



US\$2.655bn Market cap
48% Free float
US\$60.50mn Avg. daily volume

Target price **11.00** 7.8% over current
Current price **10.20** as at 27/10/2014

Existing rating

Underweight

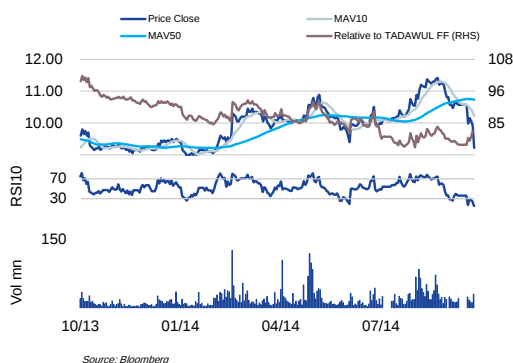
Neutral

Overweight

Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance

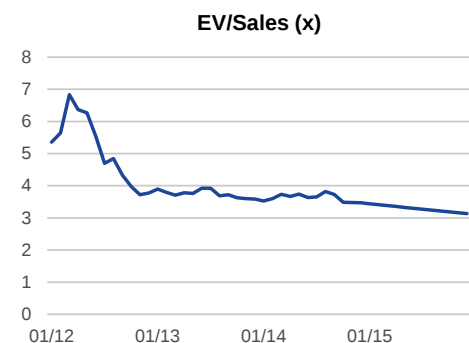


Earnings

Period End (SAR)	12/14E	12/15E	12/16E	12/17E
Revenue (mn)	6,700	7,358	8,007	8,557
Revenue Growth	2.7%	9.8%	8.8%	6.9%
EBITDA (mn)	1,096	1,619	2,002	2,396
EBITDA Growth	23.1%	47.7%	23.7%	19.7%
EPS	(1.31)	(0.80)	(0.39)	(0.02)
EPS Growth	-14.4%	-38.8%	-51.6%	-95.1%

Source: Company data, Al Rajhi Capital

Valuation



Zain KSA Q3: Mostly in-line, no surprises

Zain KSA's Q3 2014 net loss came in at SAR316mn slightly better than our estimate of SAR335mn, mainly helped by lower provisions. Operating loss at SAR134mn was exactly in line with our expectations. The company is yet to report Q3 revenue. Based on our back calculation from reported EBITDA and EBITDA margin, Q3 revenue seems to have declined 7% y-o-y and 6% q-o-q. This was disappointing after the early signs of improvement seen in the past two quarters. While full details are not disclosed, the company also reported that it did not keep up one of the loan covenants with the financing banks. Though this is not considered as a default as per the Murabaha financing agreement, this along with weak top line growth do not look positive for the company. We await for complete financials to revisit our forecasts for the company. For now, we remain Neutral on Zain KSA with a target price of SAR11 per share.

Earnings vs our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

- Revenue:** Revenue was not reported by the company. Based on EBITDA and EBITDA margin provided, we back calculated the Q3 revenue at SAR1.5bn, which implies a 6% q-o-q and a 7% y-o-y decline. This is disappointing given that the company was showing early signs of improvement in the past two quarters. Details about its individual business segments are not reported, but the company seems to be facing a continuing decline in voice subscribers and revenue, given that the number of data subscribers grew by 150% y-o-y.
- EBITDA:** EBITDA declined by 2% q-o-q, whereas EBITDA margin improved to 17.8% in Q3 2014 from 17% in the last quarter. The margin increased as it benefited from increase in higher margin data services. The operating loss was reported at SAR134mn, exactly in line with our estimates.
- Net profit:** Zain KSA's Q3 2014 net loss came in at SAR316mn slightly better than our estimate of SAR335mn, mainly helped by decrease in provisions. While details are not given, the company also reported an adjustment in useful life of some of the company's assets, which is likely to have reduced depreciation expenses.

Zain KSA

Telecom – Industrial

ZAINKSA AB: Saudi Arabia

28 October 2014

الراجحي المالية
Al Rajhi Capital



US\$2.655bn

Market cap

48%

Free float

US\$60.50mn

Avg. daily volume

- **Loan covenant:** The Company reported that it fell short of meeting the targets set in its approved business plan. It also failed to meet one of its loan covenants, which is not considered as an event of default as per Murabaha Financing Agreement. Subsequently, the company management has met with the financing banks to discuss the variations from its business plan and currently is in discussions with the banks to agree on a plan to address these matters.
- **Valuation:** We await detailed financials to revisit our estimates for Zain KSA. For now, we remain Neutral with a target price of SAR11 per share..



Disclaimer and additional disclosures for Equity Research

Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

Contact us

Jithesh Gopi, CFA
Head of Research
Tel : +966 11 2119332
gopij@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561
Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.