

US\$3.1bn Market Cap. 54.92% Free Float US\$20.2mn Avg. Daily Value traded

## Zain KSA

### TP revised to SAR14.0/sh; remain neutral.

#### Neutral

#### Price Target (SAR): 14.0

Current: 13.00

Upside/Downside: 8.0% above current

Valuation Multiples	24E	25E	26E
P/E (x)	19.5	14.3	13.1
P/B (x)	1.1	1.0	1.0
EV/EBITDA (x)	5.4	5.1	4.9

#### Major Shareholders % Ownership

Mobile Telecommunications Co.	37.04
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Price Performance	1M	3M	YTD
Absolute	-8.0%	-8.3%	-8.0%
Relative to TASI	-9.2%	-16.7%	-14.9%

Zain KSA managed to post a mixed financial performance in FY23, with revenues growing by 9% YoY to a record SAR9.9bn. Even though the gross profit grew for the company by 10.2% YoY, operating profit was down by 20.0% YoY. The rise in operating expenses can be mainly associated with higher usage charges from Tower Co., advertising costs, and bad debt provisions. The bottom-line jumped by 131% YoY to SAR1.3bn, which was mainly due to the gains booked from tower sale transaction amounting to SAR1.1bn. Adjusting for these gains, the bottom line was down 62.6% YoY. Going forward, we believe the costs will remain elevated due to higher access charges. However, we expect revenue to grow by 6.2/3.4% in FY24/25. This growth will eventually help the company reverse its decline at the operating level. Moreover, with expected rate cuts in FY24, we believe the company will benefit from lower financing costs in the coming years. Zain KSA continues to remain highly leveraged, although net debt to EBITDA has declined to 2.3x from 2.8x in FY22, thanks to the recent cash influx from the tower deal. We believe the stock is fairly priced at current levels, providing an upside of 8.0% to the last closing price. Hence, we remain "Neutral" on the stock with a TP of SAR14/sh.

Figure 1 Earnings Summary Q4 2023

(SAR mn)	Q4 2023	Q3 2023	Q4 2022	y-o-y	q-o-q	FY23	FY22	y-o-y
Revenue	2,543	2,525	2,404	5.8%	0.7%	9,883	9,075	8.9%
Gross Profit	1,477	1,481	1,452	1.7%	-0.3%	5,857	5,315	10.2%
G. margin	58.1%	58.7%	60.4%			59.3%	58.6%	
Op. profit	78	331	380	-79.5%	-76.4%	871	1,066	-18.3%
Op. margin	3.1%	13.1%	15.8%			8.8%	11.7%	
Net profit	296	285	251	17.9%	3.9%	1,267	550	NM
Net margin	11.6%	11.3%	10.4%			12.8%	6.1%	

Source: Company data, Al Rajhi Capital

#### Earnings

(SAR mn)	2024E	2025E	2026E
Revenue	10,492	10,850	11,173
YoY %	6.2%	3.4%	3.0%
Gross Profit	6,262	6,492	6,702
GM Margin %	59.7%	59.8%	60.0%
YoY %	6.9%	3.7%	3.2%
EBITDA	3,322	3,523	3,599
EBITDA Margin	31.7%	32.5%	32.2%
Net Income	598	815	892
Net Income Margin %	5.7%	7.5%	8.0%
YoY %	-52.8%	36.2%	9.4%
EPS	0.7	0.9	1.0
DPS	0.3	0.5	0.6
P/E	19.5	14.3	13.1
EV/EBITDA	5.4	5.1	4.9
ROE	5%	7%	8%

Source: Company data, Al Rajhi Capital

**4Q23 results:** In the fourth quarter of 2023, Zain experienced a 5.8% YoY increase and a 0.7% QoQ increase in revenues, reaching SAR2.5bn, primarily driven by growth in B2B, 5G, and Tamam. Despite a marginal 1.7% YoY growth in gross profit, the margin slightly contracted to 58.1% compared to the previous year's 60.4%. Operating profit notably declined by 79.5% YoY to SAR78mn, with a margin drop to 3.1% from 15.8% in 4Q22, potentially due to increased operating expenses associated with the leaseback of TowerCo's assets. However, net income surged by 17.9% YoY to SAR296mn, surpassing both our and consensus estimates, likely propelled by a gain of SAR429mn from the sale towers. Zain's management declared a dividend of SAR0.5 per share for FY23, resulting in a yield of 3.9% based on the last closing price.

**FY23 results:** In FY23, the group witnessed a notable 8.9% YoY revenue increase to SAR9.9bn. This growth was particularly buoyed by the impressive 40% YoY increase in 5G revenue, complemented by Tamam's remarkable 123% YoY revenue expansion, totalling SAR284mn. Gross profit saw a robust 10% YoY increase, accompanied by a marginal improvement in margins to 59.3% compared to 58.6% in FY22, attributable to margin expansion in the enterprise segment, Tamam, and reduced subscriber acquisition costs. However, operating profit witnessed an 18.3% YoY decline, with margins slipping to 8.8% in FY23 compared to 11.7% in FY22, primarily due to leaseback (usage fee) costs from Tower Co. and elevated advertising expenses. Nonetheless, net income soared to SAR1.3bn, predominantly driven by a SAR1.1bn gain (inclusive of SAR121mn GLIC equity).

