

Rating **Buy**
12- Month Target Price **SAR 11.50**

ZAIN COMPANY
4Q2018 First Look

Expected Total Return

Price as on Jan 28, 2019	SAR 9.45
Upside to Target Price	21.7%
Expected Dividend Yield	0.0%
Expected Total Return	21.7%

Market Data

52 Week H/L	SAR 10.18/5.77
Market Capitalization	SAR 5,516 million
Shares Outstanding	584
Free Float	51.8%
12-Month ADTV	3,878,588
Blomberg Code	ZAINKSA

1-Year Price Performance



Source: Bloomberg



Emitting Positive Vibes, Target Price Raised

Zain reported upbeat 4Q2018 results with a net income of SAR 399 million versus consensus estimates of SAR 255 million and our SAR 234 million forecast. A higher topline breaching SAR 2 billion coupled with an estimated reversal of commercial fees of SAR 300 million (versus SAR 220 million estimate) were the primary reasons for the deviation. Full year net income at SAR 332 million is a multiple of SAR 12 million recorded last year, helped by the reversal but also operational improvements. Maintaining 8 million subscribers in a tough environment is encouraging. We have revised our forecasts upwards for 2019 and beyond resulting in an increase in our target to SAR 11.50, Zain recently achieved our SAR 9.50 fair price. Maintain Buy.

4Q revenues breach SAR 2 billion for the first time

Zain recorded a +19% Y/Y growth in 4Q revenues to SAR 2.05 billion, with full year revenues growing by +3% Y/Y to SAR 7.5 billion on the back of gains in postpaid subscribers and the Enterprise segment. The Company has managed to maintain the number of subscribers at 8 million in a challenging operating environment where industry subscriber numbers fell by half a million to 42.5 million by the end of 3Q, according to CITC.

Gross margins touch 85% due to reversal

Gross profit for the quarter came in at SAR 1.7 billion with gross margins touching 85% on the back of an estimate SAR 300 million reversal in commercial fees. This is part of the SAR 1.7 billion reversal that Zain has announced, which would cover the three year period (2018-2020). New calculations of royalty and annual license fees at 10% would also result in savings on the operating expenses side. This is accompanied by milestones of capital expenditures that Zain (and other operators) need to achieve to get this benefit. EBITDA for 2018 increased by +20% Y/Y to SAR 3 billion.

Forecasts revised upwards

SAR 399 million in net income for 4Q exceeded market expectations with an estimated reversal in commercial fees of SAR 300 million as well as stronger revenue growth. Early repayment of the Murabaha financing amounting to SAR 525 million is a positive indicator. We revise our forecasts upwards to take into account clarifications after the analysts call regarding reversal in commercial fees, amongst others, but we have still not factored in the tower sale impact or capital restructuring, which is expected during the course of 2019. We raise our target price to SAR 11.50 from SAR 9.50 earlier (which it recently achieved).

4Q2018 (SAR mln)	RC Est.	Actuals
Sales	1,854	2,047
Gross Profit	1,270	1,739
Net Income	234	399
EPS (SAR)	0.40	0.68

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018A	2019E
Sales	7,306	7,531	7,736
Gross Profit	4,796	5,425	6,193
EBITDA	2,517	3,009	3,619
Net Profit	12	332	755
EPS (SAR)	0.02	0.57	1.29

Key Financial Ratios

FY Dec31	2017A	2018A	2019E
Gross Margin	67%	72%	80%
EBIT Margin	12.4%	16.2%	21.3%
Net Margin	0.2%	4.4%	9.8%
EV/EBITDA	7.7x	6.3x	5.1x
P/FCF	-	0.5x	0.9x

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

** The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors*

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