

ZAIN KSA



EVENT FLASH

Strong revenue growth and record high margin

Zain KSA announced an in-line set of results in 3Q15, achieving second consecutive quarter of break-even at the EBIT level. Net losses declined significantly to SR223. This is compared to the NCBC and the consensus estimates of SR235.1mn and SR217mn, respectively. The results key positives are the 14% YoY revenue growth and a record high gross margin of 60%, indicating higher market share and operational efficiency.

- Zain KSA reported in line results with net losses declining to SR223mn. This is compared with the NCBC and consensus estimates of losses of SR235.1mn and SR217mn, respectively. The results key highlights include 1) a 14.0% YoY growth in revenues which we believe is supported by Hajj and higher market share and 2) 780bps YoY gross margin expansion to 60%, the highest level since inception. The continuous increase in subscriber count along with operating profit break-even are the key positives.
- Revenues grew strongly by 14.0% YoY to the highest level since 3Q11, reaching SR1,770mn. This is 5.5% above our estimates. We believe the increase in the number of subscribers, as a result of Hajj season and higher market share due to shift from other operators, is the key revenue driver. The subscribers count grew 26% YoY increase to 11.8mn while internet subscribers increased 79% YoY.
- Led by higher revenues and a 4.6% decline in COGS (COGS/sales at 40.0% vs. 47.8% in 3Q14), gross profit increased by 31.0% YoY to SR1,062mn, 15.1% above our estimates. Gross margin expanded significantly by 780bps to 60%, the highest level since inception which we believe is due to rapid growth in the high margin data segment. Furthermore, a controlled growth in Opex (Opex to sales at 60.1% vs. 60.8% in 3Q14) attributed to the turnaround program, led to EBIT break-even for the second consecutive quarter. This is compared to EBIT losses of SR134mn in 3Q14. On YoY basis, Zain increased Opex by around SR70mn which we believe is due to the management aim to gain market share during the Hajj season.
- Net losses for the company declined by 29.4% YoY to SR223mn. We believe Zain is now in a better position to achieve a faster than expected breakeven (we expect breakeven in 2019E), driven by the strong sales growth and operational efficiencies.
- We remain Neutral on Zain KSA with a PT of SR10.8. Key positives include strong top-line growth and controlled expenses. However, unfavorable outcome of the SR620mn Zakat issue with DZIT remains a key concern.

3Q15 Results Summary

SR mn	3Q15	3Q14	%YoY	3Q15E	% Var [^]
Sales	1,770 ^{^^}	1,553	14.0	1,677	5.5
Gross income	1,062.0	810.7	31.0	922.5	15.1
Operating income	(1.0)	(133.6)	NM	(41.9)	NM
Net income	(223.0)	(315.8)	NM	(231.5)	NM
EPS* (SR)	(0.38)	(0.54)	NM	(0.40)	NM

Source: Company, NCBC Research [^] % Var indicates variance from NCBC forecasts, *Based on 583mn shares, ^{^^}Calculated using gross margin figure provided by the company

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NEUTRAL

Target price (SR) 10.8

Current price (SR) 10.0

STOCK DETAILS

M52-week range H/L (SR)	19/9
Market cap (\$mn)	1,562
Shares outstanding (mn)	584
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	10.5	(16.0)	(45.3)
Rel. to market	8.5	4.3	(18.6)

Avg daily turnover (mn)	SR	US\$
3M	72.5	19.4
12M	111.4	29.7

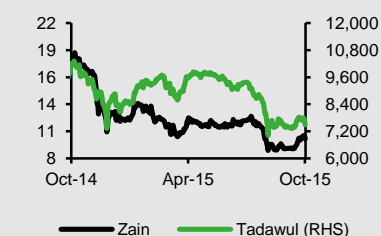
Reuters code	7030.SE
Bloomberg code	ZAINKSA AB
	www.sa.zain.com

VALUATION MULTIPLES

	14A	15E	16E
P/E (x)	NM	NM	NM
P/B (x)	1.1	1.3	1.5
EV/EBITDA (x)	17.8	12.4	10.8
Div Yield (%)	0.0	0.0	0.0

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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22 OCTOBER 2015

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OVERWEIGHT:	Target price represents expected returns in excess of 15% in the next 12 months
NEUTRAL:	Target price represents expected returns between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

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