

VFQS Alert – 3Q2020 Beats on Revenue Upside; Maintain Accumulate

- **VFQS' net profit jumps 50.3% YoY and 37.5% QoQ in 3Q2020 and exceeds our estimate –** Vodafone Qatar's (VFQS) net profit of QR45.6mn in 3Q2020 beat our estimate of QR33.5mn. The majority of the positive earnings surprise was because of better-than-expected revenue of QR539.4mn in 3Q2020 (9.9% YoY, 1.5% QoQ), which exceeded our forecast of QR523.3mn. The company reported mobile subs of ~1.7mn, which was in-line with our estimate, implying better-than-expected ARPU for the quarter. In 9M2020, VFQS posted net profit of QR126.7mn as compared to QR108.4mn in 9M2019. Total revenue YTD improved by 3.8% YoY to QR1.61bn on the back of service revenue growth of ~4% propelled by higher demand for fixed broadband (GigaHome) and continued traction in postpaid.
- **Reported 3Q2020 EBITDA margin of 37.4% improved vs. 3Q2019's 34.8% and 2Q2020's 35.7%.** EBITDA of QR201.8mn grew 18.1% YoY and 6.4% QoQ. Higher revenue growth, especially on a YoY basis relative to growth in direct costs, along with a sequential decline in G&A/network, rentals & other opex, helped drive the improvement in EBITDA/EBITDA margins. According to the company's press release, higher service revenue and costs optimization helped 9M2020 EBITDA margin reach an all-time high of 36.7%.
- **Our view on the stock remains unchanged – we continue to like VFQS' momentum in postpaid and higher value-added services.** As we had expected in our [preview](#), given restrictions on travel and work-from-home trends, we saw strong growth in data and broadband, along with continued traction in postpaid during the third quarter. Our LT thesis on VFQS remains intact – we continue to believe postpaid, 5G, 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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