KAMCO Research

Mobile Telecommunications Co. (Zain)

Research Update | **Sector – Telecom**

Focus on cash flow and margins

Expect better margins despite marginal subscriber growth in key markets

Zain has made significant progress on controlling costs that has resulted in better EBTIDA margins in recent quarters. EBITDA margin for 2015 was reported at 43.8%, one of the highest within the industry, and we expect even better margins of 44.5% in 2016 with marginal improvements in the subsequent years. Rising data revenues and increase in subscribers (2017 onwards) also supports margins. This comes despite subscriber growth having peaked in a majority of Zain's markets and subsequently we have factored minimal additions in the near term. We expect total subscriber count to decline in 2016 to reach 45.4 Mn on led by declines in Kuwait (-3.5%) and Saudi Arabia (-14.6%) partially offset by growth in other markets. Nevertheless, we sense that the aforementioned decline is either a way to save cost by reutilizing inactive accounts in the case of Kuwait or they are of a regulatory nature as seen in the case of Saudi Arabia. In both the cases, we see minimal impact on active customers.

Situation in Iraq would be a near term trigger for the stock price

We believe that Iraq would continue remain the key to Zain's future profitability and the swing in the numbers of Iraq would determine the performance of Zain's valuation in the near term. The operation of Zain Iraq has been battered significantly due to the political situation that has affected subscriber growth. We also reiterate that Iraq still is in an initial stage of telecom services and there is at least five to seven years till the time it reaches the technical phase as seen in Zain's other markets. To achieve this, economic and political stability in Iraq would be one of the most critical deciding factors for success in this market.

Zain is a yield story with increasing free cash flow to support investments

The maturity and the resulting secular decline in profitability of the telecom business in Kuwait and in the region has made operators focus on cash flows. Telcos with scale and sustainable cash flows are in a better position to take advantage of the current market scenario. We believe that Zain has the right strategy that focuses on cash generation and is executing it well in terms of investments in growth markets while optimizing costs in mature markets. And, since the next leg of new investment is beyond 2020 (5G), we expect strong FCF generation resulting in double digit FCF yields starting from next year (2017).

Valuation – Price target of KWD 0.407 with an 'Outperform' Rating:

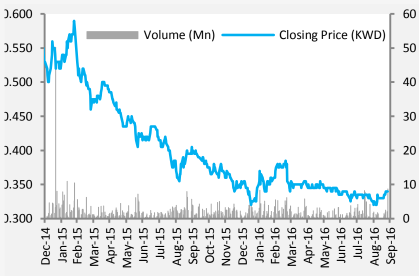
Zain's shares have been severely battered over the past year (-36% since 2015), reflecting an extremely undervalued operation. Our valuation upside primarily reflects improving margins, market leading position in key markets, an expected bottoming of key metrics in Iraq and minimum capex pressure in the near term.

	2015	2016e	2017e	2018e	2019e	2020e
Subscribers (Mn)	42.6	42.2	43.4	44.5	46.0	47.4
Revenue (KWD Mn)	1,137.5	1,081.2	1,095.8	1,109.2	1,125.3	1,145.8
EBITDA (KWD Mn)	498.5	481.0	492.8	504.2	517.4	529.4
Net Profit (KWD Mn)	154.3	159.2	159.6	157.3	153.7	146.5
EBITDA Margin (%)	43.8%	44.5%	45.0%	45.5%	46.0%	46.2%
ROAE (%)	9.7%	10.2%	9.9%	9.4%	8.9%	8.2%
P/E (x)	8.8	8.3	8.3	8.4	8.6	9.1
Div. Yield (%)	8.6%	8.8%	8.8%	8.8%	8.8%	8.8%
FCF Yield(%)	5.4%	8.3%	15.4%	14.7%	14.0%	13.0%

Sources: KAMCO Research, Company Financials

Outperform

CMP 28-Sep-2016	**KWD 0.340**
Target Price	**KWD 0.407**
Upside/Downside	**+19.6%**



Price Perf.	1M	3M	12M
Absolute	4.6%	0.0%	-13.9%
Relative	2.9%	0.6%	-5.1%

Stock Data	
Bloomberg Ticker	ZAIN KK
Reuters Ticker	ZAIN.KW
Last Price (KWD)	0.340
MCap (KWD Mn)	1,326
MCap (USD Mn)	4,377
EV (KWD Mn)	2,020
Stock Perfromance - YTD (%)	-2.9%
PE - 2016e (x)	8.2
EV/EBITDA - 2016e (x)	7.9
Dividend yield - 2016e (%)	8.8%
52-Week Range (KWD)	0.405/0.320
52-Week ADVT (KWD Mn)	0.7

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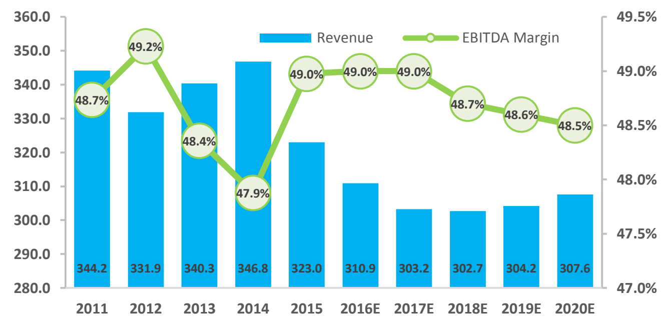
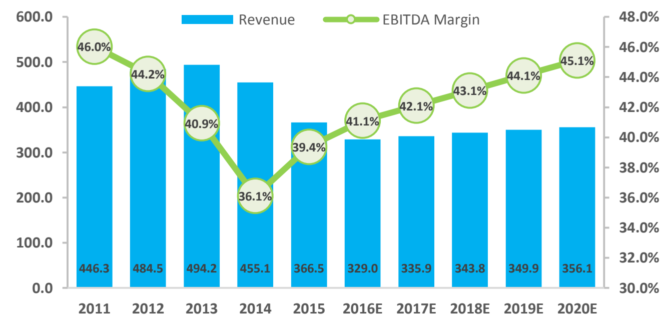
Operating Performance and Forecasts

The telecommunications industry is facing declining margins globally and Zain's markets are no exception. The company's market-leading position in most of its markets has given it a competitive advantage, however, this edge over its peers is becoming increasingly thin owing to homogeneous product offerings, or rather a lack of specialization due to similar technologies being implemented. Zain's response to this market scenario is to compete by lowering its pricing and compensate the loss of revenues by optimizing costs as seen in the charts below. The company has adopted this strategy in a majority of its markets, whereas in the other markets, it continues to reap the benefits of operational advantage by charging a premium for its services. As a result, although revenues have been volatile over the years, the company's margins remain elevated and relatively stable.

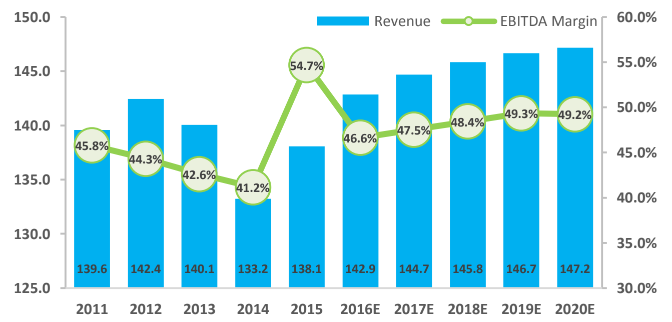
Kuwait



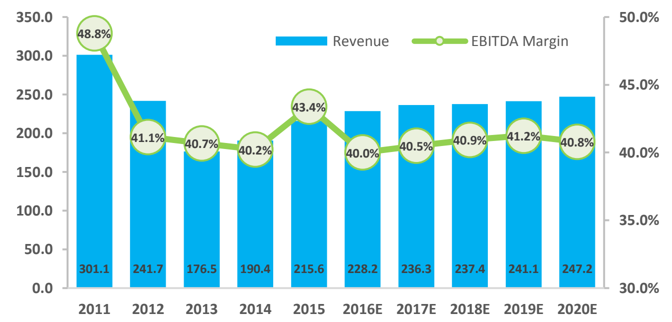
Iraq



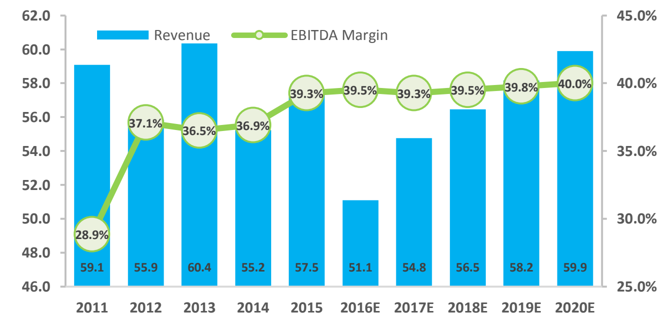
Jordan



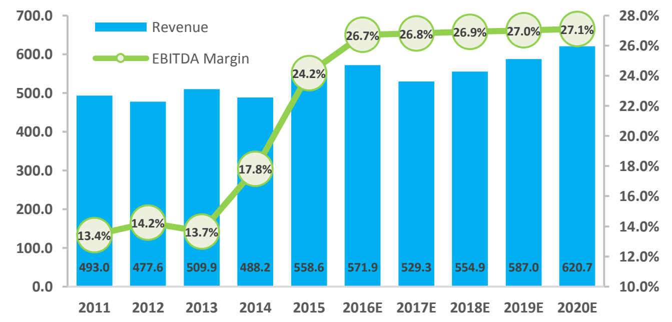
Sudan



Bahrain



KSA



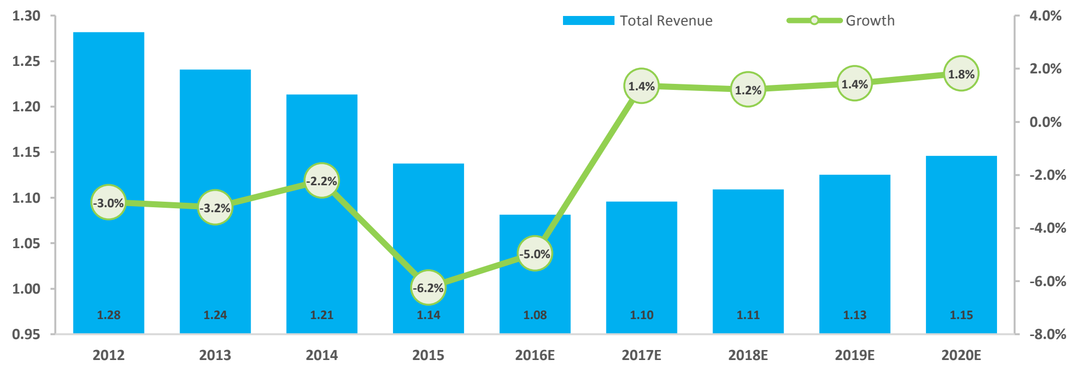
Sources: KAMCO Research, Company Financials

