Vodafone Qatar (VFQS)

Recommendation	**MARKET PERFORM**	**Risk Rating**	**R-4**
Share Price	**QR9.07**	**Target Price**	**QR9.48**
Implied Upside	**4.6%**		

Qatar's Emerging Telecom Operator

Vodafone Qatar (VFQS) has garnered a substantial market share within a short span of time and successfully positioned itself as a strong alternative to the incumbent (Qatar Telecom or QTEL). 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. However, given the recent rally, we believe VFQS is fairly valued and initiate coverage with a Market Perform rating and a target price of QR9.48.

Highlights

- **Robust subscriber additions in mobile to continue.** VFQS has embarked upon a strategy of aggressively adding subscribers since rolling out its services in 1QFY2010. The company's subscriber market share has improved to 29.3% (878,200 subs) as of 1QFY2013 (end of three years of operations) compared to 19.9% (534,497) two years ago. We believe VFQS will continue to dominate subscriber net additions and increase its market share to 32.5% by FY2016e.
- **Upgraded network should serve as the launch board of value-added services.** Company management would be the first to admit that previously VFQS' network quality left a lot to be desired and was the key reason behind its lack of traction in the higher-value postpaid segment. However, with the network now upgraded to international standards and a rebranding initiative focused on service quality, we expect VFQS to start delivering on its promise of tapping higher value-added segments in order to drive profitability.

Catalysts

- **Data services to spur profitable growth.** Mobile penetration in Qatar reached 173.8% in June 2012 with mobile voice revenue still dominating the market. At the industry level, in 2010, Qatar's data revenue (mobile and fixed-line) represented only 17.0% of total revenue compared to 36.0% for the OECD countries. Sensing the opportunity, VFQS has launched packages and bundles suitable for high data users. Data usage continues to expand with VFQS' data services now contributing around 10% of revenue, up from 5% a year ago.
- **New service launches targeting higher-value segments to propel future momentum.** With its start-up phase behind it, in FY2013, VFQS plans on rolling out postpaid services (launched on June 19), penetrating the enterprise segment and targeting the fixed-line market longer term in partnership with Q.NBN. The upcoming November launch of MNP should benefit VFQS near term. Following its first full year (FY12) of positive EBITDA (1QFY2013: 14.7% margin), we expect profitable growth from these services to drive a CAGR of 54% and lead to FY2016 EBITDA of QR804mn (32.0%). Blended mobile ARPUs should grow from QR122 in the June quarter to QR146.8 in FY2016.

Recommendation, Valuation and Risks

- **Recommendation and valuation: *We rate VFQS a Market Perform with a price target of QR9.48*** *using the discounted cash flow (DCF) valuation method.* Our target price implies an upside of 4.6%.
- **Risks:** 1) Pricing pressure; 2) Rapid technological changes leading to financial stress and market share erosion and 3) Single country operator concerns.

Key Financial Data and Estimates

QR mn	FY2012	FY2013e	FY2014e	FY2015e	FY2016e
Revenue	1,222	1,542	1,849	2,198	2,513
EPS (QR)	(0.57)	(0.46)	(0.32)	(0.09)	0.13
EV/EBITDA (x)	59.7	29.9	20.0	13.3	9.6

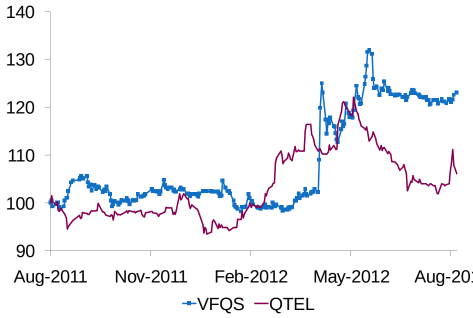
Source: Company reports, QNBFS estimates

Key Data:

Bloomberg Ticker	VFQS QD
ADR/GDR Ticker	N/A
Reuters Ticker	VFQS.QA
ISIN	QA000A0Q5NE9
Sector*	Telecoms
52wk High/52wk Low (QR)	9.98/7.20
3-m Average Volume	947,422
Mkt. Cap. ($ bn/QR bn)	2.1/7.7
Shares Outstanding (mn)	845.4
FO Limit* (%)	No Limit
Current FO* (%)	3.9
1-Year Total Return (%)	23.9
Fiscal Year End	March 31

Source: Bloomberg (as of August 12, 2012), *Qatar Exchange (as of August 12, 2012); Note: FO is foreign ownership

Relative Price Performance vs. Peers



Source: Bloomberg; Note: QTEL is Qatar Telecom

Relative Price Performance vs. Market

Source: Bloomberg. Note: QTLC INDEX is QE All Share Telecoms Index and QEAS INDEX is QE All Share index

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Executive Summary

Robust Subscriber Additions in the Mobile Segment to Continue

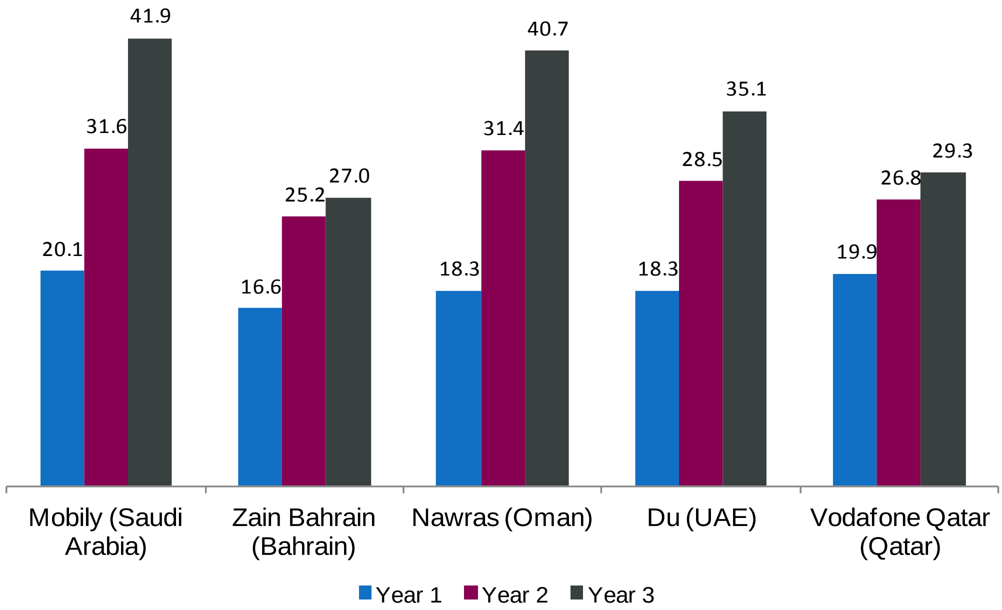
Since its inception, VFQS has offered mostly prepaid plans and has aggressively added subscribers at the expense of QTEL. The company initially launched its traditional prepaid services targeting the largely underserved low-income expatriates (the so-called blue-collar workers) and then moved on to attract more established subscribers with the launch of Freedom monthly plans (a prepaid program that offered users an option to pay electronically). While the latter quasi-postpaid initiative met with limited success, the company's push into the low-end prepaid segment has allowed it to expand its market share. We note VFQS' mobile subscriber market share has improved to 29.3% as of 1QFY2013 from 26.8% at the end of 1QFY2012 and 19.9% in 1QFY2011. The company's mobile subscriber base has expanded by 64% to 878,200 individuals as of 1QFY2013 compared to 534,497 two years ago. VFQS' focus on capturing low-income, price-sensitive subscribers has allowed it to significantly outpace the 11% overall mobile subscriber growth witnessed over the same period in Qatar.

VFQS has captured market share in the prepaid market (Red prepaid plans) with the introduction of several attractive plans, notably the Flexi 10 recharge card (launched in September 2010). The Flexi 10 recharge card was introduced in response to consistent feedback from subscribers, who wanted a lower denomination recharge card. Tailored pricing and promotions on international calls have also served the company well in targeting the blue-collar segment. The launch of BlackBerry service (June 2010), mobile-broadband (July 2010) and an exclusive launch of iPhone 4 in Qatar has helped VFQS expand its market share somewhat in the higher-value added segments.

Qatar's population growth has served as another catalyst for VFQS' robust subscriber gains. Population (total number of individuals within the boundaries of the State of Qatar as defined by the Qatar Statistics Authority or QSA) has grown by about 7.1% to 1.72 million (as of June 2012) since VFQS launched its operations. With population further slated to grow by 35% to reach 2.3 million by 2020 as per our conservative estimates, VFQS remains well positioned to benefit.

