

## Telecom

**Hold: 12M TP @ 11**

*Upside +1.0%*

### Valuation Summary (TTM)

Price (SAR)	10.9
PER TTM (x)	15.2
P/Book (x)	0.9
P/Sales (x)	0.9
EV/Sales (x)	1.7
EV/EBITDA (x)	5.1
Dividend Yield (%)	4.6
Free Float (%)	60%
Shares O/S (mn)	899
YTD Return (%)	6%
Beta	1.2

(mn)	SAR	USD
Market Cap	9,787	2,608
Enterprise Value	19,342	5,156

Price performance (%)	1M	3M	12M
Mobile Telecommunications C	2%	-14%	4%
Tadawul All Share Index	-3%	-4%	-5%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (SAR ,000)	24,674	34,469	54,082
Avg Daily Volume (,000)	2,349	3,144	4,746

52 week	High	Low	CTL*
Price (SAR)	13.36	10.02	8.7

\* CTL is % change in CMP to 52wk low

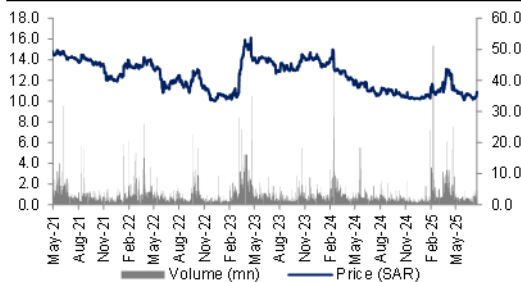
### Major shareholders

Mobile Telecom	37.0%
Vanguard Group Inc	2.0%
Dimensional Fund	1.4%
Others	59.5%

### Other details

Exchange	Saudi Arabia
Sector	Telecommunications
Index weight (%)	0.3%

Key ratios	2022	2023	2024
EPS (SAR)	0.61	1.41	0.66
BVPS (SAR)	10.91	11.78	11.91
DPS (SAR)	0.50	0.50	0.50
Payout ratio (%)	82%	35%	76%



## Zain KSA – Performance better than expected

Mobile Telecommunication Company Saudi Arabia (Zain KSA) reported 2Q25 revenue of SAR 2.7 bn, reflecting a 4.0% YoY increase, in line with our estimates. The growth was primarily driven by a strong 23.6% YoY performance in its microfinance arm, Tamam. Tamam's robust growth was supported by a 10.6% YTD expansion in its loan book and a 5.4% YTD increase in its customer base. Meanwhile, the core telecom operations recorded a steady 3.3% YoY revenue growth. This was aided by a strong 7.8% YoY increase in consumer sales, supported by heightened demand during the Hajj season. Conversely, the business and wholesale segments saw declines of 2.5% and 1.2% YoY, respectively. Gross profit rose 5.5% YoY to SAR 1.6 bn, with gross margins improving to 61.3% in 2Q25, compared to 60.4% in 2Q24. Operating expenses edged up 1.7% YoY to SAR 1.3 bn, largely due to higher provisions for credit loss. Finance costs declined by 5.5% YoY. As a result, the company reported a net income of SAR 127 mn for 2Q25, marking a 21.1% YoY increase. The improvement in bottom-line performance was driven by revenue growth, stronger gross margins, largely stable operating costs, and lower zakat provisions. Net income exceeded our expectations, primarily due to better-than-anticipated gross margins and lower zakat provisions.

**Investment thesis and valuations:** Zain KSA holds a reasonable position in the Saudi telecom market as the third-largest operator. Its fintech subsidiary, Tamam, which offers Shariah-compliant microfinance, has demonstrated strong growth over the past few years. We expect this momentum to continue over the medium term, supported by the relative under-penetration of microfinance services in the Kingdom. Although Tamam contributed only 4% to total revenue in 1H25, it accounted for c.25% of net income, benefiting from its significantly higher margins compared to Zain's core telecom operations. The company's ability to scale this vertical while effectively managing credit risk will be critical going forward. Meanwhile, Zain's telecom segment is expected to grow at a low-to-mid single-digit pace, constrained by intense market competition. Despite the notable beat in net income this quarter, we remain cautious about the company's outlook, as we believe current margin levels may not be sustainable. At c.20x its 2025e EPS and a dividend yield of 4.6%, we see limited upside in the stock. As such, we maintain our target price of **SAR 11 per share**, but increase our rating to **Hold**.