Key risks highlighted in our initiation report on Zain continues to hamper performance resulting in consistent decline in topline primarily owing to falling ARPUs as a result of competition followed by forex losses related to Sudanese Pound as well as operational and political issues related to the company's operations in Iraq that led to additional operating costs. The delay in turnaround of operations in Saudi Arabia also resulted in additional charges on the company's income statement.

Topline growth to show modest improvement from 2017

Zain's revenue saw a steep decline during 2015 primarily due to a decline in revenues from its major markets Kuwait and Iraq. We expect the decline to continue in 2016 by 5% as compared to 6.2% in 2015. We expect to see a reversal in 2017, primarily due to marginal subscriber growth in most of the markets and an expected positive trend in Saudi Arabia and Iraq. The growth is also expected as a result of higher data revenues.

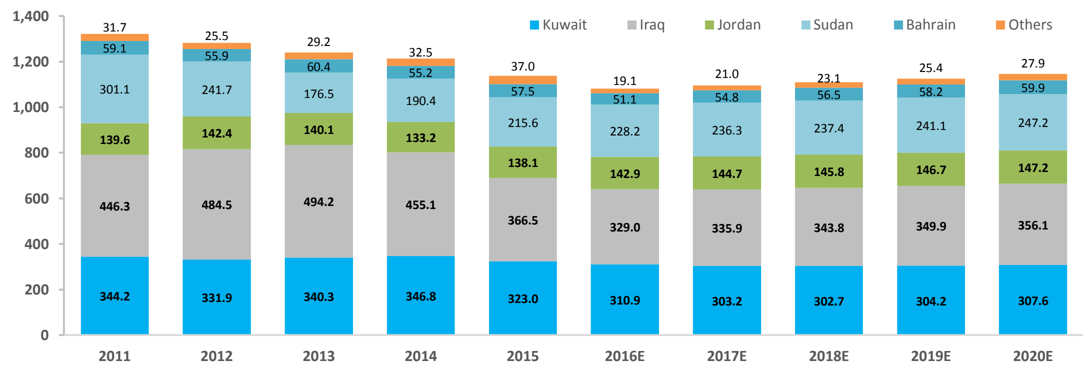
Revenue growth (KWD Bn)



Source: KAMCO Research, Kuwait Stock Exchange

The operational hurdles that the company continues to face in Iraq is the primary reason for the decline in revenues in 2015. We expect the revenues in other major market i.e. Kuwait to decline marginally until 2017 due to competition and thereafter show modest improvement as the company tries to balance a stagnant subscriber growth and competition with higher data revenues.

Revenue Breakdown (KWD Mn)



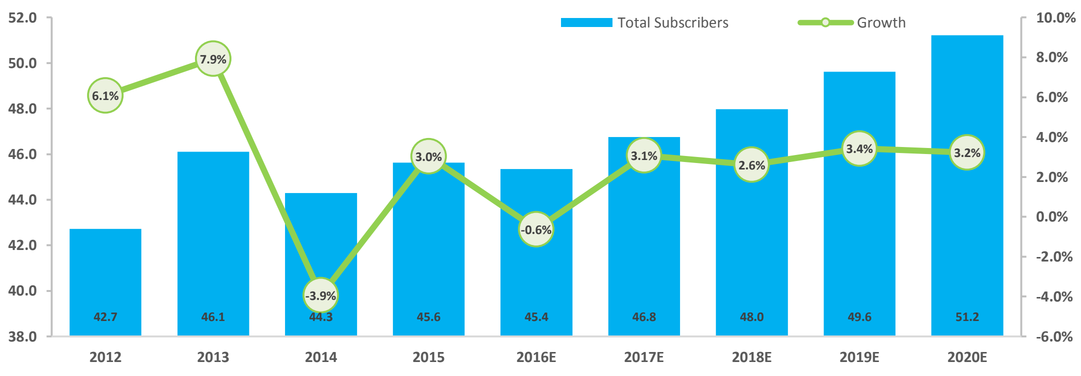
Source: KAMCO Research, Company Financials

Iraq could be a game changer for Zain for the primary reason that it has been the largest revenue contributor to the Zain group and the state of technology adoption in Iraq is a generation behind other markets. Any increase in the political stability in Iraq would directly result into additional subscribers as well as higher ARPU for data services after the deployment of 3.9G in the country.

Near term weakness in subscriber growth

Given that Zain operates in high telecom penetration markets, future growth in subscriber count is expected to be slow. More specifically, the decline in 2016 is expected due to new regulations in Saudi Arabia that require biometric registration of subscribers as well as decline in subscribers in Iraq due to the political climate in the country. However, we believe that once the situation stabilizes in Iraq, subscriber contribution from that country is going to be one of the strongest for Zain increasing from 24.3% in 2015 to 25.1% in 2016 and grow at a 5-year CAGR of 3.1% until 2020.

Subscriber Growth (Mn)



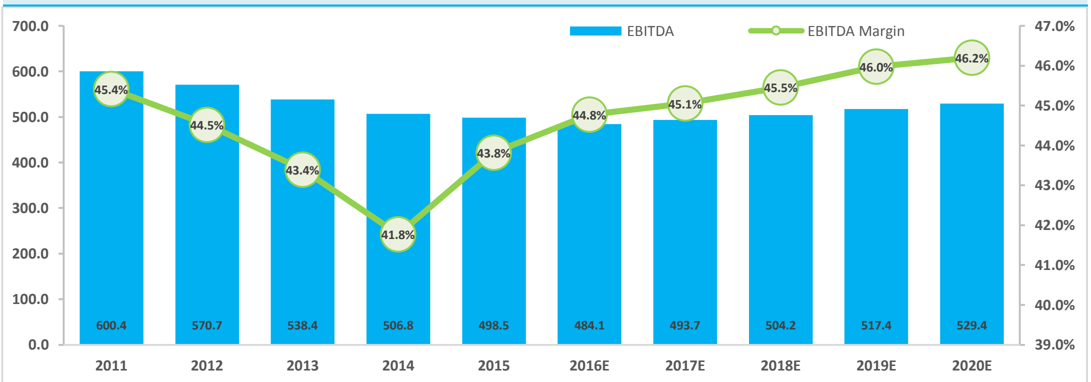
Source: KAMCO Research, Company Financials

In addition, in Saudi Arabia, we expect additional subscribers to be added to Zain's low subscriber base in the country led by aggressive pricing and homogenous product offerings. Consequently, we expect Zain KSA's market share to grow from 20% currently to 24% by 2020e.

EBITDA recovery in sight…

Consolidated EBITDA has been consistently declining over the past several years but we expect it to bottom in 2016. Starting 2017, we expect recovery in EBITDA led by stabilizing operations in Iraq, and higher data revenues from Kuwait and Lebanon.

EBITDA Margin Trend (KWD Mn)



Source: KAMCO Research, Company Financials

On the other hand, EBITDA margin is expected to expand going forward on the back of cost optimization in all of Zain's markets resulting in sustained absolute EBITDA coupled with modest improvement in revenues.

Zain Operations - Cheat Sheet

Subsidiary	Positives	Negatives	Impact on overall value
Kuwait	• Highest ARPU in the group (USD 28) • Market leading position (#1) • Highest EBITDA margin	• High market penetration limits expansion • Minimal product differentiation • Competition has led to a declining trend in ARPU • Mature Market	Negative as ARPU declining at a much faster pace (we expect ARPU to reach USD 26.4 by 2020e).
Iraq	• Market continues to remain at a nascent stage in terms of technology. • Low telecom penetration rate of 79% as of 1H-16. • Market leading position (#1) • Scope for expanding in other less covered regions of the country.	• Political uncertainty • Difficult operational conditions • Higher operating cost • Significant forex losses	Negative in the near term due to fall in subscriber count; however, the country could be a game changer for Zain once the situation stabilizes owing to its large market share.
Jordan	• Market Leading Position (#1) • Relatively less penetrated market (137%) • Reaping the benefits of 4G deployment resulting in higher topline growth. • Operating expense rationalization. • Long term license expires in 2031.	• Aggressive competition lead to decline in market share in 2015 and by the end of 1H-16, recorded at 36%.	A first-mover advantage by launching 4G LTE technology gives the company ample opportunities in the near term.
Sudan	• Significantly low market penetration rate (59%) • Contribution of data revenues is low (12% of total revenues as of 1H-16) which offers scope of future expansion. • 4G introduction led to higher subscriber market share.	• Weak economic situation and devaluation of SDG has negative impact on financials. • Currency repatriation is an issue resulting in newer strategies as a work around in relation to sourcing and vendor payments. • One of lowest ARPU in the group (USD 5)	There is ample scope for expanding in covered areas; however, growth in the near term would be driven by additional volume rather than higher ARPUs. First mover advantage related to 4G services should be incremental to both revenues and margins.
Bahrain	• Relatively strong ARPU (USD 16)	• Mature market (185% penetration rate) • Data revenues already at 37% of total revenues which limits further expansion. • Competition from OTT players after regulatory changes	We expect ARPU to gradually decline due to competition that would result in additional pressure on margins.
Saudi Arabia	• One of the biggest telecom footprint for Zain in served markets. • Strong data revenue growth potential	• Significant losses as the company is yet to breakeven. • Cut throat competition dampens scope of a quick turnaround. • Smallest player in the market, so a price taker. • Mature market with 175% penetration rate. • Near term regulatory requirements affects growth.	The company seems to be gaining momentum in this market as seen in the last quarter. Low postpaid subscriber base offers scope for future growth at the cost of ARPU and high customer acquisition costs.

