



EVENT FLASH

Record high EBITDA margin despite weak sales

Zain reported an in-line set of 3Q16 results, with a net loss of SR267mn. This compares to a loss of SR223mn in 3Q15 and a loss of SR329mn in 2Q16. The weaker than expected top line was mitigated by lower than expected cost of revenue and Opex, resulting in record high EBITDA margins of 29.9%.

- Zain reported an in-line set of results with a net loss of SR267mn, compared to a loss of SR223mn in 3Q15 and a loss of SR329mn in 2Q16. Although the top line came-in 10.1% lower than our estimates, it was mitigated by lower than expected Opex.
- Revenues came in at SR1.63bn, declining 7.4% YoY and 5.4% QoQ. This the first YoY decline since 3Q14. We believe the variance is due to 1) higher than expected impact from the finger print verification initiative and 2) c.5% YoY decline in the number of Hajj pilgrims. Zain said that the number of subscribers declined by 9.0% to 10.7mn following to the finger print initiative. We believe the impact was higher than estimated due to the technical issue with the verification provider which impacted the whole sector.
- Despite that, Zain continues to report high gross margins which partially mitigated the impact of low sales. Gross margin came-in at 64.9%, slightly higher than 64.4% in 2Q16 and compared to our estimates of 62.1%. This is the highest margin on record. We believe this margin expansion is due to lower interconnection charges.
- The decline in Opex is a key positive of the result. Total Opex stood at SR573mn, lower than our estimates and 2Q16 by 17% and 22.6%, respectively. The company said that the decline is due to better control of expenses and lower maintenance charges. Therefore, EBITDA margin reached 29.9%, the highest level on record. Based on our estimates, interest expenses increased to SR270mn vs. SR228mn in 2Q16 and 224mn in 3Q15. This is due to higher SAIBOR rates.
- In October 2016, a royal decree amended the life of Zain KSA's telecoms license of from 25 years to 40 years. The decree also changed the type of the license to universal from mobile only. Zain began negotiating with a subsidiary of the Saudi Electric Company to use its fiber-optic network.
- We remain Neutral on Zain with a PT of SR7.6. The company continues to benefit from the lower MTRs with all-time high margins. However, the ongoing arbitrations with Mobily, increased financing expenses and the SR620mn Zakat claim are the key risks.

3Q16 Results Summary

SR mn	3Q16A	3Q15A	% YoY	3Q16E	% Var [^]
Sales	1,634.0	1,764.0*	(7.4)	1,817	(10.1)
Gross income	1,061.0	1,062.2	(0.1)	1,128.5	(6.0)
Operating income	(2.0)	(0.9)	NM	(34.5)	NM
Net income	(267.0)	(223.0)	NM	(273.9)	NM
EPS (SR)	(0.46)	(0.38)	NM	(0.47)	NM

Source: Company, NCBC Research, [^]% Var indicates variance from NCBC forecasts; * Restated

NEUTRAL

Target price (SR)	7.6
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Current price (SR)	7.0
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STOCK DETAILS

M52-week range H/L (SR)	10.4/5.5
Market cap (\$mn)	1,088
Shares outstanding (mn)	584
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
3M	3.7	(15.3)	(30.8)
12M	13.6	1.4	(3.0)

Avg daily turnover (mn)	SR	US\$
3M	21.5	5.7
12M	34.4	9.2

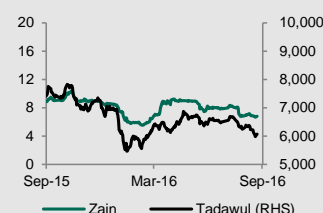
Reuters code	7030.SE
Bloomberg code	ZAINKSA AB
	www.sa.zain.com

VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	NM	NM	NM
P/B (x)	0.9	1.2	1.4
EV/EBITDA (x)	9.5	10.4	8.4
Div Yield (%)	0.0	0.0	0.0

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price 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

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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