- **We note that all second mobile operators in the Gulf Cooperation Council (GCC) have rapidly cornered substantial market shares.** Likewise, VFQS has also grabbed a significant market share, even though QTEL has responded with a slew of new plans and offers.

VFQS' Market Share (%) has Grown Much Like Other 2nd Operators in the GCC



Source: Company reports, industry sources

We believe VFQS will continue to dominate mobile subscriber net additions and increase its market share to 32.5% by FY2016e. Thus, we expect the company to increase its mobile subscriber base by 33% from 837,233 customers in FY2012 to 1.11mn subscribers in FY2016. Besides benefiting from the overall population growth, we expect services such as mobile postpaid and segments such as enterprise to drive the next leg of growth.

Upgraded Network to Serve as the Launch Board of Value-Added Services

With its network now upgraded to international standards and a rebranding initiative focused on service quality and local Qatari roots, we expect VFQS to gain traction in value-added segments. Company management would be the first to admit that previously VFQS' network quality left a lot to be desired and was the key reason behind the company's lack of traction in higher-value segments. Thus, VFQS has continued to enhance its mobile network in a bid to ensure that capacity and quality are up to the mark in meeting the rapid growth expected in its subscriber numbers (we project subscribers to grow at a compound annual growth rate or CAGR of 7.4% over FY2012 to FY2016). Over the past several months, new outdoor cellular sites have been deployed in several locations all across the country to improve call quality and scale up network capacity.

VFQS has continuously undertaken optimization activities that are expected to have a positive impact on the subscriber experience with significantly less dropped calls and better call connection success rates. A total of 674 (542 outdoor and 132 indoor) cell sites have been deployed across the country as per the company's FY2012 presentation; 10 sites were rolled out in the June 2012 quarter. Around 70% of these sites are now capable of handling data speeds of 7.2Mbps or above. Moreover, the carrier has outsourced its mobile network management to Alcatel-Lucent and benefited from lower costs. VFQS has also resolved customers' concerns related to roaming access by becoming self-sufficient out of Qatar; the company has entered into over 300 bilateral agreements with various mobile operators around the world giving VFQS full global coverage. Consequently, management believes that several issues, related to roaming coverage or quality, have been resolved, which should allow VFQS to acquire premium customers who travel overseas frequently. Furthermore, VFQS announced in December 2010 that it had selected Alcatel-Lucent as the sole vendor for its expansion into the fixed-broadband market. Alcatel-Lucent's IP Multimedia Subsystem (IPMS) solution will be used to link the new infrastructure with VFQS' existing mobile network in order to allow seamless service delivery through fixed and mobile connections. Additionally, the company is adopting other initiatives such as setting up an international landing station and reducing the number of temporary sites in order to improve quality. Recently, VFQS connected its fiber backbone up to its landing station near Al Khor in North Qatar, where it linked up with Gulf Bridge International; a formal announcement to this effect was made on June 25. This move should help eliminate VFQS' dependence on QTEL for international calls. Another initiative is to bring down the number of temporary cell sites (well in excess of 100 currently). Given VFQS' mobile network enhancement initiatives, network quality has improved significantly (network quality of 92.49%, availability of 99.83% and a dropped call rate of 0.31% for the month of March 2012 as per ictQATAR's June 2012 Quality of Service report).

Rebranding initiatives focused on service quality and local Qatari roots should help alter consumer perception. With its network now at par with international standards, we expect VFQS to focus increasingly on communicating this to consumers going forward. Another major issue that VFQS is addressing is its perception in Qatar as a foreign company. The company is working toward changing this view and has kick-started a Qatarization (a global company with local roots) drive in a bid to connect with the people of Qatar. In early April 2012, VFQS formed a partnership with a local advertising agency, *The Agency*, which reportedly has a strong understanding of the Qatari market; the company believes that recent advertising during Ramadan is enjoying positive feedback. In addition, VFQS has opened a call center in Doha manned exclusively by Qatari nationals. The percentage of Qatari nationals employed by the company increased from 11-12% last year to about 15% by June 2012 with a long-term target in the region of 20%.

We expect VFQS to start delivering on its promise of tapping higher-value-added segments in order to drive profitability. With the pieces of the puzzle, in terms of network quality and rebranding, falling in place, we expect the company to move beyond its current base of low-end prepaid customers and increasingly focus on higher-value segments.

Past Financial Performance has been Somewhat Disappointing but We Remain Optimistic

Successive guidance cuts due to relatively poor financial performance should be behind us. VFQS has generally not been able to perform up to expectations since it floated its IPO in July 2009 and has repeatedly slashed its financial guidance, especially its EBITDA and EBITDA margin expectations. This has dented investor confidence previously. Nonetheless, VFQS managed to beat its revised FY2012 guidance (after a significant cut to the original guidance) with revenue, EBITDA margin and capital spending on fixed assets coming in at QR1.2bn, 11.8% and QR399mn, respectively. *The only silver lining thus far, in our opinion, has been subscriber additions where the company has outstripped its initial guidance quite comprehensively.* We note that management's track record of providing guidance is improving as evidenced by the company's recent FY2012 results.

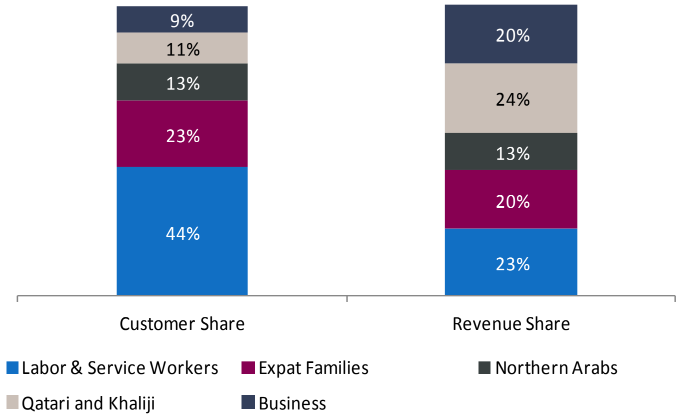
VFQS has Disappointed in Terms of Financial Metrics

	FY2012 Targets			Actual
	At IPO (July 2009*)	At FY2010 Results (May 2010*)	At 1QFY2012 (July 2011*)	FY2012 Results (June 2012*)
Total Revenue (QR mn)	1,400	1,351	1,100	1,222
EBITDA (QR mn)	462	338	120	144
EBITDA Margin (%)	33.0%	25.0%	10.9%	11.8%
Capital Expenditure (QR mn)	196	275	390	399
Capex to Revenue	14.0%	20.4%	35.5%	32.7%
Mobile Revenue Market Share	N/A	N/A	27.0%	24.5%
Subscribers (mn)	0.70	0.90	N/A	0.84
Sub. Market Share	32%	25%	N/A	28.5%
ARPU (QR)	180	N/A	N/A	112

Source: Company reports; Note: *Announcement dates

This poor financial performance can be principally attributed to lower-than-expected average revenue per user or ARPU given tough competitive pressures and delays in tapping higher-value segments. QTEL has proven to be a tough nut to crack as the incumbent flooded the market with attractive plans after VFQS arrived on the scene. In addition, VFQS could mostly attract customers at the lower end of the spectrum, i.e., labor & service workers, due to its network quality issues and consistent delays in the launch of high ARPU postpaid services (see following figure). As VFQS invested more on its mobile network in order to address issues relating to quality, the company's FY2012 capital spending guidance shot up from QR196mn (about 14.0% of revenue) initially to QR390mn (35.5% of revenues) by the end of 1QFY2012. Resultantly, VFQS' debt level has also surpassed the initial estimate of peak debt of about QR380mn (by June 30, 2010) by a significant margin and currently stands at about QR1,046mn (net debt: QR904mn).

VFQS has Historically Faced Issues Penetrating Higher-Value Segments



Source: Company reports (1QFY2011 presentation)

Given a more rational pricing environment and focus on higher-value segments, we expect financial performance to improve. We expect management to provide guidance for FY2013 when the company releases its 1HFY2013 results. Further, as evidenced by recent promotions, we believe it is unlikely that there will be a repeat of the aggressive promotional activity seen last year. Finally, as discussed previously, the focus beyond low-end prepaid should flow through to the bottom-line of the company.

June Quarter Results Beat Estimates

Solid 1QFY2013 results were driven by strong subscriber growth and increased uptake of mobile data services. VFQS posted revenue of QR350mn, up 11% sequentially and almost 21% higher than the year-ago top-line. Subscribers increased to 878,200 (+15.4% year-on-year [YoY] and almost +5% quarter-on-quarter [QoQ]), while ARPU grew to QR122 (+5.2% YoY and +8% QoQ). On a sequential basis, approximately 2/3rd of the revenue growth was propelled by voice services with the rest driven by data. The yearly growth in ARPU was driven by strong data services while improvements in data and voice ARPUs contributed to the sequential increase. Mobile data now accounts for around 10% of revenue vs. 5% a year ago. On the profitability side, EBITDA increased significantly by almost 23% QoQ and 67% YoY with the EBITDA margin expanding to 14.7% vs. 13.3% in 4QFY2012 and 11.8% in FY2012.