Zain Kuwait

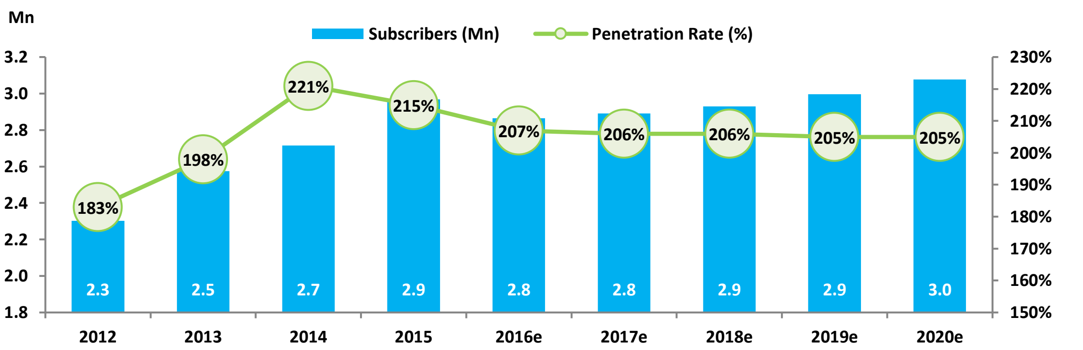
Kuwait continues to be Zain's core operation with the highest ARPU within the Zain Group consistently resulting in the highest contribution to group EBITDA (2015) and the second-highest group EBITDA margin during the year. Kuwait's telecom market underwent a structural change over the past year and has actually seen a decline in total penetration rate. We believe that the growth in data devices and 4G offers due to competition during the past 2-3 years resulted in more than one device with subscribers. However, with homogenous product offerings, subscribers are increasing reducing the number of devices they hold which resulted in a decline in market penetration over the past few quarters.

Key Operating Metrics	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Population (Mn)	3.8	3.9	4.0	4.1	4.2	4.3	4.5	4.6	4.7
Penetration Rate (%)	183%	198%	221%	215%	207%	206%	206%	205%	205%
Subscribers (Mn)	2.3	2.5	2.7	2.9	2.8	2.8	2.9	2.9	3.0
New Additions (Mn)	0.15	0.27	0.14	0.25	-0.10	0.03	0.04	0.07	0.08
Market Share (%)	38.1%	38.0%	35.2%	38.0%	37.0%	36.5%	36.0%	36.0%	36.0%

Source: KAMCO Research, Zain Financials

We believe that the phenomenon seen during 2015 would continue in the near term with a marginal decline in penetration rates. However, it is expected to remain above the 200% mark, and continue to remain one of the highly penetrated markets in the world.

Subscribers (Mn) vs. Penetration Rate



Source: KAMCO Research, Zain Financials

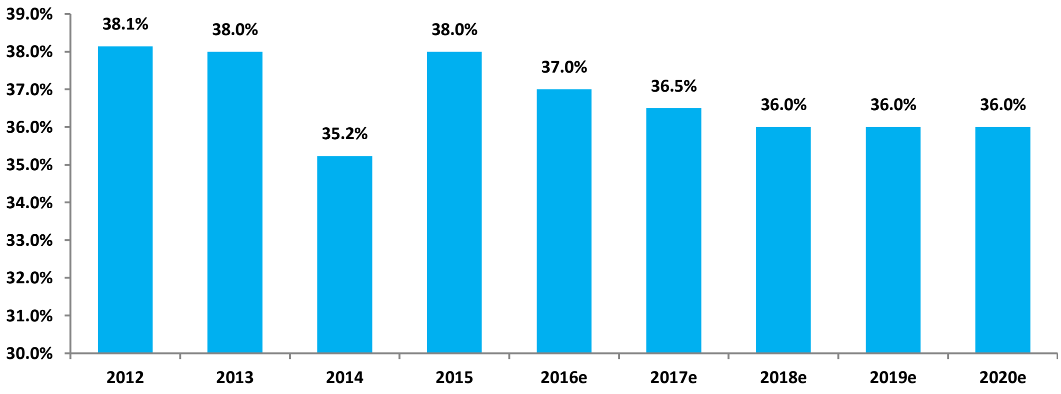
Revenues from Kuwait saw a steep decline during 2015 primarily due to competition that led to one of the steepest decline in ARPU during the year. ARPU during the year stood at USD 30 as compared to USD 36 during 2014. Going forward, we expect ARPU to decline during the forecast period as competition continues to hamper overall industry pricing. Moreover, Zain, which was considered as a premium operator in the market, has changed its strategy and is now competing at all pricing points in the market. We expect this to result in lower revenues driven by an initial decline in subscribers further supported by decline in ARPU.

Key Financial Indicators	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Revenues (Mn)	331.9	340.3	346.8	323.0	310.9	303.2	302.7	304.2	307.6
Rev. Growth (%)	-3.6%	2.5%	1.9%	-6.9%	-3.7%	-2.5%	-0.2%	0.5%	1.1%
ARPU (USD)	42	39	36	30	28	28	27	27	26
ARPU Growth (%)	-14.3%	-7.1%	-7.7%	-16.7%	-6.7%	-1.5%	-1.5%	-1.5%	-1.5%
EBITDA (Mn)	163.4	164.6	166.0	158.2	152.3	148.6	147.4	147.8	149.2
EBITDA Margin (%)	49.2%	48.4%	47.9%	49.0%	49.0%	49.0%	48.7%	48.6%	48.5%
Capex (Mn)	55.8	58.0	65.0	71.9	71.9	65.5	64.3	64.1	64.2

Source: KAMCO Research, Zain Financials

In terms of market share, we believe that the renewed strategy would help the company to curtail subscriber attrition, although market share is expected to decline in the near term and stabilize at 36% by the end of the forecast period (2020e).

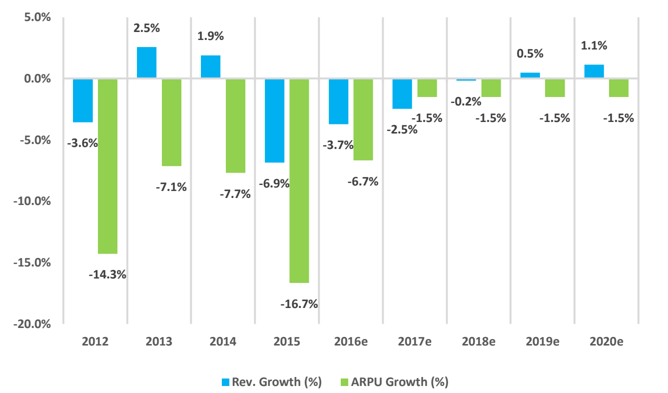
Market Share Trend



Source: KAMCO Research, Zain Financials

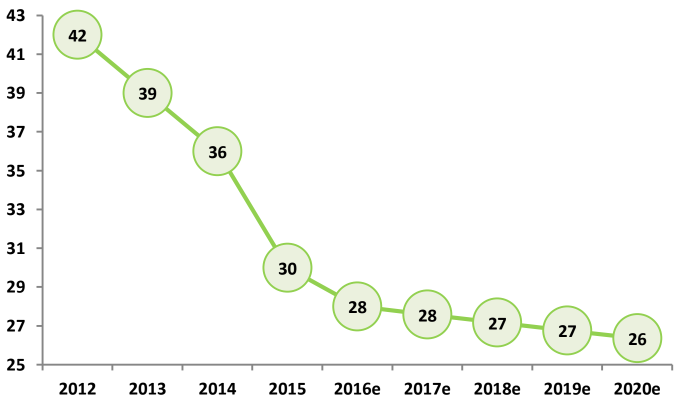
As seen in the below chart, we expect both ARPU and revenue to decline until 2018 due to competitive pressure coupled with marginal increase in subscriber numbers during 2017 and 2018. However, although ARPU is expected to continue to decline at a relatively slower pace in 2019 and 2020, revenue is expected to grow on the back of subscriber additions.

Revenue vs. ARPU Growth



Source: KAMCO Research, Zain Financials

ARPU Trend (USD)



Source: KAMCO Research, Zain Financials

In terms of profitability, we expect the company to curtail operating expenses going forward which would help maintain elevated EBITDA margins. Our EBITDA margin projections show flat margins for the next two years (2016-2017) at 49%, in line with 2015, on the back of a decline in revenues which would be offset by decline in operating expenses. Furthermore, we expect Zain's Kuwait operations to be a cash cow to fund other operations of the group. Capex is expected to decline slightly from 2015 levels as a majority of the equipment and spectrum investments are expected to be in the form of maintenance as against an outright purchase.

