June 2025

Mobile Telecommunication Company Saudi Arabia

Investment Update

Topline driven by 5G and Tamam but lacks broad-based growth, challenges on profitability and balance sheet front; retain “Neutral”

Zain KSA’s growth outlook is supported by rising 5G adoption and strong performance from its fintech platform Tamam. However, topline growth is likely to be affected due to a stagnant subscriber base, limited B2B traction, and the loss of MVNO contracts, leaving it behind peers on user and enterprise expansion. Margins are expected to witness pressure from high OPEX from the tower leaseback deal and elevated expected credit losses. Meanwhile, rising depreciation and amortization from spectrum-related CAPEX and lease liabilities will constrain operating profitability. Nevertheless, Zain KSA is expected to maintain the highest gross margin in the sector, though a gradual decline is likely. The balance sheet is also expected to stay leveraged. CAPEX will spike in FY25E due to new spectrum acquisition and a SAR 2.1bn committed spend, with intensity easing but remaining elevated thereafter. Rising receivables and continued investments will likely require ongoing debt refinancing. We forecast revenue to grow at a CAGR of 3.8% over FY24–29E to SAR 12.5bn, EBITDA margins to average ~31.1%, and operating margins to dip to 11.0% in FY26E before improving to 12.4% by FY29E. CAPEX intensity is projected to peak at 17.9% in FY25E and settle around 14%, while debt-to-equity would rise from 0.90x in FY24 to 1.03x by FY29E. We keep “Neutral” recommendation on Zain KSA with a revised TP of SAR 11.40/share (SAR 11.85 previously).

Revenue growth to be backed by 5G and Tamam, but restrained by subscriber base pressures, limited B2B expansion, and MVNO contract loss: Zain KSA’s revenue outlook reflects a balance of selective growth drivers and a few challenges. On the positive side, the company is benefiting from increasing 5G contribution (more than 56% of total traffic carried by 5G network as of Q1-25), driven by rising 5G adoption and data demand and backed by the company’s network expansion. Moreover, Zain KSA’s fintech platform, Tamam, continues to deliver robust growth (~30%). Tamam contributed almost 7% to total revenue in Q1-25. However, these tailwinds are offset by headwinds including a stagnant and relatively underperforming subscriber base compared to peers (9.0mn in Q1-25 vs. 9.3mn in Q4-24), limiting scale and volume-driven growth. Additionally, the company has not achieved the expected momentum in its B2B segment (FY24 B2B revenue growth: +4.6%; Q1-25: +3.1%), which is critical for long-term value creation amid Saudi Arabia’s digitization drive. The loss of key MVNO contracts also weighs on wholesale revenue potential. As a result, Zain KSA’s topline growth is likely to be limited. We forecast revenue growth of 5.6% in FY25E and expect a revenue CAGR of 3.8% over FY24–29E, reaching SAR 12.5bn by FY29E.

Despite strong gross margins, operating and EBITDA margins to be weighed down by ECL, higher D&A and tower leaseback in the medium term: Zain KSA’s EBITDA and operating margins are likely to come under pressure in the near to medium term. The company’s tower leaseback arrangement has led to higher recurring operating expenses, which are expected to continue weighing on EBITDA margins. Moreover, elevated expected credit losses (ECL) have been a persistent concern, and the issue has been amplified by Zain KSA’s expansion into micro-lending through Tamam (more than 20% of FY24 ECL originated from this segment alone). As Tamam grows exponentially, ECL levels are likely to remain elevated, adding further strain to profitability. Additionally, a pickup in CAPEX, especially linked to new spectrum acquisition earlier this year, along with increased lease liabilities, will push up depreciation and amortization costs, putting additional pressure on operating margins. We forecast EBITDA margins to normalize from 32.1% in FY24 supported by to an average of around 31.1% over FY25–29E. Operating margins are projected to dip to 11.0% in FY26E before recovering to 12.4% by FY29E. Despite these pressures, Zain KSA is expected to continue posting the highest gross margin in the sector, though a gradual decline is anticipated as revenue contribution from lower-margin segments increases and overall margins move closer to industry norms. We forecast the gross margin to reach 59.7% by FY29E.

