Mobile Telecommunication Company (Zain KSA)

Results Flash Note Q2-26

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Earnings growth supported by one-offs and GP margin expansion, revenue remains stagnant.

Zain KSA's net income surged to SAR 204mn in Q2-26, up 60.6% Y/Y, as earnings benefited from one-off gains - SAR 15mn income from Universal Service Fund and SAR 53mn net positive impact from sale of part of Tamam's previously written-off receivables. Normalized net income grew 5% Y/Y, in line with AJBC's estimate of SAR 138mn (+8.0% Y/Y growth). Normalized earnings rose on account of gross margin expansion, lower D&A, and lower finance expenses. Revenue inched down 0.1% Y/Y to SAR 2,651mn (in line with AJBC's estimate of SAR 2,694mn), weighed down by lower handsets sale. The gross margin expanded ~120bps Y/Y to 62.4%, above our expectation of 62.0%. Operating margin stood at 13.5%, expanding by ~200 bps Y/Y, supported by lower expected credit losses (ECL). (AJBC estimate: 11.1%).

- **Zain KSA's net income** surged to SAR 204mn in Q2-26 from SAR 127mn in Q2-25 primarily on account of SAR 53mn net positive impact from sale of part of Tamam's previously written-off receivables and SAR 15mn one-off income from Universal Service Fund. Normalized net income grew 5% Y/Y, in line with AJBC's estimate of SAR 138mn (+8.0% Y/Y). Normalized earnings growth was driven by gross margin expansion and further supported by lower ECL, D&A and finance expenses.
- **Revenue** decreased 0.1% Y/Y to SAR 2,651mn in Q2-26, in line with our estimate of SAR 2,694mn. The top line was stagnant across the revenue stream while there was pressure from lower sales of handsets. On a Q/Q basis, revenue declined 0.2%.
- **Gross profit** rose 1.8% Y/Y to SAR 1,654mn (in line with AJC's estimate of SAR 1,669mn), as GP margin widened ~120bps Y/Y to 62.4%. The gross margin expansion was attributed to better revenue mix, particularly from consumer 5G segment. Additionally, lower contribution from low-margin handset sales seems to have supported GP margin.
- **Operating profit** grew 17.7% Y/Y to SAR 359mn in Q2-26, as lower ECL due to sale of Tamam's receivables with net positive impact of SAR 53mn and lower depreciation and amortization (D&A) supported the operating profit. EBITDA rose 2.7% Y/Y to SAR 873mn (AJC estimate: SAR 849mn) with EBITDA margin expanding to 32.9% from 32.0% in Q2-25.

AJBC view and valuation: Zain KSA's normalized Q2-26 results were broadly in line with our expectations. The company continues to witness topline pressure, while revenue mix improvement continues to support a better margin profile. Moreover, the rising 5G contribution in consumer segment is positive. However, we believe margins are partly supported by temporary dip in handset sales due to ongoing supply issues. Over the medium term, the leverage is expected to stay high amid CAPEX and working capital requirements. Although Zain KSA maintains sector-leading gross margins and benefits from traction in 5G and Tamam, the stock seems to be fairly valued at the current valuation. The stock currently trades at EV/EBITDA of 4.5x, P/E of 11.3x and a dividend yield of 4.9% based on our FY26E estimates. We maintain our "**Neutral**" recommendation on the stock and the TP of **SAR 11.4/share**.

Results Summary

SAR mn	Q2-25	Q1-26	Q2-26	Change Y/Y	Change Q/Q	Deviation from AJBC Estimates
Revenue	2,654	2,656	2,651	-0.1%	-0.2%	-1.6%
Gross Profit	1,625	1,659	1,654	1.8%	-0.3%	-0.9%
Gross Margin	61.2%	62.5%	62.4%	-	-	-
EBITDA	850	804	873	2.7%	8.6%	2.9%
EBIT	305	260	359	17.7%	38.1%	19.7%
Net Profit	**127**	**201**	**204**	60.6%	1.5%	48.3%
EPS	**0.14**	**0.22**	**0.23**	-	-	-

Source: Company Reports, AlJazira Capital Research

Recommendation	Neutral
Target Price (SAR)	11.40
Upside / (Downside)*	11.2%

Source: Tadawul *prices as of 27th July, 2026

Key Financials

SARmn (unless specified)	FY23	FY24	FY25
Revenue	9,883	10,365	10,983
Growth %	8.9%	4.9%	6.0%
Gross Profit	5,857	6,471	6,574
EBITDA	2,978	3,323	3,473
Net Income	1,267	596	604
Growth %	130.5%	-52.9%	1.2%
EPS	1.41	0.66	0.67
DPS	0.50	0.50	0.50

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY23	FY24	FY25
Gross Margin	59.3%	62.4%	59.9%
EBITDA Margin	30.1%	32.1%	31.6%
Operating Margin	8.8%	11.6%	12.0%
Net Margin	12.8%	5.8%	5.5%
ROE	12.0%	5.6%	5.5%
ROA	4.6%	2.1%	2.1%
P/E (x)	10.0	15.5	15.5
P/B (x)	1.2	0.9	0.9
EV/EBITDA (x)	6.9	5.4	5.4
Dividend Yield	3.6%	4.9%	4.8%

Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap(bn)	9.2
YTD%	-1.7%
52 week (High)/(Low)	12.10/10.10
Share Outstanding (mn)	899

Source: Company reports, Aljazira Capital Research

Price Performance

Source: Tadwaul, Aljazira Capital Research

Head of Sell-Side Research
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

الجزيرة كابيتال
aljazira capital

RESEARCH DIVISION

Director - Head of Sell-Side Research
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

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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