Mobile Telecommunication Company Saudi Arabia

HOLD

Sector: Telecom

14 May 2026

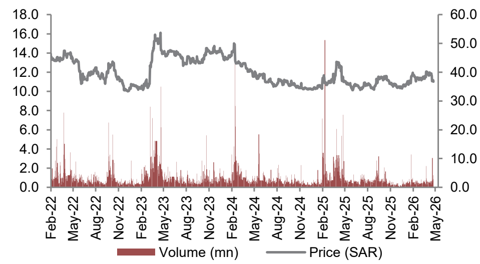
- **1Q26 revenue grew 1.3% YoY, 5.7% below our expectations. The shortfall was primarily driven by weaker-than-expected performance in both the telecom and Tamam operations.**
- **Operating performance also missed our estimate, with EBIT coming in 5.1% below expectations due to the weaker topline performance. However, net income increased 116.4% YoY, supported by one-off income from a government grant.**
- **Despite the weaker than expected operating performance, we maintain our target price of SAR 11.50 per share, which implies a Hold rating, as we forecast performance to recover in the coming quarters.**

Mobile Telecommunication Company Saudi Arabia (Zain KSA) reported 1Q26 revenue of SAR 2.7bn, reflecting a 1.3% YoY decline and coming in 5.7% below our estimates. The weaker topline performance was primarily driven by pressure on the company's core telecom operations, which declined 1.8% YoY. This was mainly due to a 7.7% YoY decline in wholesale revenue and a 5.3% YoY decline in business revenue. Consumer revenue, however, grew 2.8% YoY, partially offsetting the weakness in other segments. The quarter witnessed a c.8% YoY fall in its subscriber base, though its blended ARPU remained strong, improving by c.7% YoY. Zain KSA's financing arm, Tamam, continued to record growth, although at a slower pace of 1.6% YoY compared to its historical performance. Gross profit increased 4.7% YoY to SAR 1.7bn, with gross margin improving to 62.5% in 1Q26 from 58.9% in 1Q25, supported by an improved revenue mix.

Operating expenses rose 10.9% YoY, driven by higher SG&A expenses and increased ECL provisions. As a result, EBITDA declined 1.2% YoY to SAR 804mn, while EBITDA margin remained broadly stable at 30.3% in 1Q26 versus 30.2% in 1Q25. Finance costs declined 15.0% YoY despite a marginal 2.3% YoY increase in debt, indicating improved funding efficiency. Leverage remained manageable, with debt-to-EBITDA at 2.9x, broadly stable and within comfortable levels. Profitability was supported by one-off SAR 98mn in grant income, representing a government subsidy for operating in certain geographic regions. Consequently, net income increased 116.4% YoY to SAR 201mn in 1Q26. However, underlying operating performance remained weak and below expectations, with EBIT missing our forecast by 5.1%. The miss was primarily attributable to lower-than-expected revenue.

Valuation: Zain KSA reported a weaker than expected numbers, on account of revenue miss. Both the company's core telecom operations and Tamam delivered moderate performance, with the former impacted by weakness in the wholesale and business segments. Although the company's financing arm continued to grow, the same remained below its historical trend. Looking ahead, we expect growth rates to improve and believe the weakness in the current quarter reflects the cyclical nature of the business. Accordingly, we maintain our target price of SAR 11.50 per share, implying a Hold rating. At 14.4x 2027e EPS, we continue to view the valuation as relatively rich.

Target price (SAR)	11.50
Current price (SAR)	11.10
Return	+3.6%



Exchange	Saudi Arabia
Index weight (%)	0.3%

(mn)	SAR	USD
Market Cap	9,895	2,637
Enterprise value	19,192	5,114

Major shareholders	
Mobile Telecommunication	37.1%
Vanguard Group Inc	2.1%
Dimensional Fund	1.4%
Others	59.4%

Valuation Summary (TTM)	
PER TTM (x)	13.9
P/Book (x)	0.9
EV/EBITDA (x)	5.5
Dividend Yield (%)	4.5
Free Float (%)	59%
Shares O/S (mn)	899
YTD Return (%)	6%
Beta	1.2

