

VFQS Alert – In-Line 1Q2023 Results Highlights Continued Growth Traction; Accumulate

- **VFQS' 1Q2023 net profit grew 24.2% YoY but declined 20.6% sequentially and modestly came in below our estimate** – Vodafone Qatar's (VFQS) net profit of QR133.4mn in 1Q2023 was 4.4% below our estimate of QR139.5mn. A moderate upside in revenue relative to our model was offset by modestly lower margins vs. our estimates. We had expected continued growth on a yearly basis and a decline vs. 4Q2022, which benefitted from the World Cup – reported results were in-line with our expectations.
- **Quarterly revenue of QR775.9mn (6.2% YoY, -12.8% QoQ) came in 2.5% ahead of our top-line forecast of QR756.9mn.** Mobile subs came in-line at 2.1mn (up 4.1% YoY), while overall service revenue of ~QR687mn (up 12.3% YoY) was modestly ahead of our model. Performance was helped by continued growth in postpaid and fixed broadband (GigaHome), managed services, IoT and equipment & related services.
- **Continued progress in costs optimization remains evident as VFQS reported 1Q2023 EBITDA margin of 41.3% vs. 41.2% in 1Q2022 and 39.9% in 4Q2022.** We were forecasting an EBITDA margin of 42.2% in 1Q2023. Quarterly EBITDA of QR320.2mn grew 6.4% YoY but declined 9.8% QoQ and was in-line with our estimate of QR319.4mn (0.3% divergence).
- **VFQS continues to deliver on its growth metrics and we reiterate our Accumulate rating.** Longer-term, we also believe postpaid (68.6% of 2022 mobile service revenue), 5G, fixed, broadband, enterprise and bundled ICT solutions should boost growth. While capex levels were elevated due to 5G and coverage/capacity expansion because of the WC, dividend and FCF yields should improve going forward. **We maintain our Accumulate rating on VFQS shares and our price target of QR1.950.**

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INCOME STATEMENT	1QCY22 A	4QCY22 A	1QCY23 A	1QCY23 E	A Vs. E	YoY	QoQ
<i>(In QR mn Unless Specified)</i>							
Revenue	730.614	889.745	775.878	756.885	2.5%	6.2%	-12.8%
YoY Growth (%)	24.8%	14.0%	6.2%	3.6%			
Direct Costs (Interconnection & Other Opex)	(259.355)	(314.577)	(268.365)	(256.584)	4.6%	3.5%	-14.7%
as a % of Total Revenue (%)	35.5%	35.4%	34.6%	33.9%			
Gross Profit (Loss)	471.259	575.168	507.513	500.301	1.4%	7.7%	-11.8%
Gross Margin (%)	64.5%	64.6%	65.4%	66.1%			
Other Expenses (Employee and Other Expenses)	(170.382)	(220.275)	(187.294)	(180.895)	3.5%	9.9%	-15.0%
as a % of Total Revenue (%)	23.3%	24.8%	24.1%	23.9%			
Depreciation and Amortization	(171.605)	(157.803)	(158.927)	(149.418)	6.4%	-7.4%	0.7%
Total Operating Expenses	(341.987)	(378.078)	(346.221)	(330.313)	4.8%	1.2%	-8.4%
EBITDA	300.877	354.893	320.219	319.405	0.3%	6.4%	-9.8%
EBITDA Margin (%)	41.2%	39.9%	41.3%	42.2%			
Operating Profit (Loss) - EBIT	129.272	197.090	161.292	169.988	-5.1%	24.8%	-18.2%
EBIT Margin (%)	17.7%	22.2%	20.8%	22.5%			
Interest Income	0.882	2.067	3.113	1.707	82.3%	252.9%	50.6%
Interest Expense/Lease Interest Expense	(11.083)	(14.828)	(17.579)	(17.119)	2.7%	58.6%	18.6%
Other Income/Expense	(11.688)	(16.357)	(13.435)	(15.029)	-10.6%	14.9%	-17.9%
Profit (Loss) Before Tax	107.383	167.972	133.391	139.547	-4.4%	24.2%	-20.6%
Net Profit (loss) - Adjusted	107.383	167.972	133.391	139.547	-4.4%	24.2%	-20.6%
Net Margin (%)	14.7%	18.9%	17.2%	18.4%			
Net Profit YoY Growth	62.7%	32.3%	24.2%	30.0%			
EPS (QR)	0.03	0.04	0.03	0.03	-4.4%	24.2%	-20.6%

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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