

Mobile Telecommunications Co. (Zain KSA)

Q3 2017

Recommendation **Overweight**

Fair Value (SAR) 7.98

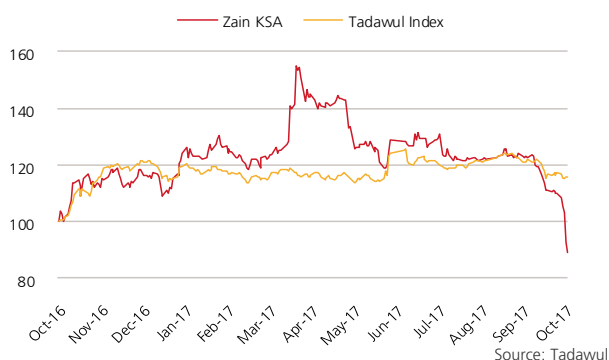
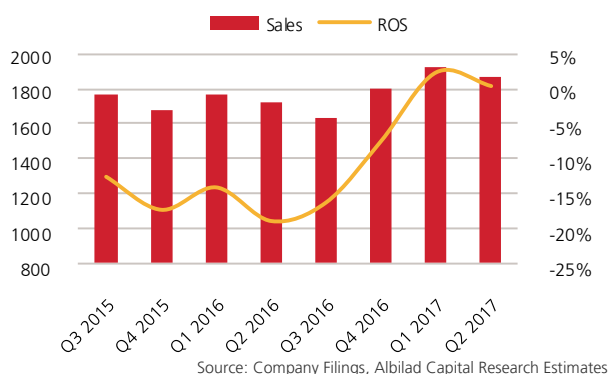
 Price as of October 30, 2017 6.41
 Expected Return 24.5%

Company Data

Tadawul Symbol	7030.SE
52 Week High (SAR)	11.45
52 Week Low (SAR)	6.17
YTD Change	-23.2%
3-Month Average Volume (Thousand Shares)	1,951
Market Cap. (SAR Million)	3,777
Market Cap. (USD Million)	1,007
Outstanding Shares (Million Shares)	583.73

Major Shareholders (> 5%)

Mobile Telecommunications Company K.S.C	37.04%
Faden Trading and Contracting Est.	5.97%
Saudi Plastic Factory	5.84%

52-week Stock Price Movement

Quarterly Sales (SAR mn) and ROS

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Zain Saudi Arabia reported a net profit of SAR 3 million in Q3 2017, recovering from a net loss of SAR 266 million in Q3 2016, while net profit plummeted by 63% QoQ. It is the third straight quarter that coincides with a positive bottom line, therefore the nine-month net earnings hit SAR 57 million compared to a loss of SAR 844 million in the corresponding period.

The P&L statement in Q3 2017 was underpinned by the growth of revenues by 10.6% YoY or about SAR 173 million on increased demand especially for high-margin data services, despite the slump in the customers base by about 20% to 8.6 million. On the other hand, depreciation and amortization (D&A) expenses decreased from SAR 490 million to SAR 402 million in the aftermath of the extension of the company's license for an additional 15 years. Interest expenses also dwindled by SAR 44 million due to the repayment of some debts.

Compared to Q2 2017, sales were dented by the lengthy summer vacation combined with huge travel outside the kingdom, despite the incremental revenues from the Hajj season. Top line shrank 3.1% QoQ, while 9M 2017 sales totaled SAR 5,590 million compared to SAR 5,126 million in 9M 2016, edging up 9.1%. Furthermore, D&A charges slid 18% in 9M 2017.

The improvement in revenues was accompanied by a firm grip on costs and mounting profitability margins, fueled by the spike in revenues of the lucrative data sector. Moreover, EBITDA margin swelled to 34.9% compared to 29.9% in Q3 2016 and 33.9% in Q2 2017. The margin also expanded from 25.5% to 34.5% in 9M 2017.

The net profit missed our estimate of SAR 15 million, however top line exceeded our forecast by only 1.5%. Overall, the income statement was reinforced by increased revenues, a tight leash on the cost of services and operating expenses, coupled with the reduction of D&A charges in the aftermath of the extension of the company's license. The performance is expected to rebound in the fourth quarter as Q3 coincided with a seasonal slump in demand.