Income Statement (SAR mn)	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Revenue	7,917	7,901	9,075	9,883	10,365	10,882	11,322	11,678	12,012
Cost of sales	(2,472)	(3,016)	(3,760)	(4,025)	(3,894)	(4,364)	(4,510)	(4,628)	(4,748)
<b>Gross profit</b>	<b>5,445</b>	<b>4,885</b>	<b>5,315</b>	<b>5,857</b>	<b>6,471</b>	<b>6,518</b>	<b>6,812</b>	<b>7,050</b>	<b>7,265</b>
Operating expenses	(4,443)	(4,186)	(4,250)	(4,986)	(5,272)	(5,314)	(5,485)	(5,516)	(5,654)
<b>Operating profit</b>	<b>1,002</b>	<b>699</b>	<b>1,066</b>	<b>871</b>	<b>1,199</b>	<b>1,203</b>	<b>1,327</b>	<b>1,535</b>	<b>1,611</b>
Other income	176	22	74	1,203	90	15	14	12	14
Finance expenses - Net	(898)	(489)	(566)	(719)	(735)	(699)	(708)	(716)	(709)
<b>Earnings before tax</b>	<b>280</b>	<b>231</b>	<b>574</b>	<b>1,356</b>	<b>554</b>	<b>520</b>	<b>633</b>	<b>831</b>	<b>915</b>
Tax	(20)	(17)	(24)	(89)	42	(34)	(41)	(54)	(59)
<b>Net income</b>	<b>260</b>	<b>214</b>	<b>550</b>	<b>1,267</b>	<b>596</b>	<b>486</b>	<b>592</b>	<b>777</b>	<b>856</b>

Balance Sheet (SAR mn)	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Property and equipment	6,857	6,640	4,926	4,736	4,977	4,338	4,974	5,644	6,343
Intangibles	16,280	15,561	14,967	14,245	13,557	12,955	12,345	11,725	11,094
Right to use assets	1,285	1,331	440	843	1,098	1,383	1,663	1,937	2,205
Other non-current assets	353	564	648	801	1,190	1,190	1,190	1,190	1,190
<b>Total non-current assets</b>	<b>24,775</b>	<b>24,096</b>	<b>20,980</b>	<b>20,625</b>	<b>20,823</b>	<b>19,866</b>	<b>20,172</b>	<b>20,496</b>	<b>20,833</b>
Contract assets	96	67	151	118	123	129	134	138	142
Receivables	1,996	2,988	3,990	5,532	6,058	6,360	6,618	6,826	7,021
Inventories	187	214	147	158	263	295	305	313	321
Cash & Cash Equivalents	1,103	512	375	946	840	754	682	759	735
Other current assets	0	0	2,818	0	29	29	29	29	29
<b>Total current assets</b>	<b>3,383</b>	<b>3,781</b>	<b>7,481</b>	<b>6,753</b>	<b>7,313</b>	<b>7,566</b>	<b>7,766</b>	<b>8,064</b>	<b>8,247</b>
<b>Total assets</b>	<b>28,158</b>	<b>27,877</b>	<b>28,461</b>	<b>27,378</b>	<b>28,135</b>	<b>27,431</b>	<b>27,938</b>	<b>28,560</b>	<b>29,080</b>
Share Capital	8,987	8,987	8,987	8,987	8,987	8,987	8,987	8,987	8,987
Total reserves	(258)	52	815	1,604	1,720	1,756	1,898	2,226	2,632
<b>Total equity</b>	<b>8,729</b>	<b>9,040</b>	<b>9,802</b>	<b>10,591</b>	<b>10,707</b>	<b>10,743</b>	<b>10,885</b>	<b>11,213</b>	<b>11,619</b>
Short term borrowings	0	3,214	837	1,187	5,965	0	0	1,525	1,414
Short term lease liabilities	319	264	110	216	187	189	190	192	194
Trade payables	4,586	4,691	5,136	5,019	5,633	5,913	6,153	6,346	6,528
Other current liabilities	4,194	2,131	3,167	1,584	997	1,034	1,046	1,055	1,064
<b>Total current liabilities</b>	<b>9,099</b>	<b>10,300</b>	<b>9,250</b>	<b>8,006</b>	<b>12,782</b>	<b>7,136</b>	<b>7,389</b>	<b>9,119</b>	<b>9,201</b>
Long term debt	3,836	2,638	5,171	6,533	2,234	6,999	6,999	5,473	5,435
Long term lease liabilities	1,065	1,209	310	1,017	1,302	1,443	1,555	1,644	1,715
Other non-current liabilities	5,429	4,691	3,928	1,231	1,111	1,111	1,111	1,111	1,111
<b>Total non-current liabilities</b>	<b>10,330</b>	<b>8,538</b>	<b>9,408</b>	<b>8,781</b>	<b>4,647</b>	<b>9,552</b>	<b>9,664</b>	<b>8,228</b>	<b>8,260</b>
<b>Total Liabilities</b>	<b>19,429</b>	<b>18,837</b>	<b>18,659</b>	<b>16,787</b>	<b>17,429</b>	<b>16,688</b>	<b>17,053</b>	<b>17,347</b>	<b>17,460</b>
<b>Equity and liabilities</b>	<b>28,158</b>	<b>27,877</b>	<b>28,461</b>	<b>27,378</b>	<b>28,135</b>	<b>27,431</b>	<b>27,938</b>	<b>28,560</b>	<b>29,080</b>

