Kuwait Telecom Sector

July - 2015

Company Name	CMP (9th July 2015)	Target Price	Upside / Downside	KAMCO Rating
Zain	*0.420*	*0.533*	*26.8%*	*Outperform*
Viva Kuwait	*0.950*	*1.104*	*16.2%*	*Outperform*

In this Report…

Despite the negative sentiments surrounding the sector (Telecom index declined by 17.7% in 2014 and 12.8% for YTD-15), we have an 'Outperform' rating on Zain and Viva as we believe that the worst is already priced-in and it's time to reconsider fundamental factors and have a relook at the sector.

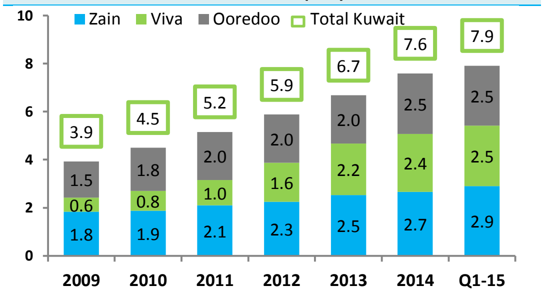
Zain's revenue saw minimal volatility over the past five years and has basically declined at 5-year CAGR of 0.8% between 2009 and 2014. We expect Zain to post marginal increase in revenues starting in 2016e after the investments made in 3G in Iraq and the 4G adoption in Jordan results into garnering additional subscribers. *We expect a 5-year revenue CAGR of 2.8% till 2019e partially offset by an expected decline in revenue at Zain Kuwait due to a decline in ARPU further exacerbated by limited growth in subscriber count in the country.*

Viva's total revenue increased at a 5-year CAGR of 40.7%, higher than the rate of increase in the subscriber base on the back of higher historical ARPU. *However, we expect a more normalized revenue growth in the future at a CAGR of 7.3% over the next five years until 2019 to reach KWD 339.3 Mn on the back of a marginal increase in subscriber base and ARPU as well as a higher proportion of postpaid subscribers.*

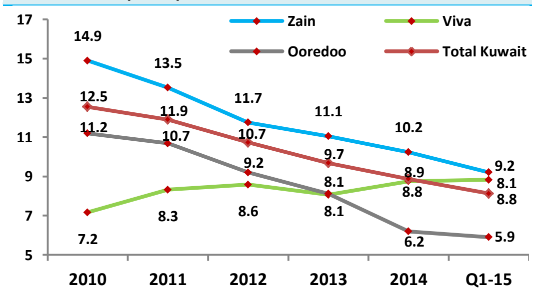
Data services would generate cash going forward: *Data revenues accounted for as high as 35% of Zain's Q1-15 revenues. In the case of Viva, we believe data revenues account for an even higher percentage of total revenues as Viva has a more data centric strategy. However, we don't expect data services to give any competitive edge to any of the players in Kuwait.*

Both technical and fundamental parameters favor the stocks: *Both Zain and Viva trade at a significant discount of 43.2% and 45.3% on forward EV/EBITDA multiple, respectively. In terms of fundamental factors like revenue growth and profitability, we do not expect to see any negative setbacks for either of the stocks, except in the case of Zain wherein a prolonged uncertain environment in Iraq could cost it in terms of both revenue and profits.*

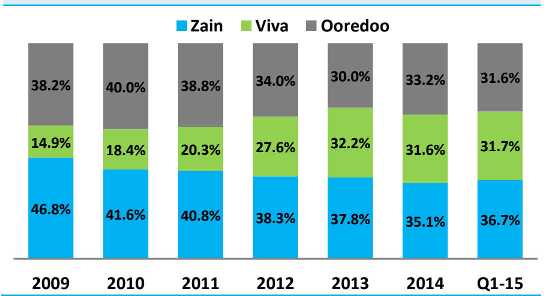
Total Subscriber Base in Kuwait (Mn)



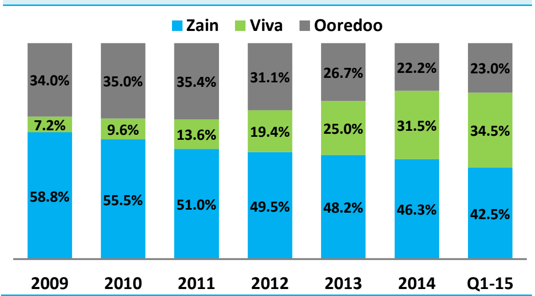
ARPU Trend (KWD)



Subscriber Market Share



Revenue Market Share



Sources: KAMCO Research and Company Financials

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Industry Overview – MENA Telecoms

The typical "Trinity" persists in Kuwait

The common theme of a three-player telecom market in the MENA region finally happened in Kuwait after Viva entered the market in 2009. The market structure has evolved completely over the years and market dynamics have turned against the incumbents. The three players in the market have operations in multiple countries and come with significant balance sheet strength and technical knowledge of operations. This is one of the reasons why the market share has emerged to an approximately one third of the subscriber market share for each of the three players.

Operational Footprint

Zain	STC	Ooredoo
•Kuwait	•Saudi Arabia	•Qatar
•Iraq	•Kuwait	•Kuwait
•KSA	•Turkey	•Algeria
•Sudan	•Lebanon	•Tunisia
•Jordan	•Jordan	•Myanmar
•Bahrain	•Bahrain	•Maldives
•Republic of Sudan	•India	•Indonesia
•South Sudan	•Malaysia	•Oman
•Morocco	•South Africa	•Palestine
		•Pakistan
		•Philippines
		•Singapore
		•Iraq
		•Lebanon

Sources: Company Financials

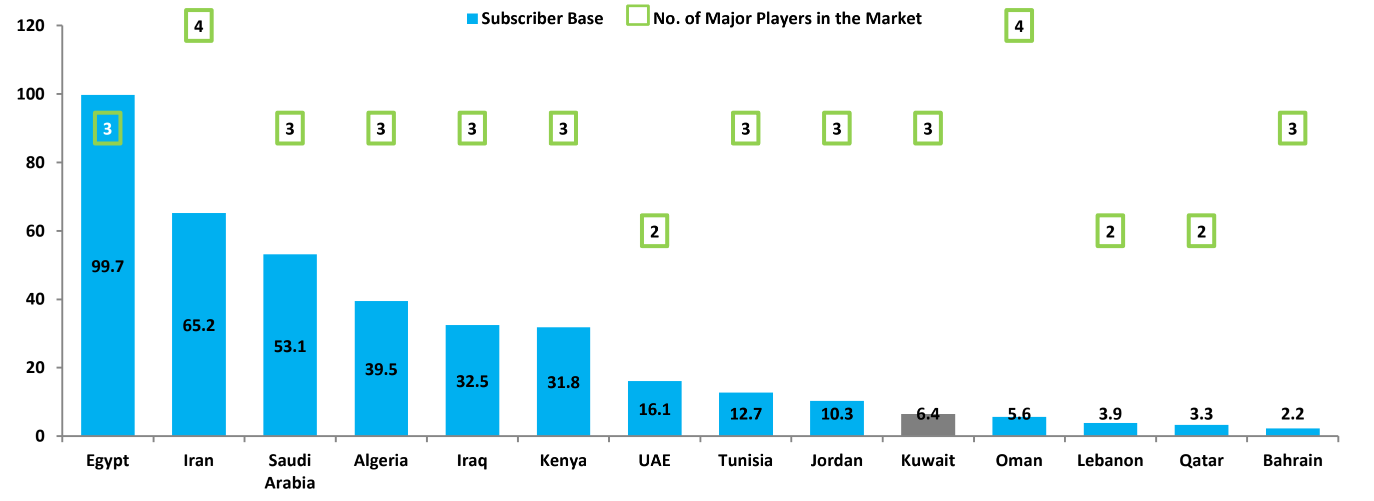
Prior to divesting its African operations in 2008, Zain had a much larger footprint in the Middle East and African region. However, a decision to focus on core markets in the MENA where it holds significant market share led to the diversification. Zain currently leads in several of its market with significant market power, whereas STC and Ooredoo continue to give tough competition to the incumbent in most of the markets where they have overlapping operations.

It is pertinent to note that one of the stark differences between the diversification and market presence strategies of the three players is that when Zain limits its operations to its core markets, STC and Ooredoo expanded to explore other growth markets. STC for instance has operations in Asia (India and Malaysia) and so does Ooredoo with its recent bid for wireless spectrum in Myanmar, which we believe would be counter accretive to the company's bottom-line. Ooredoo also has operations in a much large base in the Asian region which also includes Maldives, Pakistan, and Singapore.

Furthermore, when Zain continues to focus on providing wireless telecom services, STC and Ooredoo have been more aggressive on expanding operations into other related businesses. STC started the IPTV business and acquired a PTT operator in Saudi Arabia whereas Ooredoo also has business related to telecom services but of a more diversified nature including broadband services, a telecom investment arm and a managed ICT services company.

As seen in the below chart, a majority of the telecom markets in the MENA region consists of three players. In terms of total number of subscriber, Egypt leads in the region with almost a 100 Mn subscriber base split into three players. In the GCC, Saudi Arabia leads with a total subscriber count that stood at 53.1 Mn as at the end of 2013.

MENA Telecom Markets

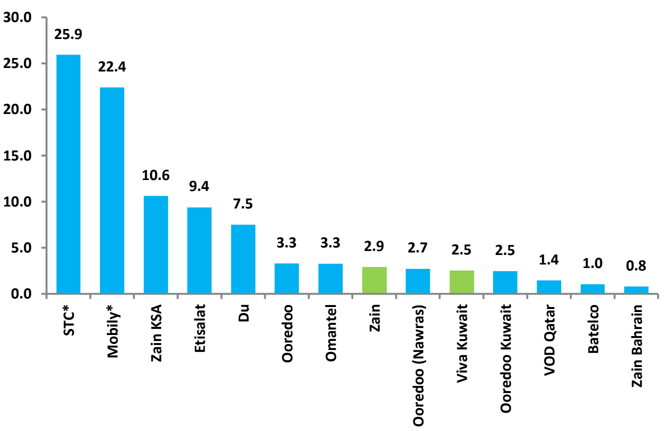


Sources: KAMCO Research and Viva Financials

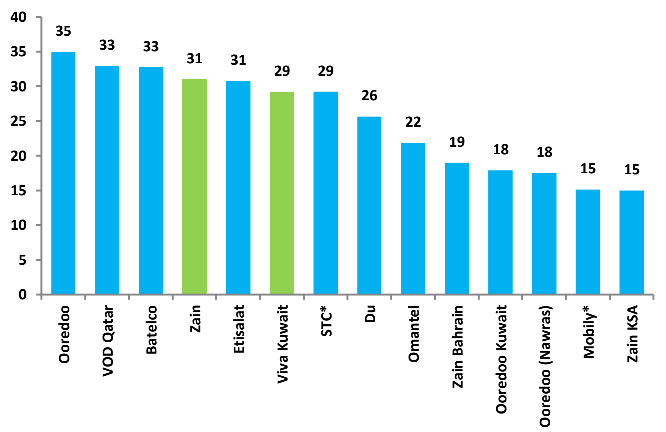
It's a volume game from now onwards...

The telecom market in the GCC region has matured with minimal differentiating factors among the players. In order to defend their turf from new challengers entering the market, the incumbents have started playing the price card by offering largely similar telecom plans. This has affected the overall ARPU in the market. Established incumbents like STC, Mobily, Zain and Ooredoo have sizable presence in their respective markets which in most cases is receding due to the challengers. Nevertheless, the incumbents continue to hold the lucrative postpaid subscriber base that gives them the profitability edge over new entrants.

