

Zain KSA's net income almost doubled to SAR 71mn in Q4-21, beating our and consensus estimates of SAR 51mn and SAR 64mn, respectively. The deviation from our estimate was mainly due to lower-than-expected operating expenses and higher revenue, partly offset by a tighter GP margin. Revenue rose 1.1% Y/Y to SAR 2,083mn, above our estimate of SAR 2,015mn (var. +3.4%). We maintain our TP of SAR 14.5/share and "Neutral" recommendation on Zain KSA.

- Zain KSA posted a net income of SAR 71mn in Q4-21, up 97.4% Y/Y, beating our and consensus estimates of SAR 51mn and SAR 64mn, respectively. The variance from our estimate was attributable to lower-than-expected operating expenses and finance costs, further supported by higher-than-expected revenue. However, significantly high cost of sales limited the growth in net income. Net income for FY21 stood at SAR 214mn (-17.7%), as GP margin declined steeply (~700bps). On the other hand, a decrease in OPEX (-SAR 247mn Y/Y) and finance cost (-SAR 409mn Y/Y) supported the bottom line in FY21.
- Revenue increased 1.1% Y/Y to SAR 2,083mn in Q4-21, broadly in line with our estimate of SAR 2,015mn (var. +3.4%). The better-than-expected recovery in the consumer segment due to the resumption of Umrah and international travel is likely to have benefited the top line in Q4-21.
- Gross profit (GP) declined 13.6% Y/Y to SAR 1,167mn, as the cost of revenue soared 29.1% Y/Y mainly due to the absence of reversal of provisions in Q4-21 compared to Q4-20. GP margin contracted by ~950bps Y/Y to 56.0%, lower than our estimate of 62.8%, due to a sharp rise in the cost of revenue, while revenue growth was modest.
- Operating profit dropped 12.5% Y/Y to SAR 184mn, as the impact of the decrease in GP margin trickled down, counteracted by lower operating expenses (-13.8% Y/Y and 9.5% below our estimate). Consequently, the operating margin witnessed a reduction of ~140bps Y/Y to 8.8% in Q4-21, lower than our estimate of 8.9%.

AJC view: Zain KSA's Q4-21 results were better than our expectations. The company's top line for the quarter indicates signs of recovery. We expect Zain KSA's revenue to continue to recover in FY22 on the back of the return of revenue from visitors' packages due to the resumption of Umrah and international travel. However, it would be challenging for the company to maintain and grow its subscribers amid fierce competition from other operators. Aggressive expansion into 5G services would help the company attract incremental revenue as the 5G penetration deepens in the Kingdom. Furthermore, if Zain KSA can sustain the recent reduction in operating expenses, that would benefit the company's margins in the future. 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 EV/EBITDA ratio of 5.0x and a P/B ratio of 1.2x based on our FY22 estimates. Accordingly, we maintain our TP of SAR 14.5/share and retain "Neutral" recommendation on Zain KSA.

Results Summary

| SARmn | Q4-20 | Q3-21 | Q4-21 | Change Y/Y | Change Q/Q | Deviation from AJC Estimates |
|---------------------|--------------|--------------|--------------|------------|------------|------------------------------|
| Revenue | 2,061 | 1,984 | 2,083 | 1.1% | 5.0% | 3.4% |
| Gross Profit | 1,351 | 1,244 | 1,167 | -13.6% | -6.2% | -7.8% |
| <i>Gross Margin</i> | <i>65.5%</i> | <i>62.7%</i> | <i>56.0%</i> | - | - | - |
| EBIT | 210 | 188 | 184 | -12.5% | -2.0% | 2.0% |
| Net Profit | 36 | 60 | 71 | 97.4% | 17.5% | 39.0% |
| EPS | 0.04 | 0.07 | 0.08 | - | - | - |

Source: Company reports, Aljazira Capital, *Not Meaningful

Neutral

Target Price (SAR) 14.5

Upside / (Downside)* 16.7%

Source: Tadawul *prices as of 27th of January 2022

Key Financials

| (in SAR mn, unless specified) | FY20 | FY21 | FY22E |
|-------------------------------|--------|--------|-------|
| Revenue | 7,917 | 7,901 | 8,142 |
| Growth % | -5.6% | -0.2% | 3.1% |
| Net Profit | 260 | 214 | 243 |
| Growth % | -46.4% | -17.7% | 13.7% |
| EPS | 0.38 | 0.24 | 0.27 |

Source: Company reports, Aljazira Capital

Key Ratios

| | FY20 | FY21 | FY22E |
|---------------|-------|-------|-------|
| GrossMargin | 68.8% | 61.8% | 62.9% |
| NetMargin | 3.3% | 2.7% | 3.0% |
| P/E (X) | 35.9 | High | 45.9 |
| P/B (X) | 1.4 | 1.2 | 1.2 |
| EV/EBITDA (X) | 3.9 | 5.5 | 5.0 |

Source: Company reports, Aljazira Capital

Key Market Data

| | |
|------------------------|-------------|
| Market Cap(mn) | 11.1 |
| YTD% | 3.2% |
| 52 Week High/Low | 15.42/11.66 |
| Shares Outstanding(mn) | 898.7 |

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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RESEARCH DIVISION

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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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