

April 12, 2017

Rating **Buy**
12- Month Target Price **SAR 13.00**

ZAIN KSA
1Q2017 First Look

Expected Total Return

Price as on April 11, 2017	SAR 9.15
Upside to Target Price	42.1%
Expected Dividend Yield	0.0%
Expected Total Return	42.1%

Market Data

52 Week H/L	SAR 9.50/6.30
Market Capitalization	SAR 5,341 million
Shares Outstanding	583.73 mln
Free Float	51.84%
12-Month ADTV	4,074,464

1-Year Price Performance



Source: Bloomberg



1Q2017 (SAR mln)	Actual	RC Forecast
Revenue	1,919	1,834
Gross Profit	1,291	1,182
Net Profit	45	(74)
EPS (SAR)	0.07	(0.13)

Inaugural Net Profit

Zain KSA (Zain) reported its maiden net profit with a surprising margin boost in 1Q2017. Management's efforts to gain market share and enhanced efficiency have finally paid-off, with Zain recording a net income of SAR 45 million compared to a net loss of SAR (250) million in 1Q2016. Results beat consensus of SAR (93) million net loss. The quarter witnessed an unprecedented performance, as effective pricing strategy and operational efficiency have boosted revenue growth amid a margin expansion. An exclusive data offering has led to improvement in subscriber base. We believe that Zain successfully benefitted from events, which includes license extension, MTR reduction and biometric verification. We continue with our Buy recommendation and a target price of SAR 13.00 (+42% upside). Our earlier view stands vindicated.

Revenue growth backed by ARPU

Revenue of SAR 1.9 billion witnessed a growth of +9% Y/Y and +7% Q/Q on elevated ARPU, beating our estimate of SAR 1.8 billion. The top line growth was driven by high margin services. Our analysis of competitor offerings point to unlimited post-paid data from Zain as a major contributor of growth. Zain saw a decline in subscriber base from 10.9 million in 4Q2016 to 10.1 million in 1Q2017. However, the combined effect of high margin services and decline in subscriber base, led to an increase in ARPU to SAR 63 compared to SAR 55 in 4Q2016.

Margin improvements throughout

Double-digit growth of +19% Y/Y and +13% Q/Q has led to gross profit reaching SAR 1.3 billion. Margins at the gross level expanded by 400bps to 67% recording new highs compared to last quarter and versus our estimate of 65%. Cost efficiency reduced cost contribution from 37% in 4Q2016 to 33% in the current quarter. We attribute margin improvement to higher data price while data cost is nearly fixed. On an operational level, further cutting in S&M expenses and amortization expense reduction did offset the increase in fixed assets base. Higher margins also caused operating profit to increase to SAR 273 million in 1Q2017 compared to a loss of SAR (32) million in 1Q2016 and SAR 87 million reported in the last quarter.

Bottom line in the black

Zain recorded net profit of SAR 45 million, the first since its inception supported by lucrative margins at a competitive time. Net profit beat our estimates of SAR (74) million net loss and streets' SAR (93) million. It is worth noting that finance charges remained flat Q/Q as SAIBOR has declined over the past six months. We intend to revisit our assumptions; however, our long-term view on Zain's topline growth and margin expansion remained supportive to our Buy recommendation. We continue to be positive and expect further price upside from here.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	6,926	7,335	7,555
EBITDA	1,795	2,269	2,364
Net Profit	(980)	(295)	(278)
EPS (SAR)	(1.68)	(0.51)	(0.48)
DPS (SAR)	NA	NA	NA

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
BVPS (SAR)	6.12	5.62	5.14
ROAE	NA	NA	NA
ROAA	NA	NA	NA
EV/EBITDA	8.0x	6.0x	5.3x
P/B	1.5x	1.6x	1.7x

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Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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