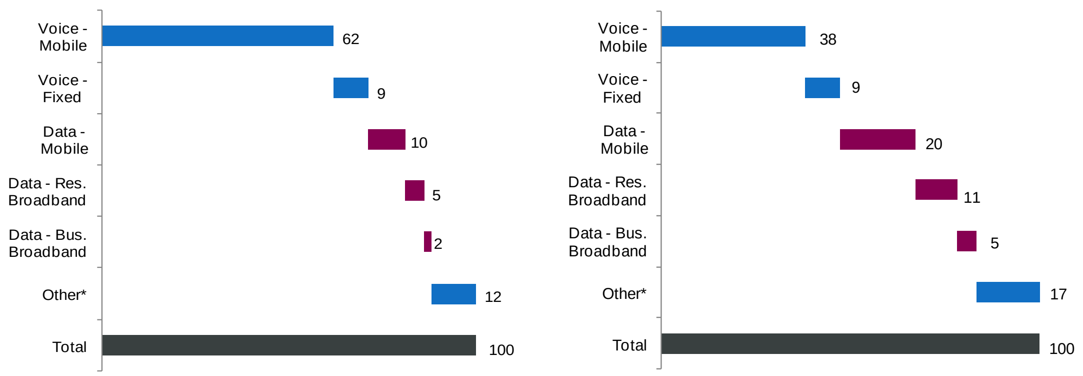
Catalysts

Data Services to Fuel Profitable Growth Going Forward

The overall market remains predominately voice-based with plenty of scope for growth in data. Mobile penetration in the State of Qatar reached 173.8% during June 2012 with mobile voice revenue (mostly skewed toward international voice services) still dominating the market. Data services represented just 17.0% of Qatar's total revenue in 2010 compared to 36.0% for the Organization for Economic Cooperation and Development (OECD) countries (see following figure), according to ictQATAR. This clearly shows that there is a huge scope for both VFQS and QTEL to promote their data services, which is generally a higher-margin business relative to voice services (at least as far as direct costs are concerned as data does not attract interconnection costs [unless roaming] that typically make up around 40% of outbound voice costs).

Breakdown of Telecom Revenue for Qatar and for the Average of OECD Countries Show Potential for Growth

Qatar – Revenue Breakdown (2010) ***OECD – Revenue Breakdown (2010)***



Source: ictQATAR Strategic Sector Review (July 2011); Note: *Includes Internet data services, cable TV, calling card, discounts and fixed value-added services

At present, VFQS' data services contribute around 10% of revenue, up from 5% a year ago. VFQS, in order to tap this growing segment, is promoting its data services and has launched various data packages suitable for high data users on both its recently introduced postpaid plans and its Red accounts. In the postpaid mobile internet segment, the company has monthly plans starting at regular rates as low as QR50 (250MB) with free access to Facebook Zero; prepaid monthly plans start from QR15 (60MB). In the mobile-broadband segment, VFQS offers plans starting from a regular price of QR100/month (2GB). Apart from its existing USB dongles, the company has launched various smartphones bundled with data plans to further promote its data services.

The company has started to monetize data traffic. It is worth noting that about 36% of VFQS' customers (as of 4QFY2012) reportedly used smartphones on its network highlighting the importance of data services. In 3QFY2012, VFQS announced that data consumption had doubled in the previous five months driven partly by the growing popularity of Facebook (250,000 customers were using Facebook every week). In order to monetize the growth in data flows, VFQS has initiated several significant changes in its tariff structure. VFQS has stopped providing free Facebook access as of March 22nd to its customers and is looking to monetize Facebook revenue going forward through Facebook Zero (external links and embedded external content are chargeable at normal rates). The company is also actively lowering the amount of free data it provides on recharge options and is instead offering data bundles or data bonuses that give customers options to commit to certain amounts to avail of better rates. Another major initiative that has worked well has been a new lower price point (standard rates) of QR0.55/MB and the launch of data and BlackBerry bundles on prepaid (QR49/month for 1GB of data). We are optimistic about VFQS' initiatives to increasingly monetize its data traffic and note that data revenue per MB jumped 6.1% QoQ in 4QFY2012 and data now represents around 10% of revenue.

On the fixed-broadband front, at an industry level, usage is expected to get a boost due to Qatar's plan to build a Qatar National Broadband Network (Q.NBN) that aims to connect the entire country to a high-speed fiber network by 2015. Currently, VFQS only offers services at the Pearl-Qatar (less than 5,000 customers) with an unlimited usage data plan for QR200/month (5Mbps speed). Over the longer term, VFQS, along with QTEL, is expected to target the nationwide market in partnership with Q.NBN.

New Service Launches to Boost Future Momentum

Postpaid is finally here. With its start-up phase largely behind it, in FY2013, VFQS plans to push into higher-value segments. On June 19, VFQS launched its much-awaited mobile postpaid services, primarily in the consumer segment. We note that the company's Freedom plans (post-pay experience through a pre-pay mechanism) were unable to achieve meaningful acceptance, especially given VFQS' network quality issues. However, the new plans are expected to be more relevant for high-value customers. Postpaid services, which were delayed owing to technical glitches until recently, in addition to bringing incremental customers, are also expected to boost VFQS' ARPUs.

The enterprise segment is set to become an area of key focus. VFQS has already introduced some postpaid services to this segment and is expected to launch "business-in-a-box" type converged bundles once it is able to expand its fixed-line presence further. With its enterprise team, including a new Enterprise Business Director, now in place, we expect VFQS to target this market aggressively going forward. We expect further announcements pertaining to the business & enterprise segment beginning this September.

The fixed-line business, still at a nascent stage, should begin to ramp up by year end. The Qatari telecom regulator, ictQATAR, issued the nation's second fixed-line license to VFQS in April 2010 for a license fee of QR10mn. The license terms initially included full coverage of the Pearl-Qatar, a large-scale residential and commercial development project, for which broadband internet services and fixed-line voice services were to be provided within 3 and 12 months, respectively. The license contained further obligations to provide 100% coverage in the rest of Qatar. However, as is usual, the company did face some delays and was only able to launch its fixed-line broadband and voice services at the Pearl-Qatar in 2QFY2011 and 2QFY2012, respectively. Going forward, we should see VFQS expand outside of its meager base in the Pearl-Qatar. The company went live in Barwa City in early June (under an interim wholesale agreement encompassing Barwa City and Barwa Commercial Avenue signed with Q.NBN) and is awaiting a pickup in occupancy levels. Moreover, Q.NBN is expected to deploy its fiber to the West Bay central business district (CBD) and some other greenfield locations around Qatar by October 2012. VFQS' fiber backbone is almost complete and the company is connecting key hubs. We believe VFQS' fixed-line broadband services will gain traction as it expands in other parts of Qatar. However, much of this growth will be dependent on Q.NBN's rollout.

With its focus shifting toward higher-value segments and data-driven services, we expect to see an uptick in VFQS' ARPUs going forward. The upcoming adoption of mobile number portability (MNP), in conjunction with QTEL and technology partner Systor Group, in November should also be advantageous for VFQS relative to QTEL (at least in the near term) given that the former's network quality issues have largely been resolved. Following its first full year of positive EBITDA (11.8% margin), we expect profitable growth from these services to drive a CAGR of 54% (FY2012-FY2016) and lead to FY2016 EBITDA of QR804mn (32.0%). VFQS' blended mobile ARPU came in around QR122 in the June quarter and we are modeling in an ARPU of QR123.8 for this fiscal year and growing it to QR146.8 in FY2016. Overall, we expect postpaid customers (enterprise and consumers) to make up almost 10% of VFQS' overall mobile subscriber base in FY2016.

Valuation

Our target price of QR9.48 per share implies an upside of 4.6% from the current levels. We have estimated VFQS' fair value by using the DCF method. Considering it is a late entrant in the telecom market and the fact that the company just posted its first full year of positive EBITDA in FY2012, we believe VFQS' financials and operations are not comparable to the more established players in the GCC telecom sector. Thus, we have not factored in relative valuation techniques for valuing VFQS but have provided comparable multiples for reference. Keeping in mind VFQS' plans to target higher-value segments, expected consistent improvement in margins and the necessity of taking a long-term view to capture value, we have assigned a 100% weight to the DCF method.

