Changes in Revenue Structures

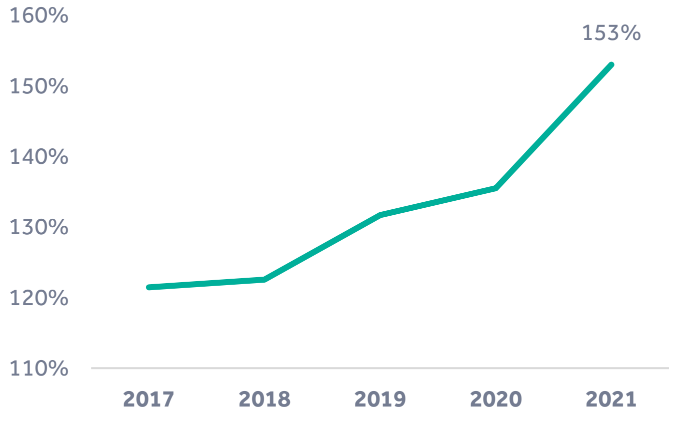
In the past, the mobile consumer segment has been the primary source of revenue growth for Telecom operators by increasing their subscriber base among the population and then improving their average revenue per user (ARPU) by providing other services such as internet packages to their subscribers. However, the untapped subscriber base has shrunk in recent years, forcing Telecom operators to look for alternative revenue streams to drive the growth. We believe that there are three areas that are likely to drive future growth of the Telecom sector.

1. **Enterprise solutions and 5G network expansion.** The adoption of 5G technologies would be critical for telecom operators. This will likely open up a slew of new opportunities and pave the way for operators to provide technology based on Telecommunication infrastructure such as machine-to-machine (M2M), Internet of Things (IoT), cloud computing, and cybersecurity services.
2. **Fiber-to-the-Home (FTTH).** There are numerous uncovered areas in the Kingdom, which create a potential for the operators to expand their FTTH subscriber base especially in rural areas.
3. **Increase in Tourism.** The sector stands to benefit from the Kingdom's plans to increase the number of religious tourists and international travelers. This year, the Kingdom has decided to increase the number of Hajj pilgrims from outside and inside the Kingdom to one million, which would impact positively on the sale of temporary prepaid packages.

Untapped subscriber base shrunk

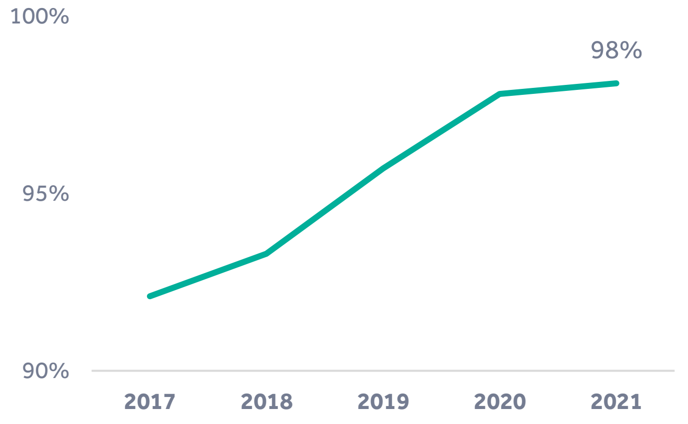
Telecom operators are facing challenges in expanding their subscriber base due to the fact that there are few untapped subscribers left to penetrate, resulting in operators vying for the same customers. Therefore, there is little opportunity for operators to increase their top-line by expanding their subscriber base. Meanwhile, external competition is also weighing-in from over-the-top (OTT) services such as web-based messaging and calling applications, which exert pressure on telecom operators as OTT apps do not contribute directly to the revenues of these operators.

Exhibit 1: Mobile Penetration Rate



Source: CITC, Riyad Capital

Exhibit 2: Internet Users within Population



Source: CITC, Riyad Capital

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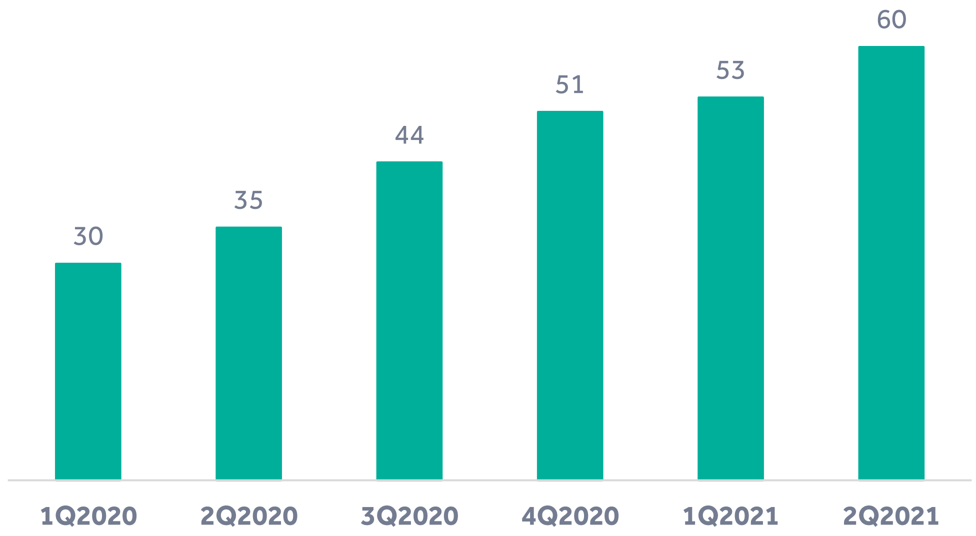
Monetize 5G with new areas of growth

Telecom operators are shifting their revenues stream from providing only traditional telecommunication services to providing more advanced and premium digital services to fuel their future growth. Companies have access to several potential areas such as investing in data centers, machine-to-machine (M2M), Internet of Things (IoT), cloud computing, and Cybersecurity services which all require a robust 5G foundation.

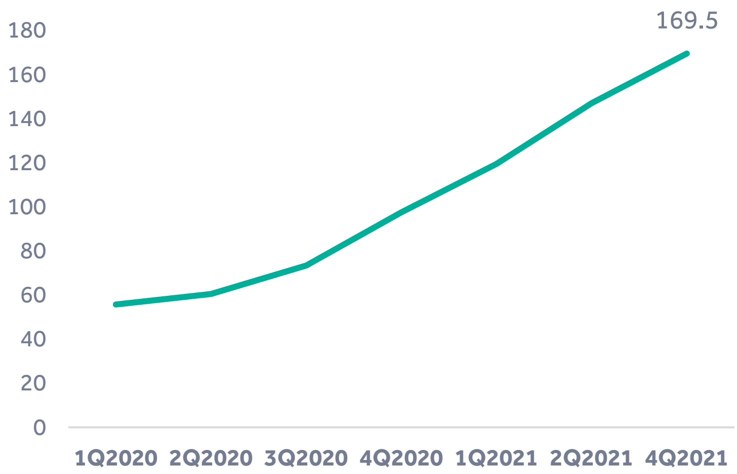
Exhibit 3: Number of Governates covered by 5G services



Source: CITC, Riyad Capital

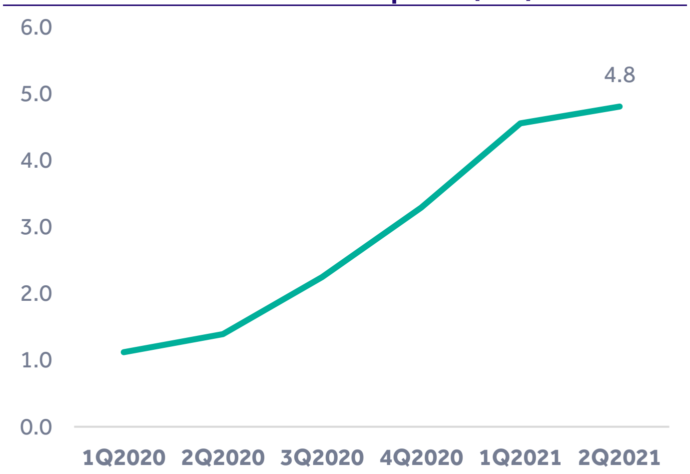
By utilizing their well-established, cutting-edge infrastructure and extensive geographic reach, telecom operators have a comparative advantage to provide premium services to the business sector, such as integrating their connectivity services into industry-specific applications. This opens up a new avenue for operators to boost their top-line.