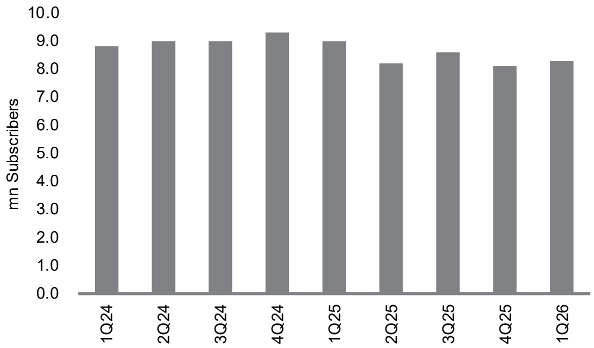
Key ratios	2023	2024	2025
EPS (SAR)	1.41	0.66	0.67
BVPS (SAR)	11.78	11.91	12.10
DPS (SAR)	0.50	0.50	0.50
Payout ratio (%)	35%	75%	74%

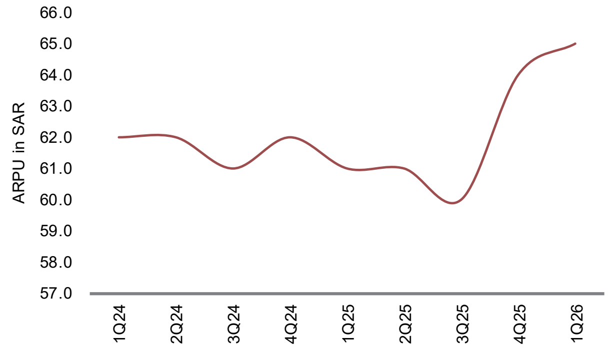
Price performance (%)	1M	3M	12M
Mobile Telecommunications Co	-4%	-5%	-4%
Tadawul All Share Index	-2%	-2%	-4%

52 week	High	Low	CTL*
Price (SAR)	12.10	10.02	9.9

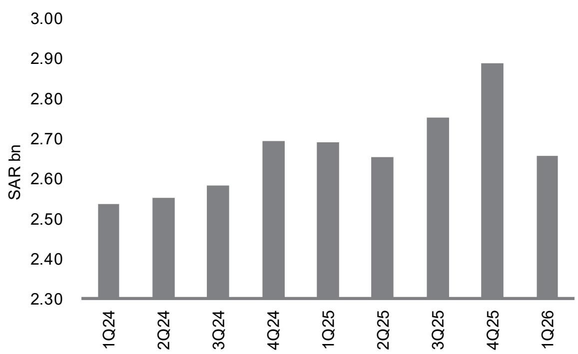
* CTL is % change in CMP to 52wk low

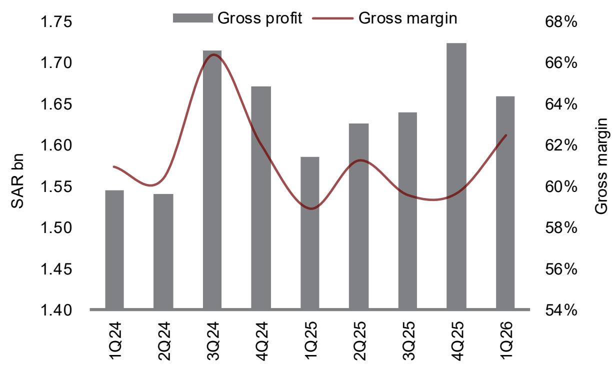
Customer numbers remain under pressure YoY, though improves QoQ, even as ARPU continues to remain strong



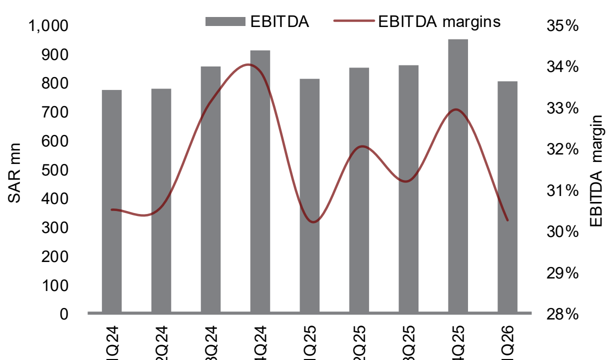


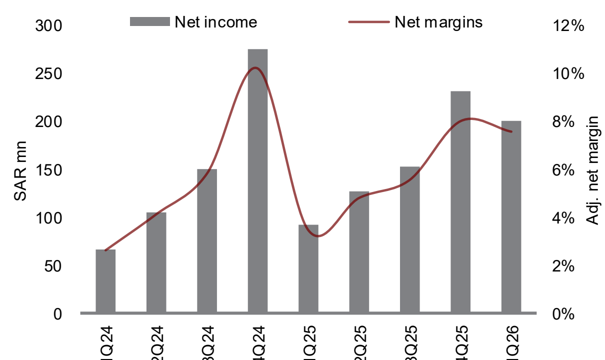
Revenue falls on lower core-telecom operation, though gross margins improves