Recommendation	**Neutral**
Target Price (SAR)	**11.40**
Upside / (Downside)*	**6.3%**

Source: Tadawul *prices as of 3rd of June 2025

Key Financials

in SAR mn, (unless specified)	FY23	FY24	FY25E	FY26E
Revenues	9,883	10,365	10,950	11,445
Growth %	8.9%	4.9%	5.6%	4.5%
Gross Profit	5,857	6,471	6,585	6,861
EBITDA	2,978	3,323	3,404	3,550
Operating profit	871	1,199	1,231	1,260
Net Income	1,267	596	532	610
Growth %	130.5%	-52.9%	-10.8%	14.6%
EPS	1.41	0.66	0.59	0.68
DPS	0.50	0.50	0.50	0.75

Source: Company reports, AlJazira Capital Research

Key Ratios

	FY23	FY24	FY25E	FY26E
Gross Margin	59.3%	62.4%	60.1%	59.9%
EBITDA Margin	30.1%	32.1%	31.1%	31.0%
Operating Margin	8.8%	11.6%	11.2%	11.0%
Net Margin	12.8%	5.8%	4.9%	5.3%
ROE	12.0%	5.6%	4.9%	5.7%
ROA	4.6%	2.1%	1.8%	2.1%
P/E (x)	10.0	15.5	18.1	15.8
P/B (x)	1.2	0.9	0.9	0.9
EV/EBITDA (x)	6.9	5.4	5.5	4.7
Dividend Yield	3.6%	4.9%	4.7%	7.0%

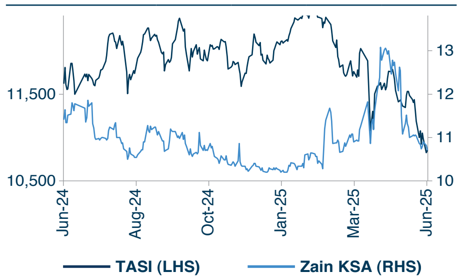
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	9.6
YTD%	4.5%
52 weeks (High)/(Low)	13.36/10.14
Share Outstanding (mn)	899.0

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, Aljazira Capital Research

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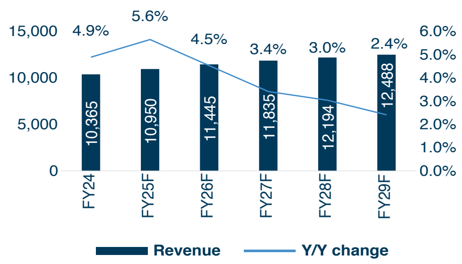
CAPEX expected to spike in FY25E; balance sheet leverage unlikely to ease: Zain KSA's capital intensity is expected to spike in FY25E, driven primarily by the acquisition of new spectrum bands and a sizable pipeline of committed CAPEX, which stood at SAR 2.1bn as of Q1-25. We forecast CAPEX-to-revenue to rise to 17.9% in FY25E, up from 14.3% in FY24, before gradually tapering off and stabilizing around the 14% level through FY29E. Despite the normalization in CAPEX intensity post-FY25E, the overall capital requirements, including ongoing network investments and fulfillment of working capital needs, particularly amid rising receivables, are expected to keep the balance sheet under pressure. Zain KSA's leverage is unlikely to ease over the forecast period, and we anticipate continued reliance on debt refinancing, including the syndicated loans maturing later this year. Consequently, we project the company's debt-to-equity ratio to increase from 0.90x in FY24 to 1.03x by FY29E, reflecting persistent balance sheet stress linked to sustained investment needs.

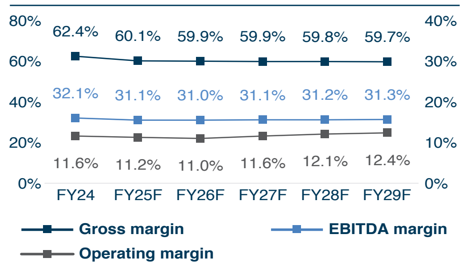
AJC view and valuation: Zain KSA's growth will be supported by 5G and Tamam, but topline expansion remains limited due to subscriber stagnation, weak B2B momentum, and the loss of MVNO contracts. High ECL, and rising depreciation & amortization linked to spectrum and lease liabilities are likely to take a toll on operating margins in the medium term. While gross margins remain sector-leading, a gradual decline is likely. Leverage is expected to stay high, with a CAPEX spike in FY25E and continued investment needs driving refinancing. We forecast revenue to reach SAR 12.5bn by FY29E (3.8% CAGR), EBITDA margins to average ~31.1%, and operating margins to rise to 12.4%. CAPEX intensity is seen peaking at 17.9% in FY25E before normalizing near 14%, while debt-to-equity moves up to 1.03x. We value Zain KSA with 50% weightage to DCF (WACC = 9.0% and terminal growth = 2.5%) and 25% weightage to each P/E (18.0x) and EV/EBITDA multiples based on FY25E estimates to arrive at a blended TP of **SAR 11.40/share**. We maintain our "**Neutral**" recommendation on the stock.

