

ZAIN GROUP

CP: 0.67

FV: 0.80

Rating: Accumulate

Zain Group reported profits of KWD 61 mn in Q2-13, a 12% beat vs. our estimate, and in line with the median Bloomberg consensus of KWD 60 mn, respectively. We predict that the beat is not related to underlying performance as our EBITDA estimate is closely in-line, and hence we await management clarification in this regard. Our analysis is based on Q-o-Q comparisons given their higher coherency, as Q2-12 doesn't reflect the Sudanese currency devaluation. Net profits grew 16% Q-o-Q, amid 3% improvement in revenues, and 7% in nominal EBITDA, respectively. We re-rate to Accumulate from Hold, post the weakness witnessed in the stock performance, and given that the current price warrants a good entry point.

- Revenues in-line with estimates:** Quarterly revenues increased 3% to reach KWD 313 mn. Zain recorded good customer growth across the board, with specific emphasis on growth in data revenues that recorded 19% increase post substantial investment in expanding and upgrading 3G and 4G networks across their markets, and currently comprise 13% of the group's revenues. Data is a crucial area for the company, as a large proportion of the Group's customers do not own smart-phones yet, and are located in rural areas across several countries.
- EBITDA on the rise:** EBITDA grew 7% Q-o-Q to reach KWD 135 mn, recording a 43.3% margin. The Q-o-Q growth comes after Zain Iraq recorded a one-time expense of USD 22 mn during Q1-13 related to advisory services for the IPO. We currently don't hold segmented figures for the subsidiaries in order to assess organic growth post normalizing one-time expenses.
- Net profit jumped 16% Q-o-Q:** Zain managed to grow their bottom-line by 16% on a quarterly basis, to reach KWD 61 mn. We predict that the beat is not related to underlying performance as our EBITDA estimate is closely in-line, and hence we await management clarification in this regard. Zain KSA's losses fed negatively into the Group's P&L, at KWD ~10 mn for the quarter. We highlight the subsidiary's continuous efforts of restructuring their leverage, and imminent re-financing agreement of the Jumbo facility which is expected to alleviate pressure on the bottom-line amid the high potential of lower interest rates imposed by the banks.
- Specific events:** Mobile number portability was introduced in Kuwait, and data currently represent 28% of revenues. Favorable telecommunications tax law was introduced in Sudan that waived the 30% corporate income tax for a period of 3 years. Zain KSA deferred government related payments for 7 years, and is in the process of re-financing their Jumbo Murabaha facility. Zain Iraq is establishing a new Iraqi Joint Stock Company under the name of "Al Khatem" as a pre-requisite for the IPO and managed to grow the customer base by 8% to reach 13.9 mn as the operation expands network to North Iraq. Sudan revenues grew 23% Y-o-Y, in SDG terms.
- Rich Valuation, alongside a 7.5% 2013e DY:** Zain trades at a PE 2013e of 11.6x, a premium within the regional context, albeit our expectation of a superior and sustainable dividend yield of 7.5% for 2013. We re-rate to Accumulate from Hold, post the weakness witnessed in the stock performance, and given that the current price warrants a good entry point.

(in KWD mn)	Q2-12 A	Q1-13 A	Q2-13 A	Q2-13 E	QoQ	YoY	Vs ASIB Est
Income Statement							
Revenues	338	299	313	307	3%	-9%	2%
Ebitda	148	127	135	132	7%	-9%	3%
EBITDA Margin	43.8%	42.4%	43.3%	42.9%	1%	-2%	1%
Net Income	71	52	61	54	16%	-15%	12%
EPS	0.018	0.013	0.016	0.014	16%	-15%	12%

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