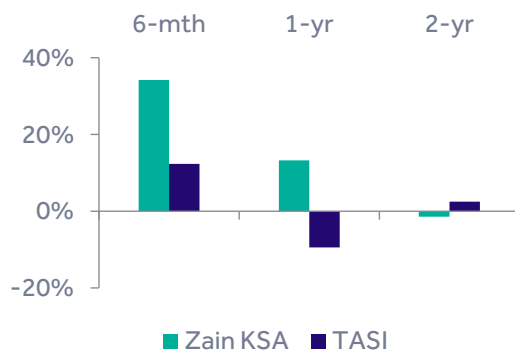


Market Data	
52-week high/low	SAR 16.34/9.86
Market Cap	SAR 12,280 mln
Shares Outstanding	899 mln
Free-float	62.93%
12-month ADTV	3,928,904
Bloomberg Code	ZAINKSA AB



Higher Opex Offsets Margin Expansion

August 27, 2023

Upside to Target Price	6.1%	Rating	Neutral
Expected Dividend Yield	3.7%	Last Price	SAR 13.66
Expected Total Return	9.8%	12-mth target	SAR 14.50

Zain KSA	2Q2023	2Q2022	Y/Y	1Q2023	Q/Q	RC Estimate
Sales	2,392	2,206	8%	2,422	(1%)	2,503
Gross Profit	1,484	1,251	19%	1,415	5%	1,457
Gross Margins	62%	57%		58%		58%
Operating Profit	260	262	(1%)	201	29%	280
Net Profit	124	134	(7%)	563	(78%)	291

(All figures are in SAR mln)

- Zain's registered an increase in top-line by +8% Y/Y but a slight decline of -1% Q/Q to SAR 2,392 mln, in-line with our estimates. We believe this growth was driven by the growth in Tamam revenues as well as a boost from Ramadan Umrah and Hajj season.
- Operating profit was almost stable Y/Y but increased strongly Q/Q by +29%. We believe this Q/Q rise was mainly due to expansion in gross margins. The Y/Y increase in both Opex related to leasing back the towers and expected credit losses overshadowed the expansion in margins. Going forward, we could continue to see some pressure on operating margins in the short to medium-term due to higher Opex related to the leasing back of the towers.
- The Company registered a healthy EBITDA growth of +4% Y/Y and +12% to SAR 799 mln. EBITDA margin came in at 33% compared to 29% in the previous quarter, which is commendable as we were concerned about the margin in the previous quarter in light of the impact of operating expenses on additional expenses related to the towers deal.
- Net Income was recorded at SAR 124 mln, declined both Y/Y and Q/Q by -7% and -78%, respectively. On a quarterly basis, Zain did not recognize any capital gains related to the tower deal for this quarter versus SAR 532 mln recognized last quarter and this led the deviation to our estimates. Zain's bottom-line faces pressure on the back of higher interest rates as the finance costs increased by SAR 36 mln Y/Y.
- We increase our target price to SAR 14.50 from SAR 13.50 per share but we are still Neutral on the stock.

Khalid Obaid Al-Obaid

khalid.al-obaid@riyadcapital.com

+966-11-203-6815

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

Riyad Capital is a Saudi Closed Joint Stock Company with Paid up capital of SR 500 million, licensed by the Saudi Arabian Capital Market Authority NO.07070-37. Commercial Registration No: 1010239234. Head Office: Granada Business Park 2414 Al-Shohda Dist. – Unit No 69, Riyadh 13241 - 7279 Saudi Arabia. Ph: 920012299.

The information in this report was compiled in good faith from various public sources believed to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable. Riyad Capital makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, Riyad Capital does not represent that the information in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information contained in this report. Riyad Capital accepts no liability whatsoever for any loss arising from any use of this report or its contents, and neither Riyad Capital nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof. Riyad Capital or its employees or any of its affiliates or clients may have a financial interest in securities or other assets referred to in this report. Opinions, forecasts or projections contained in this report represent Riyad Capital's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or projections which represent only one possible outcome. Further, such opinions, forecasts or projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. The value of, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, it is not intended to provide personal investment advice and does not take into account the reader's financial situation or any specific investment objectives or particular needs which the reader may have. Before making an investment decision the reader should seek advice from an independent financial, legal, tax and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and projections contained in it are protected by the copyright rules and regulations.