

# QNBFS Alert – VFQS 1QFY14 Net Dented by Higher Depreciation

- **Slightly lower-than-expected top-line and higher depreciation charges cause June quarter net income miss.** Vodafone Qatar (VFQS) reported revenue of QR459.3mn for 1QFY2014, only 1% shy of our estimate of QR466.1mn (+6% QoQ, +31% YoY). Quarterly ARPU of QR123 was slightly lower than our estimate, while reported mobile subscribers of 1,149,000 was pretty much in line with our model. Growth in overall subscribers, data, postpaid and to an extent, handset sales, helped drive revenue growth for the quarter. Net loss however widened sequentially to QR84.9mn vs. our estimate of QR65.7mn and 4QFY2013's QR73.6mn (QR118.3mn loss in June 2012). Higher-than-expected depreciation charges (QR76.1mn vs. our estimate of QR68.7mn) contributed to most of the bottom-line miss. According to management, growth in depreciation reflects continued network and IT investment.
- **We maintain our estimates for now but will likely revise our net income expectations downward due to higher depreciation expenses.** We do not envision any other major model changes and continue to expect the company to post a full year of net profit only by FY2016. For revenue, we project QR1.9bn and QR2.2bn in FY2014 and FY2015 revenue, respectively. Our EBITDA estimates are unchanged at QR446mn and QR589mn for FY2014 and FY2015, respectively. Finally, we continue to expect VFQS to pay QR0.10 in dividends per share in FY2014. Our estimates factor in VFQS' strong subscriber traction but we remain conservative on our blended ARPU assumptions given our concerns regarding potential medium-term ARPU pressures (due to competition and encroachment by unlicensed VoIP providers).
- **We maintain our Accumulate rating with a price target of QR10.08.**

### Recommendations

*Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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