جلوبل Global

Zain Saudi

HOLD
TP SAR7.4
9.6%

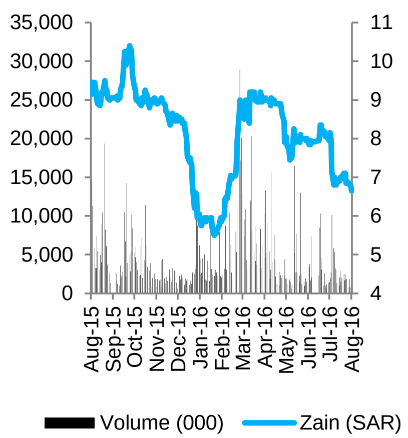
Market Data

Bloomberg Code	ZAINKSA AB
Reuters Code	7030.SE
CMP (29 August 2016)	SAR6.75
O/S (mn)	583.7
Market Cap (SAR mn)	3,940
Market Cap (USD mn)	1,051
52 Week High (SAR)	10.4
52 Week Low (SAR)	5.5
3m ADVT (USD mn)	6.3

Price Performance

	1m	3m	12m
Absolute (%)	-5.3	-10.1	-28.3
Relative (%)	-1.1	-4.2	-7.2

Price Volume Performance



Source: Zawya

Umar Faruqui, CFA, ACCA
Manager
ufaruqui@global.com.kw
Tel.: (965) 22951438

www.globalinv.net

- **Bio-metric verification takes its toll on 2016 performance**
- **Improvement seen from 2017; contingent events pose a risk**
- **Initiation of coverage with a HOLD recommendation**

High leverage and contingent events overshadow strong operational performance. Zain Saudi has made strong progress on the operational side of the business during 2013-15. However, concerns remain on the financing side and contingent events. There is (i) scheduled debt repayment of SAR8.2bn in 2018 (3.9x 2018e EBITDA) (ii) pending lawsuit with Mobily (iii) dispute on Zakat assessment (iv) high level of accumulated losses as a % of share capital (v) need for equity financing (vi) uncertainty over tower sale.

Fairly valued both on a DCF and relative valuation basis. Zain KSA is trading at a 2017e EV/EBITDA of 8.5x compared to GCC telcos average of 4.6x. The premium, we believe, more than accounts for the higher growth trajectory (2016e-2019e EBITDA CAGR of 8.6%) for Zain Saudi. In addition, our DCF based value is SAR7.4/share offering a potential upside of 9.6%. Thus we recommend a **HOLD** for the stock.

Bio-metric verification to weigh in on 2016 performance. After a sharp rise in EBITDA margins in 2015 to 24.2% from 17.6% in 2014, EBITDA margins are expected to decline slightly in 2016 to 24.1% largely due to the costs associated with bio-metric verification. In addition we might see further declines in industry mobile subscriber base as unverified subscribers are disconnected after the verification deadline lapsed in July 2016.

Catalysts. With the key risks in mind, there are certain events which can trigger a stock price rally. (i) Extension of the license term (ii) Re-structuring/re-financing of the Murabaha facility (iii) Further cuts in MTR or introduction of asymmetric termination rates (iv) Sale of mobile towers (v) Settlement of lawsuit with Mobily and dispute on Zakat in Zain Saudi's favor.

Investment Indicators

SAR (mn)	2014	2015	2016e	2017e	2018e
Revenue	6,244	6,741	7,176	7,496	7,738
EBITDA	1,099.8	1,628.8	1,729.3	1,963.8	2,112.6
EBITDA margin	17.6%	24.2%	24.1%	26.2%	27.3%
Operating profit	(534)	(141)	(179)	18	107
Net Profit/(loss)	(1,270)	(972)	(1,081)	(733)	(533)
EPS (AED)	(2.17)	(1.67)	(1.85)	(1.26)	(0.91)
P/E (x)	nm	nm	nm	nm	nm
EV/EBITDA (x)	18.9	11.4	10.1	8.5	7.4

Source: Company financials & Global Research

Valuation Methodology

We have calculated the TP of Zain Saudi of **SAR7.4/share** using the DCF method:

Cost of Equity

We have derived COE of 12.6% for Zain Saudi using the Buildup Method as shown below.

1. US 10 Year Treasury Yield currently taken as 1.54%
2. US Risk Premium currently taken as 7.58%
3. Saudi Arabia risk premium over US Risk Premium as 1.5%
4. Company specific premium of 2%. We have taken a high premium vis-à-vis other companies to account for equity risk associated with the high leverage level.

WACC and Terminal Growth

We have derived a WACC of 9.0% and taken COD at 8.0%. The weight of equity is 22.0% while weight of debt is 78.0% as per the debt capitalization ratio at the end of 2015. We have forecasted till 2025e after which we have taken a terminal growth rate of 2.0%.

DCF Valuation (SAR mn)	2016e	2017e	2018e	2019e	2020e
EBITDA adj. for deferred government charges	2,529	2,764	2,913	3,063	3,199
Capex	(1,602)	(1,371)	(1,257)	(1,233)	(1,280)
Working Capital changes	171	46	30	67	55
FCFF	**1,098**	**1,439**	**1,685**	**1,898**	**1,975**
Discounting Factor	0.97	0.89	0.82	0.75	0.69
Discounted FCFF	**1,065**	**1,281**	**1,376**	**1,421**	**1,356**

Fair value and Enterprise value	
NPV FCFF (2016e-2025e)	10,813
NPV Terminal Value	10,720
Cash and cash equivalents	1,378
Enterprise Value	**22,911**
Less Debt	15,032
Less NPV of MOF loan due from 2021	3,584
Equity value	**4,295**
Outstanding shares (mn)	584
Fair value/ per share	**7.4**

Source: Global Research

Sensitivity Analysis

Terminal Growth \ WACC	8.0%	8.5%	9.0%	9.5%	10.0%
1.0%	9.6	7.1	4.9	3.0	1.3
1.5%	11.2	8.4	6.1	4.0	2.1
2.0%	13.1	10.0	**7.4**	5.1	3.0
2.5%	15.3	11.8	8.9	6.3	4.1
3.0%	18.0	14.0	10.6	7.8	5.3

Source: Global Research

Risks to Valuation

Upside risks

MTR- Further cut in mobile termination rates will boost gross margins as Zain Saudi pays more as interconnect costs then it receives as interconnect revenues by virtue of its low market share.

