November 2, 2017

الرياض المالية
riyad capital

Rating	Buy
12- Month Target Price	SAR 14.00

ZAIN KSA

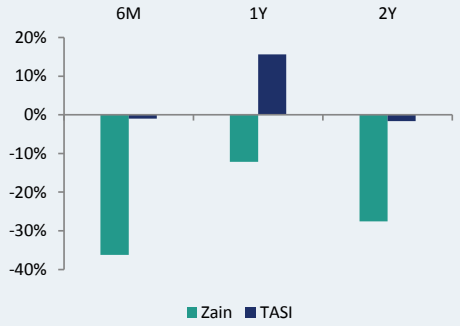
3Q2017 First Look

Expected Total Return	
Price as on Nov.1, 2017	SAR 6.44
Upside to Target Price	117.4%
Expected Dividend Yield	0.0%
Expected Total Return	117.4%

Market Data	
52 Week H/L	SAR 11.45/6.17
Market Capitalization	SAR 3,759 million
Shares Outstanding	583.73 mln
Free Float	51.84%
12-Month ADTV	3,714,199
Bloomberg code	ZAINKSA

1-Year Price Performance

Source: Bloomberg



3Q2017 (SAR mln)	Actual	RC Forecast
Revenue	1,806	1,789
Gross Profit	1,231	1,208
Net Profit	3,405	(7)
EPS (SAR)	0.1	(0.01)

Curing the Cancer

Zain announced its restructuring plans along with its unexpected positive net profit. In our past reports we expected that Zain will have to resolve its weak financial structure by reducing capital and then raising cash besides swapping debt by equity (upon banks approvals), our scenario seems closer than ever. We find this restructuring to be positive news to the current shareholders, in its absence the value for equity holders will decrease.

Capital reduction: from an equity investor's point of view the result of this transaction in profit or loss will depend on the average cost Vs share price at the date of the extraordinary general assembly. It's worth noting that the price touched a low of SAR 6.17 on the second trading day following the restructuring announcement. Tadawul will adjust the price to the new number of shares on the first trading date following the Extraordinary AGM. We assume that the right issue price will be at par value of SAR 10 per share. The major positive impact of capital restructuring is expected to be:

- Decrease in net debt will increase equity share in Zain's free cash flow, thus increasing equity (shareholder) value;
- The ability to pay dividends as the company will wipe its accumulated deficit and have a ND/EBITDA below 3.5x which is an imposed covenant by debtors;
- Discount rate should theoretically decline as a result of lower equity holding risk represented by beta;
- Finance expenses will decline by approximatly SAR 350 million annually boosting bottom line.

Revenue matches our estimates

Revenue of SAR 1.8 billion, +11% Y/Y but -3% lower Q/Q, matched our estimates. We marginally missed on gross margin, as the company recorded 68%, higher than estimates by 60bps. We attribute the growth in revenues and margins to increasing demand on company's data product. Data revenues represented 52% of total revenues, compensating for the significant decline in subscriber base from 10.7 million to 8.6 million. Company's focus on data products has positive impact on margins and cash generation, at September-end free cash flow attributed to debt and equity holders has jumped 7 times Y/Y.

Maintain Buy

On an operating level, S&M and G&A expenses remained under control as it declined by -2% Q/Q leading operating profit to SAR 229 million as compared to SAR 235 million last quarter. Finance expenses remain elevated as it erodes 99% of operating profit making capital restructuring vital for the sustainability of positive profits. Our target price is expected to increase as a result of the capital restructuring. For now, maintain our Buy rating and SAR 14.00 target price. We would advise current shareholders to subscribe to the rights issue rather than exit so as to preserve their investment value and grow it post rights and restructuring.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E*	2018E*
Revenue	6,927	7,688	7,919
Gross Profit	4,401	5,105	5,147
EBITDA	1,795	2,696	2,737
Net Profit	(980)	69	195
EPS (SAR)	(1.68)	0.12	0.33

Key Financial Ratios

FY Dec31	2016A	2017E*	2018E*
Gross Margin	63.5%	67.8%	65.0%
EBIT Margin	-0.8%	13.1%	12.4%
NIM	-14.1%	0.9%	2.5%
EV/EBITDA	10.4x	7.5x	6.7x
P/FCF	6.3x	2.8x	2.2x

**The above forecasted key financial figures and ratios are based on the current financial structure.*

Faisal S Abaalkhail
faisal.s.abaalkhail@riyadcapital.com
+966-11-203-6812

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*

For any feedback on our reports, please contact research@riyadcapital.com

Disclaimer

The information in this report was compiled in good faith from various public sources believed to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable. Riyad Capital makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, Riyad Capital does not represent that the information in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information contained in this report. Riyad Capital accepts no liability whatsoever for any loss arising from any use of this report or its contents, and neither Riyad Capital nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof. Riyad Capital or its employees or any of its affiliates or clients may have a financial interest in securities or other assets referred to in this report.

Opinions, forecasts or projections contained in this report represent Riyad Capital's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or projections which represent only one possible outcome. Further, such opinions, forecasts or projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially.

The value of, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount.

This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, it is not intended to provide personal investment advice and does not take into account the reader's financial situation or any specific investment objectives or particular needs which the reader may have. Before making an investment decision the reader should seek advice from an independent financial, legal, tax and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients.

This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and projections contained in it are protected by the copyright rules and regulations.

الرياض المالية
riyad capital

RiyadCapital

إدارة الثروات - إدارة الأصول - الوساطة - المصرفية الاستثمارية

920012299
riyadcapital.com

شركة الرياض المالية تعمل بموجب ترخيص من هيئة السوق المالية برقم 37-07070 وسجل تجاري رقم 1010239234
الإدارة العامة: 6775 شارع التخصصي - العليا، الرياض 12331 - 3712