Zain KSA
Telecom – Industrial
ZAINKSA AB: Saudi Arabia
16 April 2013

US$2.376bn	48%	US$27.96mn
Market cap	Free float	Avg. daily volume

Target price	**10.00**	21.0% over current
Consensus price	**7.90**	-4.2% over current
Current price	**8.25**	as at 15/4/2013

Existing rating

Underweight	**Neutral**	Overweight

Research Department
Mazhar Khan,
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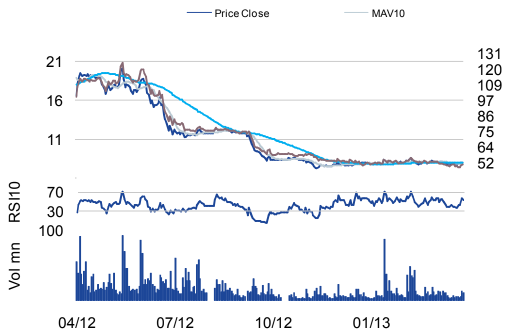
Flash view

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

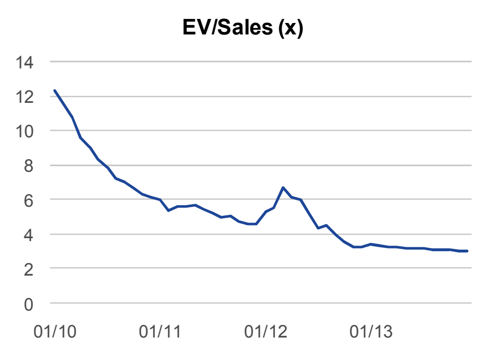


Earnings

Period End (SAR)	12/12A	12/13E	12/14E	12/15E
Revenue (mn)	6,516	7,119	8,070	8,924
Revenue Growth	-2.7%	9.3%	13.4%	10.6%
EBITDA (mn)	960	1,096	1,364	1,673
EBITDA Growth	6.8%	14.2%	24.4%	22.7%
EPS	(1.17)	(1.02)	(0.88)	(0.55)
EPS Growth	-15.0%	-12.7%	-14.3%	-37.6%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Zain KSA
decent top-line growth, while net loss still high

Zain announced Q1 2013 results with a 5% y-o-y improvement in net loss to SAR398mn, while operating loss surged by 22% y-o-y to SAR233mn. Revenue numbers surprised us positively with a 17% y-o-y growth reaching SAR1. 8bn. The company still remains a loss making entity and continues to face a high debt burden. Although the debt restructuring activity should reduce financial costs to a certain extent, Zain needs sustained revenue growth to become a profitable entity. We remain Neutral on the stock.

- **Revenue numbers top estimates:** Zain's top line growth of 17.1% y-o-y to SAR1.8bn (vs. ARC estimate of SAR1.6bn) for Q1 2013 positively surprised us. On a sequential basis also, revenue rose 3.4%. According to the statement released, one of the reasons was a jump in data traffic by 176% y-o-y and 26% q-o-q, due to the launch of 4G internet package in H2 2012.
- **Gross and operating profit:** Zain's gross profit stood at SAR776mn during the quarter (vs. ARC estimate of SAR716mn), up 10.5% y-o-y and 5% q-o-q. On the other hand, the company's operating loss worsened by 21.9% y-o-y to SAR233mn, indicating a surge in SG&A costs from 30% of sales in Q1 2012 to 34% of sales for Q1 2013 (our initial estimate).
- **Net profit in line:** The company's net loss came in at SAR398mn (vs. ARC estimate of SAR 384mn) for Q1 2013, representing an improvement of 5.2% y-o-y and 10.1% q-o-q. This improvement was supported by a 25% decline in financial charges during the quarter to SAR171mn, on account of debt repaid (SAR3.2bn) through a rights issue in H2 2012.
- **Other key announcements:**
  - Current liabilities exceed current assets and the company is running on a working capital deficit.
  - Management is working on finalizing the refinancing of its Murabaha and long-term loans (SAR9bn and SAR2.3bn respectively). The new Murabaha facility will have a longer maturity period of 5 years and lower finance costs.
  - Zain achieved 1mn prepaid subscribers for its Hala package within a year of its launch.
- **Still a long way to go:** Zain continues to reel under the pressure of its high debt burden and has thus lagged its peers on capex build up. Capex has steeply declined by more than 40% from SAR968mn in 2010 to SAR560mn in 2012. Further, high debt levels have resulted in a negative working capital. A double digit revenue growth has been the only silver lining in this quarter. We do not expect a turnaround till 2016, and this too will only be possible with a sustained growth in market share and resultant top line.