Subscriber Base (Mn)



ARPU (USD)



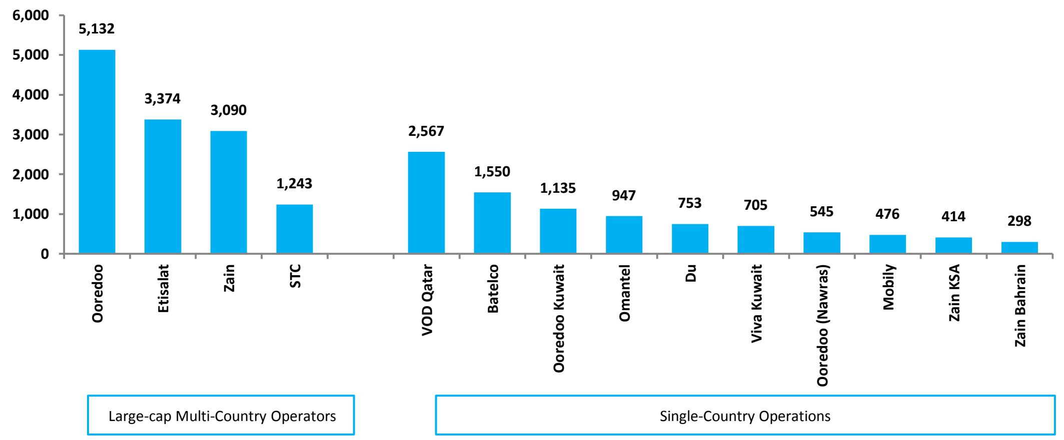
Sources: KAMCO Research and Respective Company Financials

** Subscriber base for STC and Mobily are calculated using latest market share data from Zain Q1-15 report which is also applied to calculated ARPU from domestic wireless and data services revenues.*

Higher ARPU results in higher EV

Stronger ARPU is a direct result of capital investments made by the operator. This assumption is clearly shown in the below chart when compared to the ARPU chart. The chart shows that enterprise value per subscriber metric for player with relatively higher ARPUs primarily feature at the top the EV/subscriber chart implying a direct relationship between the two key metrics in the telecom industry.

Enterprise Value per Subscriber (USD)



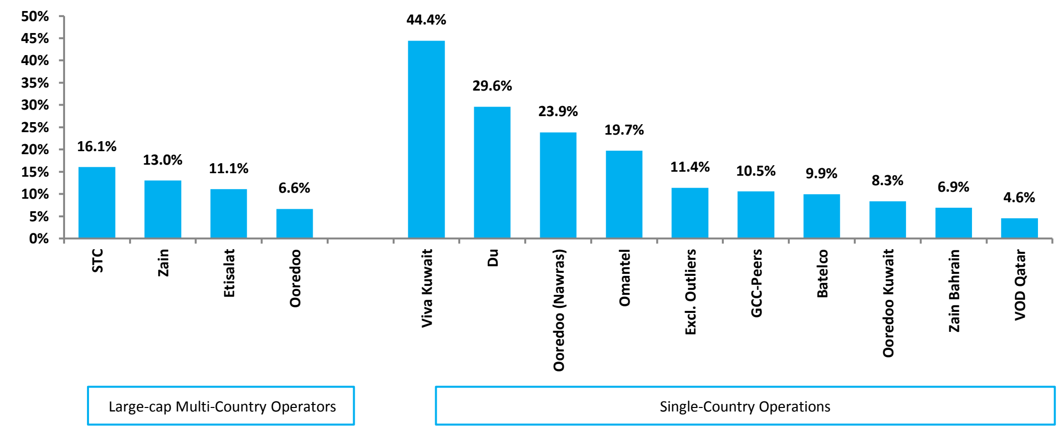
Sources: Company Financials, Bloomberg

Qatari players have one of the highest EV per subscriber and they also feature at the top of the ARPU chart. A similar comparison can be made for Etisalat, Zain and Vodafone Qatar. On the other hand, Zain Bahrain, Zain KSA, Mobily and Nawras are at the tail end of both the charts.

But ROCE shows a totally tilted picture…

A telecom service, being a capital intensive business, gives significant market power to cash rich incumbents. Although the significant investments made by the bigger multi-country players in the telecom market in the GCC gives them an edge in terms of pricing power, their profitability on total investment or total capital employed tails behind smaller players.

Return on Capital Employed



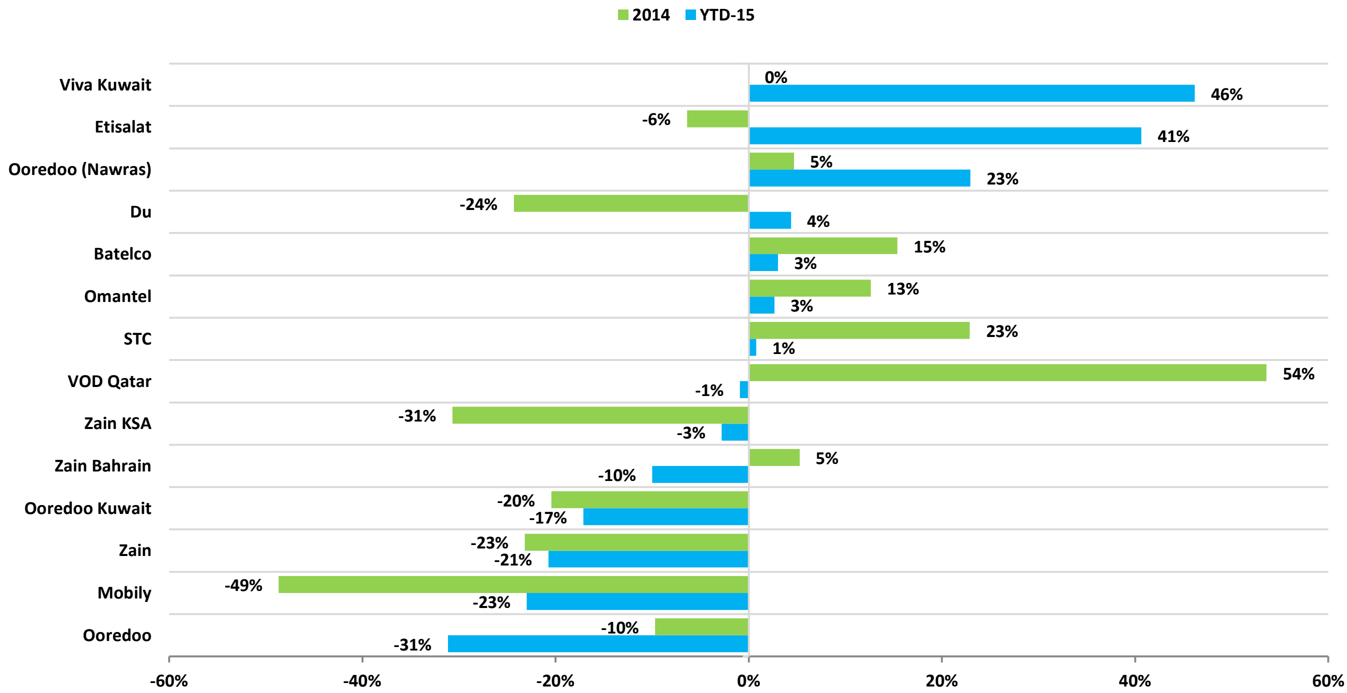
Sources: Company Financials, Bloomberg

The previous chart clearly shows that Viva Kuwait has the highest return on Capital Employed (ROCE) of 44.4% followed by Du and erstwhile Nawras and Omantel. On the other hand, bigger players like Etisalat, Zain, STC and Ooredoo all have one of the lowest levels of ROCE.

Telecom Share Performance

The telecom sector in the GCC had an overall negative trend in 2014 and YTD-15 primarily due to industry heavyweights like Zain, Ooredoo and Mobily that resulted in the poor share performance of the entire sector. On the other hand, most of the single country operators have had a positive share performance.

Stock Performance of Regional Telecom Peers



YTD-15 performance as of 9-July-15
Source: KAMCO Research and Bloomberg

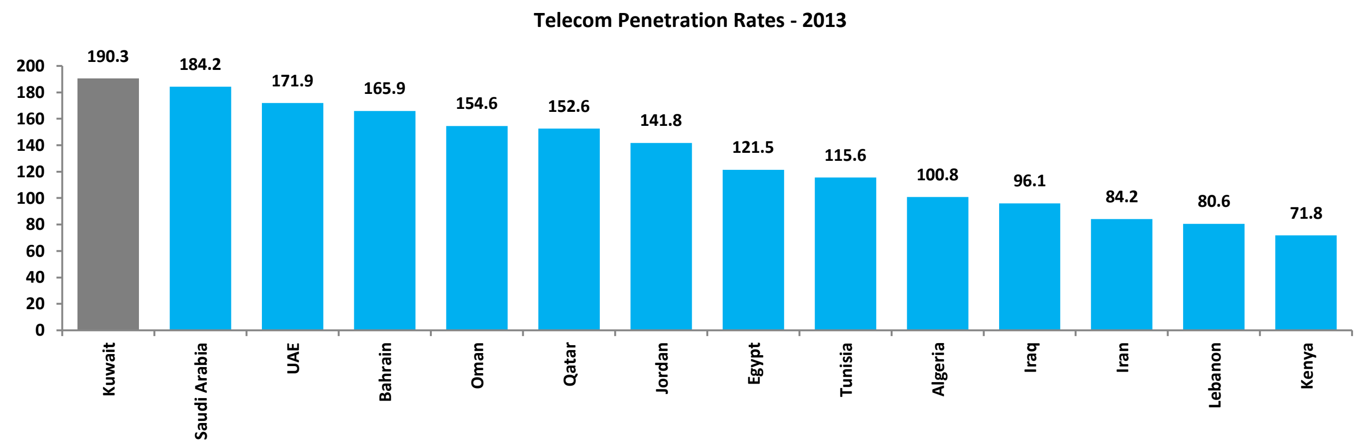
Telecom Market in Kuwait

With one of the highest GDP per capita in the world, Kuwait's telecom market is one of the most advanced markets in the world and one of the first to adopt any new technology. However, with minimal population and concentrated nature of the market, the country also has one of the highest penetration levels.

One of the densest telecom markets in the world...

Kuwait boasts the highest telecom penetration levels in the MENA region, which at the end of 2013 stood at 190.3%.

MENA Telecom Penetration Rates

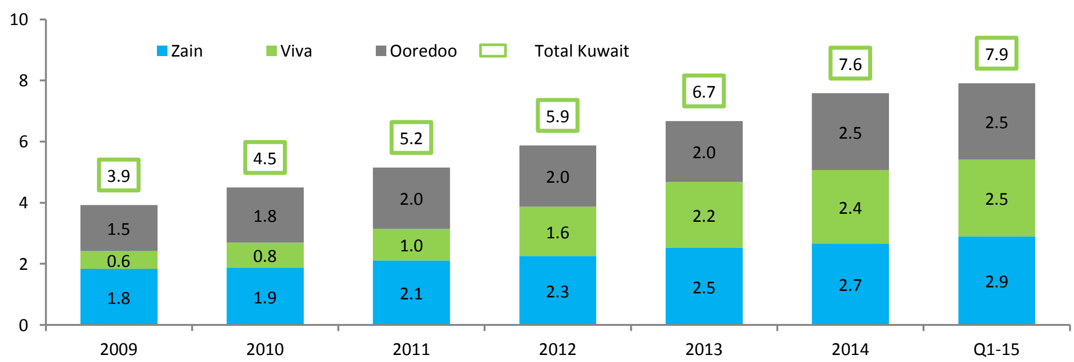


Sources: ITU - 2013

According to the most recent industry data available from Zain, the penetration levels in Kuwait reached approximately 221% by the end of Q1-15. This was also due to the fact that Kuwait continues to remain one of the most advanced telecom markets and one of the first markets in the region that deployed the 4G LTE network.

