



EVENT FLASH

Strong revenue growth offset by higher Opex

Zain reported weaker than expected results with a net loss SR250mn. This compares to a loss of SR257mn in 1Q15 and NCBC estimates of a loss of SR215mn. The key highlights from the results are 1) strong revenue growth of 5.2% which was driven by increasing customers and higher market share and 2) gross margins expansion of 852 bps YoY to 61.5% largely due to the growth in the high margin broadband segment. However, the improvement was partially offset by higher SG&A, depreciation and higher financing expenses.

- Zain reported weaker than expected results with net losses of SR250mn vs. our estimates of SR215mn. This is compared to a loss of SR257mn in 1Q15. The weak results are attributed to higher SG&A and depreciation expenses which offset the strong improvement in sales and margins. Zain's top-line grew 5.2% to SR1,765mn while gross margin reached 61.5%. We believe this is attributed to lower interconnection rates, higher market share and a strong increase in the high margin broadband segment.
- Zain's revenues grew by 5.2% YoY to reach SR1,765mn. Zain's top-line growth was the fastest among its peers which indicates an increase in market share. STC local revenues grew 2.9% YoY while Mobily sales declined 6.0% YoY. The growth was driven by 1) 5% YoY growth in the number of subscribers to 11.6mn and 2) 30% YoY increase in internet subscriber base.
- Driven by the revenue growth and 12.4% decline in COGS (COGS/Sales came in at 38.5% from 47.0% in 1Q15), gross profit expanded by 24.2% YoY to SR1,086mn. Gross margins increased 852bps YoY to reach 61.5%, higher than our estimate of 57.5%. We believe this is due to growth in high-margin data segment and cost efficiency.
- The improvement in gross profit was partially mitigated by higher than expected Opex. SG&A expenses came in at SR641mn compared to our estimate of SR600mn. Moreover, depreciation stood at SR477mn vs. our estimates of SR426mn. Therefore, EBIT losses reached SR32mn higher than our estimates of a loss of SR3.6mn.
- We remain Neutral on Zain with a PT of SR9.4. We believe the company will benefit from the second revision in interconnection charges to increase its market share. However, the ongoing arbitrations with Mobily and the SR620mn Zakat claim remain the key concerns.

1Q16 Results Summary

SR mn	1Q16A	1Q15A	% YoY	1Q16E	% Var [^]
Sales	1,765	1,678	5.2	1,779	(0.8)
Gross income	1,086	874	24.2	1,023	6.2
Operating income	(32)	(59)	NM	(4)	NM
Reported net income	(250)	(257)	NM	(215)	NM
EPS (SR)	(0.43)	(0.44)	NM	(0.37)	NM

Source: Company, NCBC Research, [^] % Var indicates variance from NCBC forecasts; *calculated using the 7% growth for 1Q16

NEUTRAL

Target price (SR)	9.4
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Current price (SR)	9.1
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STOCK DETAILS

M52-week range H/L (SR)	12.4/5.5
Market cap (\$ mn)	1,417
Shares outstanding (mn)	584
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	4.5	40.5	(22.9)
Rel. to market	4.0	21.2	9.2

Avg daily turnover (mn)	SR	US\$
3M	51.7	13.8
12M	58.6	15.7

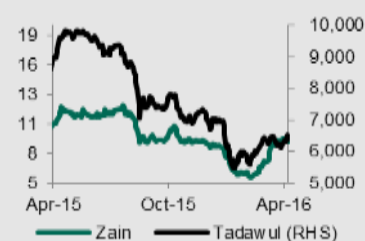
Reuters code	7030.SE
Bloomberg code	ZAINKSA AB
	www.sa.zain.com

VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	NM	NM	NM
P/B (x)	1.2	1.4	1.6
EV/EBITDA (x)	10.3	10.5	9.1
Div Yield (%)	0.0	0.0	0.0

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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<http://research.ncbc.com>

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- UNDERWEIGHT:** Target price represents a fall in share price exceeding 10% in the next 12 months
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