Zain Iraq

Iraq is the largest market in Zain's portfolio with a population of 35.2 Mn at the end of 2015, according to the IMF. It also accounts for the largest pie of Zain's total subscriber base accounting for 24.3% of total subscribers base (including Zain KSA) at the end of 2015.

The operational setback in Iraq has rendered the Zain unit as a significant burden on the overall operations. Zain Iraq has seen steep decline in revenues in a year when the company incurred one of the highest capital expenditure in launching the promising 3G services. Revenue declined by 19.5% during the year and is expected to post another year of revenue decline in 2016 with expected revenues at KWD 329 Mn, decline of 10.2%. However, we expect mild recovery during the subsequent years due to the existence of a modern network (relatively) as well as the low base effect of the previous years.

The country is also at a nascent stage of telecom technology with merely 3G licenses being auctioned last year. This also means that there is tremendous scope for generating higher revenues as more technically advanced and data targeting network is deployed in the country.

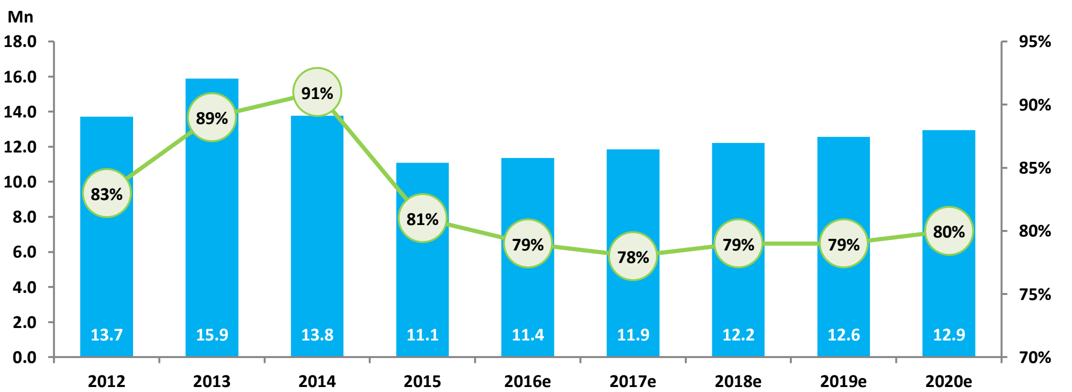
Key Operating Metrics	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Population (Mn)	32.6	33.4	34.3	35.2	36.1	37.0	37.9	38.9	39.9
Penetration Rate (%)	83%	89%	91%	81%	79%	78%	79%	79%	80%
Subscribers (Mn)	13.7	15.9	13.8	11.1	11.4	11.9	12.2	12.6	12.9
New Additions (Mn)	1.3	2.2	-2.1	-2.7	0.3	0.5	0.4	0.4	0.4
Market Share (%)	50%	49%	42%	39%	38%	38%	39%	39%	39%

Source: KAMCO Research, Zain Financials

Iraq is also one of the most under penetrated markets in the MENA region with a telecom penetration rate of less than 100%. This also provides significant growth opportunities for Zain and other operators in the Iraqi market. However, despite the opportunities, the political situation in the country has made us adopt an extremely conservative approach for projecting market penetration and subscriber growth. We have factored in a decline in penetration rates until 2017 followed by a gradual increase for the remainder of the forecast period.

Our conservative stance in projecting a smaller increase in the market penetration rate is due to the fact that historically Iraq has seen several political disturbances which curbed the growth of the telecom market as well as the overall economic activity in the country. The deployment of 3G services in the country could be a game changer unless the market stabilizes and normal market conditions prevails.

Subscribers (Mn) vs. Penetration Rate



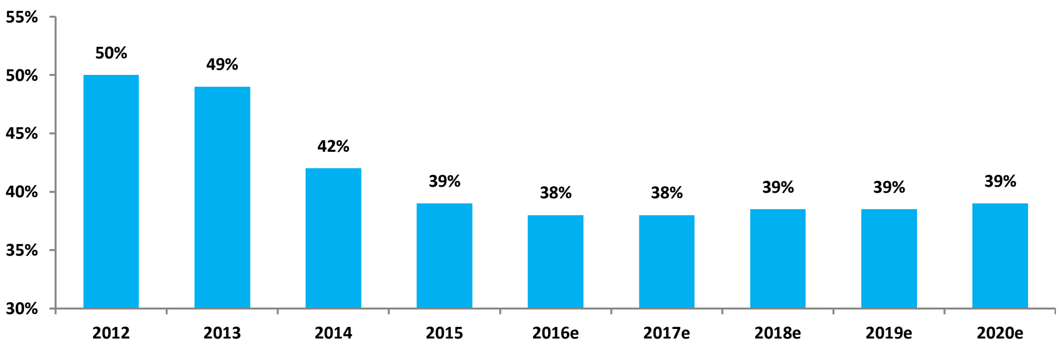
Source: KAMCO Research, Zain Financials

Key Financial Indicators	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Revenues (Mn)	484.5	494.2	455.1	366.5	329.0	335.9	343.8	349.9	356.1
Rev. Growth (%)	8.6%	2.0%	-7.9%	-19.5%	-10.2%	2.1%	2.4%	1.8%	1.8%
ARPU (USD)	11.0	10.0	9.0	8.0	7.9	7.8	7.8	7.7	7.6
ARPU Growth (%)	0.0%	-9.1%	-10.0%	-11.1%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
EBITDA (Mn)	214.2	202.4	164.4	144.3	135.3	141.5	148.2	154.3	160.6
EBITDA Margin (%)	44.2%	40.9%	36.1%	39.4%	41.1%	42.1%	43.1%	44.1%	45.1%
Capex (Mn)	41.9	83.2	81.0	133.1	88.8	90.7	94.9	98.7	102.6

Source: KAMCO Research, Zain Financials

We expected Zain's subscriber base in Iraq to increase at a 5-year CAGR of 3.1% during the forecast period. The increase would be on the back of the deployment of 3G services. However, the growth in the subscriber base would not replicate other markets due to the fact that still several million people in Iraq remain displaced and the market is yet to return to normal conditions. Zain Iraq has also undertaken aggressive cost optimization initiatives in 2015 that resulted in a more than three percentage point growth in EBITDA margins. We expect even higher margins as revenue grows and cost remain under control, especially related to the network disruption.

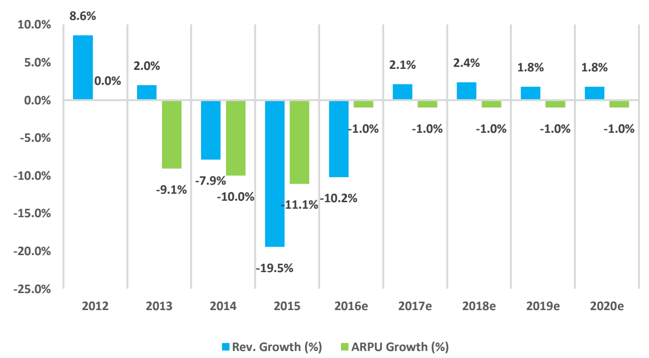
Market Share Trend



Source: KAMCO Research, Zain Financials

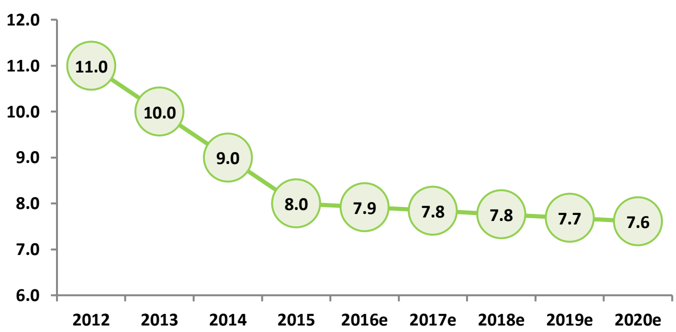
In terms of market share, we expect a slight decline in 2016 to 38% and have factored in a gradual recovery in market share in the following years. We don't expect to see any further impact of the change in the definition of active customers that took a toll on market share in 2014 and 2015. Although Zain Iraq has a significantly low ARPU as compared to its Kuwait operations, we expect it to decline marginally in the next few years to USD 7.6 in 2020e. We believe that Zain would need to play the price card in order to regain lost market share and new subscribers. As a result, we expect positive revenue trend starting 2017 despite a fall in ARPU.

Revenue vs. ARPU Growth



Source: KAMCO Research, Zain Financials

ARPU Trend (USD)



Source: KAMCO Research, Zain Financials

Zain Jordan

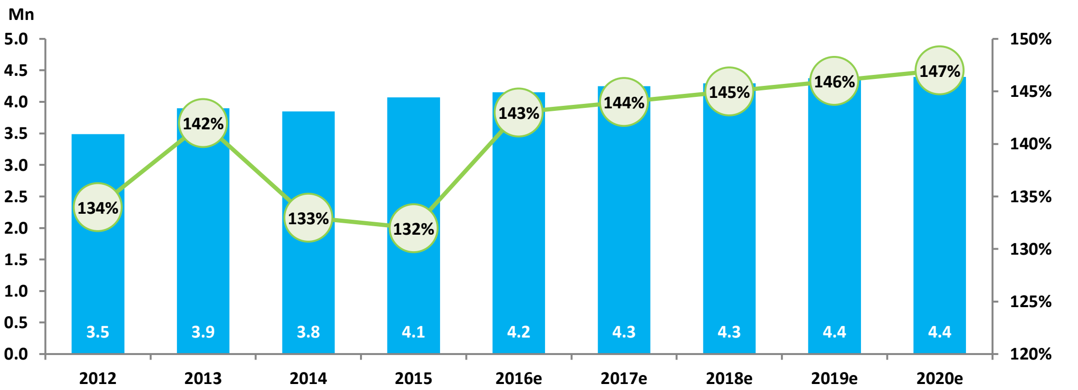
Another nascent market for Zain, the company's Jordanian operations last year deployed 4G LTE services in order to tap data hungry users. The telecom penetration rate in Jordan is relatively low representing a more potential ground for accelerated growth in subscriber count.

