

ZAIN KSA



EVENT FLASH

Worse than expected losses

Zain KSA announced its 4Q11 results on 18 January 2012. Revenue fell 1% YoY, 15% below our estimate. This combined with increased costs of services, leading to a 16% decline in gross profit and 19% YoY increase in EBIT losses. The company remains heavily loss making with SR461mn of net losses reported in 4Q11. We await full details before updating our model.

- **Sales:** 4Q11 came in at SR1,715mn vs. NCBC estimate of SR2,029mn. 4Q11 was a decrease of 1% YoY (SR1,728mn in 4Q10).
- **Gross profit:** 4Q11 came in at SR691mn vs. NCBC estimate of SR1,080mn. 4Q11 was a decrease of 16% YoY (SR826mn in 4Q10).
- **Net loss:** 4Q11 came in at SR461mn vs. NCBC estimate of SR369mn. This was reasonably better than the SR521mn loss in 4Q10.
- In summary, this is a weak set of results from Zain KSA with most losses coming in significantly worse than expected. Although 4Q11 results showed an improvement YoY at the net income level, Zain remains heavily loss making with SR461mn of losses reported during the quarter. Revenues were 1% lower YoY and came in 15.4% lower than what we had been expecting. Due to this, all profit lines came in significantly below our expected numbers.
- The company attributed the subdued YoY growth in its top-line to decreased international outbound traffic following increase in long-distance calling rates, in line with the guidelines laid upon by the CITC.
- Due to the subdued revenue growth, costs as % of sales moved higher YoY, thus leading to a 7.5% YoY decline gross margin to 40.3% in 4Q11. This was despite lower interconnection expenses, we believe. Due to this, EBIT losses grew by 19% YoY to SR213mn.
- At the net level, however, losses declined slightly by 12% YoY to SR461mn in 4Q11 from SR521mn in 4Q10. We believe this will have been due to YoY decline in financial charges.

4Q11 Results Summary

SR mn	4Q11A	4Q10A	% YoY	4Q11E	% Var [^]
Sales	1,715	1,728	(0.7)	2,029	(15.4)
Gross income	691	826	(16.3)	1,080	(36.0)
Operating income	(213)	(179)	19.2	(80)	165.3
Net income	(461)	(521)	(11.5)	(369)	24.9
EPS (SR)	(0.33)	(0.37)	(11.5)	(0.26)	24.9

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

NEUTRAL

Target price (SR) 5.6

Current price (SR) 5.7

STOCK DETAILS

M52-week range H/L (SR)	8/5
Market cap (\$mn)	2,131
Shares outstanding (mn)	1,400
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	5.6	(0.9)	(27.4)
Rel. to market	3.9	(5.3)	(23.3)

Avg daily turnover (mn)	SR	US\$
3M	46.8	12.5
12M	62.7	16.7

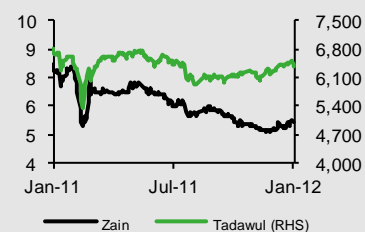
Reuters code	7030.SE
Bloomberg code	ZAINKSA AB
	www.sa.zain.com

VALUATION MULTIPLES

	10A	11E	12E
P/E (x)	nm	nm	nm
P/B (x)	1.3	1.9	2.3
EV/EBITDA (x)	24.2	7.9	4.1
Div Yield (%)	0.0	0.0	0.0

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Reuters

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21 JANUARY 2012

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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

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