Exhibit 4: Avg. Mobile Internet Download Speed (Mbps)



Source: CITC, Riyad Capital

Exhibit 5: M2M Services Subscriptions (mln)



Source: CITC, Riyad Capital

Increasing data traffic with the ongoing move to 5G, technological advancements and the acceleration of digital transformations in the Kingdom have bolstered the need for data centers in the Kingdom. Data centers are increasingly becoming a key asset for telecom operators. In the recent past, telecom operators have made significant investments in data centers and cloud computing.

Table 1: Recent Investments in Data Centers

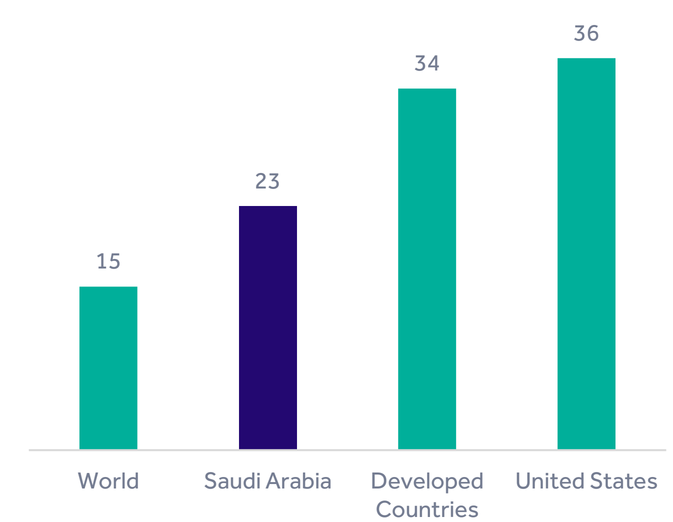
Company	
STC	- Plans to establish a new company specializing in datacenter hosting with an initial capital of SAR 100 mln. Expected to inject SAR 1.7 bln as additional investment. - To invest SAR 3.75 bln in MENA Hub to establish a regional center for cloud and digital services. - Announced the launch of three mega data centers in Riyadh, Jeddah and Madinah with an investment value of SAR 1 bln.
Mobily	- Announced the completion of the region's largest Mobile IoT, cloud platform, hosted in Saudi Arabia. - Built its own cloud network in collaboration with Ericson and Huawei.
Zain KSA	- Signed a memorandum of understanding (MoU) with Huawei to enhance Zain KSA's digital cloud-network infrastructure. - Launched "Zain Cloud" service dedicated to businesses, SMEs, entrepreneurs, and government sectors in partnership with Alibaba Cloud.

Source: Riyad Capital

Potential for uncovered areas in Fiber to-the Home (FTTH)

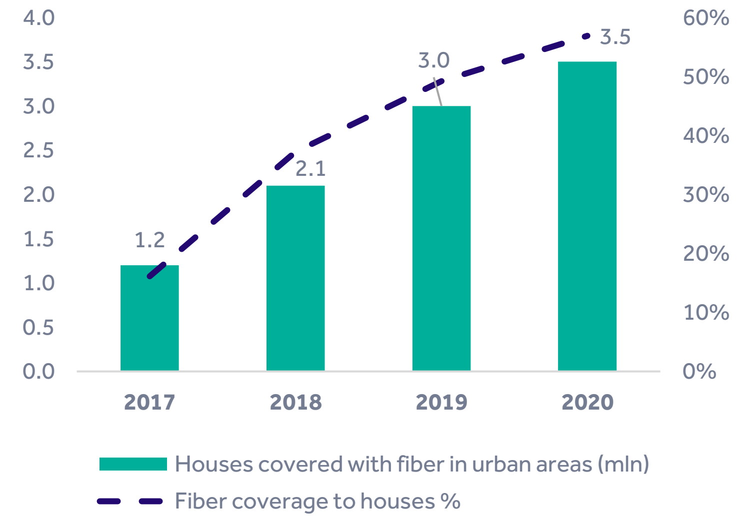
The rate of houses covered with FTTH surged to 56.9% as of the end of 2020 from 49.2% and 37.2% in 2019 and 2018, respectively. However, the Kingdom's FTTH penetration rate is still below the developed countries average and USA average as well. Thus, there is considerable potential for telecom operators to expand their FTTH subscriber base in rural areas.

Exhibit 6: Fixed Broadband Subscriptions per 100 Inhabitants



Source: ITU, Riyad Capital

Exhibit 7: Fiber Services



Source: CITC, National Transformation Program, Riyad Capital

In February 2021, all the six Telecom Service Providers in Kingdom signed an open access agreement guaranteeing the provision of FTTH services through any subscriber-selected service provider, independent of fiber infrastructure ownership. This implies higher competition between FTTH providers and the freedom of choice for the subscribers. We believe the government's emphasis on digitization along with the collaborations between the operators and the regulators will create a strong uptake of fiber services among businesses in addition to incentivizing the telecom operators to roll out fiber technology much quicker especially in rural areas.

Religious tourism to support consumer segment

In 2022, the Ministry of Hajj and Umrah scrapped the immunization status check for visitors to the two holy mosques. Moreover, for foreign pilgrims, the key checks were removed including the requirement of registering immunization data, the requirement to submit a PCR test upon arrival and the requirement to comply with institutional and home quarantine. As a result, the Kingdom decided to increase the number of Hajj pilgrims from outside and inside the Kingdom to one million in 2022. We believe this should have a positive impact on the Telecom sector as a higher inflow of pilgrims will increase the sale of temporary prepaid packages.

Table 2: Population and Number of Mobile Subscribers (mln)

	2018A	2019A	2020A	2021A	2022E
Population	33.7	34.3	34.8	35.3	35.5
Number of subscribers	41.3	45.1	46.4	53.6	54.6
Mobile Penetration %	**123%**	**132%**	**136%**	**153%**	**154%**

Source: CITC, World Bank, Riyad Capital

Recent data from CITC suggests that the number of mobile subscribers in the Kingdom reached 53.6 mln as at the end of 2021, up +15.6% Y/Y. Resulting from the continuing re-opening of economic activities and easing of international travel restrictions. We assume that the number of mobile subscribers will increase by +1.5% CAGR between 2022 and 2026 on the back of an increase in number of pilgrims and visitors. Moreover, the Average Revenue per User (ARPU) for the sector would increase by +1.1% during 2022 due to higher contribution from pre-paid subscribers and then increase by +1.6% CAGR between 2023 and 2026.

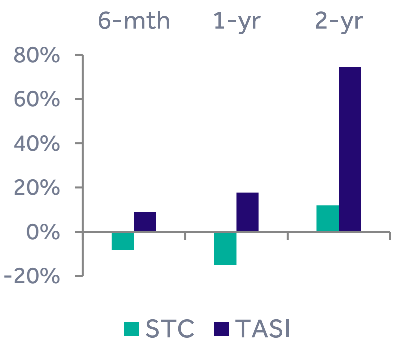
Rating	Buy
12- Month Target Price	SAR 125

Price as on May-25, 2022	SAR104.40
Upside to Target Price	19.7%
Expected Dividend Yield	3.8%
Expected Total Return	23.5%

Market Data

52 Week H/L	SAR 139.8/102.8
Market Capitalization	SAR 209 bln
Shares Outstanding	2,000 mln
Free Float	36%
12-Month ADTV	2,044,946
Bloomberg Code	STC AB

Price Performance



Source: Bloomberg

SAUDI TELECOM CO. (STC)

Subsidiaries to Drive Future Growth

We maintain our target price of SAR 125 per share but upgrade to Buy. STC has a healthy balance sheet with abundant liquidity and relatively low amount of debt which allows it the ability to maintain its leadership through consistently investing in Innovative Technologies, which is expected to drive growth for the future. We assume STC will maintain its DPS for 2022 at SAR 4.0 per share and distribute premium dividends starting from 2023.

STC's "dare 2.0" and growth areas

In 2020, STC had refreshed its strategy to "dare 2.0" which focuses on the execution of prioritized and quantitatively significant growth areas. These areas include: Comprehensive IT services market, Internet of Things (IoT), Digital Financial Services as well as MENA Data Hub and connectivity market. In 1Q2022, STC announced the establishment of a new company specialized in datacenter hosting with an initial capital of SAR 100 mln. In addition, STC signed a Joint Venture Agreement with the Public Investment Fund (PIF) to establish a company specialized in the Internet of Things (IoT) with an initial capital of SAR 492 mln with the possibility to increase the new Company's capital up to SAR 900 mln.