Meanwhile, the total subscriber base in Kuwait has increased at a CAGR of 14.3% over the past five years and stood at 7.9 Mn at the end of Q1-15.

Total Subscriber Base in Kuwait (Mn)



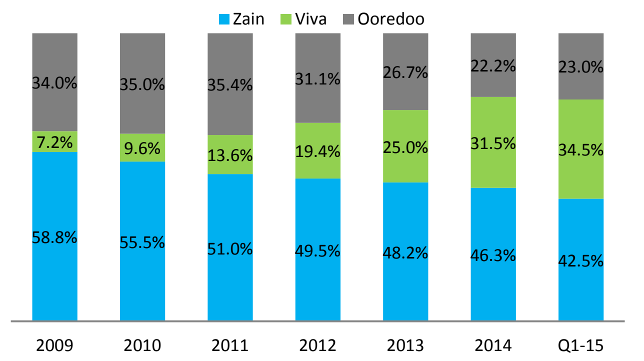
Sources: Company Financials

Constantly changing market share dynamics…

Zain being the oldest telecom service provider in Kuwait has predominantly led the market share over the years. The company commanded a subscriber market share of 55% at the end of 2008 when Kuwait was a two player market. However, its share has been constantly declining after Viva entered the market. Zain currently holds a subscriber market share of 36.7% followed by Viva and Ooredoo with almost equal market shares. Zain's market share reached a low of 35.1% by the end of 2014 but increased for the first time during Q1-15. On the other hand, Viva's markets share has been consistently increasing over the years from as low as 14.9% in 2009, its first year of operation, to 31.7% at the end of Q1-15.

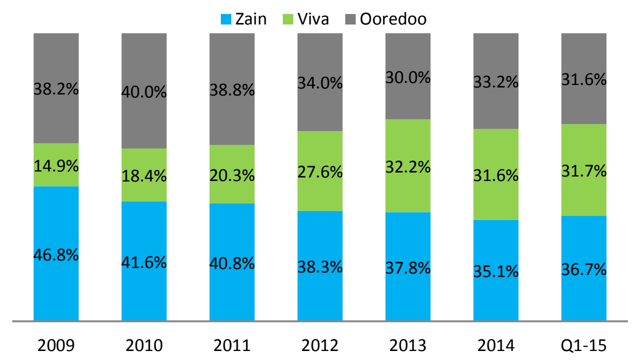
In terms revenue market share, the picture is a little different. Zain's revenue market share has declined at a faster pace from almost 60% in 2009 to 42.5% in Q1-15, whereas Viva has managed to increase its revenue market share from a mere 7.2% in 2009 to 34.5% in Q1-15. Viva gained the market share primarily grabbing it from Ooredoo, which recorded considerable decline in its market share.

Revenue Market Share



Sources: KAMCO Research and Respective Company Financials

Subscriber Market Share

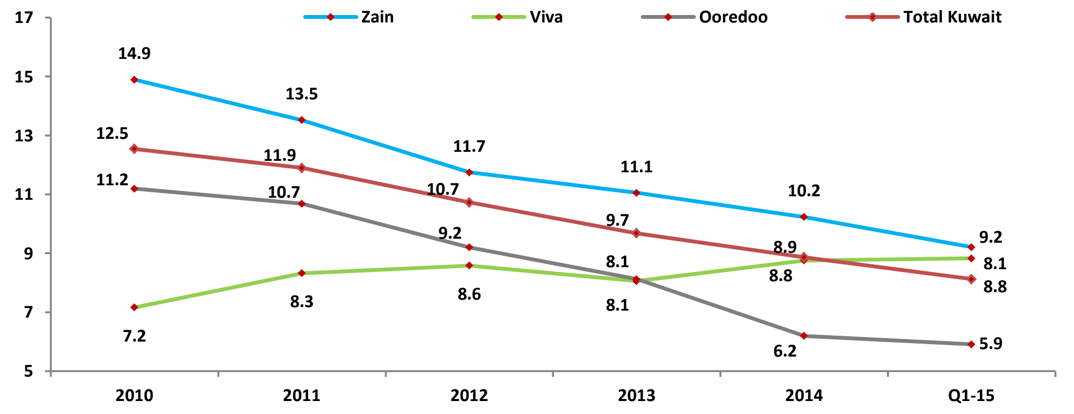


Sources: KAMCO Research and Respective Company Financials

Despite gradually falling, ARPU continues to remain strong…

Kuwait being one of the hotly contested markets in the region owing to its high ARPU and one of the highest GDP/capita in the world recorded higher ARPUs as compared to most of the neighboring countries. However, over the past four years, ARPU has declined consistently at a negative CAGR of 8.4% owing to higher competition. Average industry ARPU at the end of Q1-15 stood at KWD 8.6 as compared to double digit ARPU up until 2012.

Historical ARPU in Kuwait (KWD)



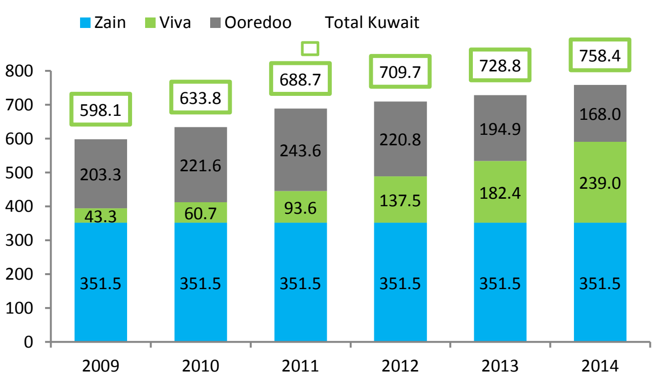
Sources: KAMCO Research, Company Financials

Zain has been and continues to be the market leader in terms of ARPU with a Q1-15 ARPU of KWD 9.2 (USD 31). The company has a relatively stronger base of postpaid subscribers in its portfolio which resulted in higher ARPUs. However, Viva has also emerged as a strong competitor to Zain. The company has consistently recorded an increase in ARPU i.e. when Zain's ARPU declined at a 4-year CAGR of 10%, Viva's ARPU has trended upwards at the rate of 6.3% over the same time. Viva overtook industry ARPU at the end of Q1-15 when its ARPU increased to KWD 9.3. Meanwhile, Ooredoo's ARPU has seen the steepest decline over the years with a negative CAGR of 12.8% over the past four years.

Industry revenue continues to increase but at a declining rate…

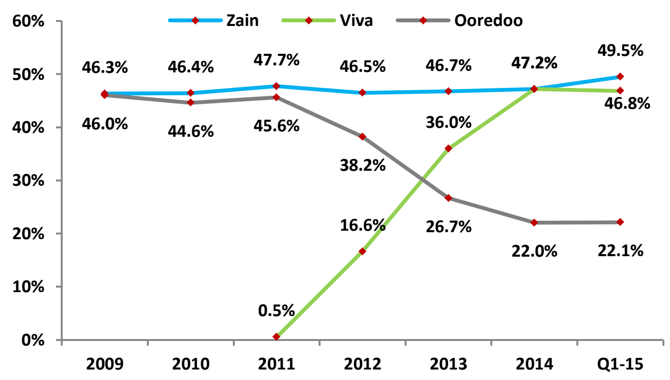
Total telecom revenues generated by the three wireless players reached KWD 753.2 Mn at the end of 2014 growing at a 5-year CAGR of 4.7%. The increase was led by subscribers additions partially offset by declining ARPUs.

Revenue Growth in Kuwait



Sources: KAMCO Research and Company Financials

EBITDA Margins



Sources: KAMCO Research and Company Financials

Zain, the market leader in terms of revenues, recorded minimal change in total revenues over the past six years whereas Viva expanded its revenue base consistently and overtook Ooredoo during 2014 when it reported revenues of KWD 239.0 Mn as compared to Ooredoo's KWD 168 Mn.

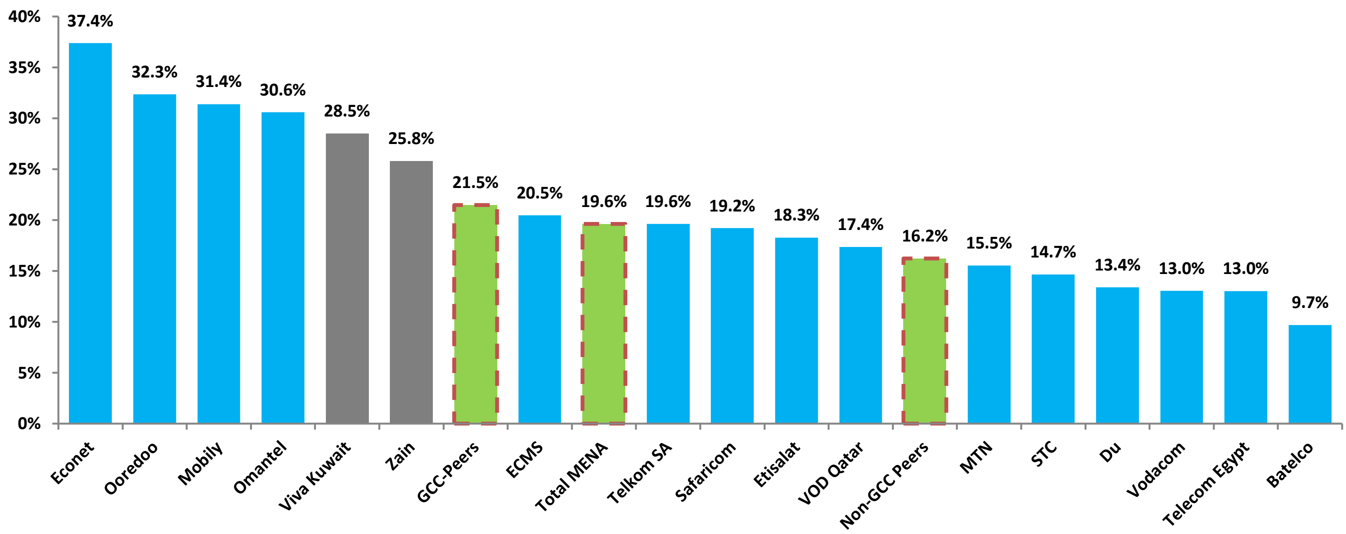
In terms of EBITDA margin, Zain once again leads the pack with an average margin of above 48% over the past 6 years. The Company owes its strong margin to its postpaid subscribers. Nevertheless, Viva has grown its EBITDA margin consistently over the years and now reports margins in line with that of Zain. Viva's reported EBITDA margin stood at 47.2% in 2014 as compared to Zain's 47.9%.

Capex intensive industry…

The telecom industry in the MENA region has seen higher capex investment in 2014 as compared to its global peers. These investments were primarily made to deploy 3G and 4G services across the region when advanced economies in the US and Europe have already made the initial investment in these technologies.

As seen in the chart, capex investment as a percentage of total revenue (capex intensity) for Zain and Viva stood at above the industry averages. Capex intensity for GCC telecom players stood at 21.5% indicating higher investment in 4G services as compared to Non-GCC Peers for which the average stood at a significantly low level of 16.2%. Meanwhile, total MENA capex intensity stood at 19.6% for 2014.