Valuation Summary

	Value (QR)	Weights	Fair Value (QR)
DCF	9.48	100%	9.48
Target Price of VFQS			**9.48**
Current Market Price (QR)			9.07
Potential Upside / Downside			**4.6%**

Source: Bloomberg, QNBFS estimates

DCF Valuation

Particulars	Fair Value of Equity (QR mn)	Fair Value per Share (QR)
PV of FCFF	2,907	3.44
PV of Terminal Value	6,013	7.11
PV of Cash Flows	8,920	10.55
Add:		
Cash Balance	142	0.17
Less:		
Debt Balance	(1,046)	(1.24)
Fair Value of Equity	**8,017**	**9.48**

Source: QNBFS estimates

Our valuation assumptions are conservative. We have used a weighted average cost of capital (WACC) of 11.8% based on a cost of equity of 12.3% and a risk-free rate of 4.5% (coupon for 10-year government bonds). We have explicitly modeled out cash flows until March 2021 and used a terminal growth rate of 4%.

Sensitivity Analysis

We have performed a sensitivity analysis of WACC and terminal growth rate to our DCF valuation model. The results of our sensitivity analysis is depicted in the below table:

Sensitivity Analysis

		Terminal Growth Rate						
		2.5%	**3.0%**	**3.5%**	**4.0%**	**4.5%**	**5.0%**	**5.5%**
WACC	**8.8%**	13.92	14.92	16.11	17.54	19.30	21.53	24.43
	9.8%	11.50	12.18	12.98	13.91	15.02	16.35	18.00
	10.8%	9.67	10.16	10.72	11.36	12.11	12.98	14.01
	11.8%	8.25	8.62	9.02	**9.48**	10.00	10.60	11.30
	12.8%	7.12	7.40	7.70	8.04	8.42	8.85	9.34
	13.8%	6.20	6.41	6.65	6.90	7.19	7.51	7.86
	14.8%	5.43	5.60	5.78	5.98	6.20	6.44	6.71

Source: QNBFS estimates

Relative Valuation

We have compared VFQS to second operators and companies with single country operations in the Middle East and North Africa (MENA) region. The company continues to trade a significant premium to its peers. We depict the results of our analysis below:

EV/EBITDA Multiples*

	CY09	CY10	CY11	CY12e	CY13e
Vodafone Qatar**	N/A	N/M	67.2x	35.0x	21.2x
Qatar Telecom	5.8x	5.3x	4.7x	4.6x	4.3x
Nawras (Omani Qatari Telecom.)	N/A	5.6x	4.4x	3.7x	3.6x
Mobily (Etihad Etisalat)	7.7x	7.2x	5.7x	6.5x	6.0x
Du (Emirates Integrated Telecom.)	11.6x	7.1x	4.6x	4.1x	3.6x
Zain KSA (Mobile Telecom. Co. Saudi Arabia)	N/M	68.5x	22.3x	19.9x	14.7x
Telecom Egypt	6.0x	5.4x	3.7x	4.1x	4.3x
Mobinil (Egyptian Co. for Mobile Services)	5.5x	5.3x	4.6x	6.2x	5.9x
Median	**6.0x**	**5.6x**	**4.6x**	**5.4x**	**5.1x**
High	**11.6x**	**68.5x**	**67.2x**	**35.0x**	**21.2x**
Low	**5.5x**	**5.3x**	**3.7x**	**3.7x**	**3.6x**

Source: Bloomberg, **QNBFS estimates; Note: *EV/EBITDA for forecast years is calculated by dividing current EV by forecasted EBITDA

Risks to Our Target Price

- **Pricing pressure due to cut-throat competition:** VFQS operates in a highly mature market with limited visible differentiation in its business model. Although Qatar's fundamentals remain strong, maturing market penetration coupled with fierce competition has exerted pricing pressure on the telecom providers. The impending adoption of MNP could create further pricing pressure especially in the near term. In addition, if ictQATAR issues any additional mobile or fixed-line networks and services licenses in Qatar over the long term, it would crank up an already competitive market and affect all players. We do note that our conversations with VFQS and QTEL managements reveal that the carriers are unlikely to repeat the aggressive promotional activity seen last year. Furthermore, as discussed previously, the focus beyond low-end prepaid should help on the pricing front.
- **Rapid technology changes leading to financial stress and market share erosion:** The upcoming mobile-broadband technology to be deployed in Qatar is LTE (Long Term Evolution), a 4G technology. QTEL completed a trial phase in July 2011 and announced plans to roll out LTE progressively in the country. Although VFQS will be targeting the enterprise segment with enhanced data offerings, it currently offers only 2G and 3G services. If Vodafone Qatar decides to launch 4G-LTE to prevent possible market share erosion to QTEL, the company will likely have to invest in additional capex, which could strain its balance sheet. However, our conversations with QTEL management reveal that the LTE launch is not imminent. Voice-over-Internet Protocol services such as Skype will continue to hurt the international voice business but much will depend on the operators' ability to monetize the data traffic seen on their networks due to such services.
- **Single country operator status could be a double-edge sword:** VFQS' complete range of operations is located within the State of Qatar. This should allow the company to benefit from the strong tailwinds of economic expansion and population growth. However, any slowdown in the Qatari telecom sector will impact VFQS directly given the company's lack of diversification.

Qatari Telecom Industry

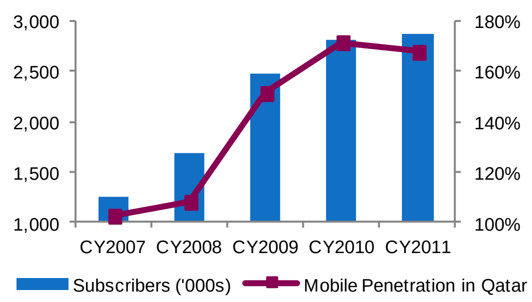
Structure of the Qatari Telecom Industry

The Qatari telecom market is a duopoly and enjoys strong government support. Qatar became the last telecom market in the GCC to open up to competition when VFQS was awarded a 20-year mobile license in June 2008. VFQS began mobile services in July 2009, effectively ending QTEL's monopoly. VFQS was also awarded the 2nd fixed-line license in April 2010. Established in 2004, the Supreme Council of Information and Communication Technology (ictQATAR) is the State's information and communications policy regulator. The telecom sector enjoys strong government support with the Qatari government leading the charge in promoting the usage and adoption of ICT (information and communications technology) and recognizing the multiplier effect of the sector on the economy. This is underlined by the fact that Qatar is ranked 28th (among 142 countries; Bahrain and the UAE are ranked 27th and 30th, respectively) in the Networked Readiness Index 2012 complied by the World Economic Forum and INSEAD. This was driven in part by strong government commitment to boost ICT-related infrastructure (27th ranked) and marked a significant improvement since 2006-07 when Qatar was ranked 36th in the Networked Readiness Index.

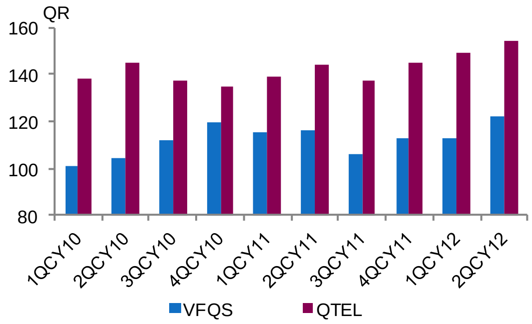
The Qatari Mobile Telecom Sector Has Grown at a Significant Pace

The growth of the mobile telecom sector was further accentuated by the entry of VFQS as the second player in 2009. Historically, growth has been largely driven by increasing population and churn in the immigrant segment. Qatar has been a highly penetrated market with a subscriber identity module (SIM) penetration of about 111% as of March 2009 (before VFQS' entry into the Qatari market). After Vodafone Qatar's entry, the market expanded further with penetration reaching around 172% by December 2010. Following the arrival of VFQS, end-consumers have benefited from lower tariffs as intense competition has expanded the market and improved penetration levels by targeting the previously ignored and underserved segment of immigrant blue-collar workers. Post 2010, SIM penetration has remained within the range of 166-175%. QTEL has proven to be a tough competitor and has fought VFQS vigorously to defend its market share in its home market. Resultantly, VFQS, which had a high ARPU of QR173 in its debut quarter (September 2009), has had to resort to a pricing war to capture market share. VFQS' ARPU has slid consistently over the years and now stands at QR122 (as of the quarter ended June 2012). On the fixed-line side, QTEL has faced little competition thus far and continues to rule the roost with around 316,131 subscribers.