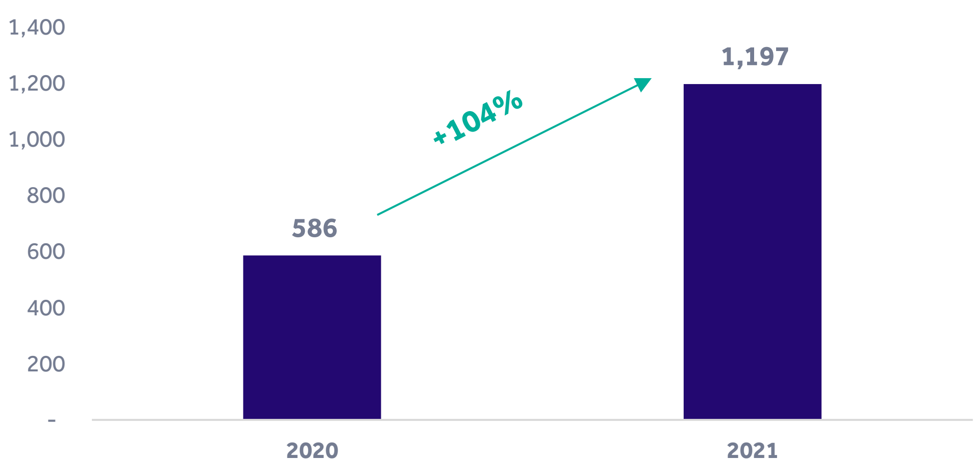
Considerable value-unlocking potential by listing subsidiaries

Strategically, STC has actively invested in developing strong subsidiaries in several business segments, such as Solutions by STC, STC Pay, and TAWAL. These subsidiaries offer a solid foundation for the company to preserve its market leadership position in the sector by diversifying its source of revenues. STC, as of the end of 2021, owns 17 subsidiaries, 4 associate companies and 3 joint ventures. After the success of Solutions by STC IPO, we believe that it is possible that STC will move towards listing one or more of its other subsidiaries. We believe STC shareholders are likely to benefit from a potential unlocking of value through listing of its potential subsidiaries such as TAWAL.

STC Pay's growth potential

A digital banking license was granted to STC Pay in 2021 to become a digital bank with a paid-up capital of SAR 2.5 bln. STC owns 85% of the digital bank while the remaining 15% is owned by Western Union (WU).

Exhibit 8: Customers Deposits in STC Bank (SAR mln)



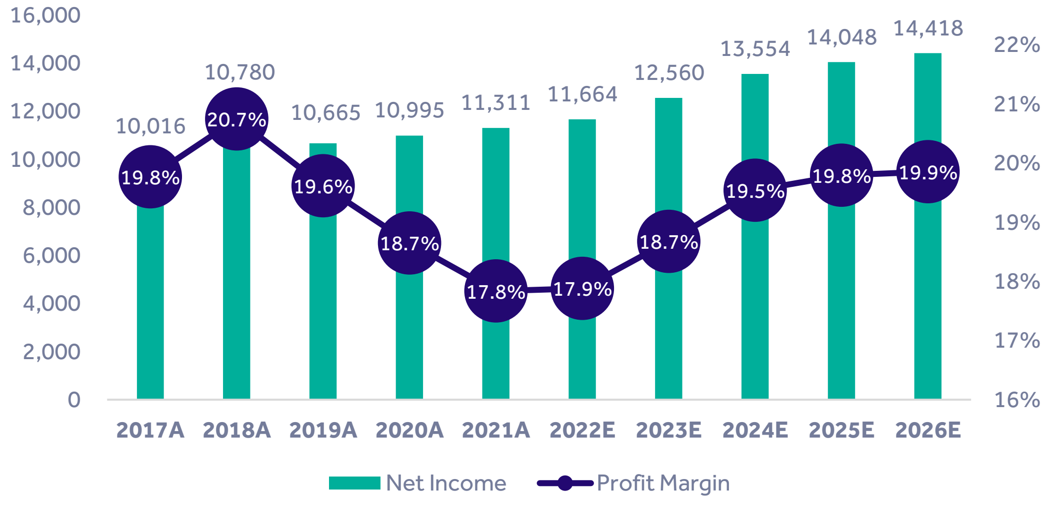
Source: Company financials, Riyad Capital

Customers deposits significantly grew by +104% Y/Y to reach SAR 1.2 bln in 2021. However, the company financials showed that stc Bank recorded revenues of SAR 834 mln but losses of SAR (438) mln which is why we believe that STC Pay will not go through an IPO soon as it needs some more time to mature. We believe the progress in providing banking services and regional expansion are the key value drivers for the near future regardless of the losses. However, we do highlight that robust growth in the digital payment segment attracted fresh competition (such as Neoleap by AlRajhi), which we believe may potentially impact STC Pay's growth trajectory and margin profile. It's worth mentioning, latest valuation for STC pay was SAR 5.0 bln at the time of stake sale to WU in Nov 2021.

Net Income to increase by 5.0% CAGR between 2022 - 2026

We estimate revenues to increase by 2.7% CAGR till 2026, driven mainly by stronger demand for data and solutions. Gross margin has been constantly shrinking for the past 4 years from 58.64% in 2018 to 53.3% in 2021, due to the increasing contribution of lower-margin subsidiaries to revenues. However, we do not expect the gross margin to continue to shrink due to the maturity of the subsidiaries and the improvement in their margins. Net margin followed the same direction as gross margin, falling in recent years from 20.7% in 2018 to settle at 17.8% in 2021. We expect the net margin to start recovering, resulting in a profit of SAR 14.4 bln in 2026.

Exhibit 9: Net Income (SAR mln) and Net Margins (%)

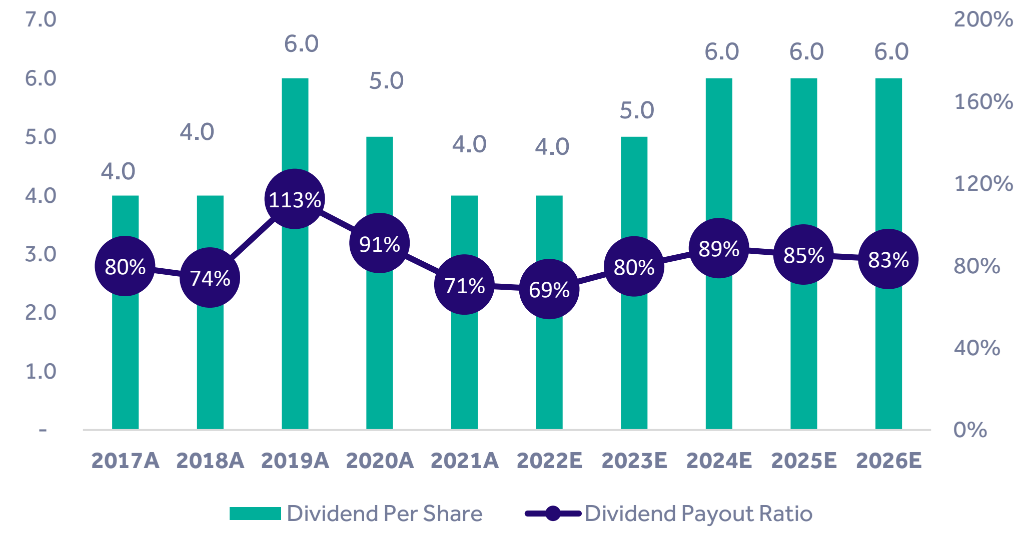


Source: Company financials, Riyad Capital

Healthy balance sheet drives DPS to increase

As of the end of 2021, STC has a healthy financial position and abundant liquidity, holding SAR 8.2 bln in cash and SAR 8.0 bln in short-term Murabaha. This liquidity was helped by SAR 3.6 bln proceeds from the IPO of Solutions by STC and SAR 750 mln from a 15% stake sale in STC Pay. The current ratio reached 1.50 as of the end of 2021, supported by SAR 25.0 bln of Accounts Receivables (SAR 21.6 bln receivable from government entities). However, we do not believe that there will be any additional cash dividends paid during the current year 2022. Instead STC may use this liquidity in investing in another business segment or acquiring a new company locally or overseas. We expect STC to pay a special dividend starting from 2023.

