

Mobile Telecommunications Co. (Zain KSA)

Q2 2017

Recommendation

Neutral

Fair Value (SAR)

9.40

Price as of August 3, 2017

8.83

Expected Return

6.5%

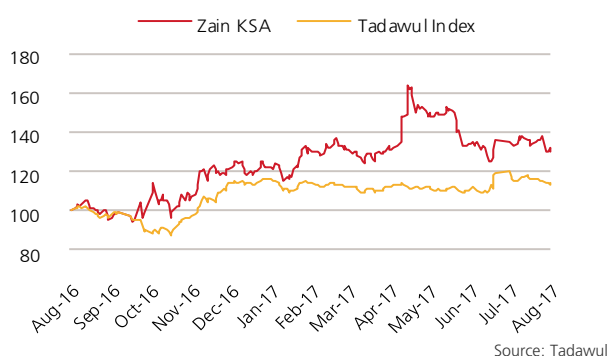
Company Data

Tadawul Symbol	7030.SE
52 Week High (SAR)	11.45
52 Week Low (SAR)	6.30
YTD Change	5.7%
3-Month Average Volume (Thousand Shares)	2,200
Market Cap. (SAR Million)	5,154
Market Cap. (USD Million)	1,374
Outstanding Shares (Million Shares)	583.73

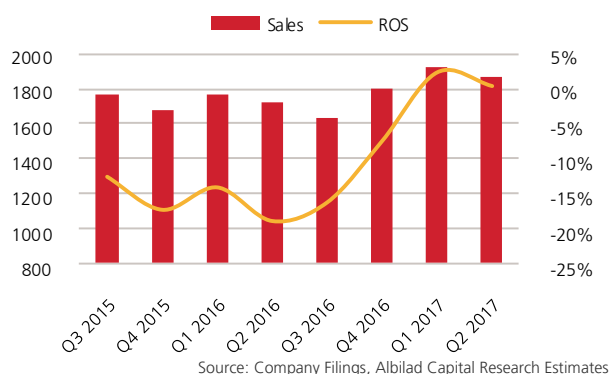
Major Shareholders (> 5%)

Mobile Telecommunications Company K.S.C	37.04%
Faden Trading and Contracting Est.	5.97%
Saudi Plastic Factory	5.84%

52-week Stock Price Movement



Quarterly Sales (SAR mn) and ROS



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Zain Saudi Arabia reported net earnings of SAR 8 million in Q2 2017 shifting from a net loss of SAR 328 million in Q2 2016. On the other hand, the bottom line slumped 82% from SAR 45 million Q1 2017 which coincided with the first quarterly profit in the company's history. Accordingly, the net earnings of the first half totaled SAR 53 million compared to a net loss of SAR 578 million in H1 2016. The second-quarter earnings beat our forecast of SAR 40 million and the analysts' consensus of SAR 36 million.

The YoY improvement in the second-quarter income statement stemmed from an 8% increase in revenues posting SAR 1,865 million; a record level in the second quarter fueled by high-margin data sales. Furthermore, the cost of services shrank 1.4%, while SG&A expenses slid 15%, thus EBITDA margin leapt from 21.54% to 33.9%. It is worth mentioning that the corresponding quarter of last year coincided with extraordinary expenses related to the process of fingerprinting documentation. The performance was also enhanced by the slump in depreciation and amortization charges from SAR 480 million to SAR 397 million following the extension of the company's licenses. Net financing expenses climbed slightly from SAR 220 million to SAR 223 million.

Compared to Q1 2017, revenues fell 2.8% crimped by the dip in demand during the month of Ramadan and beginning of the summer vacation. It is noteworthy that Zain achieved its highest quarterly revenues in Q1 2017. The drop in revenues propelled a decrease in EBITDA margin in Q2 2017 to 33.9% compared to 34.6% in Q1 2017.

