


US\$1.494bn

Market cap

48%

Free float

US\$17.96mn

Avg. daily volume

Target price

10.00 4.2% over current

Consensus price

7.90 -17.7% over current

Current price

9.60 as at 22/10/2015

Existing rating

Underweight

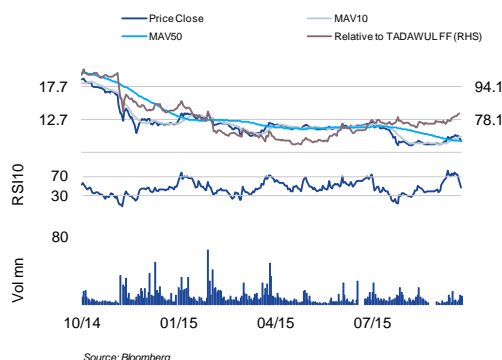
Neutral

Overweight

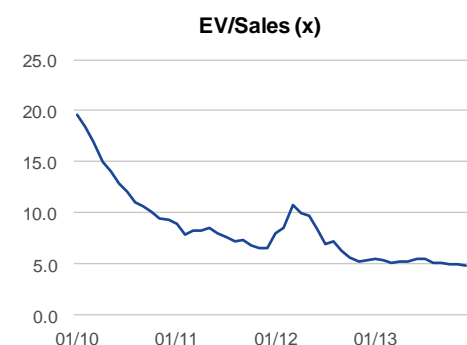
Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance



Valuation



Zain KSA Q3: Decent quarter

Zain KSA posted a decent set of numbers for Q3 2015, with 14% y-o-y topline growth and 26% increase in subscribers. However, market expectations were higher, which impacted stock price by c4% post the results announcement. This was mainly because the company reported operating loss in Q3 after reporting the first ever operating profit in Q2. Net income which improved consecutively for the past 4 quarters till Q2, slightly worsened in Q3. Nevertheless, in our view, the company is still doing a good job with record EBITDA of SAR441mn in Q3, closely matching our estimate. We await release of full financials for a detailed analysis. For now, we continue to have Neutral rating on the stock with a target price of SAR10/share.

Earnings vs our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

- Revenues:** Implied Revenue (calculated from EBITDA and EBITDA margin) grew c14% y-o-y to reach SR1.76bn, above our estimate of SAR1.67bn. As per the company, the subscribers increased by 26% y-o-y to 11.8m subscribers, which implies around 22% market share based on CITC's 2014 total mobile subscribers. Internet subscriber base grew by a much higher 79% y-o-y.
- EBITDA and EBIT:** Q3 2015 EBITDA was the highest ever quarterly EBITDA for Zain KSA, implying EBITDA margin of 25%. While we had expected lower revenue, we expected EBITDA margin of 27%. Hence, reported EBITDA at SAR441mn was slightly lower than our estimate of SAR452mn. In Q2 2015, the company had recorded its first ever operating profits, and market expected the sequential improvement. However, the company reported a slight operating loss.
- Net profit:** After consecutive improvement in net profit on a q-o-q basis for the past four quarters, net profit in Q3 slightly worsened on a q-o-q basis. Nevertheless the company continues to show overall improvement in its financials. We await the release of full financials for a detailed analysis. For now, we continue to have a neutral rating on the stock with a target price of SAR10/share.

Figure 1 Summary of results

	3Q14	2Q15	3Q15	y-o-y	q-o-q	ARC est.
Revenue	1,552,996	1,665,649	1,764,000	14%	6%	1,674,670
EBIT	-133,597	940	0	-100%	-100%	21,189
EBITDA	260,715	434,602	441,000	69%	1%	452,142
Net profit	-315,805	-201,164	-223,000	-29%	11%	-181,952

Source: Company data, Al Rajhi Capital



Disclaimer and additional disclosures for Equity Research

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Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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