Capex Intensity for MENA Telecom Peers (FY-14)

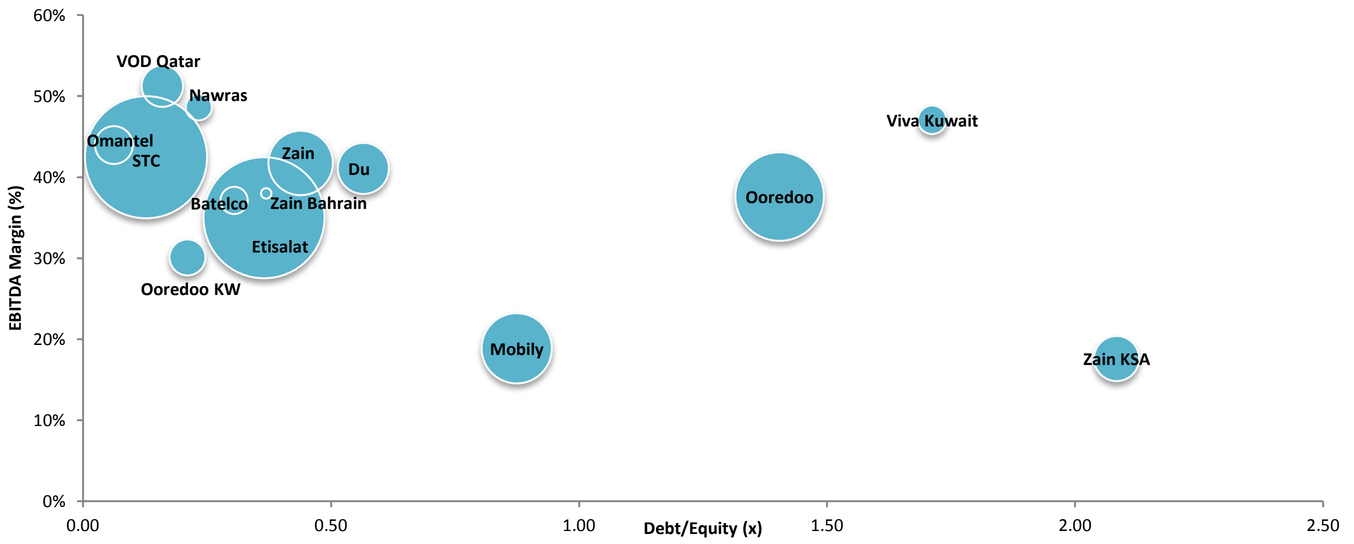


Sources: Bloomberg, KAMCO Research

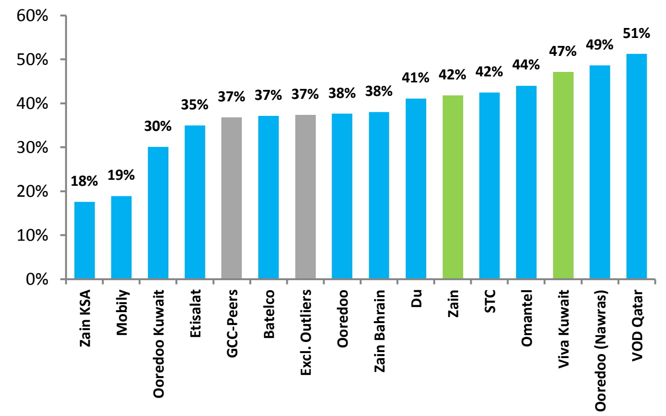
Absolute capex investment was the highest for the Ooredoo group which stood at USD 2.9 Bn in 2014 followed by USD 2.4 Bn in the case of Etisalat and USD 1.8 Bn made by STC. The capex investment was primarily made in fixed assets whereas investment in intangible assets, which includes spectrum charges and customer acquisition costs (handset subsidies), stood at around 20% of the total capex investment.

GCC Telecom Industry in Charts

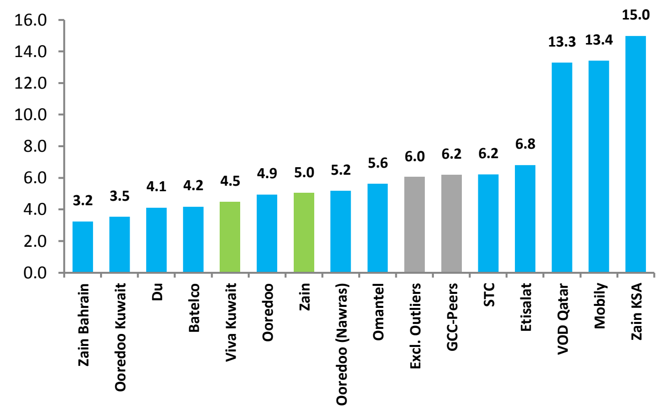
Relative Profitability and Leverage *(balloon size indicates Total Enterprise Value)*



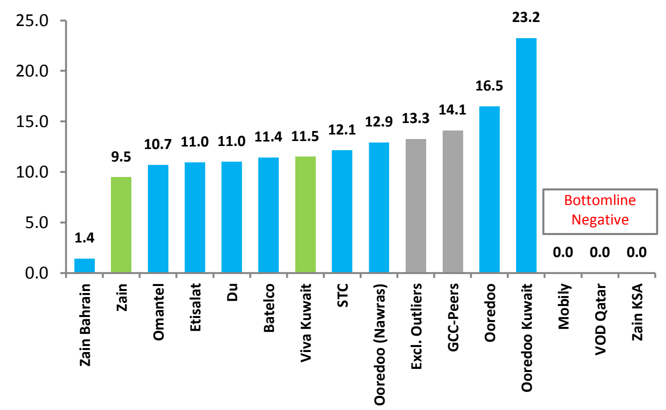
EBITDA Margins



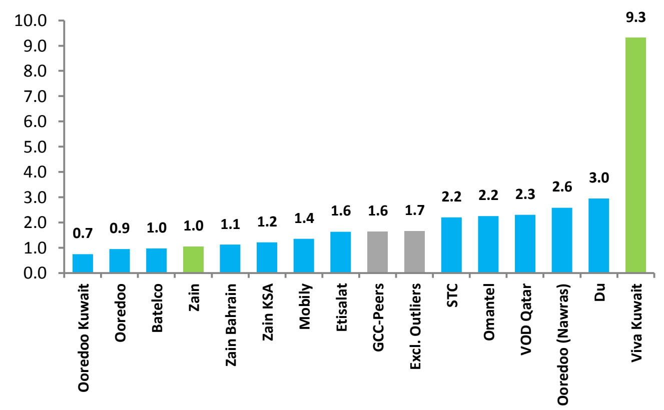
EV / EBITDA



P/E

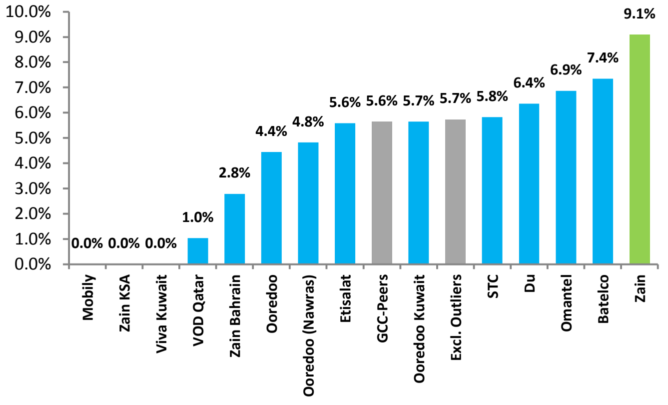


P/BV

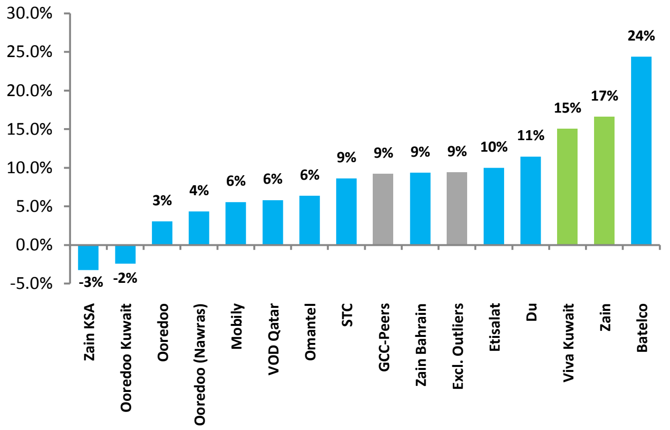


Sources: KAMCO Research and Company Financials

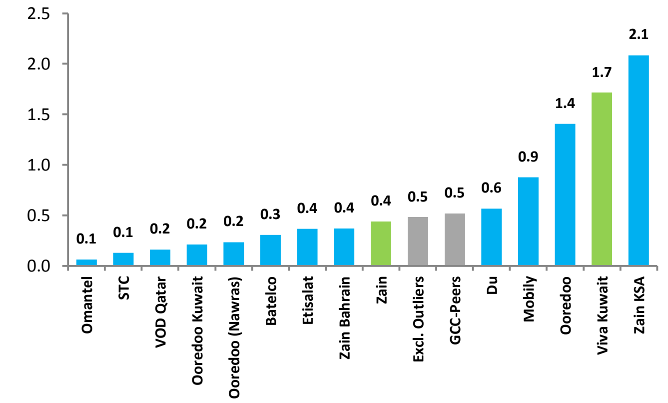
Dividend Yield



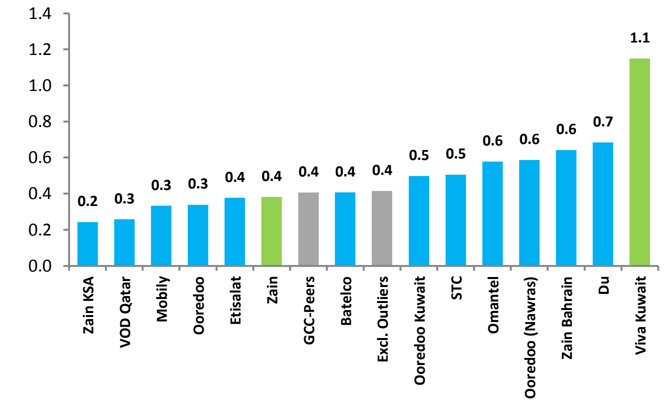
FCF Yield



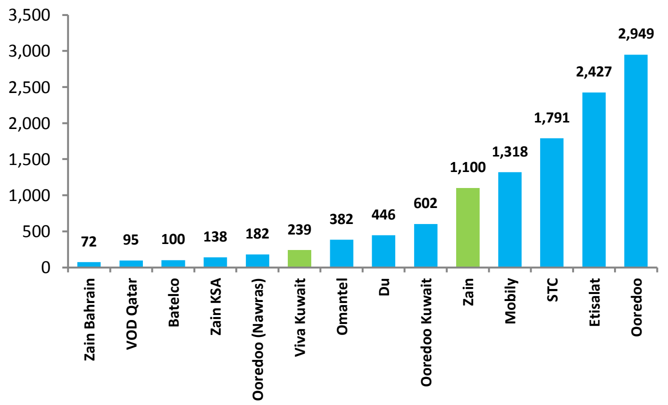
Debt / Equity



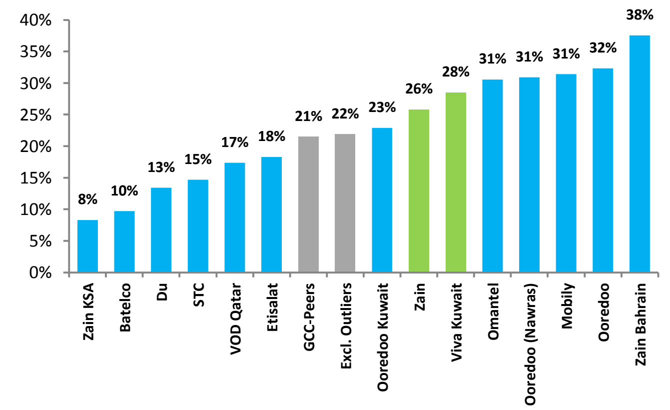
Asset Turnover



Total Capex (USD Mn)



Capex Intensity



Sources: KAMCO Research and Company Financials

Mobile Telecommunications Co. (Zain)

Investment Thesis

We initiate coverage with an 'Outperform' rating and a fair value of KWD 0.533 per share resulting in an upside of 26.8%: *We believe that the worst is already priced-in and it's time to have a relook at Zain which continues to trade at the lowest point in its history. The company is responding aggressively to market changes in its key markets and we believe that there would be an upside to profitability going forward assisted with an aggressive focus on cost cutting strategies.*

