

Strong gross margin coupled with revenue growth aided the normalized bottom line

Zain KSA's net income came in at SAR 67mn in Q1-24 compared to the restated net income of SAR 1,137mn in Q1-23. The net income was higher than AJC's and consensus estimates of SAR 60mn and SAR 59mn, respectively. The higher-than-expected net income is likely to be due to lower-than-expected finance expenses. The company restated Q1-23 financials to recognize full gain from the tower transaction amounting to SAR 1,144mn in the quarter. Excluding the one-off impact, net profit before zakat rose to SAR 79mn in Q1-24 vs. SAR 24mn in Q1-23. Revenue increased by 4.7% Y/Y to SAR 2,535mn, in line with our estimate of SAR 2,580mn. The GP margin stood at 60.9%, higher than 58.4% in Q1-23 and our estimate of 58.5%. We maintain our TP of SAR 13.5/share and "Neutral" recommendation on Zain KSA.

- Zain KSA's posted net income of SAR 67mn in Q1-24 from SAR 1,137mn in Q1-23, above our and market estimates of SAR 60mn and SAR 59mn, respectively. The higher-than-expected net income is likely to be due to lower-than-expected finance expenses. The company restated Q1-23 financials, fully recording a net gain of SAR 1,144mn related tower transaction in the quarter. Excluding the one-off impact, net profit before zakat rose to SAR 79mn in Q1-24 vs. SAR 24mn in Q1-23 due to revenue growth and expansion of gross margin.
- Revenue increased 4.7% Y/Y to SAR 2,535mn in Q1-24, in line with our estimate of SAR 2,580mn. The growth in Tamam business along with increase in B2B, 5G and Wholesale segments contributed to the revenue growth.
- Gross profit rose 9.2% Y/Y to SAR 1,545mn, as revenue growth was further bolstered by expansion of GP margin. The GP margin expanded ~250bps Y/Y to 60.9% from 58.4% in Q1-23 and above our estimate of 58.5%.
- Operating profit grew 31.4% Y/Y to SAR 251mn in Q1-24, in line with our estimate of SAR 253mn, primarily led by gross profit growth. Operating margin stood at 9.9% in Q1-24 compared to 7.9% in Q1-23 and broadly in line with our estimate of 9.8%.

AJC view and valuation: In Q1-24, Zain KSA recorded growth in revenue and normalized profit before zakat on a Y/Y basis. The gross margin of 60.9% was the highlight of the quarter but it needs to be seen if the company is able to sustain such high margins. On the other hand, higher OPEX partially counteracted the gross margin expansion. We expect OPEX to remain a drag for operating profit this year, as the full impact of the leaseback of the towers will appear in the operating costs and ECLs are expected to add to the OPEX. Zain KSA's topline growth was modest compared to peers despite having a smaller base. We believe the company needs to clock higher revenue growth to be able to curtail the impact of higher OPEX on EBITDA margins. It seems finance expenses decreased in Q1-24 compared to the previous quarter, which if persists would support the net income. However, we await detailed financials to verify this and understand the reason for the decline. Zain KSA currently trades at an EV/EBITDA ratio of 5.9x and P/E of 36.6x based on our FY24 estimates. FY24E dividend yield is estimated at 4.1%. We maintain our TP to SAR 13.5/share and the "Neutral" recommendation on Zain KSA.

Results Summary

SAR mn	Q1-23	Q4-23	Q1-24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	2,422	2,543	2,535	4.7%	-0.3%	-1.7%
Gross Profit	1,415	1,477	1,545	9.2%	4.6%	2.4%
<i>Gross Margin</i>	<i>58.4%</i>	<i>58.1%</i>	<i>60.9%</i>	-	-	-
EBIT	191	108	251	31.4%	132.4%	-0.7%
Net Profit	1,137	-54	67	-94.1%	NM	11.1%
EPS	1.27	-0.06	0.07	-	-	-

Source: Company Reports, Aljazira Capital, NM: Not Meaningful

Recommendation	Neutral
Target Price (SAR)	13.5
Upside / (Downside)*	11.6

Source: Tadawul *prices as of 9th of May 2024

Key Financials

SARmn (unless specified)	FY22	FY23	FY24E
Revenues	9,075	9,883	10,492
Growth %	14.9%	8.9%	6.2%
Net Income	550	1,267	297
Growth %	156.5%	130.5%	-76.6%
EPS	0.61	1.41	0.33
DPS	0.00	0.50	0.50

Source: Company reports, Aljazira Capital

Key Ratios

	FY22	FY23	FY24E
Gross Margin	58.6%	59.3%	59.7%
Net Margin	6.1%	12.8%	2.8%
ROE	5.6%	12.0%	2.8%
ROA	1.9%	4.6%	1.1%
P/E (x)	16.4	10.0	36.6
P/B (x)	0.9	1.2	1.0
EV/EBITDA (x)	4.8	6.9	5.9
Dividend Yield	0.0%	3.6%	4.1%

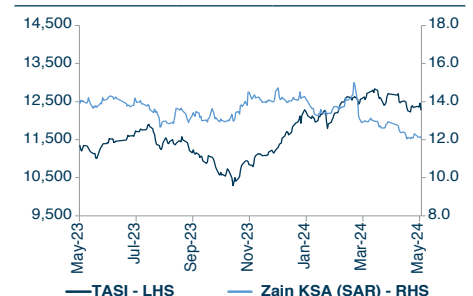
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	10.9
YTD%	-14.1%
52 week (High)/(Low)	15.18/12.00
Share Outstanding (mn)	898.7

Source: Company reports, Aljazira Capital

Price Performance



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RESEARCH DIVISION

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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.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
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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