License terms- Extension of license tenure by 10 years will prove as a catalyst for the stock as it will allow the company to turn profitable earlier due to reduction in amortization costs. Extension will also push the cost of renewal further down the line.

Regulatory changes- Other measures taken by the regulator, such as imposition of asymmetric termination rates, to provide a level-playing field to smaller operators

Tower sale- Sale and leaseback of towers will unlock value by increasing efficiency and reducing strain on the balance sheet.

Tariffs- More than expected increase in data tariffs.

Downside risks

Threat of default- Zain Saudi is looking to restructure debts as a major re-payment is due in 2018 which cannot be met by operating cash flows. Although, we believe that the risk of default is low and the company is likely to re-structure debts, it does pose a significant risk to the “going concern” status of the company particularly at a time of tight liquidity in the banking sector.

Accumulated losses- Accumulated losses are 31.8% of the share capital at the end of 2Q16. If it reaches 50.0%, the company will have to call an AGM. If it reaches 75.0% of the share capital, the company will have to take measures such as capital reduction/issue new equity. Based on our forecasts, accumulated losses will reach 50.0% of the share capital in 2017e and reach a peak of 70.0% of the share capital by 2021e barring any extension in the license term. Therefore, we believe there is a strong possibility that the company will have to raise equity down the road which might lead to dilution for current equity stakeholders. The following are the likely options (i) converting “advances from shareholders” in to equity (ii) rights issue (iii) secondary offering.

Lawsuit with Mobily- In 4Q14, Mobily started arbitration process regarding the national roaming, site sharing, transmission links and international traffic agreement which was signed in 2008 with Zain Saudi. Mobily claims an amount of SAR2.1bn which Zain Saudi disputes. Mobily has written off this amount from its books. The arbitration court has extended the deadline of the process till the end of 2016. Though it remains a risk, we think the decision in favor of Mobily looks remote as indicated by the provisions it has taken.

Zakat payment- In July 2015, Zain received assessments from DZIT for an additional Zakat amount of SAR620mn for the years 2009-2011. Zain has filed an appeal and the outcome is uncertain. Out of the SAR620mn, the withholding tax component of SAR267mn is more likely to be paid as per our conversation with the management. (Impact of SAR0.45 on the fair value)

Regulatory changes- Any regulatory measures which can have a negative impact on Zain such as increase in government charges or allowing entry of further MNVOs.

Competition- Higher than expect competition leading to a decrease in tariffs, ARPUs and market share.

Recent developments in KSA telecom sector

Bio-metric verification through finger-printing to have an effect on subscriber growth

The law was passed in September 2015 and the process got implemented from January 2016. Deadline for verification of all subscribers of telecom operators expired on 20th July 2016. No extension of the grace period was given and unverified mobile subscriptions are being disconnected as per media reports. The effect of this verification process is already apparent with total Saudi Arabia mobile subscriber base declining to 51.0mn at the end of 1Q16 compared to 53.0mn at the end of 2015 as per CITC numbers. We are likely to see a further decline in subscribers in 2Q16.

Cut in MTR ; further reductions possible

The Saudi regulator, for the second time, reduced termination rates for mobile and landlines in March 2016 by 33-36% to 10 halalas and 4.5 halalas respectively. The first cut of 30-40% happened in February 2015. The cut will have an insignificant impact in general as lower revenues will be offset by lower costs. However, the beneficiary has been Zain Saudi by courtesy of its low subscriber market share as the amount of revenues it generates from incoming calls is lower than the amount of charges it pays for outgoing calls. This has been reflected in the improved gross margins for Zain Saudi.

Further reduction in termination rates is possible as according to the CITC public consultation document, the average mobile and fixed termination for benchmarked countries is 8 halalas and 3.1 halalas respectively.

Update on tower sales

News flow regarding tower sales in Saudi Arabia has been strong in the past few months. However, nothing concrete has come forward so far. On 31st July 2016, Mobily and STC signed a MOU to jointly explore options to sell their telecommunication towers in Saudi Arabia. It remains to be seen whether Zain Saudi will be invited to the process. In 2Q16 conference call, the management indicated that Zain Saudi might opt for a legal recourse if it is not invited for any possible deal in view of perceived or real anti-competitive practices by STC and Mobily.

Zain Saudi has 7,500 towers and the sellable towers are around 6,500. Assuming the towers can be sold between USD100k-150k, Zain Saudi can raise USD650-975mn (SAR2.4-3.6bn).

MNVO

As per Zain Saudi 2Q16 conference call, the company is still awaiting communication from CITC on the status of the third MNVO which will operate on Zain's network. Axiom Telecom, which won the bid previously, was not approved by the regulator.

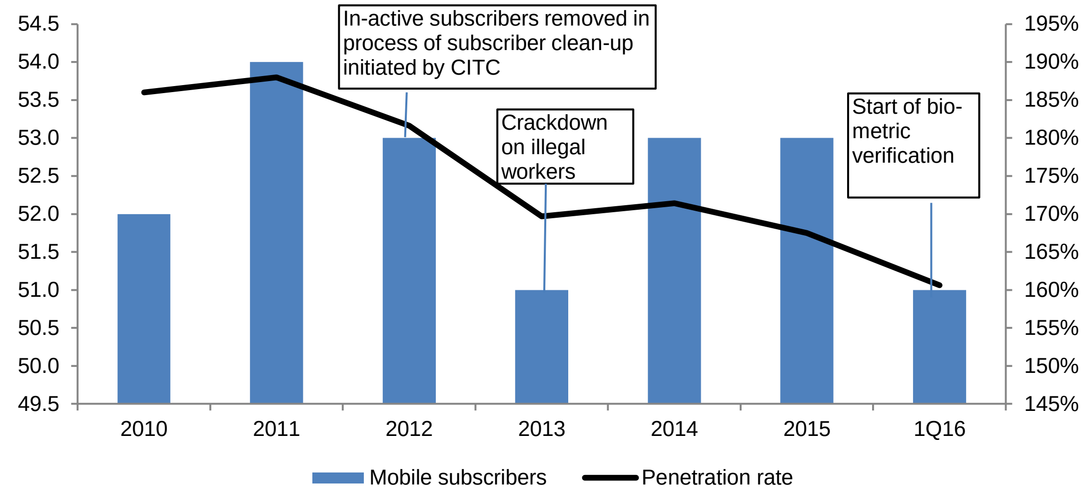
It is difficult to assess the financial impact on Zain when or if the third MNVO enters the market. However, looking at the other two operators, the impact has been minimal. The MNVOs have only been able to capture a market share of 3.0% by the end of 1Q16. Lebara which is being hosted by Mobily started its operations in December 2014 while Virgin mobile which is hosted by STC started its operations in September 2014.

