

VFQS Alert – 1Q2020 Earnings Beat on Higher Margins; Accumulate

- **VFQS posts its highest-ever reported quarterly net income in 1Q2020 with a 10.0% YoY and a 35.9% QoQ increase in earnings** – Vodafone Qatar's 1Q2020 earnings of QR47.9mn exceeded our estimate of QR36.0mn (variation of 33.1%). VFQS' revenue came in at QR540.7mn in 1Q2020, which was in-line with our estimate of QR537.1mn (difference of 0.7%). We note 1Q2020 was the first earnings beat in a while with VFQS reporting generally lower-than-expected net income over 1Q2019-4Q2019. Reported revenue represents an increase of 1.0% YoY. However, on a QoQ basis, total revenue fell 5.4%. We note 1Q2020 marked the 9th consecutive quarter of YoY growth in total revenue. According to the company, this increase in total revenue was propelled by continued growth in postpaid and fixed broadband services (GigaHome). VFQS' 1Q2020 service revenue also grew by 7.2% YoY to reach ~QR508mn. VFQS is now serving 1.73mn mobile customers.
- **Reported 1Q2020 EBITDA margin of 37.0% improved vs. 1Q2019's 33.8% and 4Q2019's 31.5% and our estimate of 34.0%**. EBITDA of QR199.8mn grew 10.6% YoY and 10.9% QoQ; EBITDA came in 9.4% higher than our modeled forecast of QR182.6mn which was based on an EBITDA margin estimate of 34.0%. Lower direct costs and opex contributed to deliver upside in EBITDA and EBITDA margin in 1Q2020. According to the company's press release, EBITDA was positively impacted by higher service revenue, cost optimization and lower local termination rates.
- **Our view on the stock remains unchanged – we continue to like VFQS' momentum in postpaid and higher value-added services** (4Q2019 postpaid segment revenue was up 21.6% YoY/5.8% QoQ). We also believe postpaid, 5G (more than 70% of Doha under coverage as of 3Q2019), home broadband, enterprise and bundled solutions should continue to drive future growth. *We rate VFQS an Accumulate with a QR1.40 price target.*

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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