Revenue (SAR mn) and Y/Y growth (%)



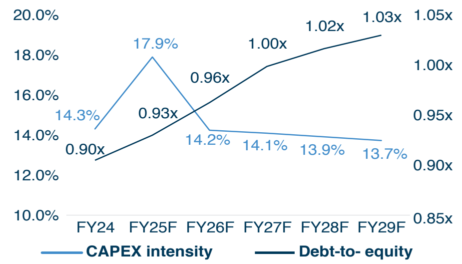
Source: Company reports, AlJazira capital Research

Margin profile (%)



Source: Company reports, AlJazira capital Research

Leverage (x) and CAPEX intensity (%)



Source: Company reports, AlJazira capital Research

Blended valuation summary

	TP (SAR)	Weight	Weighted TP
DCF	12.4	50%	6.2
P/E	10.3	25%	2.6
EV/EBITDA	10.4	25%	2.6
Blended TP			**11.40**
Up/Downside (%)			**6.3%**

Source: AlJazira Capital research

Key Financial Data

Amount in SARmn, unless otherwise specified	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Income statement									
Revenue	7,901	9,075	9,883	10,365	10,950	11,445	11,835	12,194	12,488
% Y/Y Growth	**-0.2%**	**14.9%**	**8.9%**	**4.9%**	**5.6%**	**4.5%**	**3.4%**	**3.0%**	**2.4%**
Cost of Services	(3,016)	(3,760)	(4,025)	(3,894)	(4,366)	(4,584)	(4,750)	(4,905)	(5,033)
Gross Profit	**4,885**	**5,315**	**5,857**	**6,471**	**6,585**	**6,861**	**7,085**	**7,290**	**7,455**
% Y/Y Growth	**-10.3%**	**8.8%**	**10.2%**	**10.5%**	**1.8%**	**4.2%**	**3.3%**	**2.9%**	**2.3%**
Gross margin	**61.8%**	**58.6%**	**59.3%**	**62.4%**	**60.1%**	**59.9%**	**59.9%**	**59.8%**	**59.7%**
Operating and administrative expenses	(1,749)	(1,946)	(2,654)	(2,720)	(2,842)	(2,960)	(3,043)	(3,118)	(3,174)
EBITDA	**3,128**	**3,155**	**2,978**	**3,323**	**3,404**	**3,550**	**3,681**	**3,804**	**3,907**
EBITDA margin	**39.6%**	**34.8%**	**30.1%**	**32.1%**	**31.1%**	**31.0%**	**31.1%**	**31.2%**	**31.3%**
Depreciation and amortization	(2,430)	(2,089)	(2,106)	(2,124)	(2,173)	(2,290)	(2,308)	(2,330)	(2,361)
Operating Profit	**699**	**1,066**	**871**	**1,199**	**1,231**	**1,260**	**1,373**	**1,475**	**1,546**
% Y/Y Growth	-30.3%	52.5%	-18.2%	37.6%	2.7%	2.3%	9.0%	7.4%	4.8%
Operating margin	**8.8%**	**11.7%**	**8.8%**	**11.6%**	**11.2%**	**11.0%**	**11.6%**	**12.1%**	**12.4%**
Finance Charges	**(489)**	**(566)**	**(719)**	**(735)**	**(681)**	**(630)**	**(581)**	**(553)**	**(546)**
Net Income before Zakat	**210**	**500**	**152**	**464**	**550**	**630**	**793**	**922**	**1,000**
Zakat	(17)	(24)	(89)	42	(46)	(53)	(66)	(76)	(83)
Net Income	**214**	**550**	**1,267**	**596**	**532**	**610**	**759**	**878**	**949**
% Y/Y Growth	**-17.6%**	**156.5%**	**130.5%**	**-52.9%**	**-10.8%**	**14.6%**	**24.6%**	**15.6%**	**8.2%**
Net margin	**2.7%**	**6.1%**	**12.8%**	**5.8%**	**4.9%**	**5.3%**	**6.4%**	**7.2%**	**7.6%**
EPS	**0.24**	**0.61**	**1.41**	**0.66**	**0.59**	**0.68**	**0.85**	**0.98**	**1.06**
DPS	**0.00**	**0.00**	**0.50**	**0.50**	**0.50**	**0.75**	**1.00**	**1.00**	**1.00**
Balance Sheet									
Assets									