On a half-year basis, total revenues amounted to SAR 3,784 million compared to SAR 3,492 million in H1 2016, an increase of 8%. Gross profit margin expanded from 63% to 67%. EBITDA margin also increased to 34.3% compared to 23.4% in H1 2016 motivated by an increase in revenues and lower costs of services and operating expenses. The corresponding period included non-recurring expenses related to the process of fingerprinting documentation. Moreover, depreciation and amortization expenses dwindled by 18% to SAR 789 million compared to SAR 957 million in H1 2016.

Overall, the performance of the cellular operator significantly improved during the first half of this year through increased revenues, especially the lucrative data sales, as well as optimization of the cost of services and operating expenses coupled with the slump in the depreciation and amortization charges after the extension of the company's license for an additional 15 years. This was reflected in the margins. Factoring in the lower than expected net income in the second quarter, the valuation is cut from SAR 9.6 to SAR 9.4 per share.

FY - Ending December	2014A	2015A	2016A	2017E
EV/EBITDA	18.25	12.32	11.18	7.92
EV/Sales	3.25	2.98	2.90	2.72
P/E	N/A	N/A	N/A	66.04
P/BV	0.94	1.13	1.44	1.41
P/Revenue	0.84	0.76	0.74	0.70
Current Ratio	1.00	0.63	0.50	0.24
Revenue Growth	-5.4%	9.3%	2.7%	6.6%

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2013A	2014A	2015A	2016A	2017E*
Total Revenues	6,523	6,170	6,741	6,927	7,383
Cost of Service	3,388	2,948	2,790	2,526	2,374
As a % of Revenues	51.94%	47.77%	41.39%	36.47%	32.16%
SG&A	2,191	2,201	2,259	2,595	2,439
As a % of Revenues	33.60%	35.67%	33.51%	37.47%	33.04%
Provisions	53	(78)	63	10	34
EBITDA	890	1,100	1,629	1,795	2,535
EBITDA Margin	13.7%	17.8%	24.2%	25.9%	34.3%
Depreciation and amortization	1,840	1,633	1,770	1,850	1,571
EBIT	(949)	(534)	(141)	(55)	964
Net Interest Income	(722.8)	(745.3)	(837.9)	(953.0)	(884.6)
Others (Net)	20.6	9.4	7.4	27.9	(1.6)
NAI	(1,651)	(1,270)	(972)	(980)	78
ROS	-25.3%	-20.6%	-14.4%	-14.1%	1.1%
Balance Sheet (SAR mn)					
Cash and Marketable Securities	1,293	1,092	1,378	919	783
Inventory	141	63	104	42	35
Others	1,876	2,734	2,614	2,352	2,457
Total ST Assets	3,310	3,888	4,096	3,312	3,275
Net Fixed Assets	4,293	4,296	5,007	7,006	6,794
Intangible assets	18,351	17,469	16,813	16,196	16,014
Others	283	212	132	96	529
Total LT Assets	22,927	21,977	21,952	23,298	23,337
Total Assets	26,237	25,866	26,048	26,611	26,613
Short Term Debt and CPLTD	200	200	2,780	2,247	8,728
Others	3,621	3,698	3,719	4,393	4,787
Total ST Liabilities	3,821	3,898	6,498	6,640	13,516
Total Long Term Debt	11,390	11,187	8,616	8,245	2,127
Other Long Term Liabilities	4,268	5,317	6,382	8,151	7,317
Equity	6,759	5,464	4,552	3,575	3,653
Total Liabilities and Equity	26,237	25,866	26,048	26,611	26,613

Source: Company Filings, Albilad Capital Research Estimates

Presentation of financial statements may differ from the company's presentation. However, there is no impact on the final results.

* Historical financial statements were prepared according to the previous Saudi reporting standards. Some items in the financials statements for 2017 are reclassified according to IFRS.

Albilad Capital Rating Methodology

Al-Bilad Capital uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight:	The Target share price exceeds the current share price by $\geq 10\%$.
Neutral:	The Target share price is either more or less than the current share price by $< 10\%$.
Underweight:	The Target share price is less than the current share price by $\geq 10\%$.
To be Revised:	No target price had been set for one or more of the following reasons: waiting for more analysis, waiting for detailed financials, waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

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