

Hold (from Buy)

TP QR7.70 (from QR8.86)

Change of recommendation**RBS Refiner**

Price (close 16 Jan)	QR7.56
3M high/low	QR7.78/7.33
Market cap	QR6.39bn
Av (12M) turnover	QR2.22m
Freefloat	40%
Reuters	VFQS.QA
Bloomberg	VFQS.QD
Net debt (cash) FY11	QR644.41m
3yr EPS CAGR 12-14F	(43.0)%
Income (2013F div yield)	(0.0)%

Source: Bloomberg

RBS vs consensus

NPBT	Ours	Cons	%
2011	(430)	-433	n/m
2012	(240)	-274	n/m
2013	(111)	-94	n/m

Source: RBS forecasts, Bloomberg

Price performance

	(1M)	(3M)	(12M)
Price (QR)	7.50	7.40	8.15
Absolute (%)	0.8	2.2	-7.2
Rel to mkt*(%)	2.1	-0.7	-0.8

*QE Index

Source: Bloomberg

Key events

Date	Event
Jan-12	Interim results announced
May-12	Annual results announced
Jul-12	Interim results announced

Source: Bloomberg

Vodafone Qatar

Pre-earnings 3Q12 review

Vodafone Qatar, the second mobile entrant to the Qatari market, remains on track in terms of market share performance, with a 28% subscriber market share at the end of September 2011. We revise our estimates ahead of 3QFY12 results and downgrade the company to a Hold from a Buy.

Event: Vodafone Qatar scheduled to release 3Q12 results on 19 January 2012

Vodafone Qatar is scheduled to release its 3Q12 results ending December 2011 on 19 January 2012. We revise our year-end forecasts to account for the company's operational performance over the past couple of quarters, and we expect 3Q12 revenue to reach QR332m, a yoy increase of 25%.

Forecasts: We expect Vodafone Qatar's revenue to grow 33.5% annually for FY12

We revise our year-end 2012 and 2013 revenue forecasts down by 7% and 9%, respectively, in light of stiffer competition from Qatar Telecom. We expect Vodafone Qatar's revenue to grow by an annual 33.5% for FY12 and by 18.3% for FY13. We also reduce our EBITDA margin forecasts strongly throughout our forecast period, as EBITDA margin development is slower than we previously expected, and price competition from Qatar Telecom, particularly on international calls, during 1H12 have surpassed our expectations. We lower our EBITDA margin estimates for FY12 and FY13 to 12% and 20%, from our previous forecasts of 24% and 30%, respectively. We expect 3Q12 revenue to reach QR332m, a yoy increase of 25% and a qoq increase of 11%. We expect Vodafone Qatar's market share to inch further upwards to reach total subscriber market share of 29% at end-December 2011, compared to 28% at end-September 2011. We expect positive EBITDA margin performance to continue on track (Vodafone Qatar started recording positive EBITDA margin for the first time in 3Q11), with 3Q12 EBITDA estimated to reach QR43m, which is equivalent to an EBITDA margin of 13%.

Valuation: We cut our target price to QR7.70 and downgrade to a Hold recommendation

Our DCF valuation for Vodafone Qatar implies a 12-month fair value of QR7.70, which is 13% lower than our previous target price of QR8.86. The main reason behind the cut in our target price is our reduction of EBITDA margin estimates, as our previous estimates were more aggressive than what current operational performance suggests. Thus we downgrade to a Hold recommendation from our previous Buy recommendation. Our main concern remains the risk of increased pricing competition in Qatar either in voice or broadband services. We believe that Qatar Telecom will not stand idle, particularly as the Qatari market is the second-largest, single country revenue contributor among its subsidiary operations. In our view, the main upside risk is Vodafone Qatar's ability to attract and capture a higher slice of the high net worth subscriber base, thus improving both its revenue and EBITDA margin performance.

Key forecasts

year to Mar	FY10A	FY11A	FY12F	FY13F	FY14F
Revenue (QRm)	361.5	934.9	1,248	1,476	1,598
EBITDA (QRm)	-225	-27.1	153.7 ▼	324.7 ▼	451.3
Normalised PTP (QRm)	-673	-600	-429 ▼	-240 ▼	-111
Norm fully diluted EPS (QR)	-0.80	-0.71	-0.51 ▼	-0.28 ▼	-0.13
Normalised PE	-9.49	-10.6	-14.8	-26.5	-57.4
Dividend per share (QR)	0.00	0.00	0.00	0.00	0.00
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

Source: Company data, Rasmala forecasts

Accounting standard: IAS

Analyst**Shrouk Diab**

+971 552 248 033

shrouk.diab@rasmala.com

Important disclosures can be found in the Disclosures Appendix.

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RBS Equities Forecasts: Vodafone Qatar

Income statement

QRm, year to March	FY10A	FY11A	FY12F	FY13F	FY14F
Revenue	361.5	934.9	1248	1476	1598
Cost of sales	-247.6	-475.0	-511.8	-516.6	-535.2
Operating costs	-339.3	-486.9	-582.8	-634.7	-611.1
EBITDA	-225.3	-27.1	153.7	324.7	451.3
DDA & Impairment (ex gw)	-449.3	-548.5	-590.0	-609.4	-610.4
EBITA	-674.6	-575.6	-436.3	-284.7	-159.1
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	-674.6	-575.6	-436.3	-284.7	-159.1
Net interest	1.18	-25.2	6.41	44.3	47.9
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	-673.4	-600.7	-429.9	-240.4	-111.2
Taxation	0.00	0.00	0.00	0.00	0.00
Minority interests	0.00	0.00	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	-673.4	-600.7	-429.9	-240.4	-111.2
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	-225.3	-27.1	153.7	324.7	451.3
Normalised PTP	-673.4	-600.7	-429.9	-240.4	-111.2
Normalised net profit	-673.4	-600.7	-429.9	-240.4	-111.2

