

Vodafone Qatar (VFQS)

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	QR1.687	Target Price	QR2.070
Implied Upside	22.7%		

In-Line 1Q2024 As Impressive Growth Trajectory Continues

VFQS reported an in-line 1Q2024 that was mostly unsurprising. Overall, VFQS continues to make solid progress in its growth & costs optimization initiatives. With the stock down 11.5% YTD, we believe that VFQS presents a compelling opportunity. For 2024, VFQS is trading at a P/E of 12.5x and at an EV/EBITDA of 5.4x, along with a dividend yield of 7.1%. **We maintain our Accumulate rating and our QR2.070 target price.**

Highlights

- **VFQS reported 1Q2024 net profit of QR150.1mn (12.5% YoY, 1.5% QoQ) that was right in-line with our estimate of QR151.0mn (-0.6% divergence).** Overall results were right in-line with our model with YoY and sequential growth in most major metrics other than total revenue, which was marginally down QoQ.
- **Quarterly revenue of QR806.1mn (3.9% YoY, -0.8% QoQ) came in-line with our model of QR803.2mn (0.4% difference).** The company has not yet disclosed full details about revenue segments but service revenue of QR704mn (up 2.5% YoY) was marginally below our QR712mn forecast. This implies that equipment revenue came in at QR94mn for 1Q2024 vs. our estimate of QR91mn. Overall subscribers of 2.1mn was slightly lower than our estimate of 2.2mn. We await further details from the company pertaining to ARPU/subs for postpaid/prepaid. In its press release, VFQS disclosed that, as expected, growth in total revenue was driven by various segments, including fixed broadband services, managed services, Internet of Things, handsets and others.
- **Costs optimization remains evident with VFQS reporting a healthy 1Q2024 EBITDA margin of 41.9% vs. 41.3% in 1Q2023/4Q2023.** We were modeling an EBITDA margin of 42.6%. Quarterly EBITDA of QR337.5mn rose 5.4% YoY and 0.6% QoQ and was modestly lower than our estimate of QR342.1mn (-1.4% divergence) given the modest increase in expenses relative to our model.
- **We continue to maintain our 2024 earnings estimate of QR568.6mn (EPS: 0.13), which implies a 5.3% growth and looks reasonable, in our view.** Our total revenue estimate of QR3.2bn for 2024 translates to a 3.9% YoY growth. We also expect the EBITDA margin to expand from 41.3% in 2023 to 42.1% in 2024. Our model is in-line with management's guidance of top-line growth along with an expansion of EBITDA margin in 2024.

Catalysts

- **VFQS continues to deliver on its growth metrics.** Longer-term, postpaid (71.4% of 2023 mobile service revenue), 5G, managed services, fixed, broadband, enterprise, IoT and bundled ICT solutions should boost growth. While capex levels were elevated due to 5G and WC-related coverage/capacity expansion, dividend and FCF yields should improve.

Recommendation, Valuation and Risks

- **We rate VFQS an Accumulate.** The company's longer-term growth prospects as a 2nd operator in a market of Qatar's size and dynamics (population size of 3.12mn in March 2024, along with a mobile penetration of 162% as of December 2023; VFQS already has revenue market share of 31.3% and subscriber market share of 44.6% as of 4Q2023, with postpaid and prepaid market shares of 40.6% and 46.2%, respectively) is more of an open question. We believe there is room for improvement (as of 4Q2023, VFQS has an EBITDA margin of 41.3% vs. ORDS' 50.6%, an ARPU of QR72.1 vs. ORDS' QR104.0, along with 567K high-ARPU/margin postpaid customers relative to Ooredoo's 830K postpaid subs). As VFQS demonstrates progress in closing this gap beyond our expectations, the stock could benefit. With FCF yields growing from 4.9% in 2022 to 13.1% in 2027, we think there could be DPS upside.
- **Risks:** 1) Increased competition leading to ARPU erosion and/or market share loss; 2) Weakening of postpaid, broadband, fixed-line and managed services traction/stickiness and 3) Fall in population/industry growth rates.