Saudi Telecom Industry

Haphazard growth in Saudi mobile subscriber base

It is hard to decipher growth in the Saudi mobile space in the past five years as stricter registration requirements, crackdown on illegal workers, and cancellation of unidentified SIMS and now the bio-metric verification influenced Saudi mobile subscriber base. A clearer picture will emerge after the completion of the bio-metric verification process. However, with penetration levels at 160% at the end of 1Q16, we expect industry subscriber growth to mirror population growth going forward.

Saudi Mobile subscribers (mn) and penetration rate



Source: CITC Saudi & Global Research

Haj and Umra visas to benefit telecom sector in general

As per the 2030 National Transformation Plan, the government plans to increase Haj pilgrims to 2.5mn from the current 1.5mn and Umra visas to 15mn/pa from the current 6mn/pa by 2020. The planned increase coincides with the Holy Mosque expansion project which is being carried out in phases with the final phase expected to get completed by 2020. In addition, efforts to promote heritage and other sites along with building of more hotels and planned introduction of tourist visas will benefit the telecom sector in general.

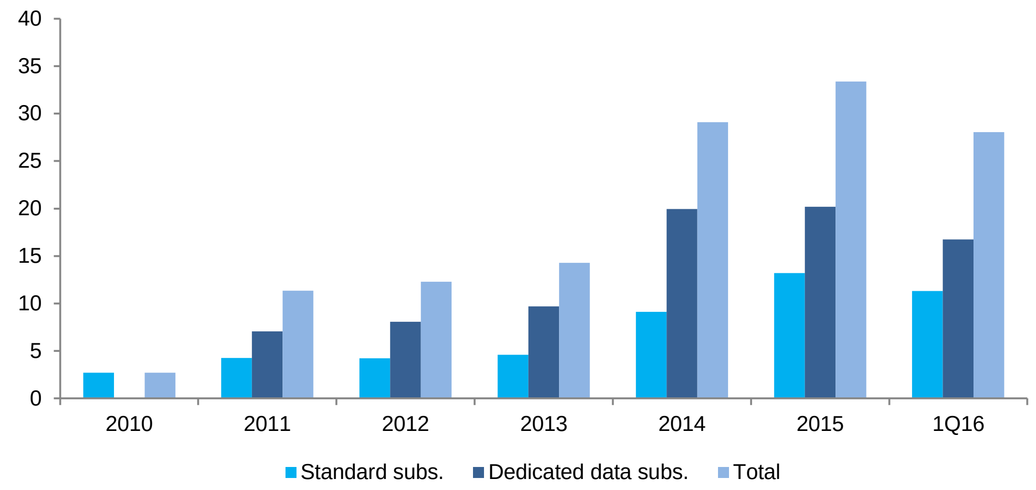
Mobile broadband reaching maturity after exponential growth in the past 5 years

Mobile broadband subscribers have increased 10 folds in the last five years to 28.0mn at the end of 1Q16 compared to just 2.7mn subscribers at the end of 2010. Multiple factors led to this sharp increase including (i) launch of higher speed networks (ii) increase in network coverage (iii) increase in smart phone penetration and affordability (iv) higher disposable income (v) cultural factors (vi) demography which is tilted towards the young.

60.0% of the total connections are data-only subscriptions. Use of data-only subscriptions has become fashionable as it offers flexibility (for e.g. can be used on multiple devices), portability and has cheaper data rates on average. Zain Saudi has approximately 1/3 of the market share in mobile broadband.

Going forward, we expect the growth to come down significantly as the mobile broadband penetration rate has reached 88.5% (As per ITU data, developed countries mobile broadband penetration is 86.7%). Mobile broadband subscribers in fact declined significantly in 1Q16 to 28.0mn from 33.4mn in 2015 as a result of bio-metric fingerprint verification.

Mobile Broadband (mn)



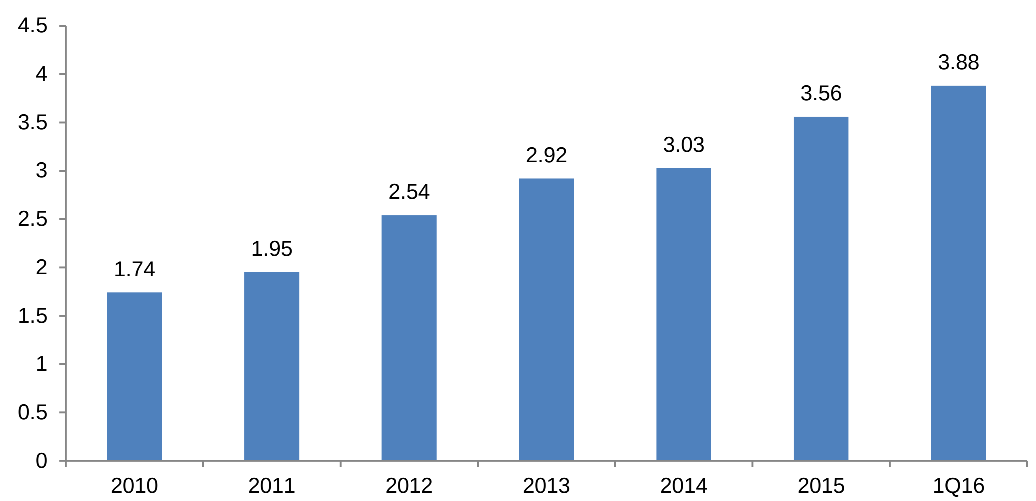
Source: CITC Saudi & Global Research

Fixed broadband still under-penetrated

Fixed broadband subscribers (DSL, fiber optics and WIMAX), have increased at a 2010-15 CAGR of 15.4%. Fixed broadband subscribers continue to grow as they increased to 3.88mn at the end of 1Q16 compared to 3.56mn at the end of 2015. We expect that growth in this segment will remain strong as fixed broadband household penetration rate is still low at 53.0% as per CITC Saudi. Fixed broadband penetration in developed countries is around 80.0% indicating the potential for growth in Saudi Arabia.

