

Zain KSA in Q4-18 posted a strong set of results beating our estimates on all lines. Net income of SAR 399mn was 62.6% higher than our estimates, primarily driven by higher than expected revenues, and lower than expected cost. We update our recommendation to **“Overweight”** with a revise PT of SAR 11.5/share

- Zain in Q4-18 posted net income of SAR 399mn ( 731% Q/Q ), higher than our estimate of SAR 245.0mn. Earnings were driven by 11.5% higher than expected revenue of SAR 2.0bn (19.3%Q/Q, 4.8% Y/Y), which the company attributed to strong demand for company products and services
- Cost of sales in Q4-18 stood at SAR 308mn ( -47.3% Y/Y, -50.1% Q/Q). Major drop in cost came due to the revision in annual royalty fee, due to which there was one off 225mn reversal in provision. Going forward lower royalty fee will continue to enhance the gross margins. Normalized Cost stood at SAR 533mn
- Consequently of the higher revenues and lower margins, gross profit in Q4-18 came in at SAR1.74bn ( 53.5%Y/Y, 30.2% Q/Q), Normalized gross profit stood at SAR 1.5bn (33.7% Y/Y, 13.3% Q/Q), still beating our GP estimates.
- Normalized net earnings came in at SAR 174.0mn (262%Q/Q)
- On the subscribers front the company reported that the number of subscribers have remained stable. In Q4-18, the company reported subscriber base of 8.0mn.

**Valuation:** Zain KSA showed a much improved 2H-18, after posting losses in 1H-18. Despite of the one-off in Q4-18, normalized result was much higher than expectation. Strong revenue growth was the hallmark of Q4-18 result, going forward if the company is able to sustain the topline, along with the revised royalty fee, is bound to improve financial performance. However the sector in term of retail growth remains weak. Zain on the other hand has quite a few initiatives that might help in strengthening the financial position of the company. i) tower sales will help the company in bringing in immediate cash injection, that will help the company in improving its cash balance or reduce its debt obligations. ii) Subsequent capital decrease and capital increase by rights issues, will help the company in cleaning up its balance sheet by decreasing its accumulated losses and by also decreasing its debt balance. We expect Zain to post earnings of SAR 340mn for FY19. We update to **“Overweight”** recommendation with a revise PT of **SAR 11.5/share**.

### Results Summary

SARmn (unless specified)	Q4-17	Q3-18	Q4-18	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	1,716	1,952	2,047	19.3%	5%	11.5%
Gross Profit	1,133	1,336	1,739	53.5%	30%	39%
<i>Gross Margin</i>	<i>66.0%</i>	<i>68.4%</i>	<i>85.0%</i>			
EBIT	167	268	628	277.1%	134%	146%
Net Profit	(45)	48	399	NA*	731%	63%
EPS	(0.08)	0.08	0.68			

Source: Company reports, Aljazira Capital, \*NA Not Applicable

## Overweight

Target Price (SAR) **11.5**

Upside / (Downside)\* **22.1%**

Source: Tadawul \*prices as of 24<sup>th</sup> of January 2019

### Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenue	7,306	7,531	7,806
Growth %	5%	3%	4%
Net Income	12	332	340
Growth %	NM*	NM*	2%
EPS	0.02	0.31	0.31

Source: Company reports, Aljazira Capital \* Not Meaningful

### Key Ratios

SARmn (unless specified)	FY17	FY18	FY19E
Gross Margin	67%	72%	70%
Net Margin	0%	4%	4%
P/E	NM*	26.9	30.0
P/B	1.0	1.2	1.3
EV/EBITDA	5.2	4.6	4.7
ROE	0.3%	8.5%	8.0%
ROA	0.1%	2.4%	2.5%

Source: Company reports, Aljazira Capital

### Key Market Data

Market Cap (mn)	5498.7
YTD %	15.4%
Shares Outstanding (mn)	583.73
52 Week high/low	9.67/5.77

Source: Company reports, Aljazira Capital

### Price Performance



Source: Tadawul, Aljazira Capital

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- Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
- Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
- Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
- Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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