

VFQS Alert – Softer-Than-Expected 2Q2020; Stay Accumulate

- **VFQS' net profit declines 3.9% YoY and 30.7% QoQ in 2Q2020, below our estimate** – Vodafone Qatar's (VFQS) net profit of QR33.2mn in 2Q2020 also came in below our estimate of QR51.4mn (variation of -35.4%). The company's revenue came in at QR531.5mn in 2Q2020, which represents an increase of 0.8% YoY. However, on a QoQ basis, revenue fell 1.7%. In 1H2020, VFQS reported net profit of QR81.1mn compared to net profit amounting to QR78.1mn for the same period of the previous year. EPS amounted to QR0.019 in 1H2020 as compared to QR0.018 in 1H2019. For 1H2020, service revenue grew by 3.4% YoY to reach QR1bn while total revenue increased by 1% to QR1.1bn, driven by the continued growth in postpaid and higher home broadband revenue.
- **Reported 2Q2020 EBITDA margin of 35.7% improved vs. 2Q2019's 33.6% but eased off vs. 1Q2020's 37.0%.** EBITDA of QR189.7mn grew 7.0% YoY but declined 5.0% QoQ. Lower direct costs helped drive the YoY increase in EBITDA and EBITDA margin in 2Q2020. According to the company's press release, for 1H2020, EBITDA was positively impacted by higher service revenue, cost optimization, lower equipment costs 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.** We are somewhat surprised by 2Q2020's weaker-than-expected profitability given restrictions on travel and work-from-home trends, which should have helped an uptick in data and broadband, along with continued traction in postpaid. This should have offset decline in roaming revenue. However, 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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