All eyes on Iraq: *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. Iraq still is in an initial stage of telecom service (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.*

We take a critical look at Kuwait as its importance as a growth market diminishes: *Kuwait continues to account for the biggest pie of Zain's intrinsic value (36%). However, a critical analysis on Kuwait highlights 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 the company to utilize its cash in the domestic operations.*

A more modest market leader in most of its market: *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.*

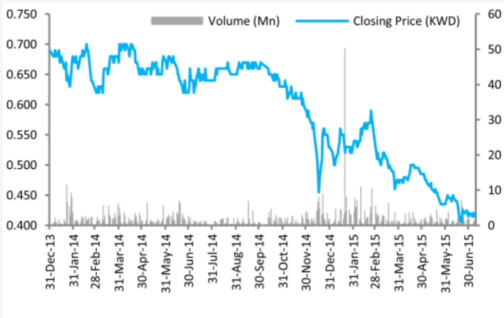
Valuation parameters also favor the stock: *Both technical and fundamental parameters favor Zain that trades at a significant discount of 43.2% on forward EV/EBITDA multiple. In terms of fundamental factors like revenue growth and profitability, we do not expect to see any negative setbacks or a surprise capital investment.*

	2014	2015e	2016e	2017e	2018e	2019e
Subscribers (Mn)	44.3	44.1	46.7	48.2	50.3	51.7
Revenue (KWD Mn)	1,213.2	1,218.4	1,256.4	1,293.9	1,338.3	1,389.6
EBITDA (KWD Mn)	506.8	498.2	515.0	533.5	553.1	572.1
Net Profit (KWD Mn)	194.3	201.6	213.4	228.3	244.1	258.9
EBITDA Margin (%)	41.8%	40.9%	41.0%	41.2%	41.3%	41.2%
ROAE (%)	12.0%	12.2%	12.5%	13.1%	13.8%	14.4%
P/E (x)	10.6	8.1	7.7	7.2	6.7	6.3
Div. Yield (%)	7.5%	9.5%	9.5%	9.5%	9.5%	9.5%
FCF Yield(%)	7.5%	11.4%	9.8%	13.0%	12.7%	12.2%

Sources: KAMCO Research, Bloomberg and Zain

Zain : 'Outperform'

CMP 9-July-2015	0.420
Target Price	0.533
Upside/Downside	26.8%



Price Perf.	1M	3M	12M
Absolute	-5.6%	-12.5%	-33.3%
Relative	-4.2%	-10.8%	-21.4%

Stock Data	
Bloomberg Ticker	ZAIN KK
Reuters Ticker	ZAIN.KW
Last Price (KWD)	0.420
MCap (KWD Mn)	1,639
MCap (USD Mn)	5,407
EV (KWD Mn)	2,278
Stock Perfromance - YTD (%)	-20.8%
PE - 2015e (x)	8.1
EV/EBITDA - 2015e (x)	4.6
Dividend yield - 2015e (%)	9.5%
52-Week Range (KWD)	0.680/0.390
52-Week ADVT (KWD Mn)	1.3

Sources: KAMCO Research and Bloomberg

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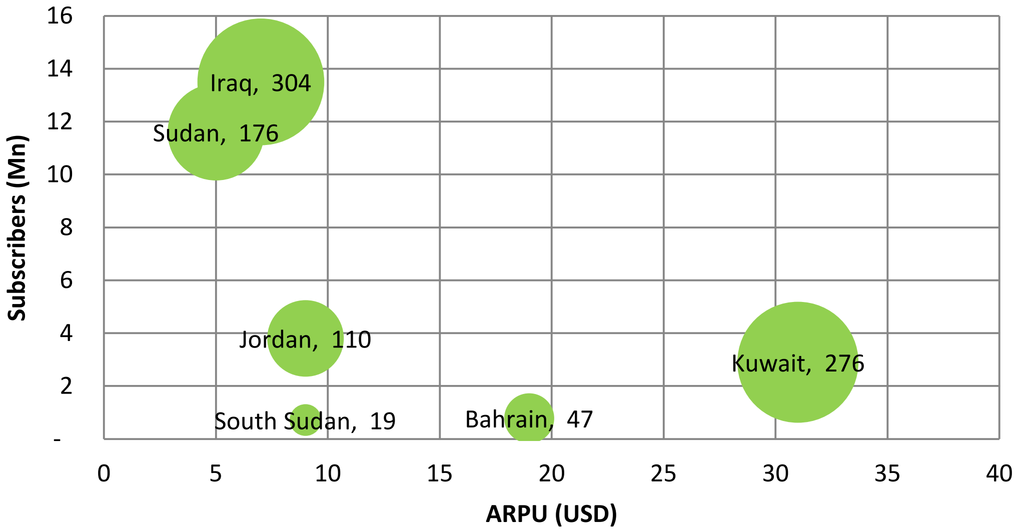
Company Background

The oldest telecom services provider in Kuwait and in the regional market, Mobile Telecommunications Company (Zain) is one of the biggest telecom companies in the MENA region with significant operational footprint spread across nine countries. The company had an even bigger footprint till 2008 before it sold its African operations in 15 countries to Bharti Airtel of India for total cash proceeds of almost USD 9 Bn. The Company went on an expansion spree starting 2003 and adopted primarily the inorganic route to expand its base in the region; however, a new strategy to focus on cash generative businesses led to the sale of its African operations.

Zain Consolidated Operation (Size of the bubble indicates Q1-15 revenues in USD Mn)



Source: KAMCO Research, Zain Q1-15 Results Presentation

The above chart shows Zain's consolidated operations with Q1-15 revenues in the bubble. The size of the bubble corresponds to the revenue it made during the most recent quarter. On the X-axis we have plotted ARPU and on the Y-axis, we have plotted total subscriber count. The chart clear shows that Iraq, with the biggest bubble, contributes the most to consolidated revenues; however, it has one of the lowest ARPU. On the other hand, Kuwait operations although has significantly less number of subscribers, it contributes to the second largest revenues solely on the back of the significantly high ARPU that it generates from this market. We have not included Zain KSA operations in the above chart as the company is not consolidated with Zain Group financials.

Excessive competition in a majority of its markets has forced Zain to go aggressive on its pricing strategy. This resulted in a consistent decline in APRU. However, being an incumbent in most of its market, Zain enjoys significant customer loyalty. Moreover, Zain has the maximum ratio of postpaid to prepaid subscribers in its portfolio. This helps the company to keep its ARPU elevated owing to higher paying postpaid subscribers.

Zain also enjoys market leading position in five out of the nine markets it operates. Moreover, all of its markets are at different stages of network deployment in that when Kuwait, Saudi Arabia, Bahrain, Jordan and Lebanon already have 4G networks, its largest market Iraq is yet to completely adopt 3G technology. This implies that there is significant scope for Zain to expand its ARPU in one of its biggest markets.

Subsidiaries and Associates

Name	Country of Incorp.	Holding
Subsidiaries		
Zain International B.V.	The Netherlands	100%
MTC Lebanon	Lebanon	100%
Zain Sudan	Sudan	100%
Kuwaiti Sudanese Holding Company	Sudan	100%
Zain South Sudan	South Sudan	100%
Pella Investment Company	Jordan	96.5%
Al Mouakhaa Lil Kadamat Al-Logistya Wal Al-Itisalat	Jordan	99.1%
Al Khatem Telecom Company	Iraq	76.0%
Atheer Telecom Iraq Limited	Cayman Islands	76.0%
Zain Bahrain B.S.C	Bahrain	54.8%
Associates		
Zain KSA	Saudi Arabia	37.0%
Wana Corporate S.A (associate of a joint venture, Zain Al Ajial S.A)	Morocco	15.5%

Source: Zain Annual Report - 2014

In terms of revenue contribution, Iraq contributed the highest group revenue of KWD 455.1 Mn in 2014. However, margins are the highest for Kuwait operations owing to higher ARPUs. Moreover, Zain's largest footprint is in Saudi Arabia, which generated an unconsolidated revenue of KWD 487.6 Mn in 2014; however, the unit is yet to breakeven and start generating profits.

Subsidiaries' Financial Break-up - 2014

(KWD Mn)	Revenue	EBITDA	EBITDA Margin	EBIT	EBIT Margin	Net Profit	Net Margin	Capex
Kuwait	346.2	165.8	47.9%	116.4	33.6%	110.7	32.0%	65.0
Iraq	455.1	164.4	36.1%	94.6	20.8%	72.6	15.9%	81.0
Bahrain	55.2	20.4	36.9%	3.7	6.7%	3.1	5.7%	20.7
Sudan	190.2	76.5	40.2%	31.9	16.8%	27.7	14.6%	52.9
Jordan	133.2	54.8	41.2%	40.8	30.7%	32.3	24.3%	101.7
Consolidated	**1,213.2**	**506.8**	**41.8%**	**335.1**	**27.6%**	**194.3**	**16.0%**	**313.0**
KSA	487.6	85.9	17.6%	-38.0	-7.8%	-96.2	-19.7%	60.1

Source: KAMCO Research, Zain Annual Report 2014

The "others" category in the above table primarily includes operations in Lebanon and South Sudan. The company operates under a management contract in Lebanon which was renewed till the end of 2015. In South Sudan, the company is awaiting the issue of a formal telecom license that would give further clarity on the required capital investment and the margins.

Management Team

Name	Position
Asaad Ahmed Omran Al-Banwan	Chairman
Bader Nasser Mohammed Abbdul Mohsen Al-Khorafi	Vice Chairman
Scott Marc Gegenheimer	CEO
Henri Kassab	MD, Intl., Wholesale and Roaming
Ossama Michael Matta	CFO

Source: Zawya

Zain continues to leverage on its expert management team which has several years of experience in the telecom domain. The CEO is a telecom veteran with more than 25 years of experience and was appointed after significant management changes during 2011 and 2012.

Shareholding Structure and Share Price Performance

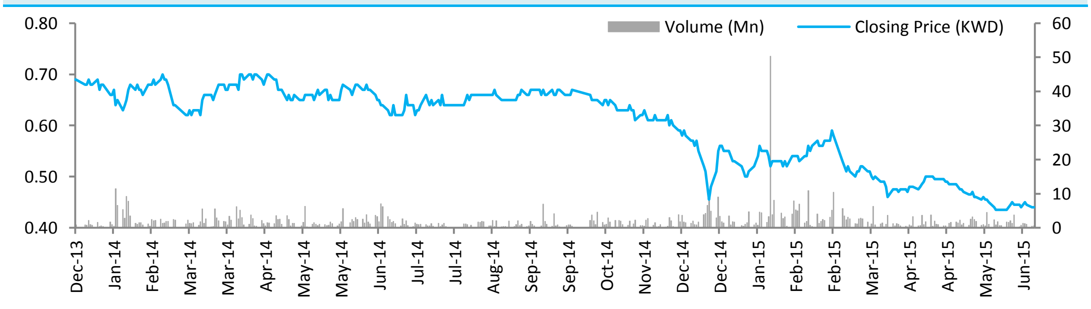
Name	Position
Kuwait Investment Authority	24.61%
Mohammed Abdulmohsin Al Kharafi & Sons Company W.L.L. [via Al Khair National for Stocks & Real Estate Company W.L.L.]	15.47%
Public Shareholding	59.92%

Source: Zawya, KSE

Zain was predominantly owned by the Kharafi family through Al Khair National for Stocks & Real Estate Company W.L.L.]. The shareholder continues to hold almost 15.5% of Zain. According to Bloomberg, institutional investors currently hold around 35% of the company's shares whereas the around 18.5% of the shares are held by retail investors.