Zain is planning to convene an extraordinary shareholders' meeting to approve the redemption of 220 million shares to extinguish retained losses. The cellular operator also intends to boost its capital by SAR 6 billion through a rights issuance. The proceeds of the capital increase will be used to curb outstanding debts which totaled almost SAR 12 billion in September without dues of SAR 5.8 billion pertaining to related parties. We believe that these interest-bearing dues may be utilized in the capital increase. The company's debts also include liabilities worth SAR 2.5 billion pertaining to the Ministry of Finance (MoF). The MoF dues are forecasted to approach SAR 5.6 billion in June 2021, when Zain will start paying them on equal installments. The deleverage helps the management negotiate better interest rates, and curb interest burdens by almost SAR 350 million annually. Zain is scheduled to repay SAR 1.3 billion from the joint Murabaha facility in December, banking on a staggering cash balance of SAR 1.9 billion at the end of September. We revised down our valuation for Zain to SAR 7.98 per share.

FY - Ending December	2014A	2015A	2016A	2017E
EV/EBITDA	17.23	11.63	10.55	7.35
EV/Sales	3.07	2.81	2.73	2.51
P/E	N/A	N/A	N/A	51.15
P/BV	0.69	0.83	1.06	1.04
P/Revenue	0.61	0.56	0.55	0.50
Current Ratio	1.00	0.63	0.50	0.26
Revenue Growth	-5.4%	9.3%	2.7%	8.6%

Income Statement (SAR mn)	2013A	2014A	2015A	2016A	2017E*
Total Revenues	6,523	6,170	6,741	6,927	7,523
Cost of Service	3,388	2,948	2,790	2,526	2,457
As a % of Revenues	51.94%	47.77%	41.39%	36.47%	32.65%
SG&A	2,191	2,201	2,259	2,595	2,460
As a % of Revenues	33.60%	35.67%	33.51%	37.47%	32.70%
Provisions	53	(78)	63	10	38
EBITDA	890	1,100	1,629	1,795	2,568
EBITDA Margin	13.7%	17.8%	24.2%	25.9%	34.1%
Depreciation and amortization	1,840	1,633	1,770	1,850	1,590
EBIT	(949)	(534)	(141)	(55)	978
Net Interest Income	(722.8)	(745.3)	(837.9)	(953.0)	(894.9)
Others (Net)	20.6	9.4	7.4	27.9	(9.6)
NAI	(1,651)	(1,270)	(972)	(980)	74
ROS	-25.3%	-20.6%	-14.4%	-14.1%	1.0%
Balance Sheet (SAR mn)					
Cash and Marketable Securities	1,293	1,092	1,378	919	834
Inventory	141	63	104	42	36
Others	1,876	2,734	2,614	2,352	2,511
Total ST Assets	3,310	3,888	4,096	3,312	3,381
Net Fixed Assets	4,293	4,296	5,007	7,006	6,798
Intangible assets	18,351	17,469	16,813	16,196	15,170
Others	283	212	132	96	776
Total LT Assets	22,927	21,977	21,952	23,298	22,744
Total Assets	26,237	25,866	26,048	26,611	26,125
Short Term Debt and CPLTD	200	200	2,780	2,247	8,378
Others	3,621	3,698	3,719	4,393	4,841
Total ST Liabilities	3,821	3,898	6,498	6,640	13,219
Total Long Term Debt	11,390	11,187	8,616	8,245	2,623
Other Long Term Liabilities	4,268	5,317	6,382	8,151	6,634
Equity	6,759	5,464	4,552	3,575	3,649
Total Liabilities and Equity	26,237	25,866	26,048	26,611	26,125

Source: Company Filings, Albilad Capital Research Estimates

Presentation of financial statements may differ from the company's presentation. However, there is no impact on the final results.

* Historical financial statements were prepared according to the previous Saudi reporting standards. Some items in the financials statements for 2017 are reclassified according to IFRS.

Albilad Capital Rating Methodology

Al-Bilad Capital uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight:	The Target share price exceeds the current share price by $\geq 10\%$.
Neutral:	The Target share price is either more or less than the current share price by $< 10\%$.
Underweight:	The Target share price is less than the current share price by $\geq 10\%$.
To be Revised:	No target price had been set for one or more of the following reasons: waiting for more analysis, waiting for detailed financials, waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

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