Cash Flows (SAR mn)	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Cash from operations	4,029	1,574	1,912	1,716	2,159	2,630	2,779	3,014	3,138
Cash from investments	(1,825)	(1,085)	(1,344)	1,618	(628)	(659)	(1,966)	(2,028)	(2,086)
Cash from financing	(2,215)	(861)	(699)	(2,762)	(1,637)	(2,057)	(886)	(908)	(1,077)
Forex changes	(2)	(3)	(2)	(1)	0	0	0	0	0
Net changes in cash	(13)	(376)	(133)	571	(106)	(87)	(72)	77	(24)
<b>Closing balance (C/b)</b>	<b>1,103</b>	<b>512</b>	<b>375</b>	<b>946</b>	<b>840</b>	<b>754</b>	<b>682</b>	<b>759</b>	<b>735</b>

Ratios	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e
<b><u>Per Share (SAR)</u></b>									
EPS	0.3	0.2	0.6	1.4	0.7	0.5	0.7	0.9	1.0
BVPS	9.7	10.1	10.9	11.8	11.9	12.0	12.1	12.5	12.9
DPS	-	-	0.5	0.5	0.5	0.5	0.5	0.5	0.5
FCF/share	2.5	0.5	0.6	3.7	1.7	2.2	0.9	1.1	1.2
Revenue/share	8.8	8.8	10.1	11.0	11.5	12.1	12.6	13.0	13.4
<b><u>Valuations</u></b>									
M.Cap (SAR mn)	10,725	12,499	11,073	11,707	10,786	9,787	9,787	9,787	9,787
EV (SAR mn)	14,842	19,311	17,125	19,714	19,633	17,663	17,849	17,863	17,810
P/E	41.3	58.3	20.1	9.2	18.1	20.1	16.5	12.6	11.4
EV/EBITDA	4.3	6.2	5.4	6.6	5.9	5.2	5.0	4.7	4.6
EV/Sales	1.9	2.4	1.9	2.0	1.9	1.6	1.6	1.5	1.5
P/BV	1.2	1.4	1.1	1.1	1.0	0.9	0.9	0.9	0.8
P/S	1.4	1.6	1.2	1.2	1.0	0.9	0.9	0.8	0.8
Div. yield	0.0%	0.0%	4.1%	3.8%	4.2%	4.6%	4.6%	4.6%	4.6%
FCF yield	20.5%	3.9%	5.1%	28.5%	14.2%	20.1%	8.3%	10.1%	10.8%
<b><u>Liquidity</u></b>									
Cash Ratio	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Current ratio	0.4	0.4	0.8	0.8	0.6	1.1	1.1	0.9	0.9
Quick ratio	0.4	0.3	0.8	0.8	0.6	1.0	1.0	0.9	0.9
<b><u>Return ratio</u></b>									
ROA	0.9%	0.8%	1.9%	4.6%	2.1%	1.8%	2.1%	2.7%	2.9%
ROE	3.0%	2.4%	5.6%	12.0%	5.6%	4.5%	5.4%	6.9%	7.4%
ROCE	7.2%	4.3%	6.6%	4.5%	5.9%	6.2%	6.8%	7.7%	7.9%
<b><u>Cash cycle</u></b>									
Contract asset turnover	82.1	117.5	60.1	84.0	84.5	84.5	84.5	84.5	84.5
Payables turnover	0.5	0.6	0.7	0.8	0.7	0.7	0.7	0.7	0.7