Zain KSA: summary of Q1 2013 results

(SAR mn)	Q1 2012	Q4 2012	Q1 2013	% chg y-o-y	% chg q-o-q	ARC est
Revenue	1,522	1,724	1,782	17.1%	3.4%	1,560
EBITDA	243	203	Not disclosed	n.a.	n.a.	217
EBITDA margin (%)	16.0%	11.8%	n.a.			13.9%
Operating profit	(191)	(262)	(233)	-21.9%	10.9%	(188)
Net profit	(420)	(443)	(398)	5.2%	10.1%	(384)

US$1.189bn	81%	US$3.017mn
Market cap	Free float	Avg. daily volume

Target price	**65.00**	16.6% over current
Consensus price	**58.80**	5.5% over current
Current price	**55.75**	as at 15/4/2013

Existing rating

Underweight	Neutral	Overweight

Research Department
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Arabian Cement
Higher other income boosted profits

Arabian Cement posted a mixed set of numbers for the first quarter of 2013. Though revenues during the quarter declined due to lower sales volumes, net profit grew 7.7% y-o-y, on the back of higher other income and lower operating expenses. The company is set to perform better this year on account of an agreement with Northern Cement on a swap deal of 700,000 tons of clinker. For the moment, we maintain our Overweight rating on the stock.

- **Revenues not yet reported:** Arabian Cement has not yet reported its Q1 2013 revenues. However, as per the announcement, sales have declined on a y-o-y basis. We had estimated revenue to be SAR355mn, flat from the Q1'12 last year. Arabian Cement produced and sold 1.12mn tons of cement during the quarter, down 4.1% and 3.5% y-o-y, respectively. We believe the average selling price might have also fallen due to a cap in prices at SAR240 per ton.
- **Gross and operating profit:** Arabian's gross profit stood at SAR168.2mn (vs. ARC estimate of SAR138mn) during the quarter, down 3.6% y-o-y. However, operating profit grew 3.9% y-o-y to SAR157.6mn, on the back of lower operating expenses.
- **Net profit:** Arabian Cement's net profit for the quarter came in at SAR157.3mn (vs. ARC estimate of SAR120.3mn), up 7.7% y-o-y. The rise in the bottom line was supported by higher other income and lower operating expenses.
- **Conclusion:** During the quarter Arabian Cement entered into an agreement with Northern Cement to provide the latter's Jordan unit with 700,000 tons of clinker, from its subsidiary Qatrana Cement. In return Northern Cement will provide an equal amount of clinker at Arabian's Saudi unit. We believe the deal will lead to a better performance from the company this year, though we have concerns on a fall in the company's overall margins due to this deal. For the moment, we maintain our Overweight rating on Arabian Cement. We will revisit our estimates, after the detailed financial results are released.

Arabian Cement: summary of Q1 2013 results

(SAR mn)	Q1 2012	Q4 2012	Q1 2013	% chg y-o-y	% chg q-o-q	ARC est
Revenue	355	308	Not disclosed	n.a.	n.a.	355
EBITDA	213	152	Not disclosed	n.a.	n.a.	148
EBITDA margin (%)	59.9%	49.3%	n.a.			41.7%
Operating profit	152	77	158	3.9%	104.7%	120
Net profit	146	79	157	7.6%	100.2%	138

Source: Company data, Al Rajhi Capital

Flash view

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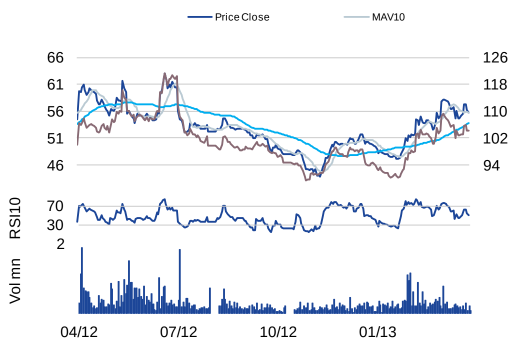
Performance



