

## VFQS Alert – In-Line 3Q2021 Earnings but EBITDA Continues to Impress; Accumulate

- **VFQS' net profit jumps 45.3% YoY and comes in-line with our estimate** – Vodafone Qatar's (VFQS) net profit of QR66.3mn in 3Q2021 (45.3% YoY, -2.5% QoQ) is bang in-line with our estimate of QR65.6mn (1.1% divergence). Quarterly revenue of QR582.7mn (8.0% YoY, 0.9% QoQ) was also in-line with our estimate of QR592.5mn (variation of -1.6%) and was helped by continued growth in postpaid and fixed broadband. According to the company's press release, service revenue increased by 8.7% YoY to come in at QR1.63bn in 9M2021. Vodafone Qatar also reported mobile subs of ~1.8mn, which was also in-line with our 1.75mn mobile subs forecast. We note VFQS grew its mobile subs YoY/QoQ (3Q2020 subs: 1.678mn, 2Q2021 subs: 1.714mn) despite a 3.2% YoY decline (but 5.2% increase QoQ) in Qatar's total population to 2.636mn in September 2021.
- **Reported 3Q2021 EBITDA margin of 42.7% is the highest in the company's history.** EBITDA margin improved vs. 3Q2020's 37.4% and 2Q2021's 41.4%; we were expecting an EBITDA margin of 40.2%. Quarterly EBITDA of QR248.6mn grew 23.2% YoY and 4.8% QoQ and was 4.4% above our estimate of QR238.2mn. Continued costs optimization, especially in G&A and network, rentals and other opex, helped drive the improvement in EBITDA/EBITDA margins on a YoY/QoQ basis.
- **Our view on the stock remains unchanged – we continue to like the company's momentum in postpaid (1H2021 segment revenue up 5.9% YoY to QR564.0mn, making up 68.4% of total service revenue as subs continue to grow and ARPUs remain healthy).** We also believe postpaid, 5G (more than 70% population coverage), fixed, home broadband, enterprise and bundled solutions should continue to drive future momentum. VFQS trades at ~7.9x and 7.4x CY2021 and CY2022 EV/EBITDA, respectively, which while higher than its peers, has eroded some of its valuation gap. We continue to expect net income growth of 45.5% for 2021 and 5.7% in 2022 (growth rate of 28.8% in 2020). 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                             |                             | 3QCY20 A         | 2QCY21 A         | 3QCY21 A         | 3QCY21 E         | A v E        | YoY          | QoQ          |
|--|-----------------------------|------------------|------------------|------------------|------------------|--------------|--------------|--------------|
| <i>(In QR mn Unless Specified)</i>           |                             |                  |                  |                  |                  |              |              |              |
| <b>Revenue</b>                               |                             | <b>539.397</b>   | <b>577.577</b>   | <b>582.749</b>   | <b>592.471</b>   | <b>-1.6%</b> | <b>8.0%</b>  | <b>0.9%</b>  |
|  | YoY Growth (%)              | 9.9%             | 8.7%             | 8.0%             | 9.8%             |              |              |              |
| Direct Costs (Interconnection & Other Opex)  |                             | (182.745)        | (180.960)        | (184.936)        | (192.553)        | -4.0%        | 1.2%         | 2.2%         |
|  | as a % of Total Revenue (%) | 33.9%            | 31.3%            | 31.7%            | 32.5%            |              |              |              |
| <b>Gross Profit (Loss)</b>                   |                             | <b>356.652</b>   | <b>396.617</b>   | <b>397.813</b>   | <b>399.918</b>   | <b>-0.5%</b> | <b>11.5%</b> | <b>0.3%</b>  |
|  | Gross Margin (%)            | 66.1%            | 68.7%            | 68.3%            | 67.5%            |              |              |              |
| Other Expenses (Employee and Other Expenses) |                             | (154.861)        | (159.364)        | (149.241)        | (161.744)        | -7.7%        | -3.6%        | -6.4%        |
|  | as a % of Total Revenue (%) | 28.7%            | 27.6%            | 25.6%            | 27.3%            |              |              |              |
| Depreciation and Amortization                |                             | (136.324)        | (153.716)        | (170.076)        | (155.501)        | 9.4%         | 24.8%        | 10.6%        |
| <b>Total Operating Expenses</b>              |                             | <b>(291.185)</b> | <b>(313.080)</b> | <b>(319.317)</b> | <b>(317.245)</b> | <b>0.7%</b>  | <b>9.7%</b>  | <b>2.0%</b>  |
| <b>EBITDA</b>                                |                             | <b>201.791</b>   | <b>237.253</b>   | <b>248.572</b>   | <b>238.173</b>   | <b>4.4%</b>  | <b>23.2%</b> | <b>4.8%</b>  |
|  | EBITDA Margin (%)           | 37.4%            | 41.1%            | 42.7%            | 40.2%            |              |              |              |
|  | YoY Growth (%)              | 18.1%            | 25.0%            | 23.2%            | 18.0%            |              |              |              |
|  | QoQ Growth (%)              | 6.4%             | 1.3%             | 4.8%             | 0.4%             |              |              |              |
| <b>Operating Profit (Loss) - EBIT</b>        |                             | <b>65.467</b>    | <b>83.537</b>    | <b>78.496</b>    | <b>82.673</b>    | <b>-5.1%</b> | <b>19.9%</b> | <b>-6.0%</b> |
|  | EBIT Margin (%)             | 12.1%            | 14.5%            | 13.5%            | 14.0%            |              |              |              |
| Interest Income                              |                             | 0.567            | (0.612)          | 1.049            | 0.500            | 109.8%       | 85.0%        | -271.4%      |
| Interest Expense/Lease Interest Expense      |                             | (15.157)         | (7.064)          | (4.519)          | (10.062)         | -55.1%       | -70.2%       | -36.0%       |
| Other Income/Expense                         |                             | (5.238)          | (7.792)          | (8.692)          | (7.510)          | 15.7%        | 65.9%        | 11.6%        |
| <b>Profit (Loss) Before Tax</b>              |                             | <b>45.639</b>    | <b>68.069</b>    | <b>66.334</b>    | <b>65.601</b>    | <b>1.1%</b>  | <b>45.3%</b> | <b>-2.5%</b> |
| <b>Net Profit (loss) - Adjusted</b>          |                             | <b>45.639</b>    | <b>68.069</b>    | <b>66.334</b>    | <b>65.601</b>    | <b>1.1%</b>  | <b>45.3%</b> | <b>-2.5%</b> |
|  | Net Margin (%)              | 8.5%             | 11.8%            | 11.4%            | 11.1%            |              |              |              |
| <b>EPS (QR)</b>                              |                             | <b>0.01</b>      | <b>0.02</b>      | <b>0.02</b>      | <b>0.02</b>      | <b>1.1%</b>  | <b>45.3%</b> | <b>-2.5%</b> |

### 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%

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### 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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