Receivables turnover	4.0	2.6	2.3	1.8	1.7	1.7	1.7	1.7	1.7
Inventory turnover	13.2	14.1	25.6	25.5	14.8	14.8	14.8	14.8	14.8
Contract asset days	4	3	6	4	4	4	4	4	4
Payable days	677	568	499	455	528	495	498	501	502
Receivables days	92	138	160	204	213	213	213	213	213
Inventory days	28	26	14	14	25	25	25	25	25
Cash Cycle	(553)	(401)	(318)	(232)	(286)	(252)	(256)	(258)	(260)
<b><u>Profitability ratio</u></b>									
Gross margins	68.8%	61.8%	58.6%	59.3%	62.4%	59.9%	60.2%	60.4%	60.5%
EBITDA margins	43.5%	39.6%	34.8%	30.1%	32.1%	31.0%	31.2%	32.4%	32.5%
Operating margins	12.7%	8.8%	11.7%	8.8%	11.6%	11.1%	11.7%	13.1%	13.4%
PBT margins	3.5%	2.9%	6.3%	13.7%	5.3%	4.8%	5.6%	7.1%	7.6%
Net margins	3.3%	2.7%	6.1%	12.8%	5.8%	4.5%	5.2%	6.7%	7.1%
Effective tax rate	7.0%	7.3%	4.2%	6.6%	-7.6%	6.5%	6.5%	6.5%	6.5%
<b><u>Leverage</u></b>									
Total debt (SAR mn)	5,220	7,324	6,427	8,953	9,688	8,630	8,744	8,835	8,758
Net debt (SAR mn)	4,117	6,812	6,052	8,007	8,848	7,876	8,062	8,076	8,023
Debt/Capital	37.4%	44.8%	39.6%	45.8%	47.5%	44.5%	44.5%	44.1%	43.0%
Debt/Total assets	18.5%	26.3%	22.6%	32.7%	34.4%	31.5%	31.3%	30.9%	30.1%
Debt/Equity	0.6	0.8	0.7	0.8	0.9	0.8	0.8	0.8	0.8
Debt/EBITDA	1.5	2.3	2.0	3.0	2.9	2.6	2.5	2.3	2.2
Net debt/EBITDA	1.2	2.2	1.9	2.7	2.7	2.3	2.3	2.1	2.1

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## Rating Criteria and Definitions

Rating	Rating Definitions
	<p><b>Strong Buy</b> 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%</p> <p><b>Buy</b> 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%</p> <p><b>Hold</b> 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%</p> <p><b>Neutral</b> 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%</p> <p><b>Sell</b> 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%</p> <p><b>Strong Sell</b> 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%</p> <p><b>Not rated</b> This recommendation used for stocks which does not form part of Coverage Universe</p>

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