



US\$2.594bn Market cap	48.1% Free float	US\$31.40mn Avg. daily volume
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Target price	8.00	15.11% over current
Consensus price	8.40	20.9% over current
Current price	6.95	as at 18/4/2011

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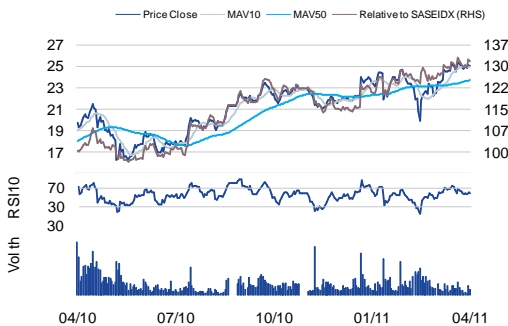


Zain KSA Still no clear recovery

Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance

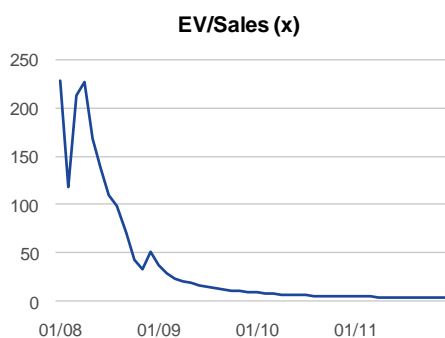


Earnings

Period End (SAR)	12/10A	12/11E	12/12E	12/13E
Revenue (mn)	5,934	8,283	10,357	12,155
Revenue Growth	97.5%	39.6%	25.0%	17.4%
EBITDA (mn)	331	1,481	2,434	3,343
EBITDA Growth		348.0%	64.3%	37.3%
EPS	1.68-	1.05-	0.37-	0.10
EPS Growth	-23.9%	-37.8%	-64.8%	

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Zain KSA results showed no recovery and were below our expectations. Though the gross profit increased by 86% year on year, the company incurred an operating loss of SAR233mn, and huge net loss of SAR532mn due to high financial costs on its high debt. We suspect that Zain is too much bogged down by pressure over its planned financial restructuring and a possible take over by Kingdom and Bateleo. We expect Zain to improve on its operations, only after there is some clarity on its future ownership. We expect to marginally cut our earnings forecasts. Therefore, we are likely to remain neutral but cut our target price slightly.

Earnings vs. our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

- **Revenues:** Zain reported sales at SAR1, 484mn, up by 36% year on year, which is down significantly from our estimate of SAR1, 917mn. This moderate performance reflects a slowdown in the growth in subscriptions and call volumes.
- **Gross profit and Operating loss:** Gross profit of SAR716mn was up by 86% year on year; albeit below our estimate of SAR958mn. Operating loss reported in Q1 was SAR233mn which has declined by 46% from last year's quarter. But this is still unsatisfying compared to our expectation was SAR104mn.
- **Net profit:** Zain again reported a high net loss of SAR532mn which was an overwhelming 20% above our forecasted net loss of SAR442mn. The company has been suffering from higher net financial costs due to its high debt level (around SAR14.7bn of debt in 2010). This high debt leads to high costs and the reason for which Zain is unable to turn around.
- **Conclusion:** In our view, Zain's high debt level needs to be sorted out first. The company badly needs a financial restructuring. However, given the slow pace in which the proposed sale of Zain's stake to Kingdom and Bateleo, and a continuous delay in attempting a reverse stock split of Zain's share, we think the share price will continue to suffer. At a negative PE and a 2011 EV/EBITDA of 16.9x; Zain stock is risky to invest in when there are safer options available in the market. For the moment, we retain our rating and target price of SAR8.0 for Zain.



Corporate summary

Zain KSA is the third-placed telecoms operator in Saudi Arabia, with a market value of nearly US\$4bn; it launched service in Q3 2008. By our estimate Zain has a market share of mobile accounts of 13-14%, although its revenue share is lower at 9-10%. Zain has no presence in the fixed-line market. Zain KSA is an affiliate of the Zain group of Kuwait. Zain Kuwait is an emerging telecoms player operating in 24 markets in the Middle East and Africa, but it has now agreed to sell the majority of its African assets to Bharti.

Share information

Market cap (SAR/US\$) 9.73bn / 2.594bn
52-week range 5.50 - 9.70
Daily avg volume (US\$) 31.40mn
Shares outstanding 1,400mn
Free float (est) 48.1%

Performance:	1M	3M	12M
Absolute	0%	-11.5%	-26.9%
Relative to index	-7.6%	-8.8%	-22.3%

Major Shareholder:

Mobile Telecommunications Co. (Kuwait)	25%
Faden Trading and Contracting	6.9%

Source: Bloomberg, Al Rajhi Capital

Valuation

Period End	12/10A	12/11E	12/12E	12/13E
Revenue (SARmn)	5,934	8,283	10,357	12,155
EBITDA (SARmn)	331	1,481	2,434	3,343
Net Profit (SARmn)	(2,358)	(1,468)	(517)	142
EPS (SAR)	1.68-	1.05-	0.37-	0.10
DPS (SAR)	-	-	-	-
EPS Growth	-23.9%	-37.8%	-64.8%	na
EV/EBITDA (x)	73.8	16.9	10.6	7.6
P/E (x)	na	na	na	68.4
P/B (x)	1.6	2.1	2.3	2.3
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital



Disclaimer and additional disclosures for Equity Research

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Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"**Overweight**": Our target price is more than 15% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"**Neutral**": We expect the share price to settle at a level between 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

"**Underweight**": Our target price is more than 5% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

2. Definitions

"**Time horizon**": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"**Fair value**": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

"**Target price**": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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