



Zain KSA's net income surged to SAR 81mn in Q1-22 from SAR 41mn in Q1-21, beating our and consensus estimates of SAR 66mn and SAR 65mn, respectively. The deviation from our estimate was primarily due to higher-than-expected revenue and lower depreciation and amortization, partially offset by lower-than-expected GP margins. Revenue jumped 12.4% Y/Y to SAR 2,179mn, above our estimate of SAR 2,025mn. We maintain our TP of **SAR 14.5/share** and **"Neutral"** recommendation on Zain KSA.

- Zain KSA posted a net income of SAR 81mn in Q1-22, up 97.6% Y/Y, beating our and consensus estimates of SAR 66mn and SAR 65mn, respectively. The variance from our estimate was ascribed to higher-than-expected revenue and lower depreciation and amortization, while GP margin came below our expectations. On a Q/Q basis, net income grew 14.1%.
- Revenue grew 12.4% Y/Y to SAR 2,179mn in Q1-22, above our estimate of SAR 2,025mn. Topline growth was driven by an increase in B2B and 5G revenues and a contribution from other segments.
- Gross profit (GP) edged up 1.6% Y/Y to SAR 1,236mn, despite double-digit revenue growth, as the cost of revenue soared 30.6% Y/Y or SAR 221mn. As a result, the GP margin plunged ~600bps Y/Y to 56.7%, significantly lower than our estimate of 62.7%. Higher revenue contribution from the Business segment may have weighed on GP margin.
- Operating profit jumped 27.2% Y/Y to SAR 201mn. Operating profit growth was fueled by lower depreciation and amortization on account of the company's tower assets being transferred to assets held for sale, following offers to acquire stakes in the Zain KSA tower infrastructure by PIF and other investors. However, operating cost increased by SAR 33mn Y/Y in Q1-22. The operating margin stood at 9.2% compared to 8.2% in Q1-21 and below our estimate of 10.1%.

**AJC view:** Zain KSA's Q1-22 results were better than our expectations. Net income growth was mainly driven by lower non-cash depreciation and amortization expense. The company's GP margin significantly contracted Y/Y for the second consecutive quarter, indicating revenue growth was led by lower margin segments. Higher revenue from the B2B segment will help the company diversify its revenue stream but might impact the margins. We expect the company's revenue growth to remain strong because of the return of Hajj and Umrah revenue and incremental 5G revenue amid the rising penetration of 5G devices in KSA. This would also support margin restoration to some extent. Additionally, a proposed offer from PIF and other investors for the company's tower business bodes well for the company's liquidity. Zain KSA currently trades at an EV/EBITDA ratio of 6.0x and a P/B ratio of 1.3x based on our FY22 estimates. We maintain our TP of **SAR 14.5/share** and retain a **"Neutral"** recommendation on Zain KSA.

## Results Summary

SARmn	Q1-21	Q4-21	Q1-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	1,938	2,083	2,179	12.4%	4.6%	7.6%
Gross Profit	1,216	1,166	1,236	1.6%	6.0%	-2.7%
<i>Gross Margin</i>	<i>62.7%</i>	<i>56.0%</i>	<i>56.7%</i>	-	-	-
EBIT	158	193	201	27.2%	4.1%	-1.9%
Net Profit	41	71	81	97.6%	14.1%	23.6%
EPS	0.05	0.08	0.09	-	-	-

Source: Company reports, Aljazira Capital, \*Not Meaningful

## Neutral

**Target Price (SAR)** 14.5

**Upside / (Downside)\*** 3.1%

Source: Tadawul \*prices as of 17<sup>th</sup> of April 2022

## Key Financials

(in SAR mn, unless specified)	FY20	FY21	FY22E
Revenue	7,917	7,901	8,497
Growth %	-5.6%	-0.2%	7.5%
Net Profit	260	214	310
Growth %	-46.4%	-17.6%	44.9%
EPS	0.38	0.24	0.35

Source: Company reports, Aljazira Capital

## Key Ratios

	FY20	FY21	FY22E
GrossMargin	68.8%	61.8%	58.8%
NetMargin	3.3%	2.7%	3.7%
P/E (X)	35.9	High	40.7
P/B (X)	1.4	1.2	1.3
EV/EBITDA (X)	3.9	5.6	6.0

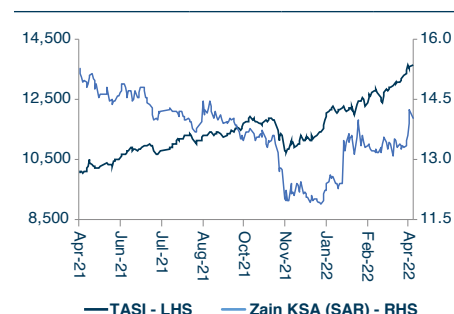
Source: Company reports, Aljazira Capital

## Key Market Data

Market Cap(bn)	12.5
YTD%	17.8%
52 Week High/Low	15.42/11.66
Shares Outstanding(mn)	898.7

Source: Company reports, Aljazira Capital

## Price Performance



Source: Tadawul, Aljazira Capital

Head of Sell-Side Research

Jassim Al-Jubran

+966 11 2256248

j.aljabran@aljaziracapital.com.sa



RESEARCH DIVISION

Head of Sell-Side Research - AGM  
Jassim Al-Jubran  
+966 11 2256248  
j.aljabran@aljaziracapital.com.sa

RESEARCH  
DIVISION

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RATING  
TERMINOLOGY

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3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia, Tel: 011 2256000 - Fax: 011 2256068