

VFQS Alert – Another Solid Quarter With 2Q2022 Profit Beating Our Model On Margin Upside; Accumulate

- **VFQS delivers another strong quarter with 2Q2022 net profit of QR109.0mn (60.1% YoY, 1.5% QoQ) beating our forecast of QR93.2mn on better-than-expected cash gross margin** – Quarterly revenue of QR705.3mn (22.1% YoY, -3.5% QoQ) was in-line with our estimate of QR714.5mn (divergence of -1.3%). While service revenue of QR619.0mn (mobile + fixed) was in-line with our forecast, revenue from managed services' projects, equipment, handsets, etc., was moderately below our estimate.
- **Vodafone Qatar also reported mobile subs of 2.015mn, which was in-line with our forecast.** Mobile subs expanded 17.6% YoY vs. 1.714mn in 2Q2021 and were flat QoQ relative to 2.013mn in 1Q2022. This exceeded the 6.1% yearly growth and 6.0% sequential decline in Qatar's population in 2Q2022.
- **Reduction in cash interconnection and other direct costs helped drive upside in 2Q2022 earnings.** Cash gross margin came in 67.2% in 2Q2022 (vs. our estimate of 63.8%) and 2Q2021's 68.7% and 1Q2022's 64.5%. Gross profit of QR474.1mn (19.5% YoY, 0.6% QoQ) was 4.0% ahead of our forecast of QR455.9mn.
- **Reported 2Q2022 EBITDA margin of 41.0% was in-line with 41.1% in 2Q2021 and 41.2% in 1Q2022.** We were forecasting an EBITDA margin of 40.3% in 2Q2022. Quarterly EBITDA of QR289.4mn grew 22.0% YoY but declined 3.8% QoQ and was just a shade above our estimate of QR288.0mn (0.5% divergence). Continued costs optimization helped drive the improvement in EBITDA on a YoY basis.
- **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		2QCY21 A	1QCY22 A	2QCY22 A	2QCY22 E	A v E	YoY	QoQ
<i>(In QR mn Unless Specified)</i>								
Revenue		577.577	730.614	705.329	714.540	-1.3%	22.1%	-3.5%
	<i>YoY Growth (%)</i>	8.7%	24.8%	22.1%	23.7%			
Direct Costs (Interconnection & Other Opex)		(180.960)	(259.355)	(231.248)	(258.664)	-10.6%	27.8%	-10.8%
	<i>as a % of Total Revenue (%)</i>	31.3%	35.5%	32.8%	36.2%			
Gross Profit (Loss)		396.617	471.259	474.081	455.877	4.0%	19.5%	0.6%
	<i>Gross Margin (%)</i>	68.7%	64.5%	67.2%	63.8%			
Other Expenses (Employee and Other Expenses)		(159.364)	(170.382)	(184.718)	(167.917)	10.0%	15.9%	8.4%
	<i>as a % of Total Revenue (%)</i>	27.6%	23.3%	26.2%	23.5%			
Depreciation and Amortization		(153.716)	(171.605)	(157.093)	(174.179)	-9.8%	2.2%	-8.5%
Total Operating Expenses		(313.080)	(341.987)	(341.811)	(342.096)	-0.1%	9.2%	-0.1%
EBITDA		237.253	300.877	289.363	287.960	0.5%	22.0%	-3.8%
	<i>EBITDA Margin (%)</i>	41.1%	41.2%	41.0%	40.3%			
Operating Profit (Loss) - EBIT		83.537	129.272	132.270	113.781	16.2%	58.3%	2.3%
	<i>EBIT Margin (%)</i>	14.5%	17.7%	18.8%	15.9%			
Interest Income		(0.612)	0.882	1.704	0.904	88.5%	-378.4%	93.2%
Interest Expense/Lease Interest Expense		(7.064)	(11.083)	(11.960)	(11.371)	5.2%	69.3%	7.9%
Other Income/Expense		(7.792)	(11.688)	(13.054)	(10.141)	28.7%	67.5%	11.7%
Profit (Loss) Before Tax		68.069	107.383	108.960	93.172	16.9%	60.1%	1.5%
Net Profit (loss) - Adjusted		68.069	107.383	108.960	93.172	16.9%	60.1%	1.5%
	<i>Net Margin (%)</i>	11.8%	14.7%	15.4%	13.0%			
EPS (QR)		0.02	0.03	0.03	0.02	16.9%	60.1%	1.5%

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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