Saudi Telecom Company (STC) is the market leader in this segment as it is the incumbent with an expansive fixed line network. Mobily is the other big operator in this space and is currently looking to leverage and monetize its under-utilized fiber optic network. Zain Saudi does not operate in this space.

Fixed broadband subscribers (mn)



Source: CITC Saudi & Global Research

Company Overview

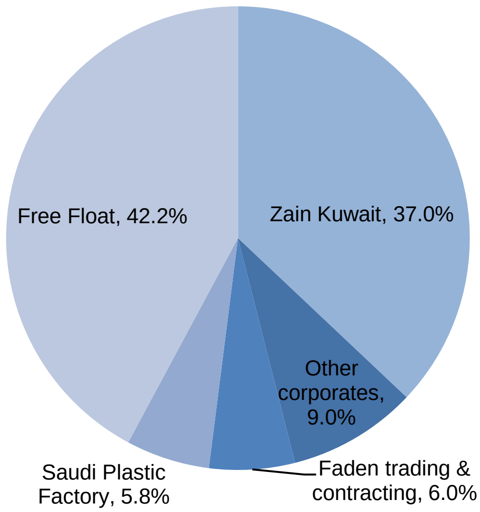
Service description

Zain Saudi is the third mobile operator in Saudi Arabia and provides mobile and internet services. It was awarded a 25-year mobile license in 2007 and started commercial operations in August 2008. In September 2011, the company launched 4GLTE.

Ownership

Zain Kuwait increased it's shareholding from 25.0% to 37.0% by oversubscribing to the rights issue and by converting its loan to Zain Saudi to equity in July 2012.

Ownership structure



Source: Tadawul, Zawya & Global Research

Zain Saudi has treaded a tough path

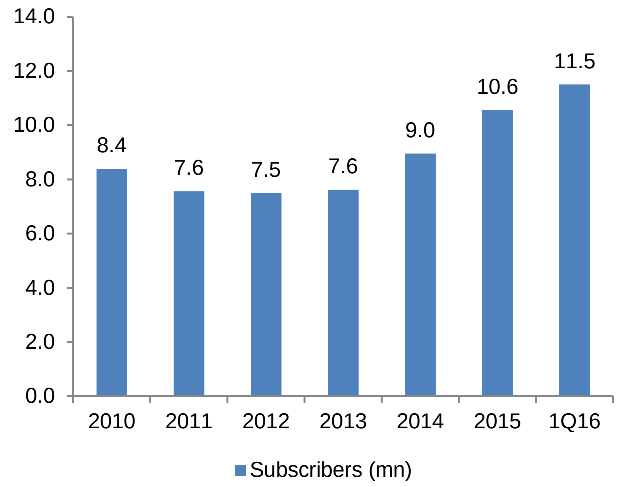
Zain Saudi has incurred losses since inception of its operations which resulted in significant erosion of capital (Equity at the end of 2008 was SAR11.7bn versus SAR4.6bn at the end of 2015). The company undertook capital reduction in 2012 and 2015 to reduce accumulated losses. The company also raised SAR3.45bn in rights issue and converted SAR2.55bn shareholder loans into equity in 2012. At the end of 2Q16, advances from shareholder, majority of which pertains to the parent company, amounted to SAR4.3bn.

High cost of the license "clipped the wings"

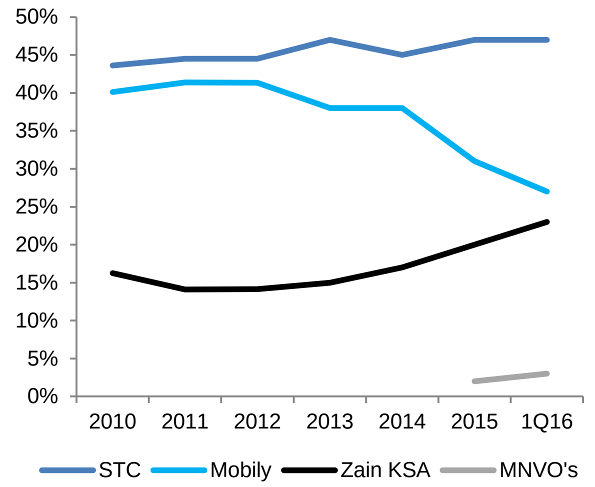
Zain Saudi failed to make any inroads in the market in terms of subscriber market share after the first year. High cost of the license (USD6.1bn compared to USD3.2bn for Mobily) along with high leverage levels constrained the ability of the company to expand its network leaving the other two operators a relatively open field. Operational breakeven happened for the first time in 2Q15. Since then, Zain has struggled to stay afloat on the operating level.

Zain Saudi was provided an opportunity by Mobily after the latter got engrossed in an accounting scandal in late 2014. Since then Zain Saudi's market share increased substantially as per the numbers disclosed by Zain Group.

Zain Saudi Subscriber base



Mobile subscriber market share



Source: Zain Group Investor presentations, CITC & Global Research

Sharp increase in subscriber market share since 2013

Subscriber numbers are not revealed by STC and Mobily but based on the numbers disclosed by Zain Group, Zain Saudi has increased its market share to 23.0% at the end of 1Q16 compared to 15.0% at the end of 2013. The increase has largely come at the expense of Mobily which saw its market share go down substantially after the accounting scandal which erupted in late 2014. Mobily's market share fell by a massive 7pp to 31.0% in 2015 and then by a further 4pp to 27.0% in 1Q16.

MNVOs yet to make an impact

MNVO's are yet to make a big impact with a market share of only 3.0% after they started their operations in late 2014. We would like to emphasize that after the fingerprint verification, we will have more reliable data concerning the subscriber market share as inactive/illegal subscribers will be cut out.

Zain Saudi revenue market share still low despite strong growth in revenue

We have also taken a look at the revenue growth figures for 2015 and 1H16 in view of lack of consistent data on mobile subscriber numbers. Revenue growth figures also indicate that Mobily's drop in subscriber market share was significant with Mobily even lagging behind STC, the largest player, in terms of revenue growth. (STC domestic revenues grew by 5.0%YoY, Zain Saudi by 6.0%YoY while Mobily revenues decreased by 7.0%YoY in 1H16). In terms of revenue market share Zain Saudi share is still low at 12.0% compared to 24.0% for Mobily and 63.0% for STC.