Exhibit 10: DPS (SAR) and Payout Ratio (%)



Source: Company financials, Riyad Capital

Discounted Cash Flows (DCF) valuation at SAR 249.2 bln (SAR 125/share)

For our Discounted Cash Flows (DCF) valuation technique we have used the Saudi Arabia 10 Year Government Sukuk yield of 3.65% as the risk-free rate and an equity risk premium of 6.64% and we have used 0.73 as 3-years weekly beta obtained from Bloomberg. Our calculation calls for the equity and debt weight of 84.69% and 15.31% respectively (2021 financials), while our cost of debt assumption is at 2.95% for STC. Therefore, applying the respective weights to cost of equity and cost of debt, we arrive at a WACC of 7.64%. Discounting the cash flows, we come to a fair value of SAR 125 per share.

Table 3: Discounted Cash Flow Valuation

SAR '000	2023 E	2024 E	2025 E	2026 E
EBIT	**14,822,513**	**15,715,109**	**16,262,748**	**16,581,216**
Plus: D&A	10,279,826	10,569,843	10,909,626	11,300,646
Minus: Increase in NWC	(176,749)	(126,147)	302,336	(761,930)
Plus: non-cash items	1,519,207	1,528,668	1,533,772	1,521,240
Minus: Capex	(11,116,437)	(11,841,949)	(12,510,905)	(12,842,616)
Cash Flow to the firm	**15,328,360**	**15,845,523**	**16,497,577**	**15,798,556**
Terminal Value				261,292,185
Total FCFF	**15,328,360**	**15,845,523**	**16,497,577**	**277,090,741**
Discounting Factor	0.93	0.86	0.80	0.74
Discounted Cash Flows	**14,240,789**	**13,676,763**	**13,229,251**	**206,431,264**

Long-term Growth rate		1.5%
Enterprise value	247,578,067	
Net Debt	3,699,193	
NCI	(2,115,474)	
Equity Value	249,161,786	
Number of shares ('000)	2,000,000	
Fair value per share	125	

Source: Riyad Capital

Financial Statements

The following are the condensed Income statement and Balance Sheet for STC:

Table 4: Income Statement

Income Statement (SAR mln)	2021A	2022E	2023E	2024E	2025E	2026E
Revenue	63,416,977	65,226,778	67,244,039	69,374,065	70,977,272	72,618,394
Cost of Goods Sold	(29,622,948)	(30,036,610)	(30,658,977)	(31,312,572)	(31,795,480)	(32,501,282)
Gross Profit	**33,794,029**	**35,190,168**	**36,585,062**	**38,061,493**	**39,181,792**	**40,117,112**
Total operating expenses	(20,666,274)	(21,345,250)	(21,762,549)	(22,346,384)	(22,919,044)	(23,535,896)
Operating Income	**13,127,755**	**13,844,919**	**14,822,513**	**15,715,109**	**16,262,748**	**16,581,216**
Net other (expenses) income	(492,692)	(767,892)	(774,441)	(588,249)	(602,205)	(522,884)
Profit before zakat	**12,635,063**	**13,077,026**	**14,048,072**	**15,126,860**	**15,660,543**	**16,058,332**
Zakat	(1,040,366)	(1,076,757)	(1,156,713)	(1,245,540)	(1,289,483)	(1,322,237)
Profit for the period after NCI	**11,311,342**	**11,664,075**	**12,559,754**	**13,554,213**	**14,048,364**	**14,417,725**
Gross Margin	53%	54%	54%	55%	55%	55%
EBITDA Margin	36%	37%	37%	38%	38%	38%
EBIT Margin	21%	21%	22%	23%	23%	23%
Net Margin	18%	18%	19%	20%	20%	20%

Source: Riyad Capital

Table 5: Balance Sheet

Balance Sheet (SAR mln)	2021A	2022E	2023E	2024E	2025E	2026E
Assets						
Total Current Assets	51,468,074	54,769,200	58,607,122	60,619,565	63,843,464	66,795,423
Total Non-Current Assets	76,311,343	78,167,814	79,611,823	82,032,775	83,698,911	86,263,147
Total Assets	**127,779,417**	**132,937,014**	**138,218,945**	**142,652,341**	**147,542,375**	**153,058,570**
Liabilities & Equity						
Total Current Liabilities	33,560,552	33,596,467	35,168,560	36,815,423	38,314,615	39,970,506
Total Non-Current Liabilities	22,832,886	24,182,162	25,217,178	26,325,755	27,535,162	28,834,638
Total Liabilities	**56,393,438**	**57,778,629**	**60,385,738**	**63,141,178**	**65,849,777**	**68,805,144**
Total Shareholders Equity	**71,385,979**	**75,158,385**	**77,833,207**	**79,511,163**	**81,692,598**	**84,253,426**
Total Liab & Equity	**127,779,417**	**132,937,014**	**138,218,945**	**142,652,341**	**147,542,375**	**153,058,570**

Source: Riyad Capital

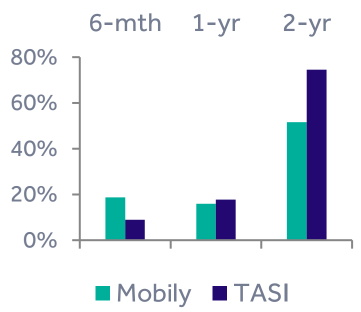
Rating	Neutral
12- Month Target Price	SAR 42.00

Price as on May-25, 2022	SAR 39.00
Upside to Target Price	7.7%
Expected Dividend Yield	2.6%
Expected Total Return	10.3%

Market Data

52 Week H/L	SAR 44.7/29.2
Market Capitalization	SAR 30,030 mln
Shares Outstanding	770 mln
Free Float	71.97%
12-Month ADTV	1,866,232
Bloomberg Code	EEC AB

Price Performance



Source: Bloomberg

ETIHAD ETISALAT CO. (MOBILY)

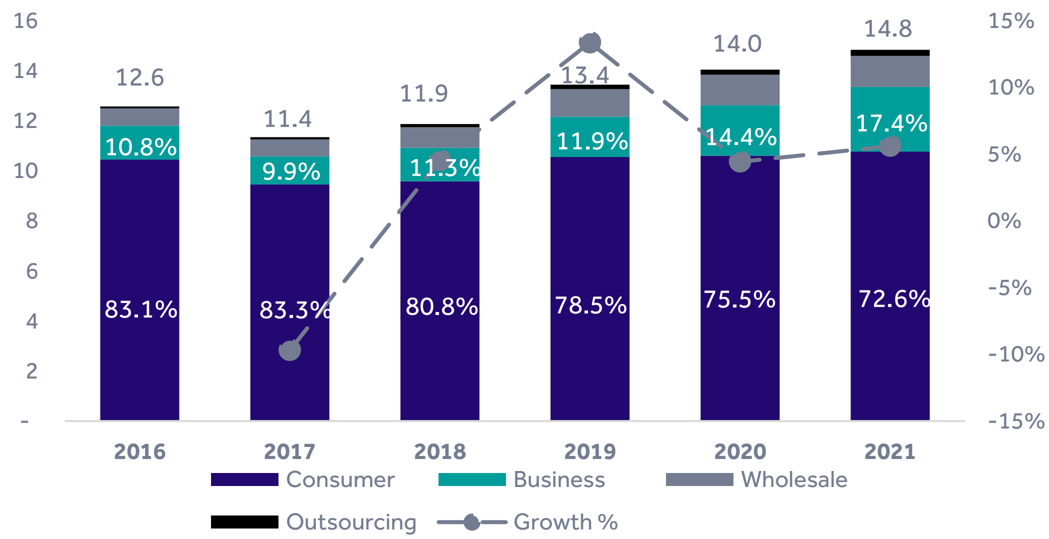
Improving Operational Efficiency

We revise our target price for Mobily to SAR 42.00 from SAR 38.00, using a combination of the Discounted Cash Flows (DCF) method and EV/EBITDA multiple. The company's strategy in recent years has been based on improving its operational efficiency besides growing its revenues, The Company's efforts were clearly focused on the cost front, in terms of reducing Capex as well as debt reduction. We expect a higher contribution from businesses segment revenues and growth in religious tourism would support the topline.

Business unit to drive the future growth

For 2021, Mobily' s revenues rose to its highest level in eight years to SAR 14.8 bln, increasing by +6% Y/Y. This was mainly due to the growth in business unit segment which consistently generated double digit growth in revenues over the last 4 years. According to management, the key contributor for the growth in business unit segment was the smart meter project that was carried out for Saudi Electricity Co. We expect the revenues to increase by 3.0% CAGR between 2022-2026 resulting from continuing growth in business unit segment in addition to the expansion in FTTH services, benefitting from open access agreement. The mobile consumer segment is expected to benefit from partial resumption of Hajj and Umrah.