Balance sheet

QRm, year ended March	FY10A	FY11A	FY12F	FY13F	FY14F
Cash & market secs (1)	85.4	83.3	298.7	586.0	1032
Other current assets	139.9	211.8	188.1	202.2	197.0
Tangible fixed assets	832.3	1161	1111	1052	988.3
Intang assets (incl gw)	7351	6960	6557	6154	5752
Oth non-curr assets	-0.00	-0.00	0.00	0.00	-0.00
Total assets	8409	8416	8155	7995	7969
Short term debt (2)	0.00	0.00	0.00	0.00	0.00
Trade & oth current liab	363.7	596.9	909.4	1124	1344
Long term debt (3)	379.1	727.7	592.7	457.7	322.7
Oth non-current liab	6.82	13.3	4.71	4.71	4.71
Total liabilities	749.6	1338	1507	1587	1672
Total equity (incl min)	7659	7078	6648	6408	6297
Total liab & sh equity	8409	8416	8155	7995	7969
Net debt	293.7	644.4	429.0	6.67	-574.0

Cash flow statement

QRm, year to March	FY10A	FY11A	FY12F	FY13F	FY14F
EBITDA	-225.3	-27.1	153.7	324.7	451.3
Change in working capital	180.2	161.3	201.3	200.9	225.3
Net interest (pd) / rec	1.18	-25.2	6.41	44.3	47.9
Taxes paid	0.00	0.00	0.00	0.00	0.00
Other oper cash items	0.00	0.00	0.00	0.00	0.00
Cash flow from ops (1)	-43.9	109.0	361.4	569.9	724.5
Capex (2)	-443.8	-328.9	-137.3	-147.6	-143.8
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	4.43	-138.5	0.00	0.00	0.00
Cash flow from invest (3)	-439.3	-467.4	-137.3	-147.6	-143.8
Incr / (decr) in equity	352.4	0.00	0.00	0.00	0.00
Incr / (decr) in debt	0.00	0.00	0.00	0.00	0.00
Ordinary dividend paid	0.00	0.00	0.00	0.00	0.00
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	350.3	355.1	-8.60	-135.0	-135.0
Cash flow from fin (5)	702.7	355.1	-8.60	-135.0	-135.0
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Incr/(decr) cash (1+3+5+6)	219.5	-3.33	215.4	287.3	445.7
Equity FCF (1+2+4)	-487.7	-219.9	224.0	422.3	580.7

Source: Company data, Rasmala forecasts

Valuation and forecast revisions

Our DCF valuation of Vodafone Qatar implies a 12-month fair value of QR7.70, close to its current price of QR7.56, thus we downgrade to a Hold recommendation from our previous Buy recommendation.

Discounted cash flow

Our DCF valuation of Vodafone Qatar implies a 12-month fair value of QR7.70, close to its current price of QR7.56. The assumptions underlying our valuation are an 11.50% cost of equity, based on a risk-free rate of 5.50% and an equity-risk premium of 6.00%. We also use 2.0% terminal growth, a WACC of 11.5%, a 10.0% cost of debt and beta of 1x.

Table 1: Three-stage DCF valuation

(QRm)	Free cash flow	PV of FCF
2012	218	215
2013	378	335
2014	533	424
2015	655	468
2016-21 (WACC: 11.5%. Five-year growth: 4.0%)		2,256
Terminal value		3,461
Enterprise value		7,160
Minus: net debt		653
Equity value		6,507
Number of shares (m)		845
12-month fair value per share (QR)		7.70

Source: Company data, Rasmala forecasts

We have also supplied a sensitivity analysis, employing different rates for both the cost of equity and terminal growth rate, to illustrate how sensitive our DCF target price is to changes in these assumptions.

Table 2: DCF sensitivity analysis (value per share QR)

Terminal growth rate	Cost of equity				
	9.5%	10.5%	11.5%	12.5%	13.5%
0.5%	9.24	8.15	7.27	6.53	5.92
1.0%	9.60	8.42	7.47	6.69	6.04
2.0%	10.01	8.72	7.70	6.87	6.18
2.5%	10.47	9.06	7.95	7.06	6.33
3.0%	11.01	9.44	8.23	7.27	6.49

Source: Rasmala estimates

Table 3: Our forecasts vs consensus

QRm unless stated otherwise	Ours		Bloomberg		Variance	
	3Q12F	9m12F	3Q12F	9m12F	3Q12F	9m12F
Revenue	332	922	310	900	7%	2%
EBITDA	43	108	36	101	20%	7%
EBITDA margin (%)	13%	12%	12%	11%		
Net profit	-123	-360	-115	-352	n/m	n/m

Source: Rasmala estimates, Bloomberg

Table 4: Changes to our forecasts

QRm unless stated otherwise	(Old forecasts)		(New Forecasts)		Change	
	FY12F	FY13F	FY12F	FY13F	FY12F	FY13F
Revenue	1,342	1,621	1,248	1,476	-7%	-9%
EBITDA	322	486	154	295	-52%	-39%
EBITDA margin (%)	24%	30%	12%	20%		
Net profit	(274)	(95)	(430)	(270)	n/m	n/m

Source: Rasmala estimates

Table 5: Changes to our forecasts

QRm unless stated otherwise	(Old forecasts)		(New Forecasts)		Change	
	FY12F	FY13F	FY12F	FY13F	FY12F	FY13F
Revenue	1,342	1,621	1,248	1,476	-7%	-9%
EBITDA	322	486	154	295	-52%	-39%
EBITDA margin (%)	24%	30%	12%	20%		
Net profit	(274)	(95)	(430)	(270)	n/m	n/m

Source: Rasmala estimates

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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