Total Subscribers and Mobile Penetration in Qatar



Mobile ARPUs in Qatar



Source: QSA, company data; Note: Population figures, used in the calculation of mobile penetration rates, have been sourced from the QSA and is defined as the total number of individuals within the boundaries of the State of Qatar

Increasing Data Consumption in Qatar to Improve Mobile ARPUs

Going forward, increasing data uptake will be key for the sector. As per ictQATAR, data accounted for approximately 18% of mobile revenue in Qatar (as of 2010) compared to 28% in other benchmarked countries. Furthermore, according to a survey released in early February 2012 and conducted by ictQATAR and Nielsen, an independent survey agency, Qatar has a high smartphone penetration at 75% *(for VFQS, the percentage of smartphone subscribers is only 36% as of 4QFY2012 implying room for growth)*. Most of the smartphone users are in the 15-34 age group. However, despite the widespread usage of smartphones, the survey indicated that 67% of the respondents did not have any applications in their handsets while 73% of the users had not downloaded or purchased applications on their mobiles in the past 30 days. Smartphone applications have not yet gained popularity largely owing to insufficient customization due to lack of a regional/local application developer community. Facebook penetration in Qatar stands at about 40%, which is somewhat low compared to developed markets such as the US and

UK (around 50-60%). We believe that uptake of data-hungry applications would increase as social media penetration grows, applications are localized for the Qatari population and smart device (including tablets) penetration increases. Concurrently, we also believe that smartphone penetration would increase with the launch of cheaper android-based handsets from companies such as Samsung and HTC. Thus, we are of the view that there is a huge scope for growth in consumption of data services, which could drive revenue for the industry.

Facebook Penetration (%) has Scope for Growth in Qatar

	2011 Population	Facebook Users*	Penetration
Saudi Arabia	28.45	5.03	18%
UAE	8.48	3.00	35%
Jordan**	6.25	2.41	39%
Lebanon***	4.26	1.47	35%
Kuwait	3.69	0.72	20%
Qatar#	1.71	0.68	40%
Oman	3.09	0.46	15%
Bahrain	1.27	0.34	27%

Source: *Socialbakers (as of August 12, 2012), **Department of Statistics – Jordan, ***World Bank, #QSA, QNB Group estimates

Establishment of Q.NBN to Improve Broadband Penetration

FTTx should improve fixed-broadband penetration over the long term. According to ictQATAR, as of 2010, the share of broadband services in total fixed revenue was 17% in Qatar compared to the OECD countries' average of 36%. This indicates a huge scope for penetration levels to improve for the industry, which should be a major growth driver for the telecom majors. ictQATAR has established Q.NBN with a mandate to roll out a nationwide high-speed broadband Fiber-to-the-x (FTTx) network that will cover 90% or more of homes and businesses by 2015. This government initiative is being developed in consultation with QTEL and VFQS, who have signed agreements with Q.NBN to participate in the project. The operators will support the development of the broadband network, while the government will ensure its smooth deployment and rollout. The fiber-based network is expected to play a crucial role in changing the ICT landscape in Qatar and is in line with Qatar's National ICT Strategy 2015 and the broad vision of the Qatari government as conceptualized in Qatar National Vision 2030.

Mobile Number Portability Could Further Intensify Competition Near Term

MNP should benefit VFQS at least in the short term. ictQATAR had authorized MNP from the time the second operator was introduced in the Qatari market. However, due to certain delays, MNP is yet to be launched. We do note that recent indications suggest that the MNP launch is currently in the final stages of implementation with both network operators and ictQATAR confident about its introduction in November. This could cause shifts in market share, especially in the near term.

Company Background

Company Description

Qatar's fast emerging telecom company. Incorporated in June 2008, VFQS was formed by a consortium composed of Vodafone Group and the Qatar Foundation. The consortium owns a 45% stake in VFQS with Vodafone Group and the Qatar Foundation owning 51% and 49% stakes in the consortium, respectively. Additionally, at the time of the IPO, certain founding Qatari governmental institutions owned another 15% in the company. VFQS went public in July 2009 by floating 40% of the company. The current free float of the company is 55%.

VFQS is the only other licensed telecom service provider in the State of Qatar (apart from QTEL). The company was awarded a 20-year (renewable) license to offer mobile services in Qatar in June 2008 and officially switched on its network in March 2009. VFQS was awarded the second fixed-line license in April 2010. As of the most recent quarter, VFQS had approximately 29.3% and 25.7% market shares in mobile subscribers and revenue from mobile services, respectively.

Company Snapshot

Mobile Subscribers	878,200	Quarterly Mobile ARPU (QR)	122
Mobile Subscriber YoY Growth (%)	15.4	ARPU YoY Growth (%)	5.2

Source: Company data (as of June 2012)

Management Team

Name	Designation
Richard Daly	Chief Executive Officer
Steve Walters	Chief Financial Officer
Ger Coolen	Chief Technology Officer
John Saad	Chief Marketing Officer

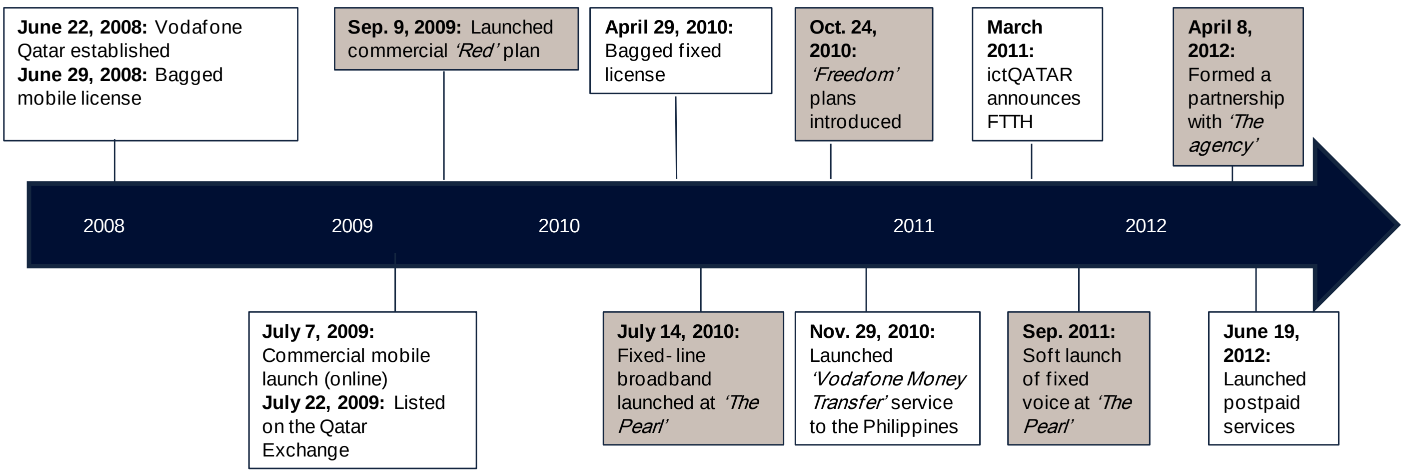
Source: Company data

Major Shareholders

Name	% Stake
Vodafone Group and Qatar Foundation LLC	45.0

Source: Company data (as of June 30, 2012)

Events Timeline



Source: Company data

Business Segments

Business Segments

VFQS' management considers the mobile business as the only operating segment of the company. Fixed-line and money transfer services are currently not broken out separately given their nominal contribution to overall revenue.

Mobile: Provides wireless voice and data services and currently constitutes an overwhelming majority of the top-line. VFQS was awarded its 20-year mobile license back in June 2008 for QR7.716bn with a right to apply for a renewal (for a minimum of five years). In March 2010, the company revised the estimated useful life of the license to 19.16 years. As of 1QFY2013, VFQS had already amortized its license cost by about QR1.3bn (on a straight-line basis). According to the terms of the license, VFQS is required to pay annually: 1) License fees of 1% of license net revenue and 2) Industry fee of 12.5% of license net profits. We note these fees are defined by ictQATAR and do not match the definitions of revenue and net profits set by International Financial Reporting Standards (IFRS). **We estimate that total mobile service revenue (excluding handset/star number sales, etc.) increased by 26.1% YoY to 1,054mn in FY2012.**

Fixed-line: VFQS obtained a license for these services from ictQATAR in April 2010 for a fee of QR10mn. The estimated useful life of the fixed-line license is 25 years. The license terms included full coverage of the Pearl-Qatar, a large-scale residential and commercial development project, where broadband internet services and fixed-line voice services were to be provided within 3 and 12 months, respectively. The company has already rolled out fixed-line services (both data and voice) at the Pearl-Qatar (less than 5,000 subscribers). VFQS went live in Barwa City in early June and Q.NBN is expected to deploy its fiber to the West Bay CBD area and some other greenfield locations around Qatar by October 2012. Longer term, VFQS plans to carry out a nationwide rollout as Q.NBN delivers last mile connectivity.

