

July 21, 2010

VODAFONE QATAR (VFQS.QA)

12-Month Fair Value: QAR 9.60

Last Close (20 July, 2010): QAR 7.90

Recommendation: Buy - Risk Level: 4

- Vodafone Qatar (VQ) reported 1Q2010-2011 (fiscal year ends in March) results, with revenues increasing by 21% QoQ to QAR 175.8 million. The 1Q2010-2011 revenues are 27% lower than our forecast of QAR 242 million for the quarter and represent only 17% of our FY2010-2011 revenues forecast of QAR 1.05 billion.
- VQ's subscriber base grew by 15% QoQ and reached 534 thousand. The company identifies the international worker community as its key market (management claims to have captured 50% of this segment). Hence, VQ continues to focus on the international calls segment via introducing promotions such as the "World Calling Club", which allows international call users to enter daily cash draws. The operator is also maintaining its focus on capturing the local calls segment via the "Get 200" promotion that offers users free-minutes upon recharging their accounts. VQ has announced the launch of the pre-paid Blackberry (mid-June 2010) and mobile broadband services (early-July 2010) at fairly attractive introductory rates.
- The adjusted EBITDA loss for the quarter came in at QAR 8.8 million, having declined by 69% QoQ and by 88% YoY. This compares with our 1Q2010-2011 EBITDA profit forecast of QAR 5.3 million and our FY2010-2011 EBITDA profit forecast of QAR 105 million. According to VQ's management, EBITDA is expected to turn positive in 2Q2010-2011.
- VQ's net loss for 1Q2010-2011 declined by 17% QoQ and by 3% YoY to QAR 148 million. The trend indicates on-going improvement in VQ's operational efficiency.
- VQ is currently involved in a law suit relating to the entry of Virgin Mobile (via Qtel) in the Qatari mobile market. The management expects to receive the regulator's decision on the matter prior to the end of July 2010.
- VQ's shareholders approved the changes to the company's articles of association to officially merge VQ's fixed-line and mobile businesses. In July 2010, VQ launched the broadband services to residents of "The Pearl-Qatar" and intends to launch the fixed-line services later this year. Per the terms of VQ's fixed-line license, the company is expected to provide fixed-line services to West Bay CBD area by October 2012 and the rest of Qatar by April 2014. In order to attain country-wide fixed-line coverage, VQ has stressed the importance of the use of the government's National Broadband Network.
- Although VQ's 1Q2010-2011 results are below our expectations for the quarter, we prefer to wait until the release of 2Q2010-2011 results to re-assess the company's performance. For now, we maintain our fair value for the stock at QAR 9.60 per share, representing an upside potential of 22% from last close. Hence, our recommendation is "Buy".

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Related Research

- Vodafone Qatar Initiation of Coverage - 08 July 2010

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION		UPSIDE (DOWNSIDE) POTENTIAL		
BUY		MORE THAN 20%		
ACCUMULATE		BETWEEN 5% AND 20%		
HOLD		BETWEEN -10% AND 5%		
REDUCE		BETWEEN -25% AND -10%		
SELL		LESS THAN -25%		
RISK LEVEL				
LOW RISK		HIGH RISK		
1	2	3	4	5

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