Key Operating Metrics	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Population (Mn)	6.4	6.5	6.7	6.8	7.0	7.1	7.3	7.5	7.6
Penetration Rate (%)	134%	142%	133%	132%	143%	144%	145%	146%	147%
Subscribers (Mn)	3.5	3.9	3.8	4.1	4.2	4.3	4.3	4.4	4.4
New Additions (Mn)	0.7	0.4	-0.1	0.2	0.1	0.1	0.0	0.1	0.0
Market Share (%)	39.0%	38.0%	40.0%	36.0%	36.0%	36.5%	36.5%	37.0%	37.0%

Source: KAMCO Research, Zain Financials

We expect the market to see significant increase in penetration rates as the penetration of data devices increase in the country, a phenomenon recently seen in Kuwait. We expect the telecom penetration rate in Jordan to increase from 132% in 2015 to 143% in 2016 and then follow a more gradual growth in the subsequent years of forecast. During the same period, Zain's subscriber base is expected to increase from 4.1 Mn in 2015 to almost 4.4 Mn in 2020e.

Subscribers (Mn) vs. Penetration Rate



Source: KAMCO Research, Zain Financials

In terms of market share, we expect the company to increase its share in the upcoming years and gradually reach 37% by the end of 2020. We believe that Zain the deployment of 4G services and the expansion of data revenues would be essential in increasing the company's market share.

Key Financial Indicators	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Revenues (Mn)	142.4	140.1	133.2	138.1	142.9	144.7	145.8	146.7	147.2
Rev. Growth (%)	2.1%	-1.7%	-4.9%	3.6%	3.5%	1.3%	0.8%	0.6%	0.3%
ARPU (USD)	12.0	10.0	9.0	9.0	8.9	8.8	8.7	8.6	8.6
ARPU Growth (%)	-20.0%	-16.7%	-10.0%	0.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
EBITDA (Mn)	63.1	59.7	54.8	75.5	66.6	68.8	70.6	72.4	72.5
EBITDA Margin (%)	44.3%	42.6%	41.2%	54.7%	46.6%	47.5%	48.4%	49.3%	49.2%
Capex (Mn)	1.4	3.6	101.7	25.9	16.1	17.3	18.4	19.6	19.6

Source: KAMCO Research, Zain Financials

We believe that in order to garner a greater market share, overall ARPUs would decline as a similar strategy is expected to be adopted by other competitors. We expect ARPU to decline from USD 9 at the end of 2015 to USD 8.6 by the end of 2020. This coupled with the increase in subscriber count would result in marginal increase in total revenues. We expect an EBITDA margin to remain strong in the coming years owing to cost optimization and slightly higher revenues.

Zain Sudan

Zain's operation in Sudan faces social instability that has led to severe operational issues for the operator. Moreover, currency issues related to the Sudanese Pound severely affected profitability of Zain at the consolidated level leading to significant foreign currency losses. It has also resulted in a rethinking of sourcing strategies from international equipment vendors. The country has one of the lowest telecom penetration rates recorded at 56% in 2015 which gives additional support to the future growth story for Zain in the country.

Key Operating Metrics	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Population (Mn)	35.1	36.2	37.3	38.4	39.6	40.8	42.0	43.2	44.3
Penetration Rate (%)	60%	59%	56%	56%	61%	63%	65%	67%	69%
Subscribers (Mn)	12.5	11.7	11.4	11.9	12.8	13.0	13.2	13.7	14.1
New Additions (Mn)	-0.5	-0.8	-0.3	0.5	0.9	0.2	0.2	0.5	0.5
Market Share (%)	52%	43%	42%	42%	42%	41%	40%	40%	40%

Source: KAMCO Research, Zain Financials

Moreover, Zain continues to be the market leader in Sudan and is expected to remain one during our forecast period. We are being conservative in our estimates as we believe that Sudan is also facing the effects of the decline in oil prices that would affect economic activity in the country. The population in Sudan is expected to increase at a 5-year CAGR of 2.9%, according to IMF. However, we expect Zain's subscriber base to increase at a faster pace 3.6% despite losing some market share as the overall size of the market increases at a faster pace. We expect Zain's subscriber base to reach the 12.8 Mn by the end of 2016 and reach 14.1 Mn by the end of 2020.

Key Financial Indicators	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Revenues (Mn)	241.7	176.5	190.4	215.6	228.2	236.3	237.4	241.1	247.2
Rev. Growth (%)	-19.7%	-27.0%	7.9%	13.2%	5.9%	3.5%	0.4%	1.6%	2.5%
ARPU (USD)	6.0	4.0	5.0	5.0	5.0	4.9	4.9	4.8	4.8
ARPU Growth (%)	-25.0%	-33.3%	25.0%	0.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
EBITDA (Mn)	99.4	71.8	76.6	93.5	91.3	95.7	97.2	99.4	100.8
EBITDA Margin (%)	41.1%	40.7%	40.2%	43.4%	40.0%	40.5%	40.9%	41.2%	40.8%
Capex (Mn)	56.5	29.2	52.9	71.3	60.8	58.6	53.5	51.7	50.9

Source: KAMCO Research, Zain Financials

We expect the company's market share to decline gradually to 40% over the next five years, but would maintain its leading position. In addition, Zain is also entering related business that will support additional revenue streams for the operator. We expect revenues to increase at a 5-Year CAGR of 2.8% as 3G mobile services and data revenues gain traction, which will be partially offset by a marginal decline in ARPU.

Zain Saudi Arabia

Zain KSA continues to make significant losses which stood at KWD 77.9 Mn during 2015. We believe that the quantum of losses that have declined over the past several years would continue in the near future as competition from incumbent operators forces the company to reduce pricing.

Key Operating Metrics	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Population (Mn)	29.2	30.0	30.8	31.4	32.0	32.7	33.3	34.0	34.7
Penetration Rate (%)	172%	161%	171%	184%	170%	172%	174%	176%	178%
Subscribers (Mn)	7.5	8.5	9.0	11.9	10.2	10.6	11.0	11.4	11.8
New Additions (Mn)	-0.1	1.0	0.6	2.9	-1.7	0.4	0.4	0.4	0.4
Market Share (%)	15%	15%	17%	20%	22%	23%	23%	24%	24%

Source: KAMCO Research, Zain Financials

The telecom penetration rate in Saudi Arabia was recorded at 184% at the end of 2015. However, due to the ongoing regulatory overhaul that requires biometric subscriber registration, we believe that the overall mobile penetration rate would decline to 170% in 2016 followed by marginal growth for the remainder of the forecast period. We believe that the company would add subscribers at a much faster pace in the near future and grow its market share from the present 20% (as of 2015) to 24% by the end of 2020. This growth would initially be driven by a fall in ARPU followed by a marginal uptrend on the back of higher data penetration.

Key Financial Indicators	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Revenues (Mn)	477.6	509.9	488.2	558.6	571.9	529.3	554.9	587.0	620.7
Rev. Growth (%)	-3.1%	6.8%	-4.3%	14.4%	2.4%	-7.4%	4.8%	5.8%	5.7%
ARPU (USD)	18.0	18.0	16.0	14.0	13.6	13.3	13.4	13.7	14.0
ARPU Growth (%)	0.0%	0.0%	-11.1%	-12.5%	-3.0%	-2.0%	1.0%	2.0%	2.0%
EBITDA (Mn)	68.0	69.6	87.0	135.0	152.7	141.9	149.3	158.5	168.3
EBITDA Margin (%)	14.2%	13.7%	17.8%	24.2%	26.7%	26.8%	26.9%	27.0%	27.1%
Capex (Mn)	88.0	69.5	60.2	63.6	76.6	77.5	75.6	73.6	71.5

Source: KAMCO Research, Zain Financials

We expect the decline in ARPU to reverse starting 2019e and increase to USD 14.0 by the end of 2020e. On the other hand, revenue is expected to increase by 2.4% in 2016e after increasing at a much faster pace of 14.4% in 2015. We expect to see a blip in revenue growth in 2017 due to the fall in subscribers due to the new regulations.

Zain KSA has been EBITDA positive since 2010; however, the company is yet to report a profit due to the significant debt on its balance sheet due to continued capital investment it made in order to expand its operating base in the country. Unlike Kuwait, which is a concentrated market, the geography of Saudi Arabia is much more scattered. This results into a relatively higher capital investment as compared to other markets. We expect losses to continue during our forecast period as against our previous expectation of positive net income by 2019. Our change in expectation is primarily triggered by a number of issues that the company is facing especially related to new regulations, costs associated with implementing these regulations as well as the debt burden. The recently signed USD 600 Mn facility would give some respite to the company for the two years it has been signed for but beyond that the company still needs to have a sustainable solution. All this in addition to a relatively more aggressive incumbent operator. Nevertheless, there were discussion for selling the company's 7,500 tower assets or merging it with competitors by forming a new tower company to manage these assets. We believe that any such move would be positive for the company and would enable it to repay upcoming debt maturities, either fully or partially, and reduce the impact of interests on the bottom-line.

Zain Bahrain

The trend in Zain's Bahrain operations has been positive with almost a third of market share in a relatively small telecom market with significantly high penetration rate. Although the unit earns the second-highest ARPU for Zain, we expect a steep decline on this front owing to competition. The ARPU for 2015 was reported at USD 19 however, we expect it to decline to USD 15.5 by the end of 2016 due to competition.

