

Mobile Telecommunications Co. (Zain KSA)

Q1 2018

Recommendation To be Revised

Fair Value (SAR)

| | |
|--------------------------|------|
| Price as of May 16, 2018 | 6.70 |
| Expected Return | - |

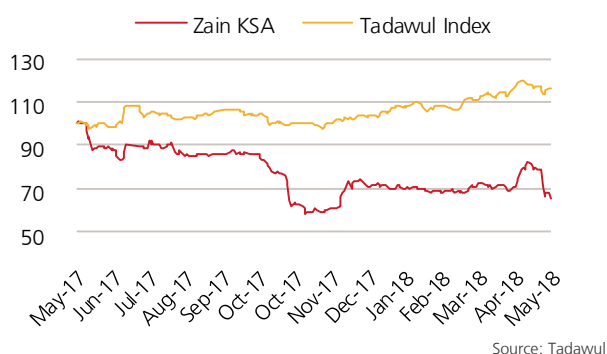
Company Data

| | |
|--|---------|
| Tadawul Symbol | 7030.SE |
| 52 Week High (SAR) | 10.40 |
| 52 Week Low (SAR) | 5.58 |
| YTD Change | -8.72% |
| 3-Month Average Volume (Thousand Shares) | 4,678 |
| Market Cap. (SAR Million) | 3,911 |
| Market Cap. (USD Million) | 1,043 |
| Outstanding Shares (Million Shares) | 583.73 |

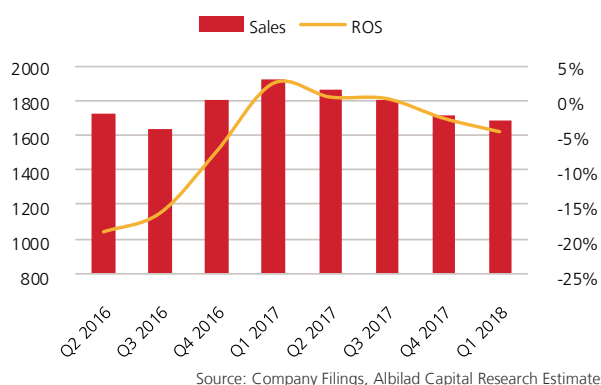
Major Shareholders (> 5%)

| | |
|---|--------|
| 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



Ahmed A. Hindawy, CFA
Senior Financial Analyst
AA.hindawy@albilad-capital.com

For more information, please contact:
Turki Fadaak
Research & Advisory Manager
tfadaak@albilad-capital.com



Mobile Telecommunications Company (Zain KSA) posted a loss of SAR 77 million in Q1 2018 compared to a net profit of SAR 45 million in Q1 2017 when the cellular operator reported its first ever net profit. This shift is mainly fueled by shrinking revenues, a lower dip in the cost of services and an increase in depreciation and amortization expenses. The net loss also widened 71% QoQ from SAR 45 million in Q1 2017.

The total revenues of the telecom operator for Q1 2018 plummeted by 12% from the corresponding quarter to SAR 1,686 million on lower interconnection rates as well as the slump in revenues from international calls. Zain stated that the number of subscribers tumbled 17% to 8.4 million compared to 10.1 million Q1 2017. Data revenues accounted for 55% of total revenues compared with 52% in Q1 2017. In spite of the huge slide in top line, the cost of services slumped only SAR 99 million, with the dip predominantly resulting from lower interconnection cost.

Compared to the previous quarter, the top line also fell 1.7% driven by lower interconnection rates as the regulator trimmed the ceiling of mobile interconnection rate to 5.5 halalas rather than 10 halalas. This decision had no bearing in Q4 2017 as it was enforced at the last week of December.

Depreciation and amortization charges inched up from SAR 392 million in Q1 2017 to SAR 427 million on additional investing in new frequencies and some equipment, however the non-cash item increased only SAR 3 million compared to Q4 2017.

As for margins, the EBITDA margin for the first quarter hit 33.9% plummeting from 34.6% in Q1 2017 and 34.4% in Q1 2017.