Exhibit 11: Revenue Breakdown (SAR bln and %)

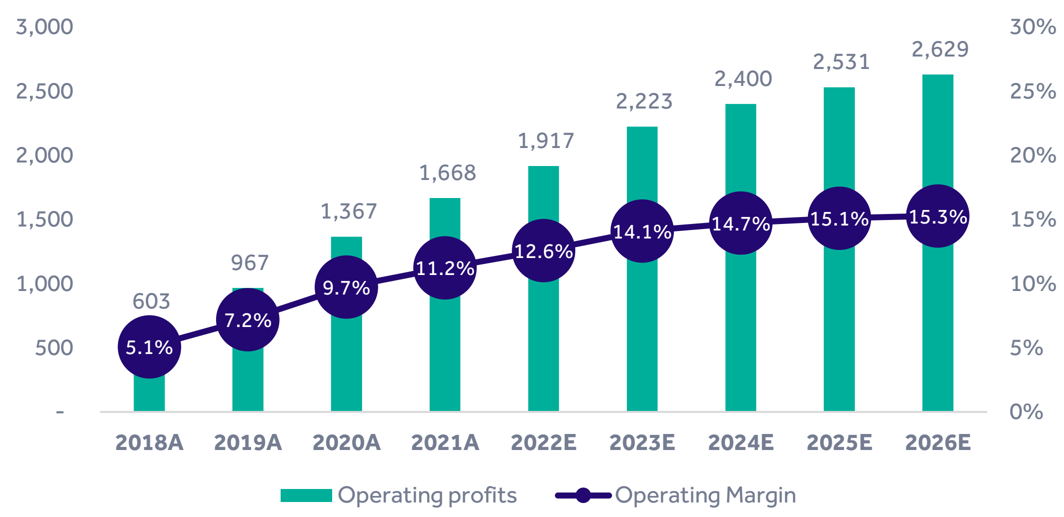


Source: Company financials, Riyad Capital

Margins would continue to expand

Operating margin has consistently improved during the past five years. In 2017, operating margin was at 0.2% and in 2021 it expanded to settle at 11.2%. This was a result of improved operational efficiency coupled with an improvement in gross margin, which expanded from 57.5% in 2017 to 58.5% in 2021. We expect the gross margin to stabilize between 58% and 59%. Operating margin is likely to continue to expand to reach 15.3% in 2026 on the back of growth in revenues at a faster pace than the increase in operating expenses, in addition to stable Capex, which will translate to stable depreciation expense around its current level.

Exhibit 12: Operating Profit (SAR mln) and Operating Margins (%)



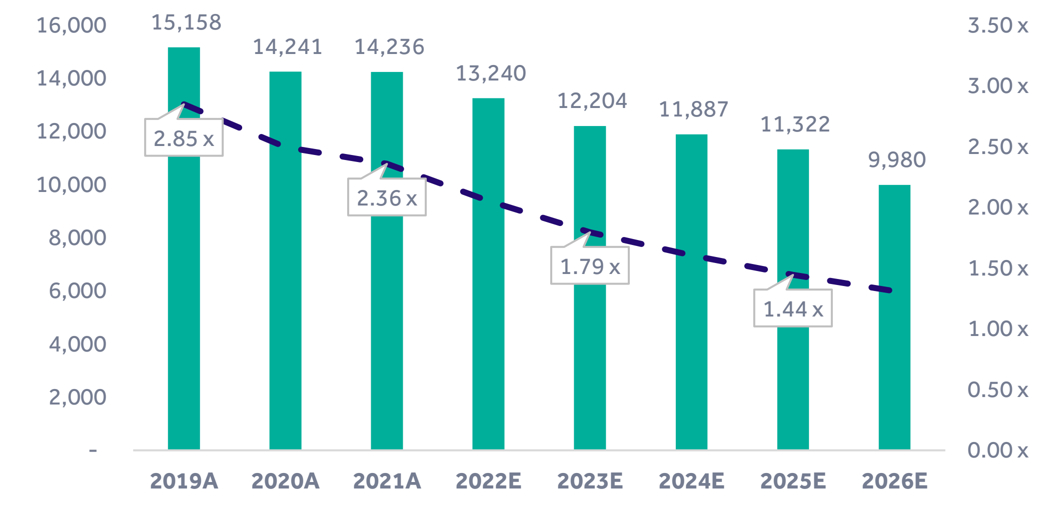
Source: Company financials, Riyad Capital

It is worth mentioning that Mobily announced to not renew the agreement for services and technical support with Etisalat Group. In 2021, Mobily paid SAR 127 mln as fees and expenses to Etisalat Group. Thus, lower expenses would support its operating margins.

Continuing to Deleverage

Mobily's total debt has decreased marginally during the last two years, from SAR 15.2 bln in 2019 to SAR 14.2 bln in 2021. However, improving financial performance and lower Capex (-25% Y/Y) supported cash and cash equivalents to SAR 2.1 bln in 2021, resulting in a lower net debt position. Despite the relatively stable debt levels, finance expenses in 2021 were SAR 504.8 mln compared with SAR 561.1 mln and SAR 929.5 mln in 2020 and 2019, respectively. We believe the decrease in finance expenses is mainly attributable to the lower SAIBOR as 83% of Mobily's debt is based on variable rate. This is in addition to previous debt refinancing, which we believe reflects Mobily's capacity to achieve better rates as its financial position improves.

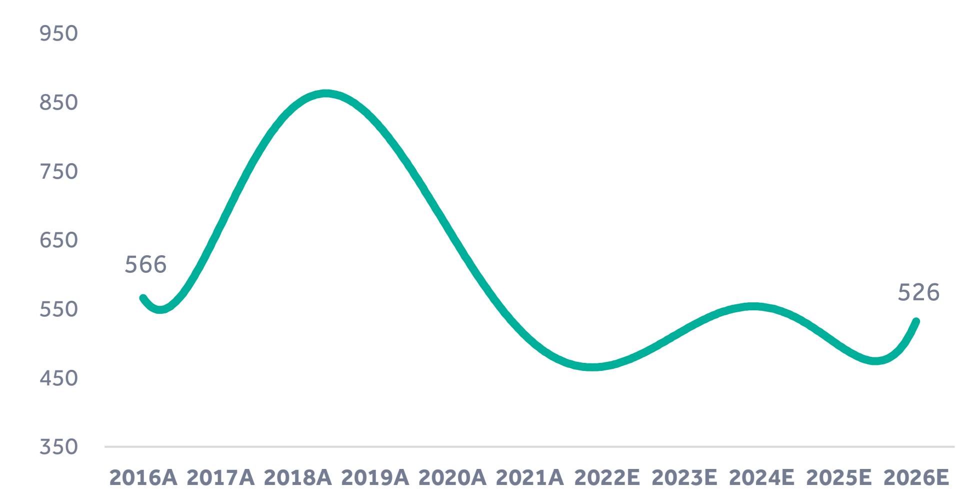
Exhibit 13: Total Debt (SAR mln) and Net Debt to EBITDA (x)



Source: Company financials, Riyad Capital

From 2022 onwards, rising SAIBOR is expected to lead to higher finance expenses. However, in order to cover cash flow fluctuations arising from higher interest rate, Mobily entered into a profit rate swap agreement with a notional amount of SAR 3.3 bln, which is expected to keep its finance expenses more stable.

Exhibit 14: Finance Expenses (SAR mln)

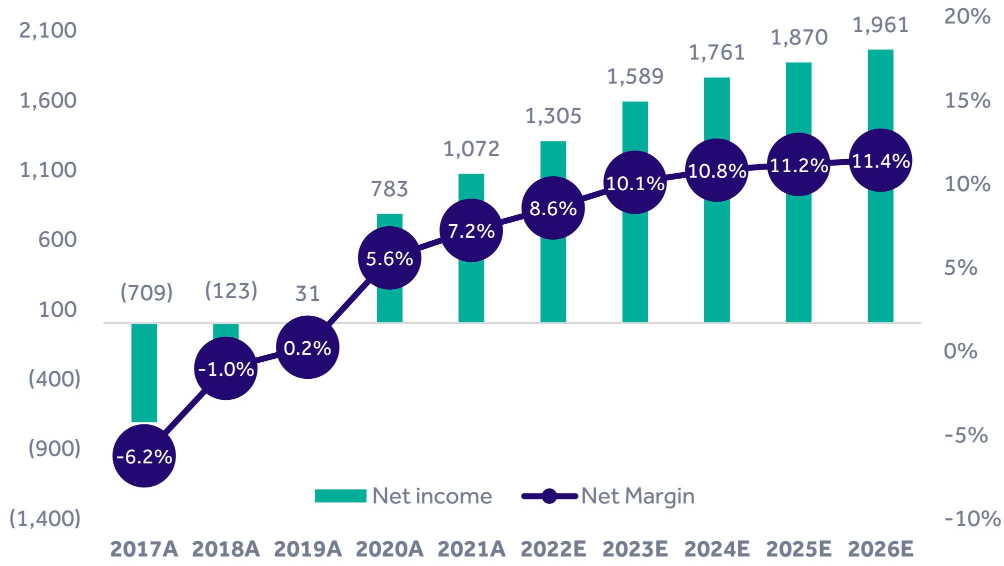


Source: Company financials, Riyad Capital

Net Income to increase by 12.8% CAGR between 2022 - 2026

Mobily returned to profitability in 2019 as it reported a profit of SAR 31 mln. 2021 results revealed revenues and profit at their highest levels in the past eight years to SAR 14.8 bln and SAR 1.1 bln, respectively. We expect Mobily to continue with its operational efficiency, which will translate in to higher profit margins at 11.4% in 2026 and net income to increase by 12.8% CAGR between 2022 and 2026.