Key Operating Metrics	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Population (Mn)	1.2	1.2	1.3	1.3	1.3	1.3	1.4	1.4	1.4
Penetration Rate (%)	134%	173%	176%	185%	186%	187%	188%	189%	190%
Subscribers (Mn)	0.62	0.77	0.79	0.80	0.90	0.94	0.98	1.02	1.06
New Additions (Mn)	0.11	0.16	0.02	0.01	0.11	0.04	0.04	0.04	0.04
Market Share (%)	29%	35%	34%	32%	32%	33%	33%	34%	34%

Source: KAMCO Research, Zain Financials

Moreover, the company's subscriber base increased at a marginal pace during 2015 despite making inroads in 4G LTE space due to competitive pressures. We expect the subscriber base to grow at a relatively faster pace in the upcoming years to reach 1.06 Mn by the end of 2020 primarily driven by data subscribers. We believe that the market structure of Bahrain would replicate that of Kuwait with three players with almost equal market share going forward, although we expect Zain's share to increase marginally as it continues to capitalize on its network.

Key Financial Indicators	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Revenues (Mn)	55.9	60.4	55.2	57.5	51.1	54.8	56.5	58.2	59.9
Rev. Growth (%)	-5.4%	8.0%	-8.5%	4.1%	-11.1%	7.2%	3.1%	3.0%	3.0%
ARPU (USD)	27.0	23.0	19.0	19.0	15.5	15.3	15.2	15.0	14.9
ARPU Growth (%)	-3.6%	-14.8%	-17.4%	0.0%	-18.4%	-1.0%	-1.0%	-1.0%	-1.0%
EBITDA (Mn)	20.7	22.0	20.4	22.6	20.2	21.5	22.3	23.1	24.0
EBITDA Margin (%)	37.1%	36.5%	36.9%	39.3%	39.5%	39.3%	39.5%	39.8%	40.0%
Capex (Mn)	22.5	28.0	36.3	17.8	15.3	16.3	15.5	15.3	15.7

Source: KAMCO Research, Zain Financials

The company recorded marginal increase in revenues in 2015 reaching KWD 57.5 Mn after witnessing a steep decline of 8.5% in full year 2014. The revenue growth also pushed EBITDA margins to 39.5% in 2015 which was also supported by cost savings. We expect EBITDA to remain range bound over the next five years and slightly increase during the final years of our projection on the back of higher data revenues.

Valuation and Recommendation

"Outperform" rating with a price target of KWD 0.407 per share resulting in an upside of 19.6%

Our fair value of KWD 0.407 is based on two valuation methods: discounted cash flow (DCF) and relative valuation. We have used the forward EV/EBITDA multiple for calculating our fair value under the relative valuation method.

Weighted Average Fair Value

Valuation Method	Value (KWD)	Weight (%)	Weighted Value (KWD)
Discounted Cash Flow (DCF)	0.377	80%	0.302
EV/EBITDA	0.523	20%	0.105
Weighted Average Fair Value			**0.407**
Current Market Price			0.340
Upside / Downside			**19.6%**

Sources: KAMCO Research and Bloomberg

Discounted Cash Flow (DCF) Method

Our DCF method values the stock at KWD 0.377 per share. The valuation methodology is based on explicit forecast of free cash flows for the next five years (2016e-2020e) and terminal value thereafter. We have assumed different terminal growth rates of for each of Zain's operations depending upon the telecom business cycle as well as the expected economic growth rate of the country that adequately represents a sustainable long term growth rate for the company.

DCF Valuation

DCF Valuation	Fair Value of Equity (KWD Mn)	Fair Value per Share (KWD)
PV of FCF (2016e - 2020e)	965	0.247
PV of Terminal Value	2,211	0.567
PV of Cash Flows	3,176	0.814
PV adjusted for Zain's Stake	2,000	0.513
Investments (Q2-16)	1	0.000
Cash (Q2-16)	312	0.080
Debt & Indemnity (Q2-16)	-841	-0.215
Equity Fair Value	1,472	0.377

Sources: KAMCO Research and Zain Financials

For the DCF valuation, our weighted average cost of capital (WACC) depends upon the current debt level of the subsidiary and the resultant debt to equity ratio which varies across the company's operations. For the risk free rate, we have used 30-year US treasury yield.

The detailed valuation matrix for our sum of the part DCF valuation is shown in the below table:

DCF Valuation – SOTP

Sum of the Parts Valuation - SOTP	Valuation Method	Consolidation Method	Equity Value (KWD Mn)	Zain Stake	Prop. Value (KWD Mn)	Value Per Share	% of Total Value
Kuwait	DCF	Full	843	100.0%	843	0.216	42.1%
Jordan	DCF	Full	342	96.5%	330	0.085	16.5%
Sudan	DCF	Full	393	100.0%	393	0.101	19.6%
Iraq	DCF	Full	440	76.0%	335	0.086	16.7%
Bahrain	DCF	Full	75	54.8%	41	0.010	2.0%
KSA	DCF	Equity	101	37.0%	38	0.010	1.9%
Others	EV/EBITDA	-	21	-	21	0.005	1.1%
Total Value			**2,215**		**2,000**	**0.513**	**100%**

Deductions:	
Zain Kuwait - Book value of Debt as at valuation date	(841)
Others (Provision for end of Services Indemnity, etc)	-
Additions:	
Adjustments for Surplus Assets	-
Marketable Investments (FVTIS, AFS, HFT)	1
Surplus Cash (Time & Fixed Deposits)	312
Other Surplus Assets (i.e. Land)	-
Equity Value	**1,472**
Number of Shares outstanding (net of treasury shares) - Mn	3,901
Value Per Share KWD	**0.377**
Zain Group Closing Price as of 26 September 2016	0.340
Premium / (Discount) %	**11.0%**

Sources: KAMCO Research and Zain Financials

Upside Risks to our valuation

Current share price factors in the overall weakness in the telecom space

We believe that the company's shares are severely battered over the past year, reflecting an extremely undervalued operation. The secular decline in the telecom space is seen across the globe that is primarily reflected in the declining ARPU across the board, however, the decline in being offset by innovative telecom solutions that Zain has started offering in most of its markets. In addition, the significant tower assets that Zain owns has significant value when compared to tower monetization strategies adopted by players in advanced telecom markets. Tower companies have significantly high profitability when floated as an independent entity and this is one of the reasons that they are converted into REITs to save costs and benefit shareholders.

Being an incumbent operator in most of its markets, Zain has the maximum number of cell sites and towers. Telecom players across the globe are entering in partnerships with competitors to form tower sharing agreements. Another related strategy, which is also being rumored to be implemented by Zain, is a sale and lease back arrangement of its tower assets or a diversifying the tower assets into a separate company. We believe that such a strategy, that is expected to be implemented in Saudi Arabia, is highly likely in the near term.

Situation in Iraq would be a near term trigger for the stock price

We believe that Iraq would remain the key to Zain's group's future profitability and the swing in the numbers of Iraq would determine the performance of Zain group in the near term. The operation has been battered significantly over the past few years due to the political situation that has resulted in higher operating costs. Moreover, we reiterate that Iraq still is in an initial stage of telecom services (3G) and there is at least five to seven years till the time it reaches the scale and technical development as seen in Zain's other markets. For this, economic and political stability in Iraq would be one of the most critical deciding factors for success in this market

Limited upside to capital investments in the near term

Capital expenditure in the near term are expected to remain limited to maintenance requirements rather than investments. A majority of Zain's market are already on the latest 4G technology and any further enhancement during the forecast period is expected to be of incremental nature. This would give the company the leeway to adjust its pricing strategy, incur promotional expenditure as the challengers and realign its market leading position in key market.

Downside Risks to our valuation

Challenges escalate in Kuwait

Kuwait continues to account for the biggest pie of Zain's intrinsic value currently recorded at 42.3% in our latest valuation. This is more than 6 percentage points more than our calculations in the initiation report. The primary reason for the increase in Kuwait's share of Zain's valuation is due to the fall in the valuation of Iraq and other countries in addition to the decline in Kuwait's valuation. We continue to believe that the contribution of Kuwait is set to decline with the fall in ARPU and the saturation point that the market has reached. We believe that Kuwait would be going forward a cash cow to fund operations in other countries. This is primarily because the country still generates the highest ARPU among the group operations resulting in strong EBITDA margin. Moreover, we don't foresee any near term capex plans that would require to company to utilize its cash in the domestic operations.

A delay in improvement in KSA could put additional pressure on the Group co.

Zain KSA continues to reel under increasing competitive pressure that got further exacerbated due to the decline in economic growth in the country. In addition, banks in the region are under funding pressure and are mulling increasing interest rates. This would further increase the interest burden for future financing of operation in Saudi Arabia. We believe that apart from looking at its tower assets, the company needs to improve its competitive position by adding subscribers and increasing its share of the market.

Delays in cost control strategies

We reiterate our belief that over the years Zain's business model has transformed from a growth model to one which need to be sustained at the current pace. We don't expect the company to hold more than 40% market share in any of its markets. So, the key to future profitability would be a strict control on costs complemented by strategies adopted by other telecom players in the developed markets.

Egypt endeavor could cost any expected increase in dividends

Zain has reportedly approached Egypt's telecom regulator and expressed its preliminary interest in getting a 4G telecom license to operate in the country. Egypt's telecommunications regulator has been long mulling a license sale, however, no specific timeline has been announced for the same. The country has close to 100 Mn subscribers with a penetration rate of 111%. Moreover, data penetration is still at a nascent stage in the country offering attractive opportunities for 4G entrants. At the same time, however, Egypt is another fiercely competitive market with a low ARPU. Any new entrant would have to play the price card to get new customers which means low margins and high capital investments. If Zain were to operate in Egypt, we expect a similar market scenario as seen by its unit in Saudi Arabia. Moreover, dividends are expected to continue to remain subdued as a result of the expected entry in Egypt.