Increase in data tariffs to drive ARPU higher

Industry mobile ARPU, as per our calculations, have come down at a 2010-15 average of 1.5% compared to 4.5% decline for Zain Saudi. It is not surprising as the aggressive growth in customers and subscriber market share has come at the cost of lower ARPUs. Going forward, we are likely to see increase in data tariffs which is likely boost ARPUs. The ARPUs will also increase as a result of bio-metric verification as illegal/inactive connections will likely be low ARPU connections.

We are likely to see rise in data tariffs in Saudi Arabia as (i) data tariffs are one of the lowest in GCC (ii) telecom operators move to regulate data traffic to reduce congestion on the network.

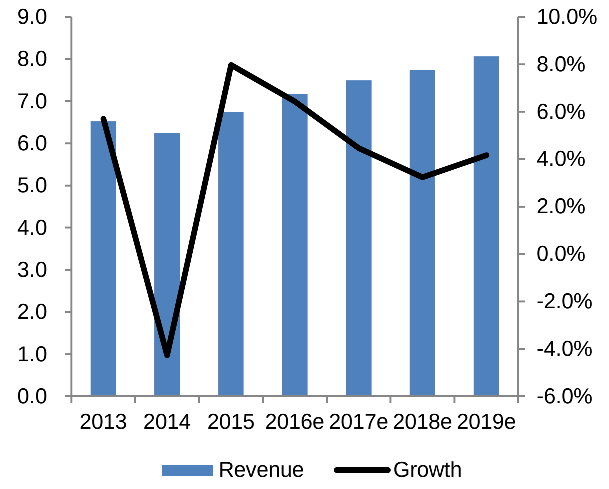
Financials

Data revenues to drive revenue growth

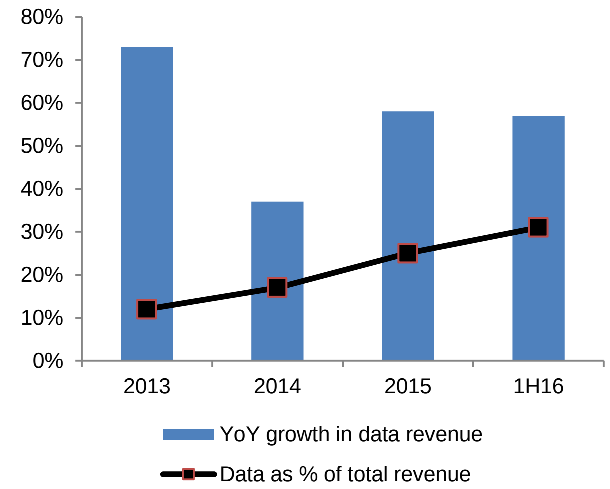
We expect revenue to increase at a 2016e-19e CAGR of 4.7% driven by increase in data revenue. Data revenue formed 31.0% of total revenue in 1H16. Data revenue is being driven by rise in data tariffs along with usage/subscriber growth.

Zain has already increased data prices three times recently with a 40.0% increase in February 2015, 15% in June 2015 and 20.0% in February 2016. Despite these increases, the data prices are still around 50.0% lower compared to other GCC countries such as UAE and Oman indicating a further scope for a rise in prices.

Revenue (SAR bn)



Data revenue

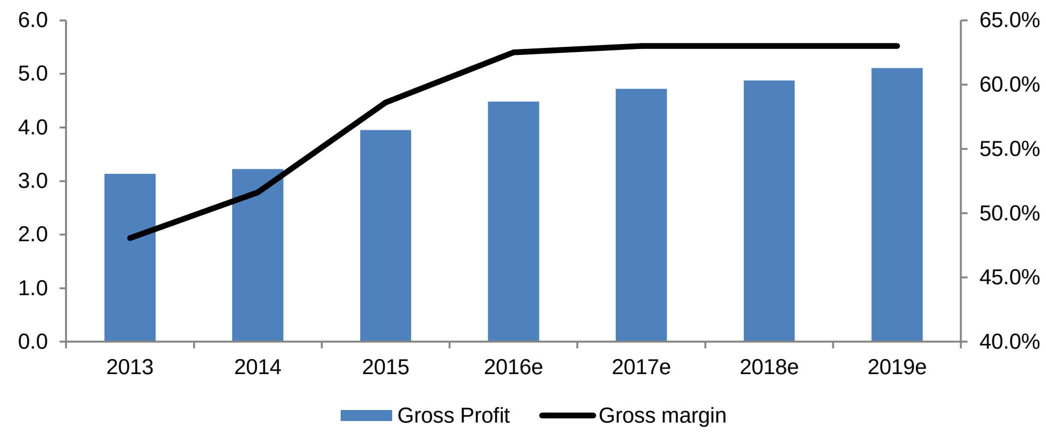


Source: Zain Investor presentations, Company Financials & Global Research

Gross margin to stabilize barring further MTR cuts

We have seen an improvement in gross margins to 62.9% in 1H16 from 55.2% in 1H15 as a result of MTR cuts in February 2015 and March 2016. Zain benefits from these cuts as a low subscriber market share means higher interconnect costs vis-a-vis interconnect revenues.