Key Forecasts

Revenue

We are modeling total revenue to increase at a CAGR of 19.8% during the FY2012-FY2016e period and reach QR2.5bn. We have forecasted revenue by estimating subscriber growth and ARPUs for mobile and fixed-line services.

Mobile: Segment revenue is projected to grow to almost QR2.0bn by FY2016, which translates into a CAGR of 16.8% from FY2012. Over this period, we expect the company's subscriber base and annual ARPUs to grow at CAGRs of 7.4% and 7.3%, respectively.

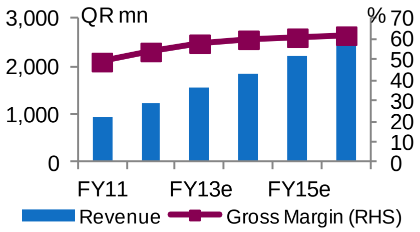
- **We expect VFQS to continue gaining market share in the highly penetrated Qatari mobile market** by augmenting its competitive strategy of targeting the low-end of the market with a concerted push into higher-value segments. While we expect QTEL to maintain its leadership position in Qatar, VFQS should dominate subscriber net additions thereby taking its mobile subscriber market share to 32.5% by FY2016. Consequently, we expect the company's subscriber base to grow at a CAGR of 7.4% over FY2012 to FY2016 to reach 1.11mn customers. Mobile penetration rates should remain stable at 172.8% in FY2016 vs. 173.8% in June 2012.
- **ARPUs should benefit from the move beyond low-end prepaid.** For VFQS, it has been a mixed bag in terms of ARPUs over the last fiscal year. Quarterly ARPU rose in the first quarter of fiscal year 2012 before decreasing moderately on a YoY basis in the remaining three quarters. ARPU for 4QFY2012 came in at QR113, down 1.8% YoY but flattish on a sequential basis. Furthermore, the company's quarterly ARPU saw a big jump in 1QFY2013 to QR122 (up 8.0% QoQ and 5.2% YoY) due to increased contribution from data services. We expect ARPUs to further increase in the coming quarters as the launch of postpaid services takes hold. Moreover, data should continue to grow as a part of the overall revenue mix, which should further benefit ARPUs. We think by end-CY2014, VFQS' mobile offerings will be comparable to that of QTEL in terms of call quality and breadth of services. Looking further ahead, we expect an uptick in mobile ARPUs driven by our assumption that QTEL and VFQS cannot afford to keep giving out lower tariffs at the expense of profitability. Increased usage and awareness of higher-ARPU mobile internet services in Qatar should benefit both carriers. Overall, we are modeling in an annual blended ARPU of QR123.8 in FY2013 and growing it to QR146.8 in FY2016; we expect postpaid customers to make up almost 10% of VFQS' overall mobile subscriber base in FY2016. We note QTEL's blended quarterly ARPU was QR154.3 (postpaid: QR470.2; prepaid: QR102.2) in the quarter ended June 2012. Our modeled estimates imply a CAGR of 7.3% (FY2012-FY2016) for VFQS.

Fixed-line services: From a small base, we expect segment revenue to quadruple in FY2013. We are modeling in around QR22.6mn in revenue for FY2013 and growing this segment's top-line to approximately QR350mn in FY2016. A significant majority of the company's fixed-line revenue is projected to be driven by fixed-broadband services. We expect VFQS to capture a subscriber market share of 24.3% by CY2016, up from virtually nothing currently, in Qatar's fixed-line market as the company's expansion initiatives bear fruit.

Profitability

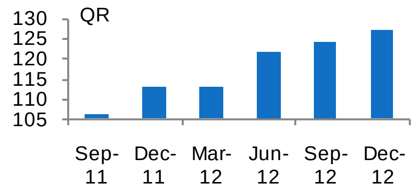
We expect EBITDA margins to increase to 32.0% in FY2016 from 11.8% in FY2012. After turning profitable at the EBITDA level with QR1.0mn in 3QFY2011, VFQS reported an EBITDA of QR144.1mn in FY2012 (EBITDA margin of 11.8%) and comprehensively exceeded its July 2011 guidance of QR120mn (EBITDA margin of around 11.0%). The company saw a further uptick in its EBITDA margin to 14.7% in the quarter ended June 2012.

Revenue and Gross Margin



Source: Company data, QNBFS estimates

Quarterly Mobile ARPU Trend (Historical and Forecasted)



Source: Company data, QNBFS estimates

We expect near-term margins to pick up due to fewer promotions coupled with cost efficiencies; entry into higher-value segments should boost profitability longer term. While QTEL's 15/15 offer was very successful, we expect VFQS to adopt a more rational stance as far as undertaking aggressive promotions is concerned. VFQS expects promotional activity during Ramadan to be less heated versus last year, which saw aggressive schemes such as international pricing starting at QR0.35 a minute. Indeed, our conversations with VFQS and QTEL managements reveal that the carriers are unlikely to repeat the aggressive promotional activity seen last year. Furthermore, we expect the company to realize operational efficiencies going forward as it continues to gain experience in the Qatari telecom market.

We have looked at the margin evolution of other second mobile operators such as DU and Nawras to understand how margins have progressed. While admittedly VFQS' profitability progression has been somewhat disappointing thus far, over the long term, we remain optimistic about further margin expansion given the mix shift toward higher-value segments. Accordingly, we expect an EBITDA margin of 18.7% in FY2013e, which should further increase steadily to 32.0% by FY2016e (against the company's guidance of around 35.0% provided in July 2011). We further believe that annual management fees paid to the Vodafone Group (5% of revenue) could come under review and may come down after 2013.

Earnings

We do not expect VFQS to report a net profit before FY2016. VFQS continued to post losses at the net level in FY2012; the company's net loss narrowed to QR486.0mn from QR600.7mn in FY2011 as VFQS benefited from higher operating margins during the year. In FY2013e, we expect the company's net loss to further narrow to QR392.8mn, implying a loss per share of QR0.46 for the year vis-à-vis QR0.57 in FY2012.

Over the long term, we expect the company's bottom-line to gain from improving operating performance. With operational efficiencies gradually moderating the impact of operating expenses, we estimate VFQS will be profitable at the net level from FY2016. However, VFQS is expected to record a positive distributable profit (net profit after adding back amortization of license fees) of QR11.0mn in FY2013.

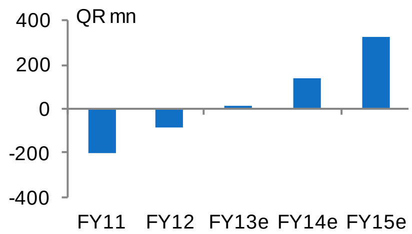
Capital Expenditures

We expect capital expenditures to progressively decline and reach 11% of revenue by FY2016. In FY2012, VFQS recorded capital spending of more than QR399mn, or almost 33% of its revenue. Of this, QR108mn was spent on the fixed-line rollout and around QR291mn was expended on mobile (mostly on the addition of 117 new sites). It is worth noting that capital intensity has been progressively declining and stood at just around 33% in FY2012 compared to 145% in FY2010 and 51% in FY2011. As of FY2012, VFQS has doled out around QR1.79bn since inception on capital projects with about QR246mn spent on fixed-line over FY2011-2012. Further, the company spent another QR64mn in 1QFY2013 with QR34mn spent on rolling out 10 new mobile sites; QR30mn was spent on the fixed-line network. We estimate VFQS will spend around QR339mn on capital projects in FY2013 (22% of revenue). Capital intensity should continue to decline going forward, partly by leveraging Q.NBN's access network, and is projected to reach 11% of revenue by FY2016.

Dividends

We believe VFQS remains on track to pay dividends for the year ended March 31. We note that management has not provided any recent guidance concerning dividends; the company had previously stated its intention to begin dividend payouts from FY2013 when VFQS turns positive in terms of its distributable profits (net profit plus amortization of license fees) metric. While there is no current official guidance regarding the dividend payout ratio or dividends per share, we assume VFQS will pay QR0.01 and QR0.03 in dividends per share in FY2013 and FY2014, respectively.