Exhibit 15: Net Income (SAR mln) and Net Margins (%)

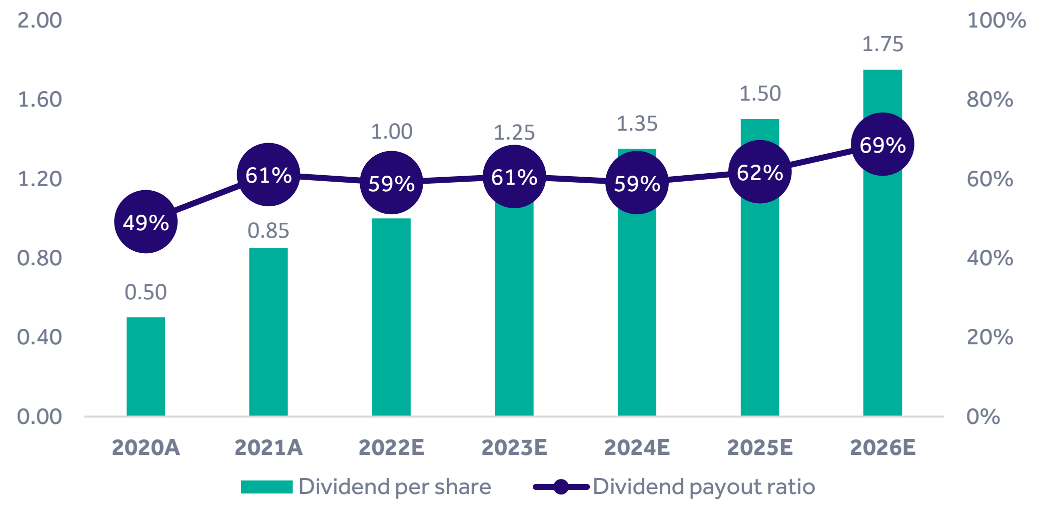


Source: Company financials, Riyad Capital

Dividends to grow

After six years of not distributing dividends, the improvement in the financial performance enabled Mobily to announce a DPS of SAR 0.50 for the year 2020 and SAR 0.85 for the year 2021. Although the management mentioned that the capital investment will be at last year's level or exceed it, we believe its cash generation ability will enable it to increase its dividend payments further. For 2022, we expect dividends to stand at a DPS of SAR 1.00 and then to increase to SAR 1.25 per share in 2023.

Exhibit 16: DPS (SAR) and Payout Ratio (%)



Source: Company financials, Riyad Capital

Fair value of SAR 32.42 bln (SAR 42.10/share)

We have valued Mobily on the basis of Discounted Cash Flows (DCF) and EV/EBITDA multiple. We have integrated the two valuation methods, 70% of our target price is based on DCF and the other 30% on EV/EBITDA. We have included EV/EBITDA multiple into our valuation due to the high weight of debt in the capital structure, which makes DCF more sensitive to changes in WACC. We arrive at a fair value of SAR 32.42 bln. Thus, we raise our target price from SAR 38.00 to SAR 42.00 but maintain our Neutral recommendation.

Valuation Summary

Valuation Method	Fair price	Weight	Price
DCF	43.67	70%	30.57
EV/EBITDA	38.45	30%	11.53
Fair price (SAR)			**42.10**

1-Discounted Cash Flows (DCF) valuation at SAR 33.62 bln (SAR 43.67/share)

For the Discounted Cash Flows (DCF) valuation technique, we have used the Saudi Arabia 10 Year Government Sukuk yield of 3.65% as the risk-free rate and an equity risk premium of 6.64% and we have used 0.92 as the 3-year weekly beta obtained from Bloomberg. Our calculation calls for an equity and debt weight of 51.6% and 48.4% respectively (2021 financials), while our cost of debt assumption is at 3.55% for Mobily. Therefore, applying the respective weights to cost of equity and cost of debt, we arrive at a WACC of 6.72%. Discounting the cash flows, we come to a fair value of SAR 43.67 per share.

Table 6: Discounted Cash Flow Valuation

SAR '000	2023 E	2024 E	2025 E	2026 E
EBIT	**2,223,176**	**2,399,960**	**2,530,773**	**2,629,396**
Plus: D&A	3,793,783	3,761,851	3,754,708	3,766,372
Minus: Increase in NWC	(388,475)	(377,877)	(381,895)	(381,274)
Plus: non-cash items	118,479	128,608	136,929	145,447
Minus: Capex	(3,279,743)	(3,424,051)	(3,557,923)	(3,669,746)
Cash Flow to the firm	**2,467,220**	**2,488,491**	**2,482,592**	**2,490,195**
Terminal Value				48,442,264
Total FCFF	**2,467,220**	**2,488,491**	**2,482,592**	**50,932,459**
Discounting Factor	0.94	0.88	0.82	0.77
Discounted Cash Flows	**2,311,914**	**2,185,061**	**2,042,662**	**39,268,981**

Long-term Growth rate	1.5%
Enterprise value	45,808,619
Net Debt	(12,185,649)
Equity Value	33,622,970
Number of shares	770,000
Fair value per share	43.7

Source: Riyad Capital

2- EV/EBITDA multiple valuation at SAR 29.60 bln (SAR 38.45/share)

Using a relative multiples valuation, we arrive at a fair value of SAR 38.45 per share for Mobily. To calculate the relative multiple, we have used forward EV/EBITDA of an average of seven companies in GCC namely STC, Zain Kuwait, Etisalat UAE, DU, Vodafone Qatar, Ooredoo and Zain KSA. The average EV/EBITDA for these companies is at 6.95x. Our forecasted EBITDA for the year 2023 is at SAR 6.02 bln.

Table 7: Comparable Company Analysis

Company Name	EV/EBITDA
STC	8.87x
ZAIN.KW	6.63x
ETISALAT	10.72x
DU	5.99x
VODAFONE QATAR	7.53x
OOREDOO	3.46x
ZAIN KSA	5.42x

	EBITDA	Average EV/EBITDA	Fair Price
Mobily	6.02	6.95x	38.45

Source: Bloomberg, Riyad Capital

Financial Statements

The following are the condensed Income statement and Balance Sheet for Mobily:

Table 8: Income Statement

Income Statement (SAR mln)	2021A	2022E	2023E	2024E	2025E	2026E
Revenue	14,834,056	15,233,850	15,762,669	16,286,762	16,756,639	17,197,852
Cost of Goods Sold	(6,162,541)	(6,381,553)	(6,558,661)	(6,780,889)	(6,978,267)	(7,163,385)
Gross Profit	**8,671,515**	**8,852,297**	**9,204,008**	**9,505,873**	**9,778,372**	**10,034,467**
Total operating expenses	(7,003,731)	(6,935,743)	(6,980,833)	(7,105,913)	(7,247,598)	(7,405,071)
Operating Income	**1,667,784**	**1,916,554**	**2,223,176**	**2,399,960**	**2,530,773**	**2,629,396**
Net other (expenses) income	(518,459)	(517,014)	(518,730)	(511,394)	(525,393)	(525,974)
Profit before zakat	**1,149,325**	**1,399,540**	**1,704,445**	**1,888,566**	**2,005,380**	**2,103,422**
Zakat	(77,784)	(94,718)	(115,353)	(127,814)	(135,720)	(142,355)
Profit for the period after NCI	**1,071,541**	**1,304,822**	**1,589,092**	**1,760,752**	**1,869,660**	**1,961,067**
Gross Margin	58%	58%	58%	58%	58%	58%
EBITDA Margin	38%	38%	38%	38%	38%	37%
EBIT Margin	11%	13%	14%	15%	15%	15%
Net Margin	7%	9%	10%	11%	11%	11%