As reiterated in our previous report, the cellular operator is planning a capital reduction through the extinguishment of accumulated losses worth SAR 2.2 billion followed by a capital increase of SAR 6 billion, with the proceeds earmarked for trimming the company's enormous debt. Moreover, Zain also has debts to related parties that are close in value to the planned increase in capital and these dues are subject to financing expenses based on prevailing market rates. Accordingly, the debt reduction will enhance the capacity to negotiate better financing rates and may save up to SAR 350 million per annum of financing expenses, factoring in the shrinking telecom sector, mounting competition for market share and lifting the ban on internet communications applications.

| FY - Ending December | 2014A | 2015A | 2016A | 2017A |
|----------------------|-------|-------|-------|--------|
| EV/EBITDA | 17.59 | 11.88 | 10.77 | 7.68 |
| EV/Sales | 3.13 | 2.87 | 2.79 | 2.65 |
| P/E | N/A | N/A | N/A | 360.69 |
| P/BV | 0.76 | 0.91 | 1.17 | 1.17 |
| P/Revenue | 0.67 | 0.62 | 0.60 | 0.57 |
| Current Ratio | 1.00 | 0.63 | 0.51 | 0.33 |
| Revenue Growth | -5.4% | 9.3% | 2.7% | 5.5% |

| Income Statement (SAR mn) | 2013A | 2014A | 2015A | 2016A | 2017A |
|-------------------------------|----------------|----------------|--------------|--------------|--------------|
| Total Revenues | 6,523 | 6,170 | 6,741 | 6,927 | 7,306 |
| Cost of Service | 3,388 | 2,948 | 2,790 | 2,526 | 2,393 |
| Cost of Services/Revenues | 51.94% | 47.77% | 41.39% | 36.47% | 32.75% |
| SG&A Expenses | 2,191 | 2,201 | 2,259 | 2,593 | 2,332 |
| SG&A Expenses/Revenues | 33.60% | 35.67% | 33.51% | 37.44% | 31.92% |
| Doubtful Debts Provisions | 53 | (78) | 63 | 12 | 64 |
| EBITDA | 890 | 1,100 | 1,629 | 1,795 | 2,517 |
| EBITDA Margin | 13.7% | 17.8% | 24.2% | 25.9% | 34.5% |
| Depreciation and Amortization | 1,840 | 1,633 | 1,770 | 1,850 | 1,614 |
| EBIT | (949) | (534) | (141) | (54) | 903 |
| Net Interest Income (Expense) | (722.8) | (745.3) | (837.9) | (928.7) | (893.5) |
| Others (Net) | 20.6 | 9.4 | 7.4 | 4.6 | 1.8 |
| Net Income | (1,651) | (1,270) | (972) | (979) | 12 |
| ROS | -25.3% | -20.6% | -14.4% | -14.1% | 0.2% |

| Balance Sheet (SAR mn) | 2013A | 2014A | 2015A | 2016A | 2017A |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash and Marketable Securities | 1,293 | 1,092 | 1,378 | 919 | 1,116 |
| Inventory | 141 | 63 | 104 | 42 | 104 |
| Others | 1,876 | 2,734 | 2,614 | 2,396 | 2,537 |
| Total ST Assets | 3,310 | 3,888 | 4,096 | 3,356 | 3,756 |
| Net Fixed Assets | 4,293 | 4,296 | 5,007 | 7,006 | 6,530 |
| Intangible assets | 18,351 | 17,469 | 16,813 | 15,620 | 15,122 |
| Others | 283 | 212 | 132 | 532 | 531 |
| Total LT Assets | 22,927 | 21,977 | 21,952 | 23,158 | 22,184 |
| Total Assets | 26,237 | 25,866 | 26,048 | 26,515 | 25,940 |
| Short Term Debt and CPLTD | 200 | 200 | 2,780 | 1,857 | 6,170 |
| Others | 3,621 | 3,698 | 3,719 | 4,725 | 5,318 |
| Total ST Liabilities | 3,821 | 3,898 | 6,498 | 6,582 | 11,488 |
| Total Long Term Debt | 11,390 | 11,187 | 8,616 | 10,141 | 4,681 |
| Other Long Term Liabilities | 4,268 | 5,317 | 6,382 | 6,233 | 6,207 |
| Equity | 6,759 | 5,464 | 4,552 | 3,559 | 3,564 |
| Total Liabilities and Equity | 26,237 | 25,866 | 26,048 | 26,515 | 25,940 |

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.

The financial statements for the period (2016 - 2017) are presented 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.

Albilad Capital

Client Services

E-mail: clientservices@albilad-capital.com

Tel: +966-11-203-9888

Toll-free: 800-116-0001

Research & Advisory

E-mail: research@albilad-capital.com

Tel: +966-11-290-6250

Website: www.albilad-capital.com

Asset Management

E-mail: abicasst@albilad-capital.com

Tel: +966-11-290-6280

Brokerage

E-mail: abiccctu@albilad-capital.com

Tel: +966-11-290-6230

Custody

E-mail: custody@albilad-capital.com

Tel: +966-11-290-6259

Investment Banking

E-mail: investmentbanking@albilad-capital.com

Tel: +966-11-290-6256

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