Relative Valuation

We have compared Zain with 13 other telecom companies in the GCC. For computing our fair value under the relative valuation method we have used the forward EV / EBITDA multiple. Applying forward EV / EBITDA multiple we have arrived at a fair value of KWD 0.528 per share thus implying a significant upside potential of 55.3%. We have calculated enterprise value for Zain based on average EV/EBITDA multiple of 5.7x, the average of the peers in the industry.

Peer Comparison

	Company	Country	M-Cap (USD Mn)	EV (USD Mn)	Revenue (USD Mn)	EBITDA (USD Mn)	EBITDA Margin	EBIT (USD Mn)	EBIT Margin	Net Profit (USD Mn)	Net Margin	PE	Dividend (USD Mn)	Div. Yield	Fwd EV/ EBITDA	FCF (USD Mn)	FCF Yield
GCC	STC	Saudi Arabia	30,519	27,746	13,503	4,944	36.6%	3,053	22.6%	2,468	18.3%	12.4	2,133	7.0%	5.1	3,014	9.9%
GCC	Etisalat	UAE	47,237	52,478	14,086	5,236	37.2%	3,171	22.5%	2,250	16.0%	19.3	1,894	4.0%	7.0	3,048	6.5%
GCC	Ooredoo	Qatar	8,629	17,394	8,833	3,454	39.1%	1,277	14.5%	582	6.6%	12.3	264	3.1%	4.8	479	5.6%
GCC	Mobily	Saudi Arabia	4,479	8,118	3,845	1,114	29.0%	-182	-4.7%	-291	-7.6%	N/A	0	0.0%	6.4	385	8.6%
GCC	Zain	Kuwait	4,882	7,608	3,780	1,666	43.8%	922	24.4%	513	13.6%	8.4	389	8.0%	4.8	684	14.0%
GCC	Du	UAE	8,053	7,901	3,359	1,503	44.8%	1,052	31.3%	529	15.7%	15.5	535	6.6%	5.0	656	8.1%
GCC	VOD Qatar	Qatar	2,514	2,484	634	132	20.9%	-51	-8.1%	-59	-9.4%	N/A	49	1.9%	19.5	89	3.5%
GCC	Omantel	Oman	3,078	2,794	1,336	591	44.3%	317	23.7%	126	9.4%	22.3	224	7.3%	4.4	242	7.9%
GCC	Ooredoo Kuwait	Kuwait	2,074	2,804	2,387	714	29.9%	256	10.7%	89	3.7%	20.0	167	8.0%	3.6	126	6.1%
GCC	Zain KSA	Saudi Arabia	1,097	3,695	1,797	438	24.4%	-38	-2.1%	-259	-14.4%	N/A	0	0.0%	10.5	88	8.0%
GCC	Batelco	Bahrain	1,315	1,494	988	360	36.4%	176	17.9%	131	13.3%	11.1	110	8.4%	N/A	78	5.9%
GCC	Viva Kuwait	Kuwait	1,458	1,513	920	434	47.2%	157	17.0%	143	15.5%	10.7	0	0.0%	3.6	348	23.9%
GCC	Ooredoo (Nawras)	Oman	1,224	1,342	655	350	53.4%	189	28.8%	108	16.5%	10.6	68	5.5%	3.7	77	6.3%
GCC	Zain Bahrain	Bahrain	115	134	189	70	37.2%	15	8.1%	14	7.2%	8.4	5	4.2%	N/A	56	48.3%
GCC	**GCC-Peers**		**116,674**	**137,505**	**56,309**	**21,007**	**37.3%**	**10,313**	**18.3%**	**6,341**	**11.3%**	**18.4**	**5,837**	**5.0%**	**5.7**	**9,370**	**8.0%**
GCC	**Excl. Outliers**		**111,098**	**125,692**	**50,667**	**19,454**	**38.4%**	**10,533**	**20.8%**	**6,892**	**13.6%**	**16.1**	**5,837**	**5.3%**	**5.5**	**8,897**	**8.0%**
Non-GCC	MTN	South Africa	16,924	20,880	11,587	3,208	27.7%	2,784	24.0%	1,592	13.7%	18.6	1,893	11.2%	4.9	1,638	9.7%
Non-GCC	Vodacom	South Africa	17,176	18,264	6,745	2,176	32.3%	1,773	26.3%	1,147	17.0%	19.1	1,084	6.3%	8.2	657	3.8%
Non-GCC	Maroc Telecom	Morocco	11,522	13,471	3,503	1,757	50.2%	1,061	30.3%	574	16.4%	19.2	575	5.0%	7.3	592	5.1%
Non-GCC	Safaricom	Kenya	7,673	7,613	1,831	825	45.0%	542	29.6%	357	19.5%	18.3	287	3.7%	8.1	300	3.9%
Non-GCC	Telkom SA	South Africa	2,387	2,492	2,966	649	21.9%	302	10.2%	279	9.4%	19.8	116	4.8%	3.3	121	5.1%
Non-GCC	Telecom Egypt	Egypt	1,781	1,480	1,582	457	28.9%	200	12.6%	389	24.6%	4.0	166	9.3%	3.8	-123	-6.9%
Non-GCC	Econet Wireless	Zimbabwe	323	336	746	238	32.0%	154	20.6%	70	9.4%	8.3	15	4.7%	2.0	21	6.6%
Non-GCC	**Non-GCC Peers**		**57,786**	**64,536**	**28,960**	**9,310**	**32.1%**	**6,816**	**23.5%**	**4,409**	**15.2%**	**13.1**	**4,136**	**7.2%**	**6.0**	**3,207**	**5.5%**
	Total MENA		**174,460**	**202,041**	**85,269**	**30,317**	**35.6%**	**17,129**	**20.1%**	**10,750**	**12.6%**	**16.2**	**9,973**	**5.7%**	**5.9**	**12,577**	**7.2%**

	Company	Total Asset (USD Mn)	Total Debt (USD Mn)	FA Capex (USD Mn)	FA Capex to sales	Intan. Add. (USD Mn)	Intan. Add. to Sales	Total Capex (USD Mn)	Capex Intensity	Equity	Debt/Equity	Asset Turnover	P/BV
GCC	STC	25,754	2,038	2,465	18.3%	293	2.2%	2,759	20.4%	16,509	0.12	0.52	1.85
GCC	Etisalat	34,924	6,017	2,390	17.0%	416	3.0%	2,807	19.9%	16,167	0.37	0.40	2.92
GCC	Ooredoo	25,857	11,746	2,345	26.5%	493	5.6%	2,838	32.1%	7,792	1.51	0.34	1.11
GCC	Mobily	11,290	3,803	937	24.4%	15	0.4%	953	24.8%	4,146	0.92	0.34	1.08
GCC	Zain	11,516	3,179	721	19.1%	492	13.0%	1,213	32.1%	5,694	0.56	0.33	0.86
GCC	Du	4,885	1,223	444	13.2%	38	1.1%	482	14.3%	2,129	0.57	0.69	3.78
GCC	VOD Qatar	2,044	0	86	13.6%	25	3.9%	111	17.5%	1,529	0.00	0.31	1.64
GCC	Omantel	2,060	98	335	25.1%	21	1.6%	356	26.6%	1,313	0.07	0.65	2.34
GCC	Ooredoo Kuwait	4,638	638	449	18.8%	29	1.2%	478	20.0%	2,603	0.25	0.51	0.80
GCC	Zain KSA	6,940	3,036	330	18.4%	92	5.1%	422	23.5%	1,213	2.50	0.26	0.90
GCC	Batelco	2,665	599	249	25.2%	N/A	N/A	249	25.2%	1,520	0.39	0.37	0.87
GCC	Viva Kuwait	867	238	130	14.1%	232	25.2%	362	39.4%	306	0.78	1.06	4.76
GCC	Ooredoo (Nawras)	1,065	137	165	25.1%	26	3.9%	190	29.0%	559	0.24	0.61	2.19
GCC	Zain Bahrain	311	46	28	14.7%	26	13.9%	54	28.5%	167	0.28	0.61	0.69
GCC	**GCC-Peers**	134,816	32,799	11,074	19.7%	2,199	3.9%	13,273	23.6%	61,645	0.53	0.42	1.89
GCC	**Excl. Outliers**	**116,586**	**25,960**	**9,807**	19.4%	**2,092**	4.1%	**11,899**	23.5%	**56,286**	**0.46**	**0.43**	**1.97**
Non-GCC	MTN	20,267	4,854	1,703	14.7%	820	7.1%	2,523	21.8%	9,804	0.50	0.57	1.73
Non-GCC	Vodacom	5,873	2,145	1,160	17.2%	N/A	N/A	1,160	17.2%	1,783	1.20	1.15	9.64
Non-GCC	Safaricom	6,093	1,578	857	24.5%	N/A	N/A	857	24.5%	1,987	0.79	0.57	5.80
Non-GCC	Telkom SA	1,699	115	380	20.7%	109	5.9%	488	26.7%	1,129	0.10	1.08	6.80
Non-GCC	Telecom Egypt	3,458	400	459	15.5%	N/A	N/A	459	15.5%	2,078	0.19	0.86	1.15
Non-GCC	ECMS	4,420	50	339	21.4%	N/A	N/A	339	21.4%	3,704	0.01	0.36	0.48
Non-GCC	Econet	1,256	264	119	15.9%	7	0.9%	125	16.8%	665	0.40	0.59	0.49
Non-GCC	**Non-GCC Peers**	43,065	9,405	5,016	17.3%	936	3.2%	5,951	20.6%	21,148	0.44	0.67	2.73
	Total MENA	177,881	42,205	16,090	18.9%	3,135	3.7%	19,225	22.5%	82,793	0.51	0.48	2.11