Source: Riyad Capital

Table 9: Balance Sheet

Balance Sheet (SAR mln)	2021A	2022E	2023E	2024E	2025E	2026E
Assets						
Total Current Assets	8,272,439	8,862,957	9,279,884	10,245,914	10,836,553	10,524,796
Total Non-Current Assets	31,091,469	30,230,980	29,716,940	29,379,140	29,182,355	29,085,730
Total Assets	**39,363,908**	**39,093,938**	**38,996,824**	**39,625,054**	**40,018,908**	**39,610,526**
Liabilities & Equity						
Total Current Liabilities	11,299,200	11,294,958	11,415,349	11,675,746	11,889,934	11,985,291
Total Non-Current Liabilities	12,868,462	11,952,412	10,915,815	10,485,397	9,834,903	8,525,096
Total Liabilities	**24,167,662**	**23,247,369**	**22,331,164**	**22,161,142**	**21,724,836**	**20,510,387**
Total Shareholders Equity	**15,196,246**	**15,846,568**	**16,665,660**	**17,463,912**	**18,294,072**	**19,100,139**
Total Liab & Equity	**39,363,908**	**39,093,938**	**38,996,824**	**39,625,054**	**40,018,908**	**39,610,526**

Source: Riyad Capital

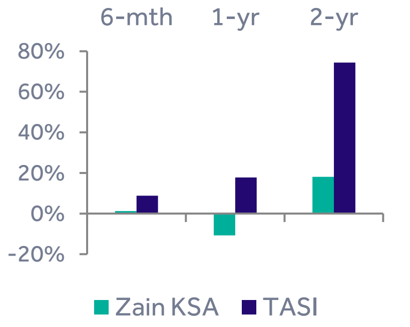
Rating	Neutral
12- Month Target Price	SAR 14.50

Price as on May-25, 2022	SAR 13.04
Upside to Target Price	11.2%
Expected Dividend Yield	0.0%
Expected Total Return	11.2%

Market Data

52 Week H/L	SAR 14.4/10.2
Market Capitalization	SAR 11,719 mln
Shares Outstanding	899 mln
Free Float	62.93%
12-Month ADTV	4,195,780
Bloomberg Code	ZAINKSA AB

Price Performance



Source: Bloomberg

ZAIN KSA

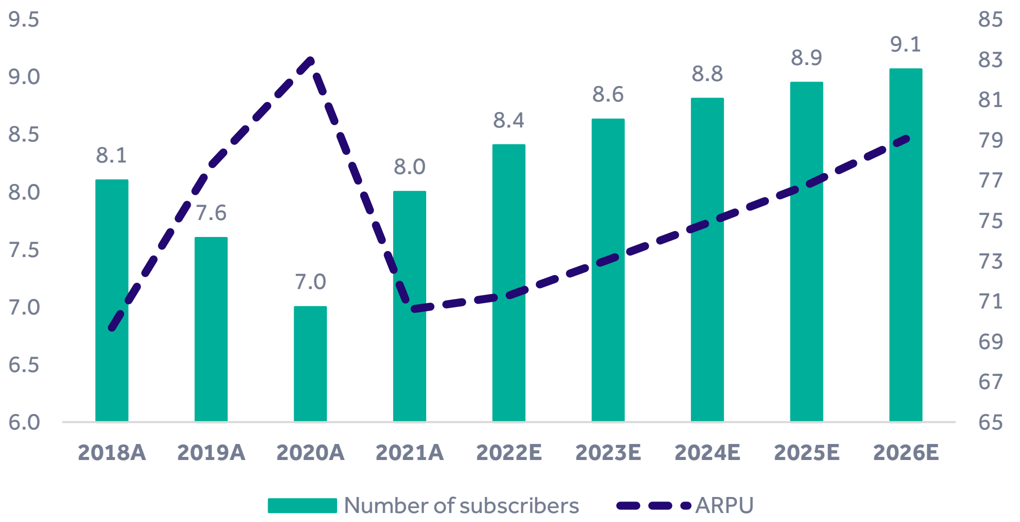
Towers Deal to Improve Financial Position

We revise our target price for Zain KSA to SAR 14.50 from SAR 15.00, using the EV/EBITDA multiple. During the past two years, Zain KSA has been able to improve its financial position, which has been a challenge for the Company in the past. Zain KSA needs further strengthening of its balance sheet. We believe the sale of the towers will support improving Zain KSA capital structure.

Revenue and subscriber base start to recover

Zain KSA faced a decline by -7.9% Y/Y in number of subscribers during 2020 due to the nature of the subscribers in Zain KSA, which was severely impacted by the Covid-19 outbreak in 2020. However, in 2021 Zain registered an increase in the subscriber base by +14% Y/Y coupled with an increase in revenues by +6% Y/Y. Our forecast call for the subscriber base to continue to increase to reach 8.4 mln and 8.6 mln subscribers in 2022 and 2023, respectively and average revenue per user (ARPU), which we expect to be the main driver of Zain's revenue in the future, to reach SAR 71.3 and SAR 73.1 in 2022 and 2023 respectively. We believe the company is positioned well to benefit from a surge in 5G usage, which in turn will increase revenue at a CAGR of 5.6% between 2022 and 2026.

Exhibit 17: Number of Subscribers (mln) and ARPU (SAR)



Source: Company financials, Riyad Capital

The sales of towers to support balance sheet

In February 2022, Zain KSA announced its Board of directors' approval of the final offer received from the Public Investment Fund (PIF), HRH Prince Saud Bin Fahad and Sultan Holding Company. The approved final offer is to acquire 80% of Zain KSA's towers infrastructure comprising of 8,069 towers, valuing these assets at SAR 3.0 bln while Zain KSA will own the remaining 20% stake. The deal also includes a call option that will grant PIF the right to buy the remaining 20% stake from Zain KSA for a certain amount.

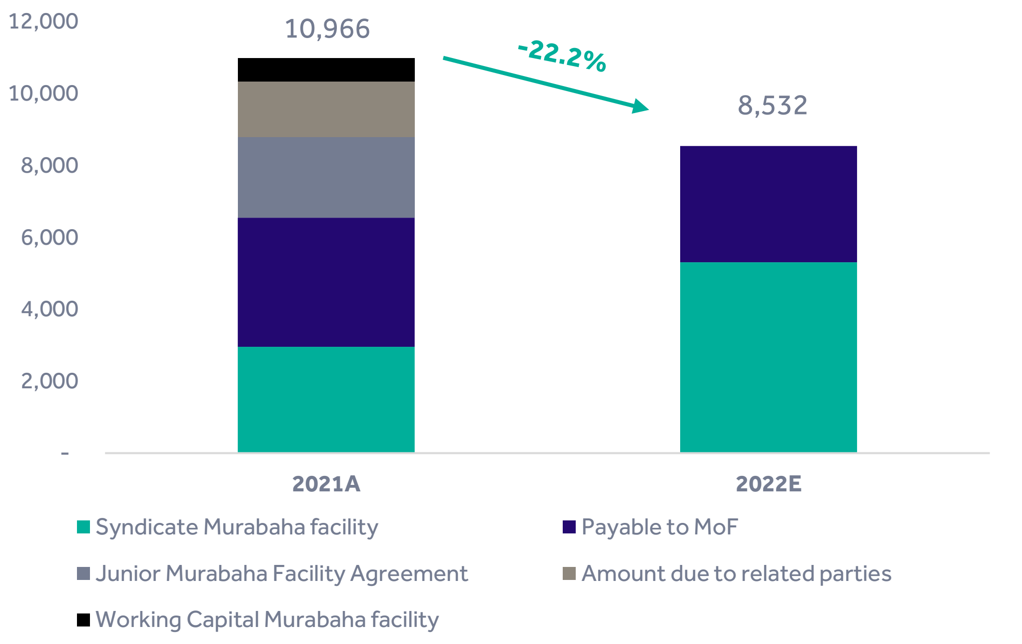
Towers transfer process: The net asset value of SAR 1.4 bln will be transferred to assets held for sale. The depreciation will not be charged on these assets, which is expected to lower the depreciation expense as long as the assets are capitalized as assets held for sale. After shifting the assets ownership to the new owners, amortization expense will be charged once the assets are leased back. According to the company, the transaction is expected to close in 2022 and rent cost under the lease contract would be marginally higher than OPEX per tower in the last year.

