

Vodafone Qatar (VFQS)

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	QR8.84	New Target Price	QR10.08
Implied Upside	14.0%	Old Target Price	QR9.36

3QFY2013 Beats Expectations; Maintain Accumulate

VFQS reported solid December quarter metrics that exceeded our estimates and handily surpassed consensus expectations. While we were already at the higher-end of consensus expectations, the positive beat for the quarter prompts us to revise our FY2013 model to the higher-end of management's guidance. We adjust our model beyond FY2013 accounting for VFQS' strong subscriber traction but remain conservative on our blended ARPU assumptions given our concerns regarding potential medium-term ARPU pressures. Net-net, we retain our Accumulate rating with a revised price target of QR10.08.

Financial Results and Key Takeaways

- December quarter revenue grew 15% QoQ and 25% YoY to QR396mn vs. our estimate of QR379mn and consensus (provided by VFQS) of QR376mn.** The beat was on the back of strong subscriber growth – total mobile customers grew 7% QoQ and 26% YoY to exceed the 1mn mark. VFQS reported continued traction in the postpaid segment. Quarterly ARPU grew to QR125 vs. QR115 in the September quarter and our estimate of QR120. As expected, seasonal impact was muted in the December quarter with growth in ARPUs driven by increase in postpaid customers, growth in domestic/international voice (especially the QR0.20/minute India promotion) and higher data usage (data more than doubled YoY to 12% of service revenue). Revenue also was somewhat helped by sales of the new iPhone.
- EBITDA for the December quarter came in at QR80mn vs. our estimate of QR74mn and consensus of QR68mn.** The EBITDA margin improved to 20.1% vs. our estimate of 19.5% and 14.7% in the September quarter. According to the company, scale benefits leading to lower leased line costs, streamlining of discretionary spending (marketing, travel, etc.) and the new management agreement with Vodafone Group, helped improve margins. Net loss for the December quarter narrowed to QR87mn from QR122mn in the September quarter; we were estimating QR99mn in net loss, while the consensus figure was a loss of QR105mn.
- Distributable profit turns positive on a quarterly basis.** VFQS reported a distributable profit (net income after adding back amortization of license costs) of QR14mn for the December quarter, bringing the 9MFY2013 loss to QR25mn. The company has stated that it would pay cash dividends once this metric turns green on an annual basis. We continue to expect VFQS to pay its first cash dividend in FY2014.
- Revising estimates and increasing target price to QR10.08; maintaining Accumulate rating.** Given the significant beat this quarter and trends thus far, management seems confident of attaining the higher-end of their FY2013 guidance. Consequently, we raise our estimates for FY2013. We continue to remain concerned about medium-term ARPU pressures due to competition and encroachment by unlicensed VoIP providers but now forecast higher subscriber growth going forward. We also roll forward our price target to FY2014 (March 2014).

3QFY2013, Actual vs. Estimates

QR mn	3QFY2013	QoQ	YoY	3QFY2013e	A vs. E
Revenue	396	15%	25%	379	4%
EBITDA	80	56%	115%	74	8%
Net Profit	(87)	-28%	-29%	(99)	-12%
Distributable Profit	14	N/M	N/M	3	424%

Source: Company data, 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	187,555
Mkt. Cap. (\$ bn/QR bn)	2.1/7.5
Shares Outstanding (mn)	845.4
FO Limit* (%)	No Limit
Current FO* (%)	3.7
1-Year Total Return (%)	17.6
Fiscal Year End	March 31

Source: Bloomberg (as of January 17, 2013), *Qatar Exchange (as of January 17, 2013); Note: FO is foreign ownership

Broker Recommendations

Recommendation	Number
Buy	1
Hold	5
Sell	1

Source: Bloomberg

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Detailed Financial Statements

Income Statement

(In QR mn)	FY2012	FY2013e	FY2014e	FY2015e	FY2016e
Revenue	1,222	1,499	1,900	2,223	2,483
Direct Costs	(561)	(669)	(817)	(934)	(1,006)
Gross Profit	661	831	1,083	1,289	1,477
Other Expenses, Excluding D&A	(517)	(559)	(636)	(700)	(745)
EBITDA	144	271	446	589	732
Depreciation & Amortization	(600)	(653)	(678)	(686)	(697)
EBIT	(456)	(382)	(231)	(97)	35
Interest Income	1	1	3	6	7
Interest Expense	(30)	(26)	(25)	(21)	(15)
Profit before Tax	(486)	(407)	(253)	(111)	27
Income Tax Expense	0	0	0	0	0
Profit for Shareholders	(486)	(407)	(253)	(111)	27
EPS (QR)	(0.57)	(0.48)	(0.30)	(0.13)	0.03

Source: Company data, QNBFS estimates

Balance Sheet

(In QR mn)	FY2012	FY2013e	FY2014e	FY2015e	FY2016e
Non-Current Assets					
Property, Plant and Equipment	1,364	1,473	1,483	1,467	1,420
Intangible Assets	6,550	6,167	5,765	5,362	4,959
Trade and Other Receivables	7	11	11	11	11
Total Non-Current Assets	7,921	7,652	7,259	6,840	6,390
Current Assets					
Inventory	12	14	15	19	21
Trade and Other Receivables	171	213	242	293	335
Cash and Cash Equivalents	100	108	203	229	411
Total Current Assets	284	335	460	541	767
TOTAL ASSETS	8,205	7,986	7,719	7,380	7,158
Equity					
Share Capital	8,454	8,454	8,454	8,454	8,454
Legal Reserve	11	11	11	11	11
Hedging Reserve	1	2	2	2	2
Accumulated Deficit	(1,893)	(2,300)	(2,553)	(2,747)	(2,895)
Total Equity	6,574	6,168	5,915	5,721	5,573
Non-Current Liabilities					
End of Service Benefits	8	10	10	10	10
Provisions	11	13	13	13	13
Long-Term Borrowings	1,037	1,153	1,053	753	553
Total Non-Current Liabilities	1,056	1,176	1,076	776	576
Current Liabilities					
Trade and Other Payables	575	643	728	884	1,009
Short-Term Borrowings	0	0	0	0	0
Total Current Liabilities	575	643	728	884	1,009
Total Liabilities	1,631	1,818	1,804	1,659	1,584
EQUITY AND LIABILITIES	8,205	7,986	7,719	7,380	7,158

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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