Source: KAMCO Research, Company Financials, Bloomberg

Financial Indicators

Balance Sheet (KWD '000)	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Assets								
Cash and Cash Equivalents	399,242	343,570	359,799	429,301	537,609	634,696	718,983	784,231
Trade & Other Receivables	350,300	358,377	406,581	432,471	421,480	410,830	401,886	395,113
Property & equipment	734,641	852,590	901,679	901,679	903,171	906,470	911,949	920,057
Intangible Assets	993,667	1,094,985	1,185,312	1,205,206	1,226,318	1,248,723	1,272,500	1,297,734
Investments in Associates and Joint Ventures	265,197	238,977	219,902	197,711	175,448	153,553	132,091	111,098
Due from Associates	271,952	309,298	350,673	370,521	377,932	385,490	393,200	401,064
Other Assets	81,941	79,266	71,235	56,354	56,661	56,976	57,521	58,314
Total assets	**3,096,940**	**3,277,063**	**3,495,181**	**3,593,242**	**3,698,618**	**3,796,737**	**3,888,131**	**3,967,611**
Liabilities								
Due to Banks	755,721	788,261	964,879	1,038,125	1,044,564	1,047,008	1,044,792	1,035,832
Trade and other payables	542,566	656,064	761,758	720,784	740,437	759,755	781,446	806,921
Other Liabilities	35,451	38,769	40,454	43,119	44,383	45,561	46,658	47,611
Total liabilities	**1,333,738**	**1,483,094**	**1,767,091**	**1,802,028**	**1,829,385**	**1,852,324**	**1,872,896**	**1,890,364**
Shareholders' Equity								
Share capital	432,268	432,706	432,706	432,706	432,706	432,706	432,706	432,706
Share Premium	1,706,779	1,707,164	1,707,164	1,707,164	1,707,164	1,707,164	1,707,164	1,707,164
Treasury Shares	(567,834)	(567,834)	(567,834)	(567,834)	(567,834)	(567,834)	(567,834)	(567,834)
Retained Earnings	509,296	512,780	510,641	570,484	630,770	688,476	742,219	787,954
Other Reserves	(459,852)	(459,413)	(539,985)	(554,392)	(554,392)	(554,392)	(554,392)	(554,392)
Total Shareholders Equity	**1,620,657**	**1,625,403**	**1,542,692**	**1,588,128**	**1,648,414**	**1,706,120**	**1,759,863**	**1,805,598**
Minority Interest	**142,545**	**168,566**	**185,398**	**203,086**	**220,819**	**238,294**	**255,372**	**271,649**
Total liabilities and equity	**3,096,940**	**3,277,063**	**3,495,181**	**3,593,242**	**3,698,618**	**3,796,737**	**3,888,131**	**3,967,611**

Income Statement (KWD '000)	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Revenue	1,240,648	1,213,229	1,137,547	1,081,176	1,095,847	1,109,242	1,125,282	1,145,827
Operating Expenses	(702,214)	(706,414)	(639,045)	(600,192)	(603,037)	(605,020)	(607,913)	(616,406)
EBITDA	**538,434**	**506,815**	**498,502**	**480,985**	**492,810**	**504,222**	**517,369**	**529,421**
Depreciation & Amortization	(194,566)	(171,749)	(212,751)	(214,816)	(233,656)	(254,547)	(277,767)	(303,636)
EBIT	**343,868**	**335,066**	**285,751**	**266,169**	**259,154**	**249,674**	**239,601**	**225,785**
Finance cost	(23,548)	(26,283)	(29,029)	(34,379)	(34,592)	(34,673)	(34,600)	(34,303)
Interest Income	18,095	18,691	7,243	12,879	16,128	19,041	21,569	23,527
Investment Income	1,972	(1,906)	(5,863)	(4,090)	(2,045)	(1,023)	(511)	(256)
Share of Results of Associates and JVs	(36,159)	(34,092)	(29,297)	(22,191)	(22,263)	(21,895)	(21,462)	(20,993)
Loss from Currency Revaluation	(24,911)	(43,358)	(22,119)	(17,438)	(13,950)	(11,160)	(8,928)	(7,142)
Other Expenses	(8,290)	(3,544)	(5,107)	1,674	699	212	(32)	(154)
Taxes	(26,473)	(30,419)	(35,461)	(25,741)	(25,805)	(25,430)	(24,853)	(23,688)
Minority Interests	(27,496)	(19,854)	(11,804)	(17,688)	(17,733)	(17,475)	(17,078)	(16,277)
Net Profit / (Loss)	**217,058**	**194,301**	**154,314**	**159,195**	**159,594**	**157,271**	**153,706**	**146,497**
EPS (KWD)	**0.056**	**0.050**	**0.040**	**0.041**	**0.041**	**0.040**	**0.039**	**0.038**

Cash Flow (KWD '000)	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Net Cash From Operating Activities	466,390	468,745	439,430	345,106	460,274	475,083	492,192	509,179
Net Cash (used in) from Investing Activities	(217,600)	(308,658)	(369,634)	(195,270)	(217,095)	(238,643)	(263,417)	(292,041)
Net Cash (used in) from Financing Activities	(154,590)	(228,911)	(60,895)	(80,334)	(134,871)	(139,353)	(144,488)	(151,891)
Net Change in Cash and Equivalents	94,200	(68,824)	8,901	69,502	108,308	97,087	84,287	65,248
Net Cash at end of the year	**399,242**	**343,570**	**359,799**	**429,301**	**537,609**	**634,696**	**718,983**	**784,231**

Source : KAMCO Research and Zain Financials

Key Financial Ratios

Key Ratios	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Profitability Ratios								
Return on Average Assets	7.2%	6.1%	4.6%	4.5%	4.4%	4.2%	4.0%	3.7%
Return on Average Equity	13.5%	12.0%	9.7%	10.2%	9.9%	9.4%	8.9%	8.2%
EBITDA Margin	43.4%	41.8%	43.8%	44.5%	45.0%	45.5%	46.0%	46.2%
Net Profit Margin	17.5%	16.0%	13.6%	14.7%	14.6%	14.2%	13.7%	12.8%
Growth Rates								
Revenue Growth	-3.2%	-2.2%	-6.2%	-5.0%	1.4%	1.2%	1.4%	1.8%
EBITDA Growth	-5.7%	-5.9%	-1.6%	-3.5%	2.5%	2.3%	2.6%	2.3%
Net Income Growth	-13.9%	-10.5%	-20.6%	3.2%	0.3%	-1.5%	-2.3%	-4.7%
Total Assets Growth	5.7%	5.8%	6.7%	2.8%	2.9%	2.7%	2.4%	2.0%
Liquidity Indicators								
Current Ratio (x)	1.0	0.9	0.8	0.9	1.0	1.1	1.1	1.2
Quick Ratio (x)	1.0	0.8	0.8	0.9	1.0	1.1	1.1	1.1
Working Capital (KWD Mn)	25.4	-107.0	-179.9	-70.6	5.5	71.9	126.0	161.2
Free Cash Flow (KWD Mn)	239.9	155.7	74.2	110.4	204.0	194.8	185.2	172.2
Leverage Ratios								
Interest Coverage Ratio (x)	14.6	12.7	9.8	7.7	7.5	7.2	6.9	6.6
Debt-to-EBITDA (x)	1.4	1.6	1.9	2.2	2.1	2.1	2.0	2.0
Debt-to-Equity (x)	0.5	0.5	0.6	0.7	0.6	0.6	0.6	0.6
Market Data and Valuation Ratios								
Closing Share Price (KWD)	0.690	0.530	0.350	0.340	0.340	0.340	0.340	0.340
Shares Outstanding (Mn)	3,897.0	3,901.3	3,901.3	3,901.3	3,901.3	3,901.3	3,901.3	3,901.3
Market Capitalization (KWD Mn)	2,688.9	2,067.7	1,365.5	1,326.5	1,326.5	1,326.5	1,326.5	1,326.5
EPS (KWD)	0.056	0.050	0.040	0.041	0.041	0.040	0.039	0.038
Book Value Per Share (KWD)	0.416	0.417	0.395	0.407	0.423	0.437	0.451	0.463
Dividend Per Share (KWD)	0.050	0.040	0.030	0.030	0.030	0.030	0.030	0.030
Price to Earnings Multiple (X)	12.39	10.64	8.85	8.33	8.31	8.43	8.63	9.05
Price to Book Value Multiple (X)	1.66	1.27	0.89	0.84	0.80	0.78	0.75	0.73
Dividend Yield (%)	7.2%	7.5%	8.6%	8.8%	8.8%	8.8%	8.8%	8.8%

Key Operational Indicators	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
CAPEX to Sales	18.3%	25.8%	32.1%	21.7%	23.4%	25.3%	27.3%	29.4%
Receivables Turnover	3.7	3.4	3.0	2.5	2.6	2.7	2.8	2.9
Days in Receivables	98	107	123	147	142	137	132	127
Inventories Turnover	26.2	21.2	13.0	19.0	19.7	20.1	20.4	20.5
Days in Inventory	14	17	28	19	19	18	18	18
Current Assets Turnover	1.8	1.6	1.5	1.3	1.2	1.1	1.0	1.0
Current Liabilities Turnover	1.6	1.5	1.3	1.1	1.1	1.1	1.1	1.1

Source : KAMCO Research and Zain Financials

Note : Forward Valuation ratios are based on current market prices

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