Share Performance

Share Price and Volume



Source: KAMCO Research, Kuwait Stock Exchange

Zain shares have significantly declined over the past year on the back of a consistent decline in profitability owing to competition and lack of any major positive catalyst. Shares in the company are trading at a historical low level currently which is also due to lack of clarity over its operations in Iraq.

Operating Performance and Forecasts

Zain's operating performance has been deteriorating since 2010 with consistent decline in topline as well as profitability measures. One of the primary reasons for the decline was the increasing competition in its home market Kuwait, which affected overall profitability followed by forex losses related to Sudanese Pound as well as security and operational 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.

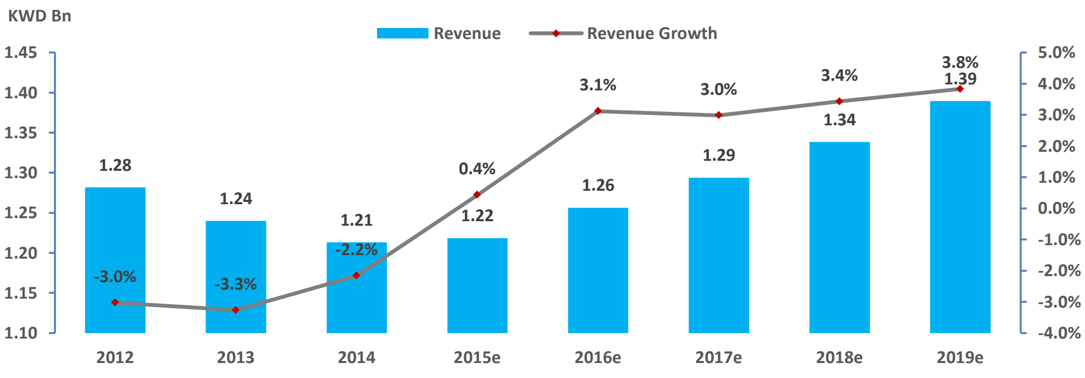
	Share in Cons. Rev.		Share in Cons. EBITDA		Share in Total Subs
	2014	Avg. (2015e-2019e)	2014	Avg. (2015e-2019e)	2014
Kuwait	28.5%	27.4%	32.7%	32.4%	6.0%
Jordan	11.0%	10.9%	10.8%	11.1%	8.7%
Sudan	15.7%	17.8%	15.1%	17.4%	25.7%
Iraq	37.5%	36.9%	32.4%	31.9%	31.1%
Bahrain	4.5%	4.7%	4.0%	4.3%	1.8%
Others	2.7%	2.2%	5%	2.9%	6%
KSA	-	-	-	-	20.3%

The breakdown of the most recent revenue and EBITDA compared to our average expectations for the forecast period highlights that the numbers move in favor of several under-rated smaller markets like Sudan, Iraq and Jordan at the cost of a decline in share of Kuwait.

Marginal topline growth ahead…

Zain's revenue saw minimal volatility over the past five years and has basically declined at 5-year CAGR of 0.8% between 2009 and 2014 on the back of increasing competition that led to lower ARPU, although the company reported higher subscribers which offset most of the decline in revenues.

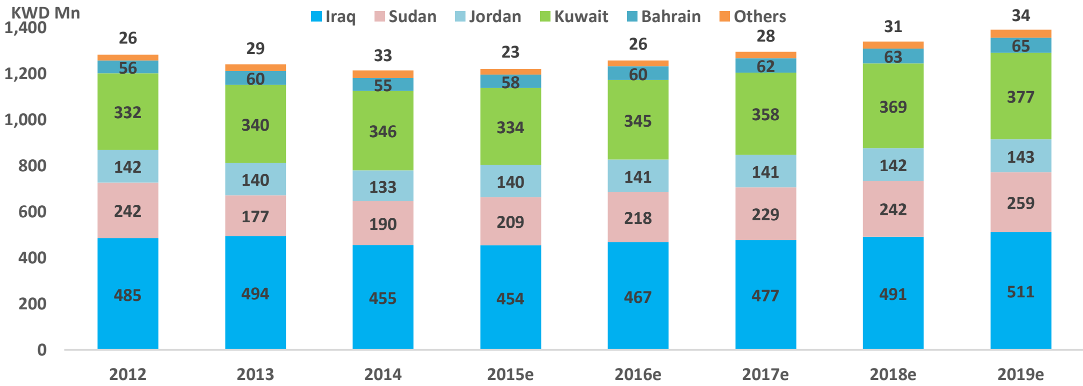
Revenue growth (KWD Bn)



Source: KAMCO Research, Kuwait Stock Exchange

Going forward, we expect the company to post marginal increase in revenues starting in 2016e after the investments made in 3G in Iraq and the 4G adoption in Jordan results into garnering additional subscribers. We expect a 5-year revenue CAGR of 2.8% till 2019e on the back of the aforementioned positive factors partially offset by an expected decline in revenue at Zain Kuwait on the back of a significant decline in ARPU further exacerbated by limited growth in subscriber count in the country.

Revenue Breakdown (KWD Bn)



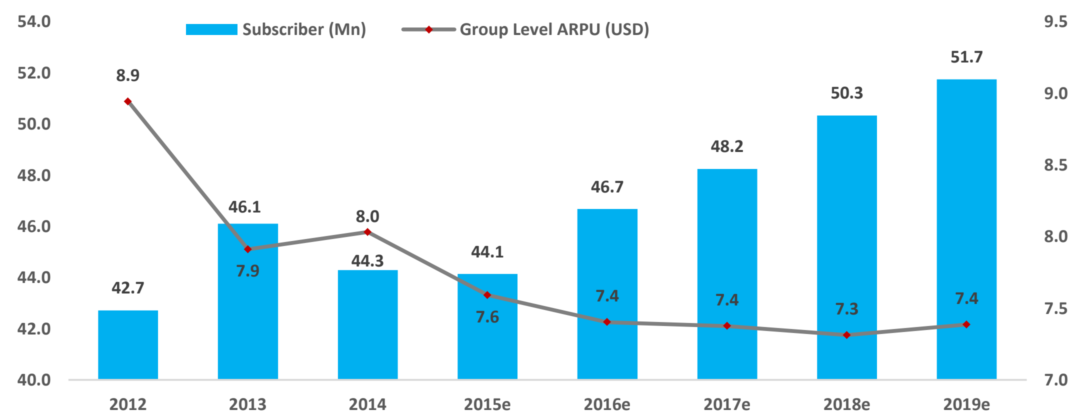
Source: KAMCO Research, Kuwait Stock Exchange

Iraq could be a game change 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 way behind the 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 3G spectrum in the country.

Subscriber growth expected to show gradual recovery

Total subscribers have grown at a 5-year CAGR of 7.9%; however, we expect a significant slowdown in this pace, and to grow at a more sustainable growth rate of 3.2% over the next five year (2015e – 2019e).

Subscriber Growth (Mn)



Source: KAMCO Research, Kuwait Stock Exchange

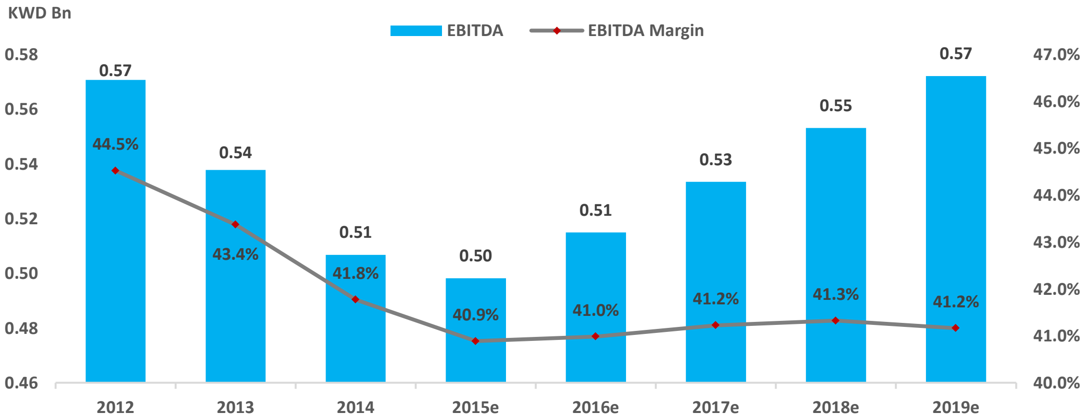
Subscriber growth would obviously come from relatively under penetrated market; however, we also expect significant additions in Saudi Arabia, which despite being a mature market offers growth opportunities for Zain due to its lower subscriber base. We expect Zain KSA's market share to grow from 17% currently to 21% by 2019e.

Meanwhile, in terms of ARPU, we expect the group level ARPU (excluding Saudi Arabia) to decline from USD 8.0 currently to USD 7.4 by 2019e. The decline would come primarily from Kuwait, which has the highest group ARPU partially offset by higher expected ARPU in Jordan and Sudan which are much smaller markets to have a significant impact on overall pricing.

EBITDA recovery in sight…

Consolidated EBITDA has been consistently declining over the past several years and stood at 41.8% in 2014 primarily replicating the trend in ARPU. Moreover, the company increased marketing expenses in order to fend off competition that resulted in additional cost on a consistent basis.

EBITDA Margin Trend



Source: KAMCO Research, Kuwait Stock Exchange

For the forecast period, we expect EBITDA margin to decline in 2015e to 40.9% but thereafter show gradual recovery to reach 41.2% by 2019e, still below historical levels. We have given granular details of financials in the individual century analysis in the next section.

Zain Operations - Cheat Sheet

Subsidiary	Positives	Negatives	Impact on overall value
Kuwait	• Highest ARPU in the group (USD 31) • Market leading position (#1) • High postpaid penetration (24%) • Highest EBITDA margin	• High market penetration limits expansion • Competition has led to a declining trend in ARPU • Mature Market	Neutral to negative as ARPU could gradually decline (to USD 28 by 2019e).
Iraq	• Market at a nascent stage (3G speeds) • Market leading position (#1) • Listing provides ample cash flows for future expansion efforts. • Scope for expanding in other less covered regions of the country. • Scope for garnering postpaid subscribers and ARPU Expansion (from USD 7 at the end of Q1-15).	• Political uncertainty • Higher operating cost • Significant forex losses	Scope for ARPU expansion from the current low of USD 7 (as of Q1-15) will have a positive impact on total value. However, the vacuum due to the uncertain political situation in the country results into higher operating expenses as well as lower revenues.
Jordan	• Market Leading Position (#1) • Relatively less penetrated market (127%) • 4G deployment could lead to ARPU expansion. • Long term license expires in 2031.	• Aggressive competition lead to customer decline in latest quarter (38% in Q1-15 vs. 40% at the end of FY-14)	An early stage of technology deployment (4G spectrum) offers ample opportunities in the near term.
Sudan	• Significantly low market penetration rate (57%) • Contribution of data revenues is low (8% of total revenues) which offers scope of future expansion.	• Weak economic situation and devaluation of SDG has negative impact on financials. • 4G deployment is not a near term due to the low GDP/Capita. • One of lowest ARPU in the group (USD 5) • Competition lead to decline in market share (41% in Q1-15)	There is ample scope for expanding served markets; however, growth in the near term would be driven by additional volume rather than higher ARPUs.
Bahrain	• Market Leading Position • Relatively strong ARPU (USD 19) • High postpaid penetration (28%)	• Mature market (180% penetration rate) • Data revenues already at 33% of total revenues which limits further expansion.	We expect ARPU to gradually decline going forward that would result in lower EBITDA margins.
Saudi Arabia	• One of the biggest telecom footprint for Zain in served markets. • ARPU at a relatively high level as compared to some of the other markets.	• 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 181% penetration rate.	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 as well as high customer acquisition costs. This would further delay a turnaround of operations into profits.