Distributable Profit



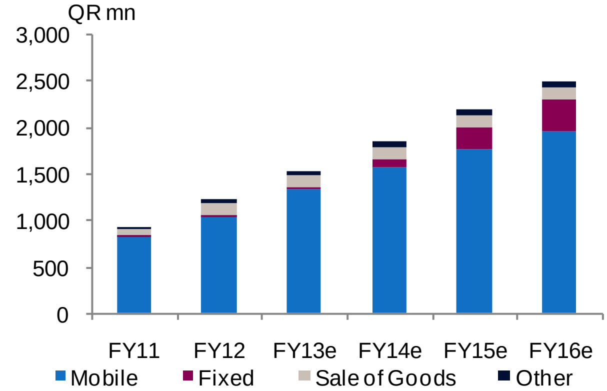
Source: Company data, QNBFS estimates

Financial Position

Net debt levels should fall significantly going forward. Capital expenditure requirements led VFQS to take on additional debt of QR310mn during FY2012; the company further borrowed around QR9mn in the June 2012 quarter. VFQS has total debt of around QR1.05bn and has total borrowing lines of QR1.2bn made up of three facilities. The company's net debt position has increased from QR294mn in FY2010 to QR644mn in FY2011 and QR937mn in FY2012; net debt fell slightly to QR904mn in 1QFY2013. VFQS is yet to witness a full year of positive cash flow from its operating activities. Our model projects net debt levels to remain fairly unchanged at QR952mn in FY2013 and decline thereafter to reach QR60mn in FY2016. We expect VFQS' net debt-to-EBITDA to fall from 6.5x in FY2012 to almost 0x in FY2016e as cash from operations is used to reduce the debt burden. It is worth noting that all debt funding is routed through the Vodafone Group (through the Group's financing arm), which allows the company to benefit from lower interest rates.

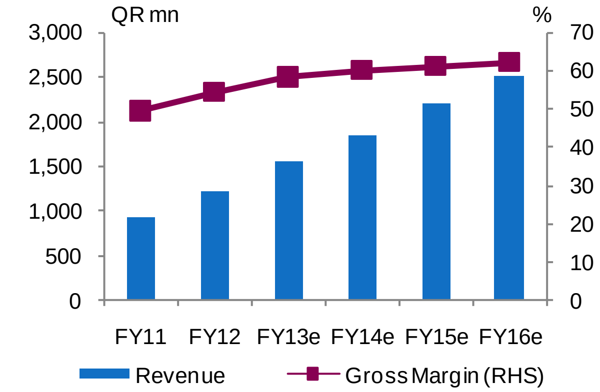
Financial Analysis: Revenues, Margins and Capex

Revenue Distribution by Type (QR mn)



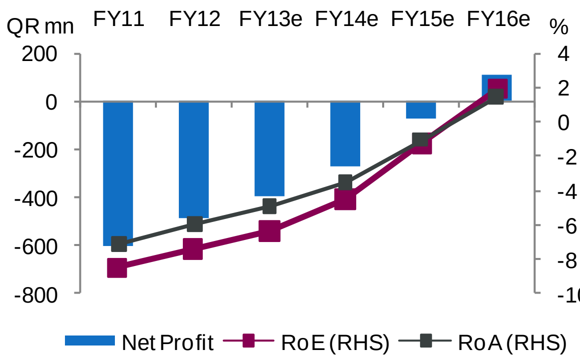
Source: Company data, QNBFS estimates

Revenue (QR mn) and Gross Margin



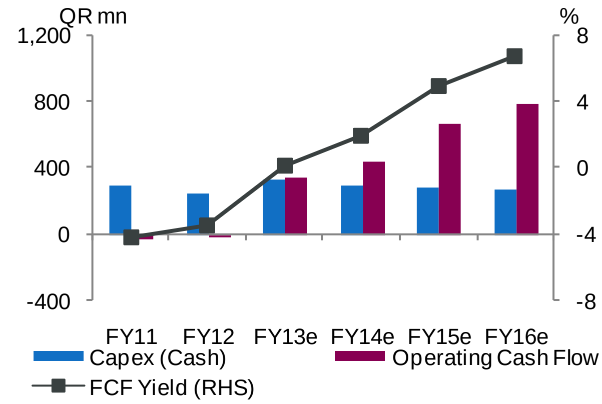
Source: Company data, QNBFS estimates

Net Profit (QR mn) and Return Ratios



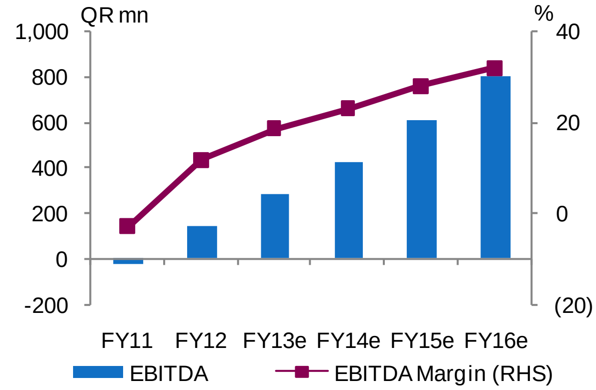
Source: Company data, QNBFS estimates

Capex, Net Operating Cash Flow and FCF Yield



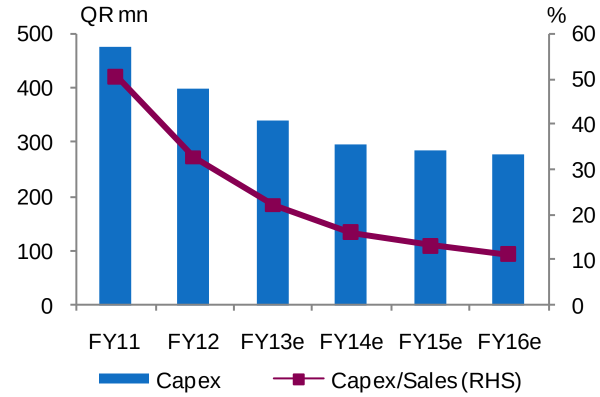
Source: Company data, QNBFS estimates

EBITDA and EBITDA Margin



Source: Company data, QNBFS estimates

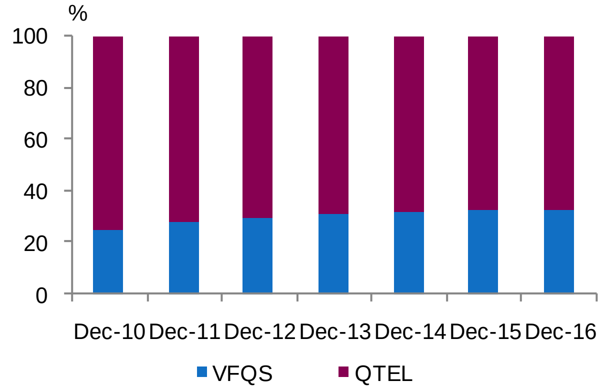
Trend in Capital Expenditure



Source: Company data, QNBFS estimates

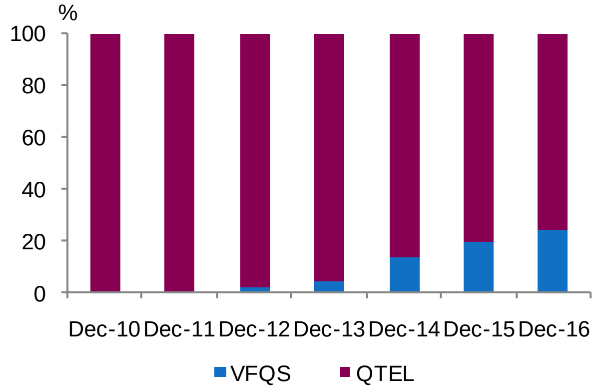
Operational Data

Customer Market Share Trend – Mobile



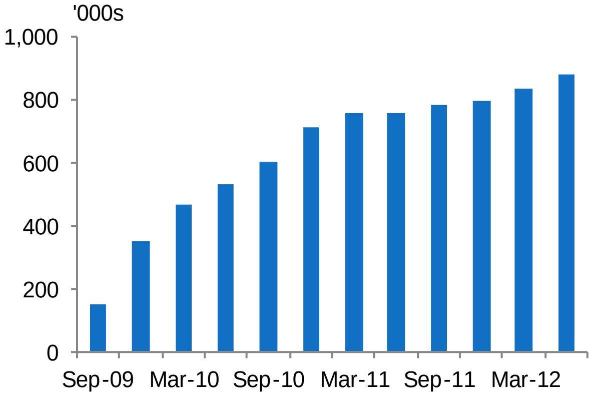
Source: Company data, QNBFS estimates

Customer Market Share Trend – Fixed-Line



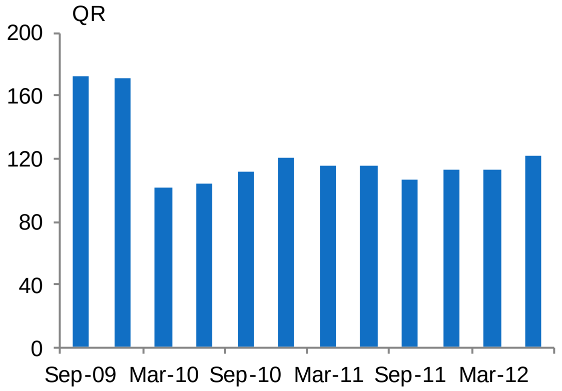
Source: Company data, QNBFS estimates

VFQS – Number of Subscribers (Mobile)