**Valuations:** We use DCF and relative valuation approach to value Zain KSA. The DCF methodology provides us with a target price of SAR13.1/sh. For Relative valuation we have used EV/EBITDA with a target multiple of 6.0x which results in a target price of SAR14.5/sh. Lastly, after assigning equal weightage to both the methodologies, we arrive at a target price of SAR14.0/sh on a rounded basis.

**Key Risks:** i) increased competition leading to price wars; ii) slower than expected rollout of 5G services; iii) higher than expected usage costs in the Tower Co. deal.

## Key Financials

Figure 2 **Income Statement**

SAR mn	2024E	2025E	2026E
<b>Revenue</b>	<b>10,492</b>	<b>10,850</b>	<b>11,173</b>
<i>y-o-y growth</i>	6.2%	3.4%	3.0%
Cost of Sales	(4,231)	(4,358)	(4,471)
<b>Gross Profit</b>	<b>6,262</b>	<b>6,492</b>	<b>6,702</b>
<i>y-o-y growth</i>	6.9%	3.7%	3.2%
<i>margins</i>	59.7%	59.8%	60.0%
Operating Expenses	(2,709)	(2,716)	(2,825)
D&A	(2,106)	(2,106)	(2,106)
Others	(230)	(253)	(278)
<b>Operating Profit</b>	<b>1,216</b>	<b>1,417</b>	<b>1,492</b>
<i>y-o-y growth</i>	11.6%	6.0%	2.1%
<i>margins</i>	19.4%	21.8%	22.3%
Interest income	28	28	28
Interest expenses	(619)	(585)	(578)
Other	26	27	28
<b>Pre-Tax Income</b>	<b>650</b>	<b>886</b>	<b>970</b>
Zakat	(52)	(71)	(78)
<b>Net Income</b>	<b>598</b>	<b>815</b>	<b>892</b>
<i>y-o-y growth</i>	-52.8%	36.2%	9.4%
<i>margins</i>	5.7%	7.5%	8.0%
EPS	0.7	0.9	1.0

Source: Al Rajhi Capital estimates

Figure 4 **Cash Flow Statement**

SAR mn	2024E	2025E	2026E
Cash flow from Operations	2,992	2,881	3,069
Cash flow from Investing	(1,416)	(1,410)	(1,452)
Cash flow from Financing	(1,162)	(1,271)	(1,365)
Change in cash	413	199	252

Source: Al Rajhi Capital estimates

Figure 3 **Balance sheet**

SAR mn	2024E	2025E	2026E
Cash & Cash Equivalents	1,359	1,559	1,810
Accounts Receivable	6,037	6,837	7,500
Inventories	151	155	159
Contract assets	118	118	118
<b>TOTAL CURRENT ASSETS</b>	<b>7,664</b>	<b>8,668</b>	<b>9,587</b>
Property, plant & equipment	4,925	5,072	5,236
Right of use assets	742	653	574
Contract assets	322	322	322
Investment properties	10	10	10
Contract costs	393	393	393
Other non-current assets	76	76	76
Intangible assets	13,673	13,112	12,564
<b>TOTAL NON-CURRENT ASSETS</b>	<b>20,140</b>	<b>19,638</b>	<b>19,175</b>
<b>TOTAL ASSETS</b>	<b>27,805</b>	<b>28,306</b>	<b>28,762</b>
Accounts payable	5,216	5,492	5,757
Deferred revenues - current portion	355	355	355
Murabahas - current portion	1,187	1,187	1,187
Lease liabilities (IFRS-16)	188	163	141
Due to related parties	842	842	842
Other current liabilities	380	380	380
<b>CURRENT LIABILITIES</b>	<b>8,167</b>	<b>8,418</b>	<b>8,662</b>
Long Term Debt	6,533	6,533	6,533
Lease liabilities	881	764	664
End of service benefits	177	177	177
Others	1,126	1,126	1,126
<b>NON-CURRENT LIABILITIES</b>	<b>8,717</b>	<b>8,601</b>	<b>8,500</b>
<b>SHAREHOLDERS EQUITY</b>	<b>10,921</b>	<b>11,287</b>	<b>11,600</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>27,805</b>	<b>28,306</b>	<b>28,762</b>

Source: Al Rajhi Capital estimates

Figure 5 **Key Ratios**

	2024E	2025E	2026E
ROA (%)	2.2%	2.9%	3.1%
ROE (%)	5.5%	7.2%	7.7%
D/E (x)	0.8x	0.8x	0.7x
Debt/EBITDA (x)	0.7x	0.7x	0.6x
Receiveable days	210	230	245
Inventory days	13	13	13
Payable days	450	460	470

Source: Al Rajhi Capital estimates

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