Zain Kuwait

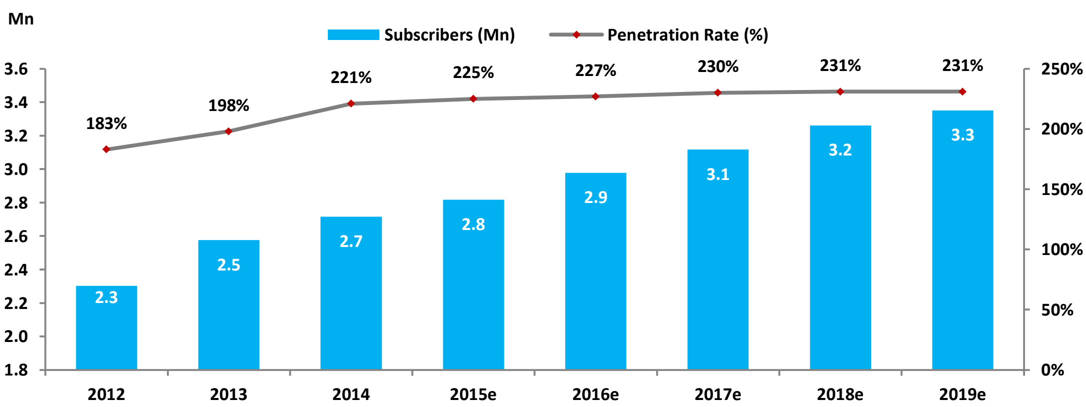
Kuwait continues to be Zain's core operation with the highest ARPU level within the Zain Group resulting in the highest contribution to group EBITDA (2014) and the highest group EBITDA margins consistently over the past several years. Although Kuwait is one of the smaller telecom markets in the GCC and MENA region, it has the highest telecom penetration level resulting in a total telecom subscriber base of 7.6 Mn as of 2014.

Moreover, the mobile user base in Kuwait got a significant boost after the introduction of 4G mobile services in the form of portable routers. This pushed up data revenues as well as the use of data intensive applications and devices like subsidized 4G LTE enabled handsets thereby increasing the company's customer acquisition costs across the board.

Key Operating Metrics	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Population (Mn)	3.8	3.9	4.0	4.1	4.2	4.3	4.5	4.6
Penetration Rate (%)	183%	198%	221%	225%	227%	230%	231%	231%
Subscribers (Mn)	2.3	2.5	2.7	2.8	2.9	3.1	3.2	3.3
New Additions (Mn)	0.15	0.27	0.14	0.10	0.16	0.14	0.14	0.09
Market Share (%)	38.1%	38.0%	35.2%	35.0%	35.5%	35.5%	36.0%	36.0%
Prepaid (Mn)	1.6	1.8	2.0	2.1	2.2	2.3	2.4	2.5
Postpaid (Mn)	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8

We have assumed a marginal increase in telecom penetration rate from 221% in 2014 to 231% in 2019e for our projections as we believe that the future expansion in market size would be more gradual as compared to the pace at which it grew historically.

Subscribers (Mn) vs. Penetration Rate



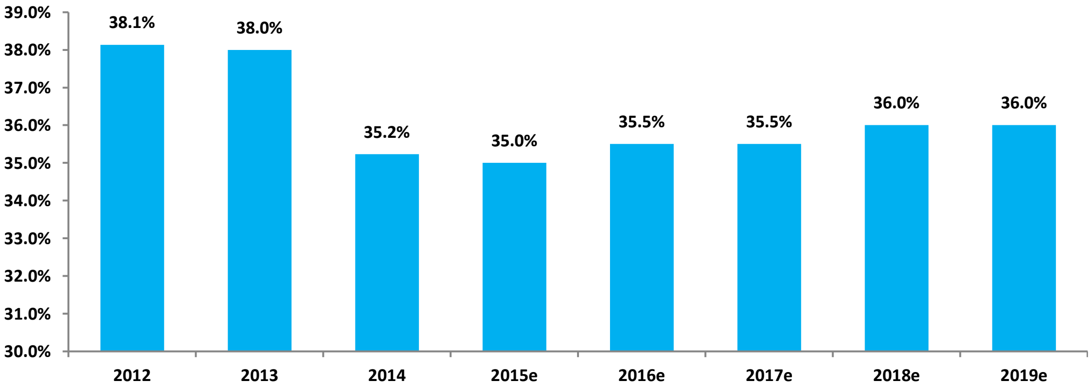
Source: KAMCO Research, Zain Financials

Zain's revenue base has seen marginal increase in the past two years and we expect the revenue to decline in 2015e owing to the significant decline in ARPU. We expect revenue to increase after a fall in 2015e at a marginal 4-year CAGR of 3.0% for the forecast period as the company grabs new customers with increasing penetration level as well as from the competitors. The growth in revenue would be driven by additional subscribers partially offset by decline in ARPU going forward (5-year ARPU decline of 4.1%).

Key Financial Indicators	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Revenues (Mn)	331.9	339.7	346.2	334.5	345.2	357.5	368.6	376.7
Rev. Growth (%)	-3.6%	2.4%	1.9%	-3.4%	3.2%	3.6%	3.1%	2.2%
ARPU (USD)	42	39	36	31	31	30	30	29
ARPU Growth (%)	-14.3%	-7.1%	-7.7%	-13.9%	-1.5%	-1.5%	-1.5%	-1.5%
EBITDA (Mn)	163.4	164.3	165.8	160.1	166.6	174.4	179.8	183.7
EBITDA Margin (%)	49.2%	48.4%	47.9%	47.9%	48.3%	48.8%	48.8%	48.8%
Capex (Mn)	55.8	58.0	65.0	59.3	61.2	63.4	65.3	66.8

Zain's market share is not expected to change drastically in the near term as we expect similar devices and similar strategies from telecom players. However, Zain's initiatives into peripheral revenue streams like the partnership with Vodafone and Microsoft Gulf entered in 2014 to launch Microsoft Office 365 innovative solutions to its corporate customers is expected to result into higher and sustainable revenue streams in the future. The said offering is targeted at enterprises and SMEs in order to strengthen Zain's leading position as a unified communications provider in the region.

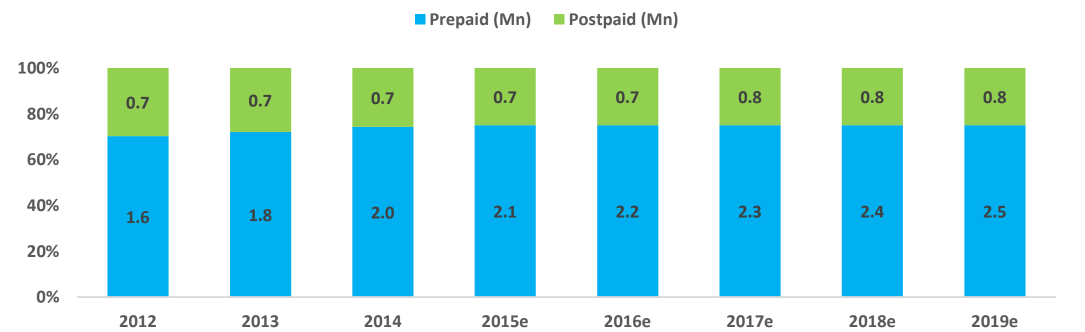
Market Share Trend



Source: KAMCO Research, Zain Financials

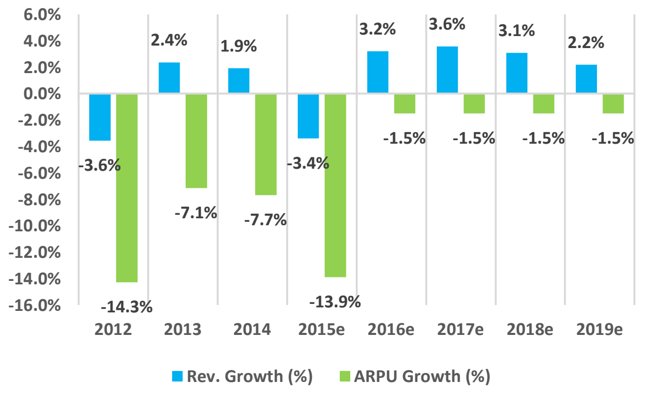
In terms of customer split, we expect Zain to maintain the largest share of postpaid subscribers in Kuwait that would also help it to maintain a relatively higher ARPU. Subscriber additions are expected to be marginal and would basically come by acquiring competitors' share.

Subscriber Base Breakdown (Mn)



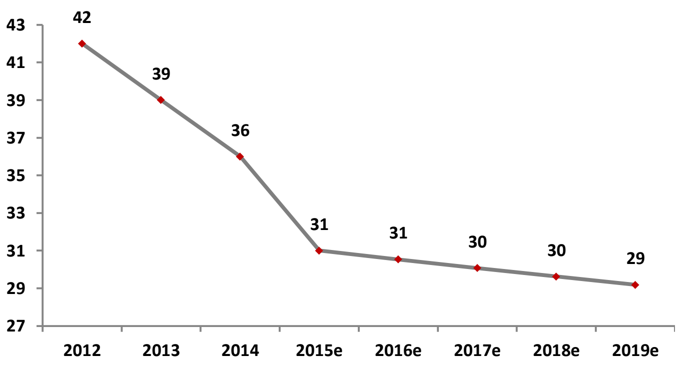
Source: KAMCO Research, Zain Financials

Revenue vs. ARPU Growth



Source: KAMCO Research, Zain Financials

ARPU Trend (USD)



Source: KAMCO Research, Zain Financials

The above chart clearly shows that revenue growth in our projections are expected to outpace ARPU growth consistently over the forecast period which would be as a contrast to the trend seen in the recent past. We expect ARPU to decline gradually from USD 36 in 2014 to USD 29 by the end of 2019e.

In terms of profitability, we expect the company to be aggressive on cutting costs going forward which would result into higher EBITDA margins. Our EBITDA margin projections show a gradual improvement on the back of higher revenues coupled with a smaller growth in operating expenses. We expect an average EBITDA margin of 48.5% for the forecast period.

We expect Zain to adopt cost cutting strategies that are seen in more developed markets. This could include spinning off the tower business into a separate independent company. One of the other more famous telecom strategies includes tower sharing agreements with other telecom players in the market that helps in significantly cutting down costs associated with the maintenance of mobile sites.

Zain Iraq

One of the most promising markets for the Zain Group, the company's Iraqi operations has faced several setbacks due to the political instability in Iraq. The country is also at a nascent stage of telecom technology with merely 3G licenses being auctioned recently. 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.

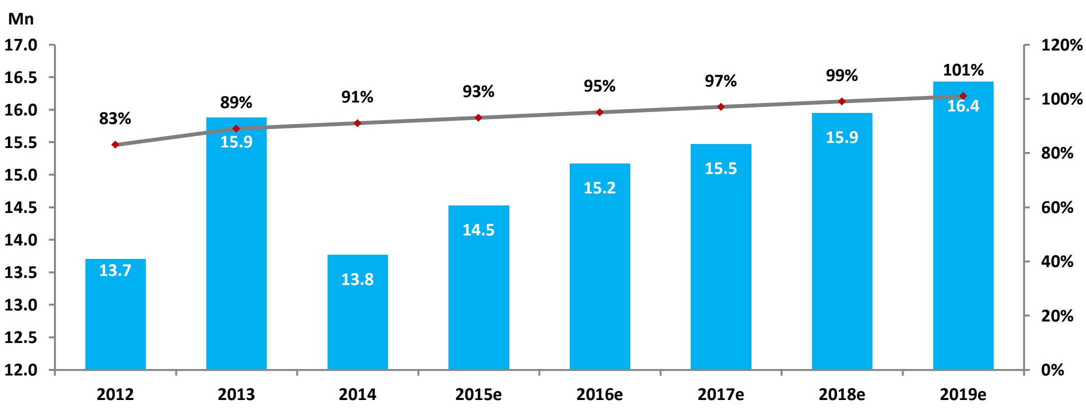
Iraq is the largest market in Zain's portfolio with a population of 35.9 Mn at the end of 2014, according to the IMF. It also accounts for the largest pie of Zain's total subscriber base accounting for 31.1% of total subscribers base (including Zain KSA) at the end of 2014.