Higher operating expenses limits profitability, though one-off income from government grant aids net income





Income Statement (SAR mn)	2023	2024	2025	2026e	2027e	2028e	2029e	2030e
Revenue	9,883	10,365	10,983	11,499	11,890	12,253	12,616	12,976
Cost of sales	(4,025)	(3,894)	(4,410)	(4,618)	(4,776)	(4,923)	(5,069)	(5,214)
Gross profit	**5,857**	**6,471**	**6,574**	**6,881**	**7,114**	**7,331**	**7,547**	**7,762**
Operating expenses	(4,986)	(5,272)	(5,261)	(5,508)	(5,667)	(5,812)	(5,954)	(6,094)
Operating profit	**871**	**1,199**	**1,313**	**1,373**	**1,447**	**1,519**	**1,593**	**1,668**
Other income	1,203	90	18	112	20	20	19	18
Finance expenses - Net	(719)	(735)	(680)	(702)	(723)	(733)	(742)	(750)
Earnings before tax	**1,356**	**554**	**651**	**783**	**743**	**806**	**870**	**937**
Tax	(89)	42	(47)	(57)	(54)	(58)	(63)	(68)
Net income	**1,267**	**596**	**604**	**727**	**689**	**747**	**807**	**869**

Balance Sheet (SAR mn)	2023	2024	2025	2026e	2027e	2028e	2029e	2030e
Property and equipment	4,736	4,977	4,770	5,500	6,256	7,034	7,836	8,660
Intangibles	14,245	13,557	13,270	12,667	12,044	11,402	10,740	10,060
Right to use assets	843	1,098	1,401	1,717	2,045	2,382	2,730	3,087
Other non-current assets	801	1,190	1,170	1,170	1,170	1,170	1,170	1,170
Total non-current assets	**20,625**	**20,823**	**20,611**	**21,055**	**21,515**	**21,988**	**22,476**	**22,977**
Contract assets	118	123	139	145	150	155	159	164
Receivables	5,532	6,058	6,872	7,195	7,439	7,666	7,894	8,119
Inventories	158	263	181	189	195	202	208	213
Cash & Cash Equivalents	946	840	951	1,048	1,089	1,008	953	931
Other current assets	0	29	0	0	0	0	0	0
Total current assets	**6,753**	**7,313**	**8,142**	**8,577**	**8,874**	**9,030**	**9,214**	**9,427**
Total assets	**27,378**	**28,135**	**28,753**	**29,632**	**30,389**	**31,019**	**31,690**	**32,404**
Share Capital	8,987	8,987	8,987	8,987	8,987	8,987	8,987	8,987
Total reserves	1,604	1,720	1,889	2,166	2,406	2,704	3,061	3,481
Total equity	**10,591**	**10,707**	**10,876**	**11,153**	**11,393**	**11,691**	**12,048**	**12,468**
Short term borrowings	1,187	5,965	233	0	1,551	1,443	1,603	1,781
Short term lease liabilities	216	187	282	285	288	291	294	297
Trade payables	5,019	5,633	5,265	5,512	5,699	5,874	6,048	6,220
Other current liabilities	1,584	915	585	595	603	610	617	625
Total current liabilities	**8,006**	**12,700**	**6,366**	**6,393**	**8,142**	**8,218**	**8,562**	**8,923**
Long term debt	6,533	2,234	8,329	8,562	7,011	6,969	6,659	6,331
Long term lease liabilities	1,017	1,302	1,531	1,872	2,191	2,489	2,768	3,031
Other non-current liabilities	1,231	1,193	1,651	1,651	1,651	1,651	1,651	1,651
Total non-current liabilities	**8,781**	**4,729**	**11,512**	**12,086**	**10,854**	**11,110**	**11,079**	**11,014**
Total Liabilities	**16,787**	**17,429**	**17,877**	**18,479**	**18,996**	**19,328**	**19,641**	**19,937**
Equity and liabilities	**27,378**	**28,135**	**28,753**	**29,632**	**30,389**	**31,019**	**31,690**	**32,404**

Cash Flows (SAR mn)	2023	2024	2025	2026e	2027e	2028e	2029e	2030e
Cash from operations	1,716	2,044	1,776	2,909	2,967	3,101	3,232	3,366
Cash from investments	1,618	(514)	(490)	(2,067)	(2,137)	(2,202)	(2,267)	(2,332)
Cash from financing	(2,762)	(1,637)	(1,174)	(745)	(789)	(980)	(1,019)	(1,056)
Forex changes	(1)	0	(1)	0	0	0	0	0
Net changes in cash	571	(106)	111	97	41	(81)	(54)	(22)
Closing balance (C/b)	**946**	**840**	**951**	**1,048**	**1,089**	**1,008**	**953**	**931**