Key Financial Data and Estimates

	CY2022	CY2023	CY2024e	CY2025e	CY2026e
EPS (QR)	0.12	0.13	0.13	0.14	0.15
EV/EBITDA	6.2x	5.8x	5.4x	5.0x	4.7x
Dividend Yield	5.9%	6.5%	7.1%	7.7%	8.3%

Source: Company data, QNB FS Research; Note: All data based on current number of shares

Key Data

Current Market Price (QR)	1.687
Dividend Yield (%)	6.5
Bloomberg Ticker	VFQS QD
ADR/GDR Ticker	N/A
Reuters Ticker	VFQS.QA
ISIN	QA000A0Q5NE9
Sector*	Telecoms
52wk High/52wk Low (QR)	1.950/1.660
3-m Average Volume (mn)	8.6
Mkt. Cap. (\$ bn/QR bn)	2.0/7.1
EV (\$ bn/QR bn)	2.1/7.7
Shares Outstanding (mn)	4,227.0
FO Limit* (%)	49.0
Institutional FO* (%)	8.1
1-Year Total Return (%)	6.7
Fiscal Year End	December 31

Source: Bloomberg (as of April 23, 2024), *Qatar Exchange (as of April 23, 2024, 2024); Note: FO is foreign ownership

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QNB FS 1Q2024 Estimates and Comparisons

INCOME STATEMENT		1QCY23 A	4QCY23 A	1QCY24 A	1QCY24 E	A Vs. E	YoY	QoQ
<i>(In QR mn Unless Specified)</i>								
Revenue		775.878	812.640	806.054	803.166	0.4%	3.9%	-0.8%
	<i>YoY Growth (%)</i>	6.2%	-8.7%	3.9%	3.5%			
Direct Costs (Interconnection & Other Opex)		(268.365)	(287.530)	(279.604)	(275.486)	1.5%	4.2%	-2.8%
Gross Profit (Loss)		507.513	525.110	526.450	527.680	-0.2%	3.7%	0.3%
	<i>Gross Margin (%)</i>	65.4%	64.6%	65.3%	65.7%			
Operating Expenses (Network, Employee & Other Expenses)		(187.294)	(189.568)	(188.926)	(185.531)	1.8%	0.9%	-0.3%
Depreciation and Amortization		(158.927)	(157.779)	(157.943)	(159.593)	-1.0%	-0.6%	0.1%
EBITDA		320.219	335.542	337.524	342.149	-1.4%	5.4%	0.6%
	<i>EBITDA Margin (%)</i>	41.3%	41.3%	41.9%	42.6%			
Operating Profit (Loss) - EBIT		161.292	177.763	179.581	182.555	-1.6%	11.3%	1.0%
	<i>EBIT Margin (%)</i>	20.8%	21.9%	22.3%	22.7%			
Interest Income		3.113	4.486	2.385	4.786	-50.2%	-23.4%	-46.8%
Interest Expense/Lease Interest Expense		(17.579)	(21.256)	(16.533)	(22.179)	-25.5%	-6.0%	-22.2%
Other Income/Expense		(13.435)	(13.073)	(15.326)	(14.157)	8.3%	14.1%	17.2%
Profit (Loss) Before Tax		133.391	147.920	150.107	151.006	-0.6%	12.5%	1.5%
Net Profit (loss) - Adjusted		133.391	147.920	150.107	151.006	-0.6%	12.5%	1.5%
	<i>Net Margin (%)</i>	17.2%	18.2%	18.6%	18.8%			
	<i>Net Profit YoY Growth</i>	24.2%	-11.9%	12.5%	13.2%			
EPS (QR)		0.032	0.035	0.036	0.036	-0.6%	12.5%	1.5%

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	CY2020	CY2021	CY2022	CY2023	CY2024e	CY2025e	CY2026e	CY2027e
Revenue	2,200	2,526	3,066	3,111	3,232	3,307	3,381	3,457
Direct Costs	(759)	(885)	(1,068)	(1,077)	(1,084)	(1,103)	(1,122)	(1,142)
Gross Profit	1,440	1,641	1,998	2,034	2,148	2,204	2,259	2,315
Operating Expenses, Excl. D&A	(632)	(611)	(764)	(748)	(789)	(800)	(811)	(823)
EBITDA	808	1,031	1,234	1,286	1,360	1,403	1,447	1,492
Depreciation & Amortization	(539)	(628)	(635)	(631)	(677)	(693)	(711)	(729)
EBIT	269	403	599	655	682	710	736	763
Interest Income	2	1	6	13	13	14	14	14
Interest Expense	(65)	(37)	(48)	(78)	(65)	(54)	(44)	(37)
Other Income/Expense	(21)	(40)	(54)	(51)	(61)	(65)	(69)	(72)
Profit Before Tax	185	327	502	540	569	605	637	669
Income Tax Expense								
Profit for Shareholders	185	327	502	540	569	605	637	669
EPS (QR)	0.04	0.08	0.12	0.13	0.13	0.14	0.15	0.16
DPS (QR)	0.05	0.06	0.10	0.11	0.12	0.13	0.14	0.15

Source: Company data, QNB FS Research

Recommendations		Risk Ratings	
<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>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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