Gross Profit (SARbn) and Gross Margin



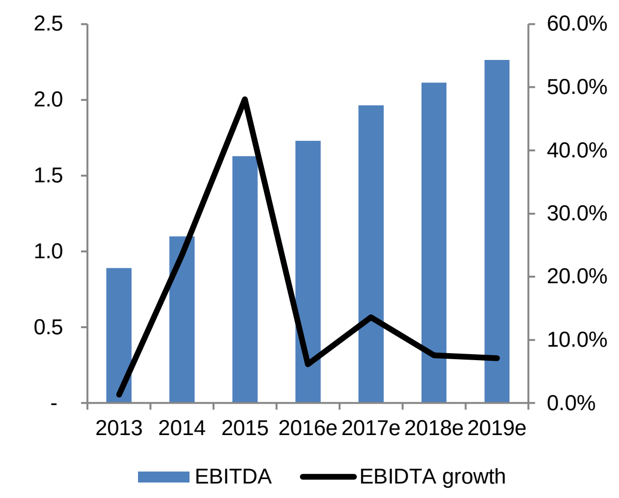
Source: Company Financials & Global Research

EBITDA margins expected to increase after 2016

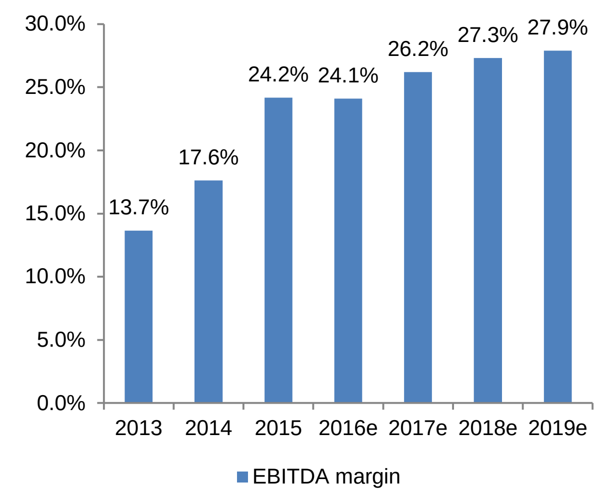
We expect EBITDA to grow at a 2016e-19e CAGR of 8.6%. Besides revenue growth, EBITDA will be driven by margin expansion as we expect EBITDA margins to increase to 27.9% by 2019e compared to 23.4% in 1H16.

After a sharp rise in EBITDA margins in 2015 to 24.2% from 17.6% in 2014, EBITDA margins are expected to decline slightly in 2016 largely due to the costs associated with bio-metric verification which were accompanied by special offers to encourage subscribers to get verified. Major portion of the bio-metric costs are non-recurring in nature and we expect EBITDA margin to increase from 2017 onwards.

EBITDA (SAR bn)



EBITDA margin

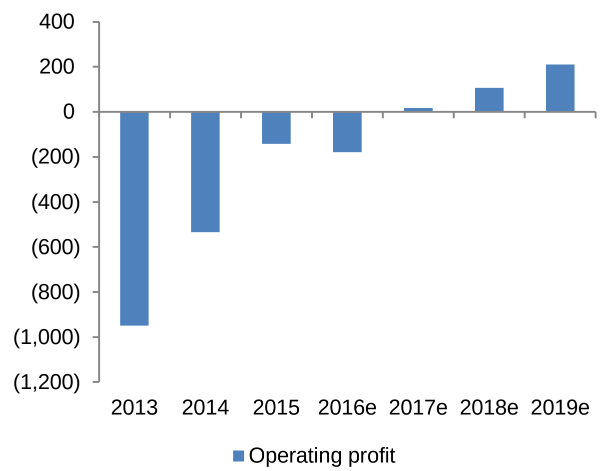


Source: Company Financials & Global Research

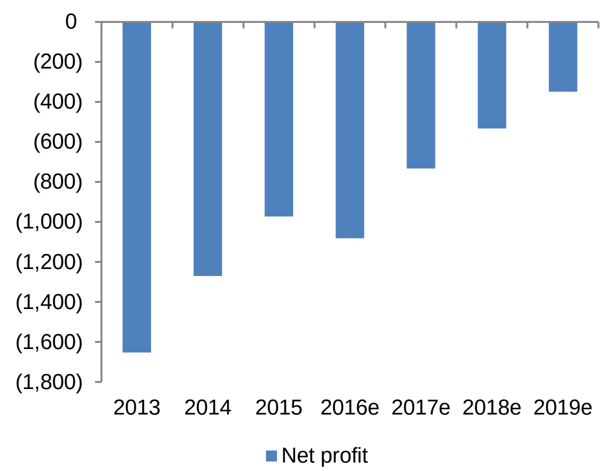
Operational breakeven likely on a full year basis in 2017

Zain Saudi achieved operational breakeven for the first time in 2Q15. However, on a full year basis, the company is yet to break-even. We expect the company to start making operating profits from 2017e onwards.

Operating profit (SAR mn)



Net loss (SAR mn)



Source: Company Financials & Global Research

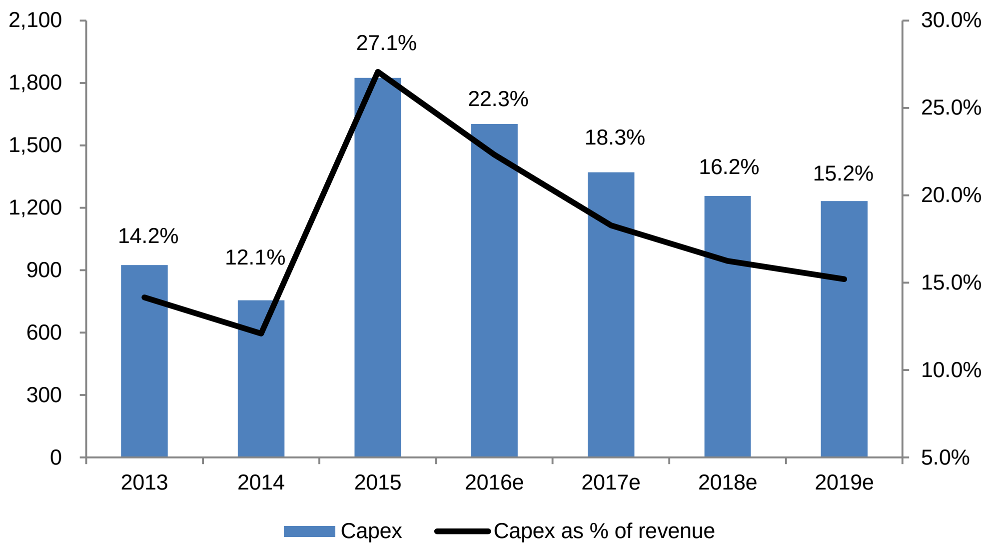
Net losses to continue for the foreseeable future

We don't see Zain Saudi becoming profitable on a net level by 2022e unless the regulator agrees to extend the term of the license. In case of license extension for 10 years, we might see the company turning profitable by 2019e. High net losses are due to high finance costs associated with high leverage levels.