Cash and Cash equivalents	168	375	946	840	957	896	728	547	440
Other current assets	3,269	7,106	5,807	6,473	6,974	7,411	7,794	8,170	8,515
Total Current Assets	3,437	7,481	6,753	7,313	7,931	8,307	8,522	8,717	8,955
Property and equipment	6,640	4,926	4,736	4,977	5,357	5,721	6,113	6,518	6,916
Intangible assets,net	15,561	14,967	14,245	13,557	13,281	12,587	11,884	11,178	10,472
Total Non Current Assets	24,302	20,980	20,625	20,823	21,267	21,205	21,121	21,074	21,045
Total Assets	**27,739**	**28,461**	**27,378**	**28,135**	**29,198**	**29,512**	**29,643**	**29,791**	**30,001**
Liabilities									
Total Current Liabilities	10,106	9,250	8,006	12,782	12,700	12,870	12,966	13,031	13,063
Long term loans	2,638	5,171	6,533	2,234	2,770	2,735	2,700	2,665	2,630
Total Non-Current Liabilities	8,593	9,408	8,781	4,647	5,708	5,917	6,092	6,195	6,322
Share Capital	8,987	8,987	8,987	8,987	8,987	8,987	8,987	8,987	8,987
Reserve	(87)	179	277	43	96	157	233	320	415
Retained earnings	139	636	1,327	1,677	1,707	1,581	1,366	1,257	1,213
Total Equity	**9,040**	**9,802**	**10,591**	**10,707**	**10,790**	**10,725**	**10,586**	**10,565**	**10,616**
Total Liabilities and Equity	**27,739**	**28,461**	**27,378**	**28,135**	**29,198**	**29,512**	**29,643**	**29,791**	**30,001**
Key fundamental ratios									
Liquidity ratios									
Current ratio (x)	0.3	0.8	0.8	0.6	0.6	0.6	0.7	0.7	0.7
Quick ratio (x)	0.3	0.8	0.8	0.6	0.6	0.6	0.6	0.6	0.7
Profitability ratios									
Gross Margin	61.8%	58.6%	59.3%	62.4%	60.1%	59.9%	59.9%	59.8%	59.7%
Operating Margin	8.8%	11.7%	8.8%	11.6%	11.2%	11.0%	11.6%	12.1%	12.4%
EBITDA Margin	39.6%	34.8%	30.1%	32.1%	31.1%	31.0%	31.1%	31.2%	31.3%
Net Margin	2.7%	6.1%	12.8%	5.8%	4.9%	5.3%	6.4%	7.2%	7.6%
ROE	2.4%	5.6%	12.0%	5.6%	4.9%	5.7%	7.2%	8.3%	8.9%
ROA	0.8%	1.9%	4.6%	2.1%	1.8%	2.1%	2.6%	2.9%	3.2%
Leverage ratio									
Debt / equity (x)	0.82	0.66	0.85	0.90	0.93	0.96	1.00	1.02	1.03
Market/ Valuation ratios									
EV/EBITDA (x)	5.8	4.8	6.9	5.4	5.5	4.7	4.6	4.4	4.3
PE (x)	50.5	16.4	10.0	15.5	18.1	15.8	12.7	11.0	10.1
PB (x)	1.2	0.9	1.2	0.9	0.9	0.9	0.9	0.9	0.9
EPS	0.24	0.61	1.41	0.66	0.59	0.68	0.85	0.98	1.06
Book Value Per Share (BVPS)	10.1	10.9	11.8	11.9	12.0	11.9	11.8	11.8	11.8
Market price (SAR)*	12.0	10.1	14.1	10.3	10.7	10.7	10.7	10.7	10.7
Market-Cap (SAR mn)	10,821	9,041	12,654	9,221	9,634	9,634	9,634	9,634	9,634
DPS	-	-	0.50	0.50	0.50	0.75	1.00	1.00	1.00
Dividend yield	0.0%	0.0%	3.6%	4.9%	4.7%	7.0%	9.3%	9.3%	9.3%

Source: Company reports, Aljazira Capital Research; *prices as of 3rd of June 2025

الجزيرة كابيتال
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RATING TERMINOLOGY

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.

Disclaimer