

VFQS Alert – Capital Reduction Goes Into Effect; No Change to Estimates & TP

- **VFQS capital reduction initiative (originally announced Feb. 26), goes into effect; no changes to our estimates, rating or price target.** The shares were suspended as per regulatory requirements on Thursday November 15 as the capital reduction went into effect and will resume trading on Sunday November 18.
- **The capital reduction is a non-cash balance sheet accounting adjustment that takes place in the “total equity” section:** VFQS has reduced its share capital from QR8.454bn to QR4.227bn by halving the par value of its shares from QR10 to QR5. This has been offset by extinguishing accumulated losses, which stood at QR3.952bn as of September 2018; these accumulated losses were largely driven by previous amortization charges. After the change, VFQS has a positive retained earnings of QR274.6mn as of September 2018. Total equity remains unchanged at QR4.550bn. The transaction has no impact on the value or the number of the shares held by shareholders or on VFQS’ cash position or financial liquidity. The transaction does clean up the balance sheet.
- **Recent moves have been positive but valuation remains high.** We continue to like the company’s momentum in postpaid (3Q2018 revenue up 36% YoY driven by subs increasing 24% and ARPU growing 8%) fueled by traction in Flex, Red and enterprise plans. With majority control moving to Qatar Foundation (50% owner), we expect traction in the postpaid segment to continue, along with a renewed push into fixed-line services. Moreover, we continue to forecast resumption in dividends in 2018 after an almost 4-year hiatus; indeed our 2018 DPS forecast of QR0.10 a share could prove to be conservative. Despite these positive moves, profitability metrics remain subdued with ROIC to remain below WACC until at least CY2023. VFQS trades at 9.9x and 8.2x CY2019 and CY2020 EV/EBITDA, respectively, which is significantly more expensive than its regional peers.
- **No change to our estimates, rating or price target; we continue to rate VFQS a Market Perform with a PT of QR8.50.**

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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