Capex to remain at elevated levels in 2016 and 2017

Reload program, which involves upgradation and modernization of networks, was launched in 2014. Due to delay in negotiations with the vendors, the plan was implemented from 2015 explaining the high Capex (27.1% of revenue). Based on our conversations with the management, we have deduced that the capex will remain high in 2016e and 2017e as the reload program continues before normalizing in 2018 and beyond. As part of the reload program, 4G population coverage has reached 87.0% currently compared to 53.0% before the program. The Capex on this program is estimated to be SAR4.5bn over 2-3 years.

Capex (SAR mn)



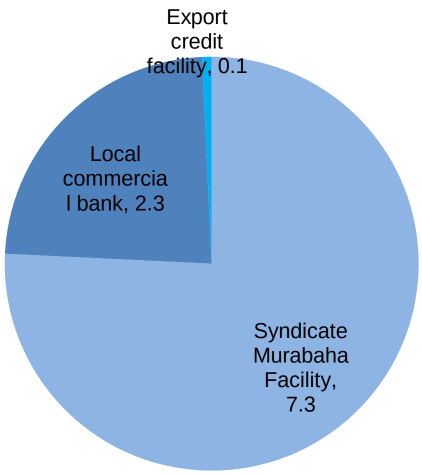
Source: Company Financials & Global Research

Debt and liquidity position

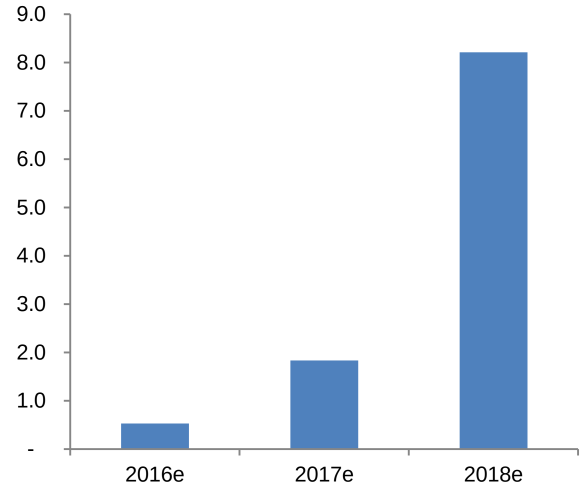
At the end of 2Q16, Zain Saudi has LTD of SAR9.6bn and advances from shareholders of SAR4.3bn. These advances are mainly from the parent company and are currently not scheduled for repayment until the Murbaha facility is paid down.

On 15th August 2016, Zain Saudi signed an agreement with Industrial and Commercial Bank of China for a loan facility of SAR2.25bn. This loan will be guaranteed by the parent company (Zain Group) and will replace the existing facility of SAR2.25bn by a syndicate of 4 GCC based banks which was restructured in June 2016. The term of the new loan from the Chinese bank will be from August 2016 to August 2018 with an option to extend it for an additional year.

LTD Breakdown (SARbn)



Repayment schedule (SAR bn)



Source: Company Financials & Global Research

As can be seen above, a huge payment of SAR8.2bn is scheduled for 2018. Zain has cash and cash equivalents of SAR1.1bn (June 2016). We expect the company to generate OPCF of SAR0.9bn-1.4bn each year during 2016e-19e which clearly is not enough to repay the debt. Therefore, the only option left is to restructure these debts. As per the management, the loans are likely to get restructured as the banks seem amenable to the idea.

Zain Saudi is a highly leveraged company with 2017e Net debt/EBITDA at 7.2x. Telecom companies in the GCC are in the range of negative to less than 3x Net debt/EBITDA. Debt to total capitalization is 81.6%. The reason for such high debt levels was the loan taken to purchase the telecom license.

The average interest cost was 7.6% of LTD in 2015. We believe post-restructuring this cost is likely to go up. We have assumed a cost of 8.0%.

Ministry of finance loan

In June 2013, Zain Saudi signed an agreement with Ministry of Finance to defer royalty payments for seven years. As per the news release, these payments are expected to add SAR800mn per year to a total of SAR5.6bn for the whole period. It was agreed that the postponed instalments will be converted into a commercial loan with the first instalment due in June 2021.

