ZAIN KSA

EVENT FLASH

Worse than expected losses

Zain KSA announced its 3Q12 results on 16 October 2012. All profit lines came in significantly below our estimates, likely due to poor sales growth (not provided yet by the company). Zain KSA remains heavily loss making with SR493mn of net losses reported in 3Q12. We await full financial details before updating our model and PT for the latest results

- In summary, this is another weak set of results from Zain KSA with most losses coming in significantly worse than expected. Zain remains heavily loss-making with SR493mn of losses reported during the quarter, up 2% YoY. We remain cautious on the stock.
- Zain KSA management highlighted the main reason for the weak 3Q12 to lower traffic volumes as the company purposely reduced its exposure to the international call segment as it believe it to be un-sustainable and unstable revenue stream. Due to this, we assume revenues fell YoY during the quarter, this leading to subsequent increase in costs, hurting margins.
- Gross profit declined 18% YoY to SR712mn in 3Q12 with EBIT loss increasing to SR305mn during the quarter from SR222mn a year ago. However, increase in net losses was limited at 2% growth YoY; we believe this will have been due to YoY decline in financial charges, although with SR493mn loss on absolute terms, it remain high
- When compared to our estimate all profit lines came in significantly below our expected numbers. We believe the main reason for this deviation will have been lower than estimated revenue and higher than expected costs.
- Although we believe the financial outlook for Zain KSA has improved after its balance sheet restructuring (mainly through lower financing charges), its operational outlook has deteriorated, as seen in the poor revenue growth figures in the past six months. Thus, despite the balance sheet restructuring, Zain faces a difficult road towards recording net profits. Additionally, high amortization costs from the SR23bn paid for its license fee, coupled with ongoing aggressive competition from STC and Mobily who dominate the market, will limit growth prospects for Zain and firmly keep it as the number three operator in the Saudi market.
- Zain KSA obtained approval to extend its existing murabaha facility for two months, now due on 28 November 2012, while its refinancing talks with banks is in advanced stage and likely to get finalized in 4Q12.

3Q12 Results Summary

SR mn	3Q12A	3Q11A	YoY %	3Q12E	Var^%
Sales	NA	1,795	NA	1,831	NA
Gross income	712	870	(18.2)	842	(15.5)
Operating income	(305)	(222)	Nm	(137)	Nm
Net income	(493)	(484)	Nm	(356)	Nm
EPS* (SR)	(0.46)	(0.45)	Nm	(0.33)	Nm

Source: Company, NCBC Research ^ % Var indicates variance from NCBC forecasts, *based on 1,180mn shares outstanding

NEUTRAL

Target price (SR)	11.3
Current price (SR)	9.1

STOCK DETAILS

52-week range H/L (SR)	23/9
Market cap ($mn)	2,625
Shares outstanding (mn)	1,080
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(25.1)	(23.5)	(22.6)
Rel. to market	(19.1)	(24.8)	(32.1)

Avg daily turnover (mn)	SR	US$
3M	212.8	56.8
12M	357.2	95.4

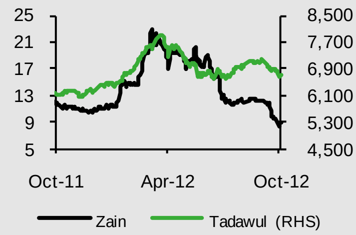
Reuters code	7030.SE
Bloomberg code	ZAINKSA AB
	www.sa.zain.com

VALUATION MULTIPLES

	11A	12E	13E
P/E (x)	Nm	Nm	Nm
P/B (x)	3.0	1.1	1.3
EV/EBITDA (x)	14.2	7.8	5.3
Div Yield (%)	0.0	0.0	0.0

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Reuters

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NCBC Investment Ratings

OVERWEIGHT: Target price represents expected returns in excess of 15% in the next 12 months

NEUTRAL: Target price represents expected returns between -10% and +15% in the next 12 months

UNDERWEIGHT: Target price represents a fall in share price exceeding 10% in the next 12 months

PRICE TARGET: Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

Important information