

QNBFS Alert – VFQS Beats June Q Soundly on ARPU Growth

- **VFQS posts narrower June 2014 loss on postpaid driven ARPU growth and lower than expected expenses.** In 1QFY2015, Vodafone Qatar's (VFQS) net loss narrowed by 16% on a QoQ basis and 68% on a YoY basis and stood at QR27mn. We were expecting a net loss of QR35mn. Results were helped by an increase in revenue with June quarter revenue up 6% QoQ and 27% YoY to QR585mn. Reported revenue was 3% above our estimate of QR570mn. VFQS' mobile customer growth was modestly disappointing at 2% QoQ; subs reached 1.354mn (up 18% YoY) vs. our estimate of 1.388mn. Quarterly ARPU however exceeded our expectation, coming in at QR131 (+2% QoQ, +7% YoY) vs. our estimates of flattish sequential ARPU at QR128. ARPU growth was driven by postpaid customers that contributed 18% of total revenue (vs. 17% in March 2014). The company reported a quarterly EBITDA margin of 27.2% vs. our estimate of 28.5% and March 2014 quarter's 27.7%. VFQS' June 2014 quarter's EBITDA of QR159mn (+4% QoQ, +61% YoY) was 2% lower than our estimate of QR163mn.
- **Recommendation: We maintain our price target of QR17.20 but change our rating to Reduce from Market Perform.** Continued improvement in quarterly KPIs, including growing profitability, should act as catalysts. VFQS has garnered a substantial market share within a short span of time and positioned itself as a strong alternative to the incumbent (Ooredoo or ORDS). Mobile network improvements and growth in data services, along with focus on new higher-value segments such as mobile postpaid, enterprise and nationwide fixed-line, should drive the next leg of growth. Prospects of higher dividends also remain a positive catalyst.
- **Risks: Besides significant equity market volatility, as seen of late, other risks include – 1) ARPU pressure due to promotional activity/unlicensed VoIP; 2) Lack of postpaid traction/stickiness and 3) Slow growth and penetration in fixed line.**

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

Saugata Sarkar
Head of Research
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Abdullah Amin, CFA
Senior Research Analyst
+974 4476 6569
abdullah.amin@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
+974 4476 6509
Shahan.keushgerian@qnbfs.com.qa

DISCLAIMER: This publication has been prepared by QNB Financial Services SPC ("QNBFS") a wholly-owned subsidiary of Qatar National Bank ("QNB"). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report.

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNBFS.