



Zain KSA's net income plunged 61.0% Y/Y to SAR 41mn in Q1-21, missing our and consensus estimates of SAR 59mn and SAR 48mn, respectively. The deviation from our estimate was mainly due to lower-than-expected revenue and gross margin. Revenue fell by 5.0% Y/Y to SAR 1,938mn, as the company's top line remained under pressure due to the pandemic. We maintain our **"Overweight"** recommendation and a TP of **SAR 16.5/share** on Zain KSA.

- Zain KSA's net income for Q1-21 declined 61.0% to SAR 41mn, missing our and consensus estimates of SAR 59mn and SAR 48mn, respectively. The variance from our estimate was on account lower-than-expected revenue and gross operating margin. However, the decline in bottom line was limited by lower OPEX and significant drop in finance cost. Zain KSA's capital restructuring and subsequent deleveraging of balance sheet helped the company in reducing finance cost by SAR 139mn Y/Y in Q1-21.
- Revenue decreased 5.0% Y/Y to SAR 1,938mn, broadly in line with our estimate of SAR 2,053mn. Total revenue fell due to continued impact of COVID-19, which caused a decrease in demand for the company's services. Revenues from visitor's packages and roaming services are likely to have impacted most due to the pandemic.
- Gross profit (GP) declined 17.4% Y/Y to SAR 1,216mn, as cost revenue soared 27.6% Y/Y mainly due to absence of reversal of provisions in Q1-21 compared to Q1-20. The decline in revenue and jump in cost of revenue caused a sharp contraction of GP margin (-950bps Y/Y) to 62.7%, lower than our estimate of 65.6%.
- Operating profit plummeted 55.7% Y/Y to SAR 158mn, impacted by lower revenue coupled with decrease in GP margin. Decline in OPEX (-SAR 43mn Y/Y) due to the company's cost optimization efforts partly supported operating profit. Operating margin witnessed reduction of 940bps Y/Y to 8.2% in Q1-21, lower than our estimate of 10.8%.

**AJC view:** Zain KSA's Q1-21 results missed our expectations. The impact of travel restrictions due to COVID-19, lower number of Umrah pilgrims and lack of clarity on FY21 Hajj are likely to keep the company's revenue under pressure in FY21. However, expected pick up in vaccination and reopening international borders would help the company's top line to recover in H2-21. Furthermore, the company's margins are also expected to be lower in FY21, as reversal of provisions related to the settlement royalty fees with government are not expected this year. However, the bottom line is anticipated to get support from the lower finance cost due to capital restructuring, decrease in total debt along with lower interest rates. Thus, with deleveraged and healthier balance sheet, the company remains strong financially, while short-term pressure is likely to continue on some operating segments. Recently, Zain KSA and Mobily received approval from CITC to form a consortium to merge tower businesses of the two companies. We believe this deal, if finalized, would be beneficial for the company. Zain KSA currently trades at a P/B ratio of 1.4x and P/E ratio of 26.0x based on our FY21 estimates. We maintain our **"Overweight"** recommendation and a TP of **SAR 16.5/share** on Zain KSA.

## Results Summary

SARmn (unless specified)	Q1-20	Q4-20	Q1-21	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	2,039	2,060	1,938	-5.0%	-5.9%	-5.6%
Gross Profit	1,473	1,351	1,216	-17.4%	-10.0%	-9.8%
<b>Gross Margin</b>	<b>72.2%</b>	<b>65.6%</b>	<b>62.7%</b>	-	-	-
EBIT	357	210	158	-55.7%	-24.8%	-28.7%
Net Profit	<b>105</b>	<b>36</b>	<b>41</b>	<b>-61.0%</b>	<b>13.9%</b>	<b>-30.8%</b>
EPS	<b>0.16</b>	<b>0.04</b>	<b>0.05</b>	-	-	-

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

## Overweight

Target Price (SAR)	16.5
Upside / (Downside)*	10.7%

Source: Tadawul \*prices as of 1<sup>st</sup> of May 2021

## Key Financials

(in SAR mn, unless specified)	FY19	FY20	FY21E
Revenue	8,386	7,917	8,163
Growth %	11.4%	-5.6%	3.1%
Net Profit	485	260	516
Growth %	46.0%	-46.4%	98.5%
EPS	0.72	0.38	0.57

Source: Company reports, Aljazira Capital

## Key Ratios

	FY19	FY20	FY21E
GrossMargin	71.2%	68.8%	67.2%
NetMargin	5.8%	3.3%	6.3%
P/E	16.4x	35.9x	26.0x
P/B	1.7x	1.4x	1.4x
EV/EBITDA	3.5x	3.5x	5.3x

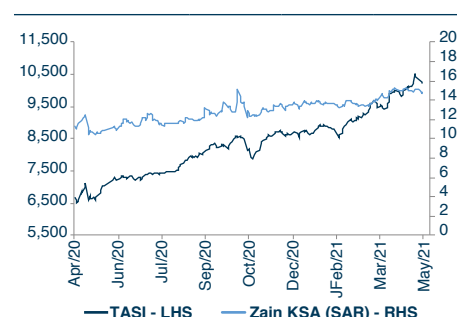
Source: Company reports, Aljazira Capital, \*Not Meaningful

## Key Market Data

Market Cap(mn)	13.1
YTD%	9.6%
52 Week High/Low	15.42/9.88
Shares Outstanding(mn)	898.7

Source: Company reports, Aljazira Capital

## Price Performance



Source: Tadawul, Aljazira Capital

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1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
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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