Ratios	2023	2024	2025	2026e	2027e	2028e	2029e	2030e
Per Share (SAR)								
EPS	1.4	0.7	0.7	0.8	0.8	0.8	0.9	1.0
BVPS	11.8	11.9	12.1	12.4	12.7	13.0	13.4	13.9
DPS	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
FCF/share	3.7	1.7	1.4	0.9	0.9	1.0	1.1	1.1
Valuations								
M.Cap (SAR mn)	11,707	10,786	9,895	9,895	9,895	9,895	9,895	9,895
EV (SAR mn)	19,714	19,633	19,320	19,567	19,848	20,080	20,266	20,404
EBITDA (SAR mn)	2,978	3,323	3,473	3,636	3,786	3,929	4,075	4,221
P/E	9.2	18.1	16.4	13.6	14.4	13.2	12.3	11.4
EV/EBITDA	6.6	5.9	5.6	5.4	5.2	5.1	5.0	4.8
EV/Sales	2.0	1.9	1.8	1.7	1.7	1.6	1.6	1.6
P/BV	1.1	1.0	0.9	0.9	0.9	0.8	0.8	0.8
P/S	1.2	1.0	0.9	0.9	0.8	0.8	0.8	0.8
Div. yield	3.8%	4.2%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Liquidity								
Cash Ratio	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Current ratio	0.8	0.6	1.3	1.3	1.1	1.1	1.1	1.1
Quick ratio	0.8	0.6	1.3	1.3	1.1	1.1	1.1	1.0
Return ratio								
ROA	4.6%	2.1%	2.1%	2.5%	2.3%	2.4%	2.5%	2.7%
ROE	12.0%	5.6%	5.6%	6.5%	6.0%	6.4%	6.7%	7.0%
ROCE	4.5%	5.9%	6.2%	6.3%	6.4%	6.6%	6.8%	7.0%
Cash cycle								
Contract asset turnover	84.0	84.5	79.2	79.2	79.2	79.2	79.2	79.2
Payables turnover	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Receivables turnover	1.8	1.7	1.6	1.6	1.6	1.6	1.6	1.6
Inventory turnover	25.5	14.8	24.4	24.4	24.4	24.4	24.4	24.4
Contract asset days	4	4	5	5	5	5	5	5
Payable days	455	528	436	436	436	436	435	435
Receivables days	204	213	228	228	228	228	228	228
Inventory days	14	25	15	15	15	15	15	15
Cash Cycle	(232)	(286)	(188)	(188)	(188)	(188)	(188)	(188)
Profitability ratio								
EBITDA margins	30.1%	32.1%	31.6%	31.6%	31.8%	32.1%	32.3%	32.5%
Operating margins	8.8%	11.6%	12.0%	11.9%	12.2%	12.4%	12.6%	12.9%
PBT margins	13.7%	5.3%	5.9%	6.8%	6.2%	6.6%	6.9%	7.2%
Net margins	12.8%	5.8%	5.5%	6.3%	5.8%	6.1%	6.4%	6.7%
Leverage								
Total debt (SAR mn)	8,953	9,688	10,376	10,720	11,042	11,192	11,325	11,440
Net debt (SAR mn)	8,007	8,848	9,425	9,672	9,953	10,185	10,371	10,509
Debt/Total assets	32.7%	34.4%	36.1%	36.2%	36.3%	36.1%	35.7%	35.3%
Debt/Equity	0.8	0.9	1.0	1.0	1.0	1.0	0.9	0.9

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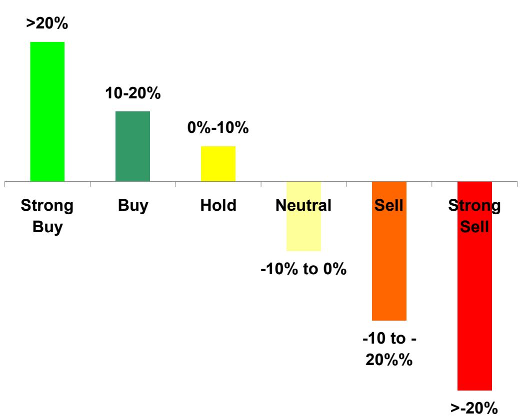
Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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