



Earnings fell short of expectations on the lowest GP margin in the past five quarters; keep TP unchanged with “Neutral” recommendation

Zain KSA's net income grew 39.5% to SAR 93mn in Q1-25 from SAR 67mn in Q1-24, missing AJC's estimate of SAR 134mn. The deviation from our estimate was mainly led by lower-than-expected gross margin which was partially offset by lower-than-expected OPEX due to lower expected credit loss (ECL) provisions. The Y/Y growth in net income was driven by revenue growth (+6.1%), operating margin expansion (+30 bps) and lower finance expense (-3.9%). Revenue increased 6.1% Y/Y to SAR 2,690mn, in line with our estimate of SAR 2,687mn. Consumer segment (+8.1% Y/Y) led the topline growth mainly stemming from 5G and Tamam (+30.9% Y/Y). The gross margin contracted ~200bps Y/Y to 58.9%, the lowest in the last five quarters and below our expectation of 61.2%. On the other hand, the operating margin expanded by ~30 bps Y/Y to 10.2%. We maintain TP on Zain KSA at **SAR 11.85/share** and the “Neutral” recommendation.

- Zain KSA's net income increased 39.5% Y/Y to SAR 93mn in Q1-25, missing our estimate of SAR 134mn. Earnings came below our expectations, mainly on account of softer gross margin. On the contrary, lower than expected credit loss (ECL) provisions amounting to SAR 57mn partially offset the impact of lower gross margin. The Y/Y growth in net income was driven by revenue growth (+6.1%), operating margin expansion (+30 bps) and lower finance expense (-3.9%).
- Revenue increased 6.1% Y/Y to SAR 2,690mn in Q1-25, in line with our estimate of SAR 2,687mn. The Consumer segment led the topline growth with 8.1% Y/Y increase in revenue, which mainly stemmed from 5G and ongoing traction microfinance business Tamam (+30.9% Y/Y). B2B (+3.1% Y/Y) and Wholesale (+2.2% Y/Y) recorded low single digit revenue growth.
- Gross profit rose 2.6% Y/Y to SAR 1,585mn (AJC estimate: SAR 1,646mn). GP margin decreased ~200bps Y/Y to 58.9%, below our estimate of 61.2%. Probably higher contribution from low-margin visitors' packages during Ramadan season weighed on the margins.
- Operating profit grew 9.3% Y/Y to SAR 274mn in Q1-25, as OPEX growth was modest at 1.3% Y/Y with ECL provision declining to SAR 57mn from SAR 63mn in Q1-24. Normalized operating profit of SAR 161mn was below our estimate of SAR 258mn. Depreciation and amortization expense increased to SAR 539mn in Q1-25 from SAR 523mn in Q1-24 due to the capitalization of the new spectrum.

AJC view and valuation: Zain KSA posted strong growth in earnings in Q1-25. However, the performance fell short of our expectations. The company's revenue growth was healthy during the quarter. Despite pressure on gross margins, operating margins expanded due to disciplined cost control. Notably, the company managed to contain expected credit losses (ECL), which had seen significant increases over the past three quarters. Other operating expenses also rose only modestly, further supporting margin resilience. On the flipside, revenue growth eased for B2B and Wholesale segments, which were key growth drivers in FY24. Nonetheless, easing finance costs is supporting net profit and lower interest rates in the future could further aid the earnings in the coming period. Zain KSA currently trades at an EV/EBITDA ratio of 5.5x and P/E of 18.9x based on our FY25E estimates. FY25E dividend yield is estimated at 4.5%. We maintain TP on Zain KSA at **SAR 11.85/share** and the “Neutral” recommendation.

SAR mn	Q1-24	Q4-24	Q1-25	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	2,535	2,695	2,690	6.1%	-0.2%	0.1%
Gross Profit	1,545	1,672	1,585	2.6%	-5.2%	-3.7%
Gross Margin	60.9%	62.0%	58.9%	-	-	-
EBIT	251	389	274	9.3%	-29.6%	-11.5%
Net Profit	67	274	93	39.5%	-66.1%	-30.8%
EPS	0.07	0.31	0.10	-	-	-

Source: Company Reports, Aljazira Capital Research

Recommendation	Neutral
Target Price (SAR)	11.85
Upside / (Downside)*	6.9%

Source: Tadawul *prices as of 8th of May 2025

Key Financials

SARmn (unless specified)	FY23	FY24	FY25E	FY26E
Revenues	9,883	10,365	10,950	11,393
Growth %	8.9%	4.9%	5.6%	4.0%
Net Income	1,267	596	526	566
Growth %	130.5%	-52.9%	-11.7%	7.5%
EPS	1.41	0.66	0.59	0.63
DPS	0.50	0.50	0.50	0.75

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY23	FY24	FY25E	FY26E
Gross Margin	59.3%	62.4%	60.1%	60.3%
EBITDA Margin	30.1%	32.1%	30.9%	30.3%
Net Margin	12.8%	5.8%	4.8%	5.0%
ROE	12.0%	5.6%	4.9%	5.3%
ROA	4.6%	2.1%	1.8%	2.0%
P/E (x)	10.0	15.5	18.9	17.6
P/B (x)	1.2	0.9	0.9	0.9
EV/EBITDA (x)	6.9	5.4	5.5	4.8
Dividend Yield	3.6%	4.9%	4.5%	6.8%

Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap(bn)	10.0
YTD%	8.0%
52 week (High)/(Low)	13.36/10.14
Share Outstanding (mn)	898.7

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, Aljazira Capital Research

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RESEARCH
DIVISION

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RATING
TERMINOLOGY

1. **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.
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3. **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.
4. **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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