Earnings

Period End (SAR)	12/12A	12/13E	12/14E	12/15E
Revenue (mn)	1,371	1,289	1,338	1,371
Revenue Growth	27.1%	-5.9%	3.7%	2.5%
EBITDA (mn)	676	526	521	553
EBITDA Growth	8.2%	-22.2%	-0.9%	6.1%
EPS	4.80	5.11	5.20	5.57
EPS Growth	-6.3%	6.6%	1.7%	7.2%

Source: Company data, Al Rajhi Capital

Valuation

Source: Company data, Al Rajhi Capital

Al-Hassan G.I. Shaker Co
Wholesale – Industrial
SHAKER AB: Saudi Arabia
16 April 2013

الراجحي المالية
Al Rajhi Capital

US$0.737bn	66%	US$1.707mn
Market cap	Free float	Avg. daily volume

Target price	83.50	5.7% over current
Consensus price	82.00	3.8% over current
Current price	79.00	as at 15/4/2013

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Existing rating

Underweight	Neutral	Overweight

Al-Hassan G.I. Shaker Co
Impressive Q1 results

Shaker announced its preliminary results today, achieving impressive top and bottom line growth. Sales and net profit came in higher than our estimates as they grew by 22% and 24% respectively. We strongly believe Shaker benefited from the robust boom in the construction and housing markets. We await full financial results before changing our estimates. For the moment, we remain overweight on Shaker with a target price of SAR83.5.

Flash view

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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

Performance

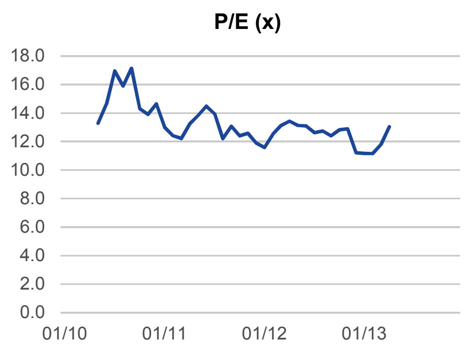
- **Revenues:** Shaker's Q1 revenues grew impressively by 21% y-o-y. This was higher than our estimates by 8%. As per the company's announcement, this was mainly due to higher volumes.
- **Gross profits:** Gross profits for Q1 grew by 29.4% y-y to reach SAR147.6mn (higher than our estimates by 12%). Gross margin improved substantially reaching 32.2% compared to 30% in Q1 2012.
- **Net profit:** Shaker has reported Net profits of SAR50mn for Q1 2013 .This was 10% higher than our estimates, and 24% higher than the same Quarter of the last year. This can be attributed to the strong growth in sales and substantial improvements in margins.
- **Conclusion:** Shaker's Q1 results were impressive. The company exceeded all our profit lines estimates, confirming our long term view on the company. For now, we remain overweight on Shaker with a target price of SAR83.5 per share.

Earnings

Period End (SAR)	12/12A	12/13E	12/14E	12/15E
Revenue (mn)	1,737	1,981	2,122	2,262
Revenue Growth	10.9%	14.0%	7.1%	6.6%
EBITDA (mn)	283	314	358	393
EBITDA Growth	18.2%	10.9%	14.1%	9.7%
EPS	5.75	6.72	7.75	8.48
EPS Growth	11.7%	16.9%	15.3%	9.4%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Figure 1 Shaker: summary of Q1 results

(SAR mn)	Q1 2012A	Q4 2012A	Q1 2013A	% chg y-o-y	% chg q-o-q	ARC est
Revenues	375.9	315.2	458.3	22%	45%	425.3
Gross profit	114.1	82.6	147.6	29%	79%	132.1
Gross margin%	30%	26%	32%		23%	31%
EBIT	51.8	11.9	74.2	43%	525%	59.8
EBIT margin%	14%	4%	16%		330%	14%
Net Profit	40.0	6.2	49.8	25%	698%	45.3

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 15% 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 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 5% 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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