

## ZAIN GROUP

CP: 0.790

FV: 0.800

Rating: Hold

Zain Group reported profits of KWD 50 mn in Q4-12, 23% and 19% below our estimates and Bloomberg consensus, respectively. The group was at a crossroad in 2012, having to suffer the repercussions of sharp currency movements, particularly in Sudan. Translation effects cost Zain's bottom line USD 109 mn during 2012. Zain Iraq remains to be the star performer of the group, with sales growing 7%Y-o-Y, amid integral cost cutting measures which augmented profits 6% Y-o-Y.

- Weakness in major KPIs:** Quarterly revenues slumped 8.6% Y-o-Y to reach KWD 305 mn, with a simultaneous hit at the EBITDA level, with margins retreating significantly by 450 bps. We attribute the slump to the adverse translation effects of the Sudanese operation, and to the higher cost environment in Sudan. Management cited that whilst removing the impact of F/X variations, the group would have posted relatively stable results.

(in KWD mn)	Embedded effects of F/X		Excluding effects of F/X
	FY-11	FY-12	FY-12
Revenues	1,322	1,280	1,400
EBTIDA	600	571	602
EBITDA Margin	45.4%	44.6%	43.0%
<b>Net Income</b>	280	252	283

- Additional factors impacting bottom-line:** Increasing ownership in Zain KSA to 37% up from 25%, and hence increased share in losses, in addition to the revaluation of some financial assets, also attributed to the 10% decrease in net profits for the year 2012.
- Update on Sudan:** Approximately 90% of the adverse F/X translation costs were the result of the 55% depreciation of the Sudanese pound against the USD in 2012. In addition to that, heightened taxation and fuel costs were a pressure. Management awaits political stability and gradual economic recovery amid the recent talks between Sudan and South Sudan.
- Optimism in Iraq:** The widespread expansion of Zain's network into the Northern regions of the country aided in augmenting the operation's customer base to 13.7 mn up from 12.4 mn in 2011. In fact, the net adds in Iraq contributed up to 52% of the total net adds of the group. Iraq contributes more than 35% to the overall revenues of the group. IPO listing is expected in H1-2013.
- Valuation at a premium, accompanied by a 6% 2012 DY:** Zain Group trades at a PE 2013e of 11.9x; a premium in the regional context, albeit sustaining a good dividend yield of 6% for 2012. The BoD recommended a cash dividend of KWD 50 fils/share vs. our estimate of KWD 55 fils/share. This translates into a 77% payout from total profits. Since the current stock price approached our fair value, we re-rate to HOLD from ACCUMULATE, awaiting full financials for a possible re-assessment of fair value and estimates particularly dividend payouts.

(in KWD mn)	Q4-11 A	Q3-12A	Q4-12 A	Q4-12 E	QoQ	YoY	Vs ASIB Est
<b>Income Statement</b>							
Revenues	334	311	305	323	-2%	-9%	-6%
EBTIDA	156	140	129	143	-8%	-17%	-10%
EBITDA Margin	46.7%	45.2%	42.2%	44.3%	-6%	-10%	-5%
<b>Net Income</b>	<b>71</b>	<b>60</b>	<b>50</b>	<b>65</b>	-17%	-29%	-23%
EPS	0.018	0.016	0.013	0.017	-17%	-29%	-23%

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