR66.4mn and BBG consensus of QR70.0mn. Direct costs and depreciation expenses dropped below our expectations, causing the majority of this divergence. EBITDA for the quarter came in at QR134.0mn (26.4% margin versus 23.7% and 21.6% in the September and June quarters, respectively).
- Management guided to top-end of previous guidance range for FY14; we are further raising our above consensus estimates.** During the earnings conference call, VFQS management guided to the top-end of the range (QR1.90-1.95bn) for FY2014 revenue and EBITDA (QR435-470mn). We have adjusted our model and are further raising our above consensus estimates. Our new FY2014e estimates for revenue, EBITDA and net loss are QR1.97bn (BBG consensus: QR1.93bn), QR481.4mn (BBG consensus: QR459.6mn) and QR267.4mn (BBG consensus: 271.6mn), respectively. Beyond FY2014e, we have increased our revenue/EBITDA estimates by ~8%. We continue to expect VFQS to pay QR0.10 in dividends per share in FY2014.

#### Catalysts

- Declaration of maiden dividends for FY2014e and continued improvement in quarterly KPIs should act as catalysts.** VFQS has garnered a substantial market share within a short span of time and positioned itself as a strong alternative to the incumbent (Ooredoo or ORDS). Mobile network improvements and growth in data services, along with focus on new higher-value segments such as mobile postpaid, enterprise and nationwide fixed-line, should drive the next leg of growth.

#### Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our Market Perform rating but raise our price target to QR11.80 from QR11.04 previously.**
- Risks:** 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

	FY2012	FY2013	FY2014e	FY2015e
Revenue (QR mn)	1,222	1,527	1,972	2,432
Revenue Growth	30.7%	25.0%	29.2%	23.3%
EPS (QR)	(0.57)	(0.47)	(0.32)	(0.14)
EV/EBITDA (x)	N/M	37.5	21.9	15.2
DPS (QR)	0.00	0.00	0.10	0.20
Dividend Yield	0.0%	0.0%	0.8%	1.8%

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)	12.15/8.32
3-m Avg. Volume ('000)	1,863
Mkt. Cap. (\$ bn/QR bn)	2.7/9.7
Shares Outstanding (mn)	845.4
FO Limit* (%)	No Limit
Current FO* (%)	4.8
1-Year Total Return (%)	33.1
Fiscal Year End	March 31

Source: Bloomberg (as of January 30, 2014), \*Qatar Exchange (as of January 30, 2014); Note: FO is foreign ownership

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## Detailed Financial Statements

Income Statement (In QR mn)	FY2012	FY2013	FY2014e	FY2015e
<b>Revenue</b>	<b>1,222</b>	<b>1,527</b>	<b>1,972</b>	<b>2,432</b>
Direct Costs	(561)	(689)	(867)	(1,006)
<b>Gross Profit</b>	<b>661</b>	<b>837</b>	<b>1,105</b>	<b>1,426</b>
Other Expenses, Excluding D&A	(517)	(553)	(623)	(746)
<b>EBITDA</b>	<b>144</b>	<b>284</b>	<b>481</b>	<b>680</b>
Depreciation & Amortization	(600)	(659)	(720)	(773)
<b>EBIT</b>	<b>(456)</b>	<b>(375)</b>	<b>(239)</b>	<b>(92)</b>
Interest Income	1	0	0	0
Interest Expense	(30)	(27)	(29)	(28)
Profit Before Tax	(486)	(401)	(267)	(120)
Income Tax Expense	0	0	0	0
<b>Profit for Shareholders</b>	<b>(486)</b>	<b>(401)</b>	<b>(267)</b>	<b>(120)</b>
<b>EPS (QR)</b>	<b>(0.57)</b>	<b>(0.47)</b>	<b>(0.32)</b>	<b>(0.14)</b>

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2012	FY2013	FY2014e	FY2015e
<b>Non-Current Assets</b>				
Property, Plant and Equipment	1,364	1,482	1,510	1,624
Intangible Assets	6,550	6,167	5,763	5,359
Trade and Other Receivables	7	11	11	11
<b>Total Non-Current Assets</b>	<b>7,921</b>	<b>7,660</b>	<b>7,284</b>	<b>6,994</b>
<b>Current Assets</b>				
Inventory	12	17	27	32
Trade and Other Receivables	171	218	235	286
Cash and Cash Equivalents	100	162	176	356
<b>Total Current Assets</b>	<b>284</b>	<b>396</b>	<b>437</b>	<b>675</b>
<b>Total Assets</b>	<b>8,205</b>	<b>8,056</b>	<b>7,721</b>	<b>7,669</b>
<b>Equity</b>				
Share Capital	8,454	8,454	8,454	8,454
Legal Reserve	11	12	12	12
Accumulated Other Comprehensive Income	1	0	0	0
Accumulated Deficit	(1,893)	(2,294)	(2,561)	(2,764)
<b>Total Equity</b>	<b>6,574</b>	<b>6,172</b>	<b>5,904</b>	<b>5,702</b>
<b>Non-Current Liabilities</b>				
Trade and Other Payables	8	37	42	42
Provisions	11	28	34	34
Long-Term Borrowings	1,037	1,160	714	714
<b>Total Non-Current Liabilities</b>	<b>1,056</b>	<b>1,225</b>	<b>791</b>	<b>791</b>
<b>Current Liabilities</b>				
Trade and Other Payables	575	659	684	834
Short-Term Borrowings	0	0	342	342
<b>Total Current Liabilities</b>	<b>575</b>	<b>659</b>	<b>1,026</b>	<b>1,176</b>
<b>Total Liabilities</b>	<b>1,631</b>	<b>1,884</b>	<b>1,817</b>	<b>1,967</b>
<b>Equity and Liabilities</b>	<b>8,205</b>	<b>8,056</b>	<b>7,721</b>	<b>7,669</b>

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*

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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