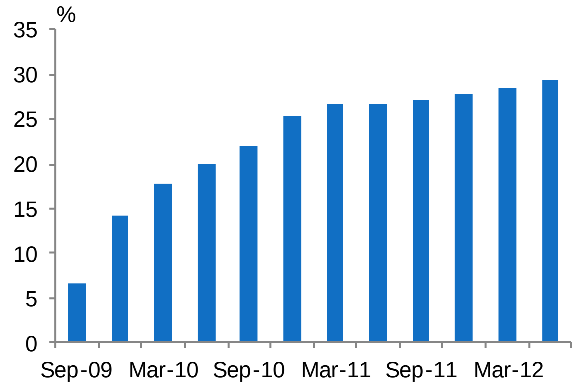
Source: Company data

VFQS – Quarterly Blended Mobile ARPU



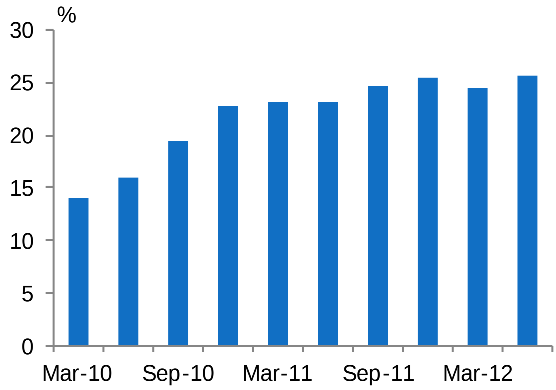
Source: Company data

Customer Market Share



Source: Company data

Quarterly Revenue Market Share



Source: Company data

Detailed Financial Statements

Income Statement

Figures in QR mn	FY2012	FY2013e	FY2014e	FY2015e	FY2016e
Revenue	**1,222**	**1,542**	**1,849**	**2,198**	**2,513**
Direct Costs	(561)	(646)	(740)	(857)	(955)
Gross Profit	**661**	**895**	**1,109**	**1,341**	**1,558**
Other Expenses, Excluding D&A	(517)	(607)	(684)	(725)	(754)
EBITDA	**144**	**288**	**425**	**616**	**804**
Depreciation & Amortization	(600)	(656)	(670)	(675)	(687)
EBIT	**(456)**	**(368)**	**(245)**	**(59)**	**117**
Interest Income	1	4	5	6	8
Interest Expense	(30)	(29)	(27)	(22)	(15)
Profit before Tax	**(486)**	**(393)**	**(268)**	**(75)**	**109**
Income Tax Expense	0	0	0	0	0
Profit for Shareholders	**(486)**	**(393)**	**(268)**	**(75)**	**109**
EPS (QR)	**(0.57)**	**(0.46)**	**(0.32)**	**(0.09)**	**0.13**

Source: Company data, QNBFS estimates

Balance Sheet

Figures in QR mn	FY2012	FY2013e	FY2014e	FY2015e	FY2016e
Non-Current Assets					
Property, Plant and Equipment	1,364	1,451	1,481	1,496	1,489
Intangible Assets	6,550	6,146	5,743	5,339	4,935
Trade and Other Receivables	7	7	7	7	7
Total Non-Current Assets	**7,921**	**7,604**	**7,230**	**6,841**	**6,430**
Current Assets					
Inventory	12	16	17	20	24
Trade and Other Receivables	171	258	254	304	400
Cash and Cash Equivalents	100	94	117	155	385
Total Current Assets	**284**	**369**	**388**	**479**	**809**
TOTAL ASSETS	**8,205**	**7,973**	**7,619**	**7,320**	**7,240**
Equity					
Share Capital	8,454	8,454	8,454	8,454	8,454
Legal Reserve	11	11	11	11	11
Hedging Reserve	1	0	0	0	0
Accumulated Deficit	(1,893)	(2,286)	(2,560)	(2,662)	(2,635)
Total Equity	**6,574**	**6,180**	**5,906**	**5,804**	**5,831**
Non-Current Liabilities					
End of Service Benefits	8	9	9	9	9
Provisions	11	12	12	12	12
Long-Term Borrowings	1,037	1,046	946	646	446
Total Non-Current Liabilities	**1,056**	**1,067**	**967**	**667**	**467**
Current Liabilities					
Trade and Other Payables	575	727	746	850	942
Short-Term Borrowings	0	0	0	0	0
Total Current Liabilities	**575**	**727**	**746**	**850**	**942**
Total Liabilities	**1,631**	**1,793**	**1,713**	**1,516**	**1,409**
EQUITY AND LIABILITIES	**8,205**	**7,973**	**7,619**	**7,320**	**7,240**

Source: Company data, QNBFS estimates

Growth Rates

	FY2012	FY2013e	FY2014e	FY2015e	FY2016e
Revenue	30.7%	26.2%	19.9%	18.9%	14.3%
Gross Profit	43.7%	35.5%	23.9%	20.9%	16.2%
EBITDA	N/M	99.9%	47.7%	44.7%	30.6%

Source: Company data, QNBFS estimates

Cash Flow Statement

Figures in QR mn	FY2012	FY2013e	FY2014e	FY2015e	FY2016e
Net Profit (Loss) before Net Interest	**(456)**	**(368)**	**(245)**	**(59)**	**117**
Depreciation and Amortization	600	656	670	675	687
Finance Expenses	(3)	0	0	0	0
Increase in Inventory	(0)	(4)	(1)	(3)	(3)
Increase in Trade and Other Receivables	9	(87)	4	(49)	(97)
Increase in Trade and Other Payables	(176)	152	19	104	92
Increase in End of Employment Benefits	4	1	0	0	0
Increase in Provisions	2	1	0	0	0
Other	0	0	0	0	0
Net Cash Flow from Operating Activities	**(20)**	**350**	**448**	**667**	**796**
Purchase of Property, Plant and Equipment	(246)	(339)	(296)	(286)	(276)
Payment for Intangible Assets	0	0	0	0	0
Interest Received	1	4	5	6	8
Net Cash Flow from Investing Activities	**(245)**	**(335)**	**(291)**	**(280)**	**(269)**
Proceeds from Issue of Ordinary Share Capital	0	0	0	0	0
Proceeds from (Repayment of) Long-Term Borrowings	310	9	(100)	(300)	(200)
Proceeds from (Repayment of) Short-Term Borrowings	0	0	0	0	0
Interest Paid	(28)	(29)	(27)	(22)	(15)
Dividends Paid	0	0	(6)	(27)	(82)
Net Cash Flow from Financing Activities	**282**	**(20)**	**(134)**	**(349)**	**(297)**
Net Cash Flow during the Period	**17**	**(6)**	**23**	**38**	**230**
Beginning Cash and Cash Equivalents	83	100	94	117	155
Ending Cash and Cash Equivalents	**100**	**94**	**117**	**155**	**385**

Source: Company data, QNBFS estimates

Key Ratios

	FY2012	FY2013e	FY2014e	FY2015e	FY2016e
Operating Ratios					
Gross Margin	54.1%	58.1%	60.0%	61.0%	62.0%
EBITDA Margin	11.8%	18.7%	23.0%	28.0%	32.0%
EBIT Margin	(37.4%)	(23.9%)	(13.2%)	(2.7%)	4.6%
Net Margin	(39.8%)	(25.5%)	(14.5%)	(3.4%)	4.4%
Working Capital Ratios (Days)					
Average Collection Period	51.2	61.2	50.2	50.4	58.2
Payable Days	374.2	410.4	368.1	361.9	360.2
Finance Ratios					
Debt-Equity Ratio	15.8%	16.9%	16.0%	11.1%	7.6%
Net Debt-Equity Ratio	14.3%	15.4%	14.0%	8.5%	1.0%
Return Ratios					
ROCE	(6.0%)	(5.1%)	(3.6%)	(0.9%)	1.9%
ROE	(7.4%)	(6.4%)	(4.5%)	(1.3%)	1.9%
ROA	(5.9%)	(4.9%)	(3.5%)	(1.0%)	1.5%
Liquidity Ratios					
Current Ratio	0.5	0.5	0.5	0.6	0.9
Quick Ratio	0.3	0.4	0.4	0.4	0.5
Valuation					
EV/Sales	7.0	5.6	4.6	3.7	3.1
EV/EBITDA	59.7	29.9	20.0	13.3	9.6
EV/EBIT	N/M	N/M	N/M	N/M	66.2
P/E	N/M	NM	NM	NM	70.0
P/BV	1.2	1.2	1.3	1.3	1.3

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