



EVENT FLASH

Lowest losses since inception

Zain reported net losses of SR135mn in 4Q16, the lowest net losses since inception. This is lower than the NCBC and consensus estimates of a net loss of SR163mn and SR141mn, respectively. The better than expected result is primarily attributed to the record high sales of SR1.8bn (+7.7% YoY).

- Zain reported a better than expected set of results with a net loss of SR135mn in 4Q16, the lowest net losses on-record. This is lower than the NCBC estimates of a net loss of SR163mn and the consensus estimates of a loss of SR141mn. This compares to net losses of SR291mn in 4Q15 and SR266.7mn in 3Q16. The better than expected results is primarily attributed to better than expected top-line growth of 7.7% YoY.
- Revenues stood at SR1.8bn, an all-time high. The top-line grew 7.7% YoY and 10.2% QoQ. It was also 7.1% higher than the NCBC estimates. This growth was reported despite the decline in the number of subscribers following the finger print initiative. The total number of subscribers declined by 12.0% YoY to 10.9mn.
- Gross margin came in at 63.4% vs our estimates of 64.9% and 4Q15 of 63.7%. We believe this slight decline is due to the cost of finger-print initiative. Distribution and marketing expense was in-line with our estimates of SR554mn. However, G&A expenses came in at SR98mn vs. our estimates of SR55.2mn. This increase is attributed to a one-off consultation charges.
- EBITDA reached an all-time high of SR490mn in 4Q16, 4.1% higher than our estimates. This reflects an EBITDA margin of 27.2%, declining from 29.9% in 3Q16 but expanding 300bps YoY. EBIT reached an all-time high of SR87mn mainly driven by lower license amortization charges following to the extension of the license life by 15 years.
- Financing charges came in at SR230mn vs. our estimates of SR263mn. We believe the lower than expected financing charges is due to declining lending rates QoQ and the repayment of SR432mn of the Murabaha facility. Regarding the Zakat claim of SR619mn, the Preliminary Appeal Committee has broadly agreed to the company's stance on the Zakat claim of SR352mn. However, the remaining amount of SR267mn is still under consideration. The company said that it has booked sufficient provisions for these amounts.
- We remain Neutral on Zain with a PT of SR7.6. The strong top-line growth and the record high EBIT are the strength which could help the company reaches the breakeven level soon.

4Q16 Results Summary

SR mn	4Q16A	4Q15A	% YoY	4Q16E	% Var [^]
Sales	1,801.0	1,672	7.7	1,682	7.1
Gross income	1,142.0	1,065.1	7.2	1,091.0	4.7
Operating income	87.0	(82.4)	NM	93.7	(7.1)
Net income	(135.0)	(291.1)	NM	(162.6)	NM
EPS (SR)	(0.23)	(0.50)	NM	(0.28)	NM

Source: Company, NCBC Research, [^]% Var indicates variance from NCBC forecasts; * Restated

NEUTRAL

Target price (SR)	7.6
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Current price (SR)	8.0
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STOCK DETAILS

M52-week range H/L (SR)	9.2/5.5
Market cap (\$mn)	1,242
Shares outstanding (mn)	584
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
3M	(2.0)	21.7	26.7
12M	2.0	(3.8)	2.7

Avg daily turnover (mn)	SR	US\$
3M	40.2	10.7
12M	37.4	10.0

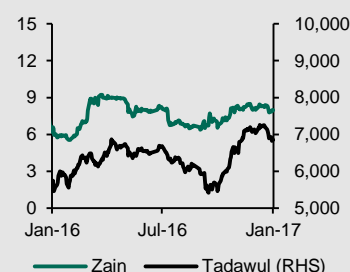
Reuters code	7030.SE
Bloomberg code	ZAINKSA AB
	www.sa.zain.com

VALUATION MULTIPLES

	15A	16A	17E
P/E (x)	NM	NM	NM
P/B (x)	1.0	1.3	1.6
EV/EBITDA (x)	9.9	10.7*	8.6
Div Yield (%)	0.0	0.0	0.0

Source: NCBC Research estimates; * - estimate

SHARE PRICE PERFORMANCE



Source: Tadawul

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NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price 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

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