Financial Statements

(SAR mn)	2013	2014	2015	2016e	2017e	2018e	2019e
Income Statement							
Revenue	6,523	6,244	6,741	7,176	7,496	7,738	8,111
Revenue Growth	-	-4.3%	8.0%	6.4%	4.5%	3.2%	4.8%
Cost of services	(3,388)	(3,021)	(2,790)	(2,691)	(2,773)	(2,863)	(3,001)
Gross profit	3,135	3,223	3,951	4,485	4,722	4,875	5,110
SG&A	(2,244)	(2,123)	(2,322)	(2,755)	(2,758)	(2,763)	(2,847)
EBITDA	**890**	**1,100**	**1,629**	**1,729**	**1,964**	**2,113**	**2,263**
EBITDA growth	-	23.5%	48.1%	6.2%	13.6%	7.6%	7.1%
Depreciation and amortization	(1,840)	(1,633)	(1,770)	(1,908)	(1,946)	(2,005)	(2,052)
EBIT	**(949)**	**(534)**	**(141)**	**(179)**	**18**	**107**	**211**
Financial Charges	(723)	(745)	(838)	(902)	(751)	(640)	(560)
Other income/expenses	21	9	7	-	-	-	-
Net Profit	**(1,651)**	**(1,270)**	**(972)**	**(1,081)**	**(733)**	**(533)**	**(349)**
Balance Sheet							
Cash and Bank Balance	1,293	1,092	1,378	1,124	580	242	580
Receivables	1,221	1,394	1,093	1,177	1,229	1,269	1,330
Inventories	141	63	104	79	82	85	89
Prepayments & other current assets	660	1,340	1,521	1,369	1,410	1,452	1,496
Net property plant and equipment	4,293	4,296	5,007	5,611	5,947	6,115	6,215
Intangible assets	18,351	17,469	16,813	15,904	14,991	14,075	13,156
Other non-current assets	283	212	132	132	132	132	132
Total Assets	**26,242**	**25,866**	**26,048**	**25,395**	**24,372**	**23,372**	**22,998**
Trade & other payables	538	269	618	596	615	635	665
Current portion of LTD	232	200	2,450	2,234	6,382	-	-
Other current liabilities	3,056	3,428	3,430	3,530	3,655	3,750	3,895
Long-term debt	11,390	11,187	8,616	8,382	3,000	8,000	7,000
Advances from shareholders	3,034	3,476	3,967	3,967	3,967	3,967	3,967
Other non-current liabilities	1,233	1,841	2,416	3,216	4,016	4,816	5,616
Share capital	10,801	10,801	5,837	5,837	5,837	5,837	5,837
Accumulated losses	(4,001)	(5,270)	(1,278)	(2,360)	(3,092)	(3,625)	(3,975)
Hedging reserve	(42)	(67)	(7)	(7)	(7)	(7)	(7)
Total Shareholders Equity	6,759	5,464	4,552	3,471	2,738	2,205	1,855
Total Equity & Liability	**26,242**	**25,866**	**26,048**	**25,395**	**24,372**	**23,372**	**22,998**
Cash Flow							
Cash Flow from Operating Activities	(157)	(307)	1,228	998	1,259	1,502	1,770
Cash Flow from Investing Activities	(1,605)	(672)	(1,730)	(1,602)	(1,371)	(1,257)	(1,233)
Cash Flow from Financing Activities	(2,039)	361	728	350	(434)	(582)	(200)
Change in Cash	(3,801)	(617)	227	(254)	(545)	(337)	338
Net Cash at End	**1,293**	**1,092**	**1,378**	**1,124**	**580**	**242**	**580**
Ratio Analysis							
EBITDA Margin	13.7%	17.6%	24.2%	24.1%	26.2%	27.3%	27.9%
Gross Margin	48.1%	51.6%	58.6%	62.5%	63.0%	63.0%	63.0%
Net Profit Margin	-25.3%	-20.3%	-14.4%	-15.1%	-9.8%	-6.9%	-4.3%
Return on Assets	-6.3%	-4.9%	-3.7%	-4.3%	-3.0%	-2.3%	-1.5%
Return on Equity	-24.4%	-23.2%	-21.4%	-31.2%	-26.8%	-24.2%	-18.8%
Net debt / EBITDA	15.0	12.5	8.4	7.8	6.5	5.5	4.6
EBITDA Interest coverage	1.2	1.5	1.9	1.9	2.6	3.3	4.0
Debt / Equity (x)	2.2	2.7	3.3	4.2	4.9	5.4	5.9
Capex as % of sales	14.2%	12.1%	27.1%	22.3%	18.3%	16.2%	15.2%
EV/EBITDA (x)	26.3	18.9	11.4	10.1	8.5	7.4	6.3
EV/Revenues (x)	3.6	3.3	2.8	2.4	2.2	2.0	1.8
FCFE Yield	0.0%	0.3%	1.7%	2.4%	0.8%	1.1%	3.4%
Adj. EPS (SAR)	(2.8)	(2.2)	(1.7)	(1.9)	(1.3)	(0.9)	(0.6)
Adj. BVPS Share (SAR)	11.6	9.4	7.8	5.9	4.7	3.8	3.2
Adj. Market Price (SAR) *	17.21	11.94	8.37	6.75	6.75	6.75	6.75
Adj. Outstanding shares (mn)	583.7	583.7	583.7	583.7	583.7	583.7	583.7
Market Capitalization (SAR mn)	10,044	6,967	4,886	3,940	3,940	3,940	3,940
P/E Ratio (x)	nm	nm	nm	nm	nm	nm	nm
P/BV Ratio (x)	1.5	1.3	1.1	1.1	1.4	1.8	2.1

Source: Company Reports & Global Research

** Market price for 2016 and subsequent years as per closing prices on 29 August, 2016*

Disclosure

The following is a comprehensive list of disclosures which may or may not apply to all our researches. Only the relevant disclosures which apply to this particular research has been mentioned in the table below under the heading of disclosure.

Disclosure Checklist

Company	Recommendation	Bloomberg Ticker	Reuters Ticker	Price	Disclosure
Zain Saudi	HOLD	ZAINKSA AB	7030.SE	SAR6.75	1,10

1. Global Investment House did not receive and will not receive any compensation from the company or anyone else for the preparation of this report.
2. The company being researched holds more than 5% stake in Global Investment House.
3. Global Investment House makes a market in securities issued by this company.
4. Global Investment House acts as a corporate broker or sponsor to this company.
5. The author of or an individual who assisted in the preparation of this report (or a member of his/her household) has a direct ownership position in securities issued by this company.
6. An employee of Global Investment House serves on the board of directors of this company.
7. Within the past year, Global Investment House has managed or co-managed a public offering for this company, for which it received fees.
8. Global Investment House has received compensation from this company for the provision of investment banking or financial advisory services within the past year.
9. Global Investment House expects to receive or intends to seek compensation for investment banking services from this company in the next three month.
10. Please see special footnote below for other relevant disclosures.

Global Research: Equity Ratings Definitions

Global Rating	Definition
STRONG BUY	Fair value of the stock is >20% from the current market price
BUY	Fair value of the stock is between +10% and +20% from the current market price
HOLD	Fair value of the stock is between +10% and -10% from the current market price
SELL	Fair value of the stock is < -10% from the current market price

Disclaimer

Global Investment House
Website: www.globalinv.net
Global Tower
Sharq, Al-Shuhada Str.
Tel. + (965) 2 295 1000
P.O. Box: 28807 Safat, 13149 Kuwait

Research
Naveed Ahmed, CFA
(965) 2295-1280
nahmed@global.com.kw

Wealth Management
Rasha Al-Qenaei
(965) 2295-1380
alqenaei@global.com.kw

Global Kuwait
Tel: (965) 2 295 1000
P.O.Box 28807 Safat, 13149 Kuwait

Global Bahrain
Tel: (973) 17 210011
P.O.Box 855 Manama, Bahrain

Global UAE
Tel: (971) 4 4477066
P.O.Box 121227 Dubai, UAE

Global Egypt
Tel: (202) 24189705/06
24 Cleopatra St., Heliopolis, Cairo

Global Saudi Arabia
Tel: (966) 1 2994100
P.O. Box 66930 Riyadh 11586, Kingdom of Saudi Arabia

Global Jordan
Tel: (962) 6 5005060
P.O.Box 3268 Amman 11180, Jordan

Global Wealth Manager
E-mail: global@global.com.kw