Deal proceeds: The proceeds from selling 80% stake is SAR 2.4 bln. Thus, the company is expected to realize a gain of about SAR 1.0 bln from the deal, which will be recognized when the assets are transferred. Going forward, with this liquidity, we expect Zain KSA to prioritize the payment and refinance of its debt and obligations since Zain KSA has SAR 3.2 bln (2021 financials) as current portion of long-term borrowing.

Better refinancing terms to support balance sheet

1Q2022 result shows Zain KSA's current portion of borrowing stood at SAR 3.0 bln, in addition to SAR 1.4 bln that is due to related parties and SAR 525 mln payable to the Ministry of Finance (as per 2021 financials) resulting in current ratio of 0.39x (excluding assets classified as held for sale). However, in April, Zain KSA reached financial close to draw down SAR 2.8 bln from senior murabaha facility with better commercial terms, which brings the outstanding balance of the senior murabaha facility to SAR 6 bln. This will allow the company to clear two 2022 debt payments (junior murabaha facility amounting to SAR 2.25 bln and 2022 installment of the government loan amounting to SAR 525 mln). For 2022 and onwards, we believe the tower deal, besides the company ability to negotiate for better refinancing terms, will reflect positively on Zain KSA Balance Sheet and Income Statement.

Exhibit 18: Total Debt 2021 - 2022 (SAR mln)



Source: Company financials, Riyad Capital

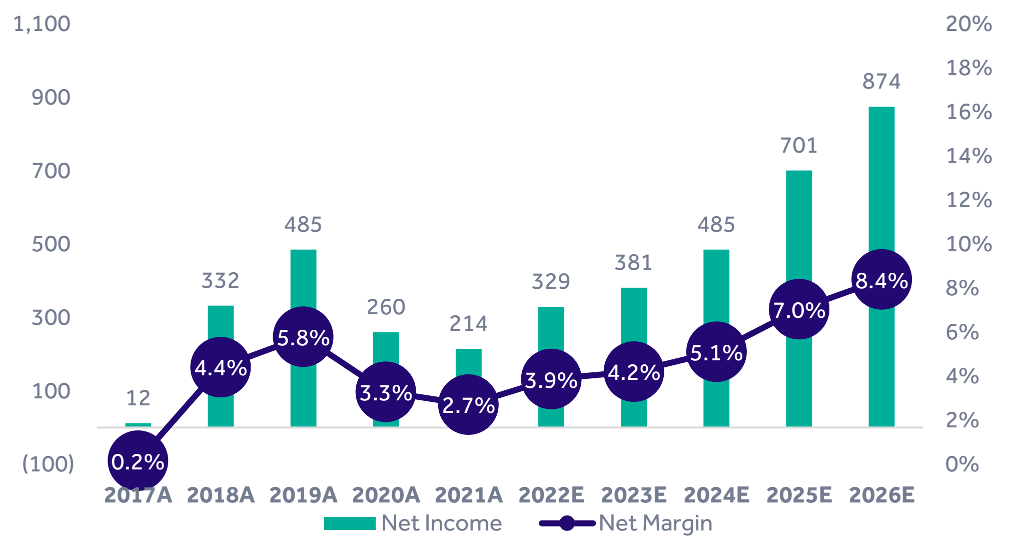
First ever dividends could be in 2023

Although the towers deal is expected to provide Zain with liquidity, we don't expect there will be a distribution of dividends in 2022. However, we believe the positive impact of the deal for the company's financials will be considerable in 2023. This is due to the deleveraging of balance sheet in addition to the deal impact in reducing Capex for the next few years. Thus, our assumptions show that Zain may be able to distribute its first ever dividends of SAR 0.50 DPS in 2023.

Net Income to increase by 32.5% CAGR between 2022 – 2026

Zain KSA reported a -17.6% Y/Y decline in net income in 2021, which was mainly due to the contraction in gross margin by -695 bps. The decrease in gross margin is attributed to the write back of provision which has ended in 2020. However, we do not expect the gross margin to return to its previous levels but to continue to contract as a result of the higher contribution of lower margin segment in the revenue. We believe the lower depreciation resulting from the towers deal would give Zain's net income a boost in 2022 to reach SAR 329 mln, while for the long term, we expect the net margin to continue to expand to stand at 8.4% in 2026, primarily on the back of reduction in financing expenses along with increasing the top-line.

Exhibit 19: Net Income (SAR mln) and Net Margins (%)



Source: Company financials, Riyad Capital

Fair value of SAR 13.13 bln (SAR 14.61/share)

Due to the large portion of debt in Zain KSA capital structure, DCF is very susceptible to changes in WACC. Thus, we have valued Zain KSA using only relative multiples valuation and we arrive at the fair value of SAR 14.61 per share. To calculate the relative multiples, we have used the forward EV/EBITDA of an average of seven companies in GCC namely STC, Zain Kuwait, Etisalat UAE, DU, Vodafone Qatar, Ooredoo and Mobily. We arrive at an average EV/EBITDA of 7.17x. With a forecasted EBITDA for the year 2023 at SAR 3.39 bln, we revised our target price to SAR 14.50 per share from SAR 15.00 per share, but maintain our Neutral recommendation.

Table 10: Comparable Company Analysis

Company Name		EV/EBITDA	
STC		8.87x	
ZAIN.KW		6.63x	
ETISALAT		10.72x	
DU		5.99x	
VODAFONE QATAR		7.53x	
OOREDOO		3.46x	
Mobily		7.02x	
	EBITDA	Average EV/EBITDA	Fair Price
ZAIN KSA	3.39	7.17x	14.61

Source: Bloomberg, Riyad Capital

Financial Statements

The following are the condensed Income statement and Balance Sheet for Zain KSA:

Table 11: Income Statement

Income Statement (SAR mln)	2021A	2022E	2023E	2024E	2025E	2026E
Revenue	7,900,646	8,500,727	9,051,096	9,507,044	9,945,945	10,421,299
Cost of Goods Sold	(3,016,051)	(3,440,719)	(3,672,414)	(3,870,857)	(4,065,936)	(4,276,052)
Gross Profit	**4,884,595**	**5,060,008**	**5,378,682**	**5,636,186**	**5,880,010**	**6,145,247**
Total operating expenses	(4,185,855)	(4,219,513)	(4,462,099)	(4,623,681)	(4,645,516)	(4,740,988)
Operating Income	**698,740**	**840,495**	**916,583**	**1,012,505**	**1,234,494**	**1,404,259**
Net other (expenses) income	(467,460)	(485,664)	(505,058)	(489,075)	(478,298)	(460,624)
Profit before zakat	**231,280**	**354,831**	**411,525**	**523,430**	**756,196**	**943,636**
Zakat	(16,978)	(26,048)	(30,210)	(38,424)	(55,511)	(69,271)
Profit for the period	**214,302**	**328,784**	**381,316**	**485,006**	**700,684**	**874,365**
Gross Margin	62%	60%	59%	59%	59%	59%
EBITDA Margin	40%	36%	37%	37%	38%	38%
EBIT Margin	9%	10%	10%	11%	12%	13%
Net Margin	3%	4%	4%	5%	7%	8%

Source: Riyad Capital

Table 12: Balance Sheet

Balance Sheet (SAR mln)	2021A	2022E	2023E	2024E	2025E	2026E
Assets						
Total Current Assets	3,781,272	4,872,560	4,272,232	4,106,251	3,281,165	3,048,855
Total Non-Current Assets	24,095,677	24,876,453	24,460,823	23,899,068	23,454,884	23,115,734
Total Assets	**27,876,949**	**29,749,013**	**28,733,055**	**28,005,318**	**26,736,048**	**26,164,589**
Liabilities & Equity						
Total Current Liabilities	10,299,658	6,769,162	7,038,680	10,096,841	7,659,941	7,542,783
Total Non-Current Liabilities	8,537,771	12,611,547	11,394,120	7,572,582	8,713,575	8,058,955
Total Liabilities	**18,837,429**	**19,380,709**	**18,432,800**	**17,669,423**	**16,373,516**	**15,601,739**
Total Shareholders Equity	**9,039,520**	**10,368,304**	**10,300,254**	**10,335,895**	**10,362,533**	**10,562,851**
Total Liab & Equity	**27,876,949**	**29,749,013**	**28,733,055**	**28,005,318**	**26,736,048**	**26,164,589**

Source: Riyad Capital

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than +15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

For any feedback on our reports, please contact research@riyadcapital.com

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