Key Operating Metrics	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Population (Mn)	33.7	34.8	35.9	37.0	38.1	39.2	40.3	41.5
Penetration Rate (%)	83%	89%	91%	93%	95%	97%	99%	101%
Subscribers (Mn)	13.7	15.9	13.8	14.5	15.2	15.5	15.9	16.4
New Additions (Mn)	1.3	2.2	-2.1	0.8	0.6	0.3	0.5	0.5
Market Share (%)	50%	49%	42%	42%	43%	43%	43%	43%
Prepaid (Mn)	13.6	15.8	13.6	14.2	14.7	14.9	15.2	15.4
Postpaid (Mn)	0.1	0.1	0.1	0.3	0.5	0.6	0.8	1.0

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. In our projections, we have factored in a gradual increase in penetration rates in Iraq from 93% in 2014 to close to 101% by 2019e.

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. Nevertheless, the deployment of 3G services in the country could be a game changer unless the market stabilizes and normal market conditions prevails. In addition, the significant drop in subscribers in Iraq recorded during 2014 was due to a change in the definition of active customers implemented by Iraqi authorities.

Subscribers (Mn) vs. Penetration Rate

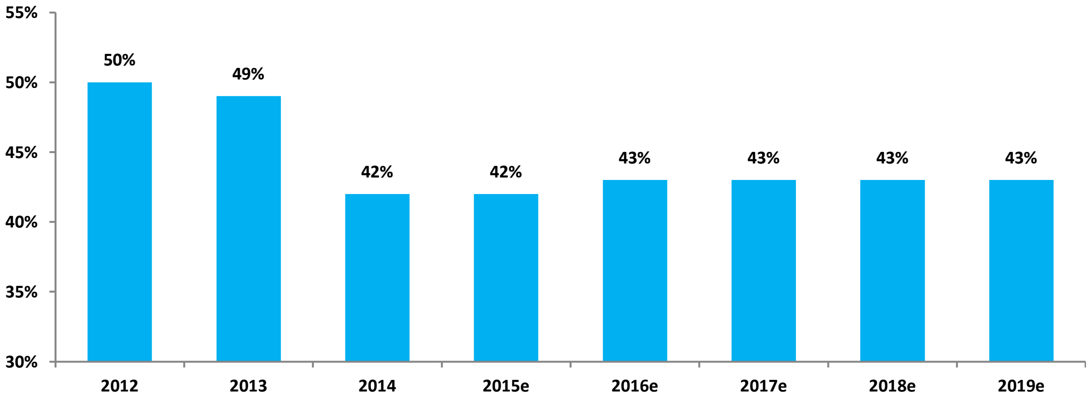


Source: KAMCO Research, Zain Financials

Key Financial Indicators	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Revenues (Mn)	484.5	494.2	455.1	453.8	466.8	476.8	491.3	511.4
Rev. Growth (%)	8.6%	2.0%	-7.9%	-0.3%	2.9%	2.1%	3.0%	4.1%
ARPU (USD)	11.0	10.0	9.0	8.8	8.6	8.6	8.6	8.7
ARPU Growth (%)	0.0%	-9.1%	-10.0%	-2.0%	-2.0%	-1.0%	0.5%	1.0%
EBITDA (Mn)	214.2	202.4	164.4	163.4	166.9	169.3	173.2	179.0
EBITDA Margin (%)	44.2%	40.9%	36.1%	36.0%	35.8%	35.5%	35.3%	35.0%
Capex (Mn)	41.9	83.2	81.0	70.4	72.4	73.9	76.2	79.3

We expected Zain's subscriber base in Iraq to increase at a 5-year CAGR of 3.6% during the forecast period. The increase would be on the back of the deployment of 3G services starting 2015. 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.

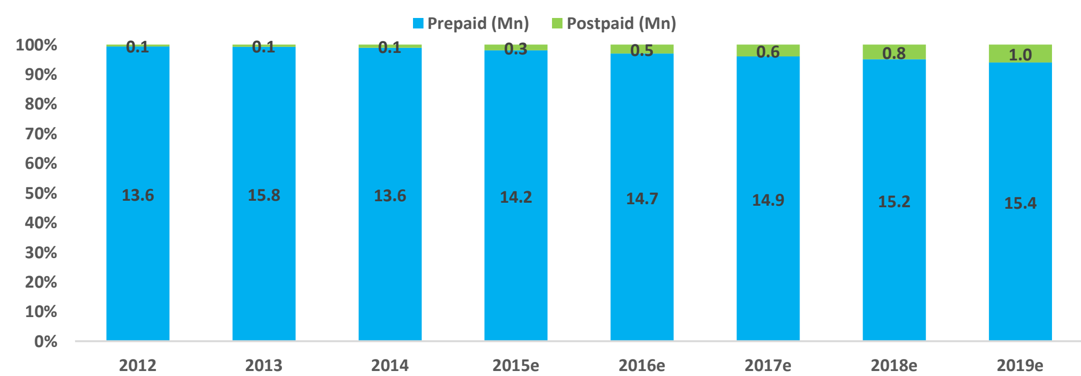
Market Share Trend



Source: KAMCO Research, Zain Financials

In terms of market share, we expect that the deployment of 3G services would help Zain in getting additional subscribers at a faster rate than the competitor due to its strategic strength in some of the key regions in Iraq. This will lead to slightly higher market share in 2016e. However, for the remaining years of our forecast, we have assumed a constant market share of 43% as we expect competitive forces would limit the growth of Zain's market leading position.

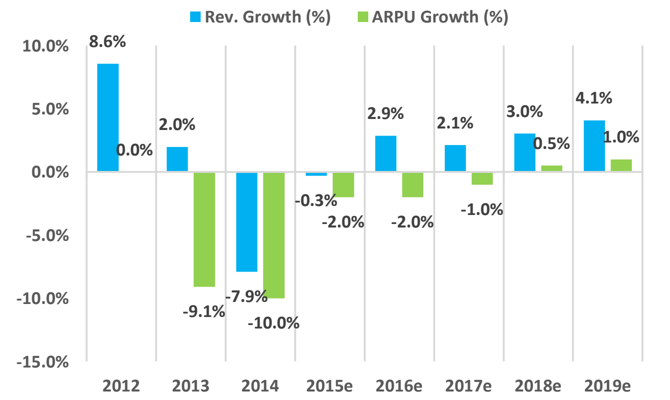
Subscriber Base Breakdown (Mn)



Source: KAMCO Research, Zain Financials

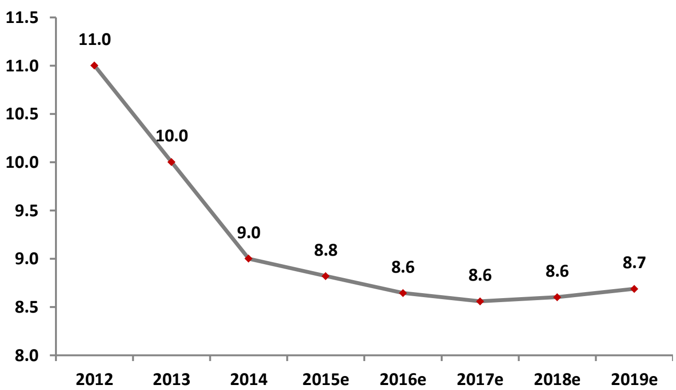
Although Zain Iraq has a significantly low ARPU as compared to its Kuwait operations, we expect it to decline marginally in the next few years to USD 8.7 in 2019e. The unit's Q1-15 ARPU was recorded at USD 7; however, we believe it would rise by the end of the year to USD 8.8 on the back of the new 3G network. We expect a marginal revenue decline of 0.3% in 2015e on the back of a gradually increasing ARPU from Q1-15 onwards, followed by positive trend in the rest of the forecast period. We believe that Zain would need to play the price card in order to defend its market share in Iraq and attract a higher proportion of postpaid subscribers over the next few years.

Revenue vs. ARPU Growth



Source: KAMCO Research, Zain Financials

ARPU Trend (USD)



Source: KAMCO Research, Zain Financials

Consequently, revenue growth is expected to outpace the decline in ARPU over the forecast period due to faster growth in subscriber base as compared to ARPUs. Moreover, in terms of profitability, we expect EBITDA margins to increase gradually during the forecast period due to the higher cost of 3G services. We expect to see a substantial growth in data revenues in the near term.

Zain Jordan

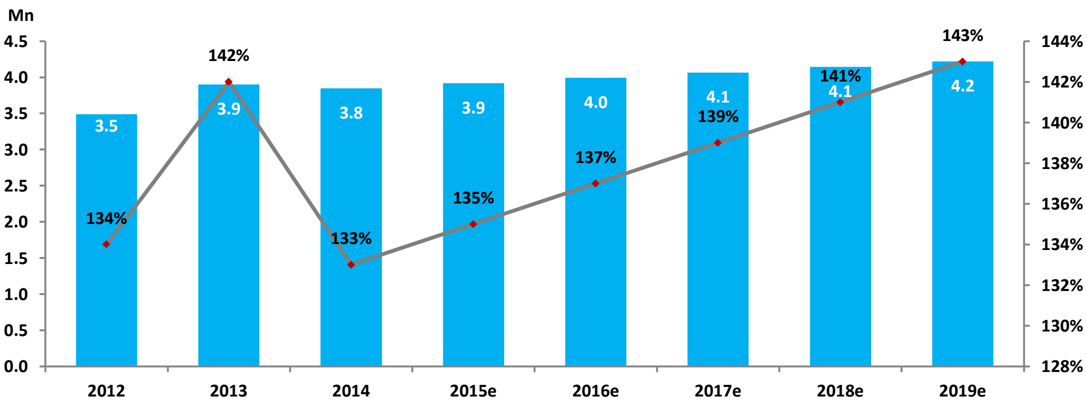
Another nascent market for Zain, the company's Jordanian operations recently deployed 4G LTE services in order to tap data hungry users. The telecom penetration rate in Jordan is relatively low representing a fertile ground for accelerated growth in subscriber count.

Key Operating Metrics	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Population (Mn)	6.4	6.5	6.7	6.8	7.0	7.2	7.3	7.5
Penetration Rate (%)	134%	142%	133%	135%	137%	139%	141%	143%
Subscribers (Mn)	3.5	3.9	3.8	3.9	4.0	4.1	4.1	4.2
New Additions (Mn)	0.7	0.4	-0.1	0.1	0.1	0.1	0.1	0.1
Market Share (%)	39%	38%	40%	40%	40%	40%	40%	40%
Prepaid (Mn)	3.0	3.3	3.2	3.3	3.3	3.4	3.4	3.5
Postpaid (Mn)	0.5	0.6	0.6	0.6	0.6	0.7	0.7	0.7

We believe that the market conditions in Jordan would replicate that of Kuwait during a similar technology transition (from 3G to 4G LTE technology). During the process, Zain was behind the competition when garnering new customers in Kuwait. Similarly, in Jordan, Orange has gained significant market share over the past few years giving tough competition to Zain. In the process, Zain has lost almost 4% of its market share over the past five years.

According to the IMF, the population of Jordan is expected to increase at a 5-year CAGR of 2.3% whereas we expect Zain's subscriber base to increase at a slightly lower 1.3% implying customer loss to other competitors. However, we expect Zain Jordan's postpaid subscriber base to increase at a much faster pace of 4.3% over the same period as the company tries to push enhanced data services via a postpaid subsidized model as seen in other markets.

Subscribers (Mn) vs. Penetration Rate



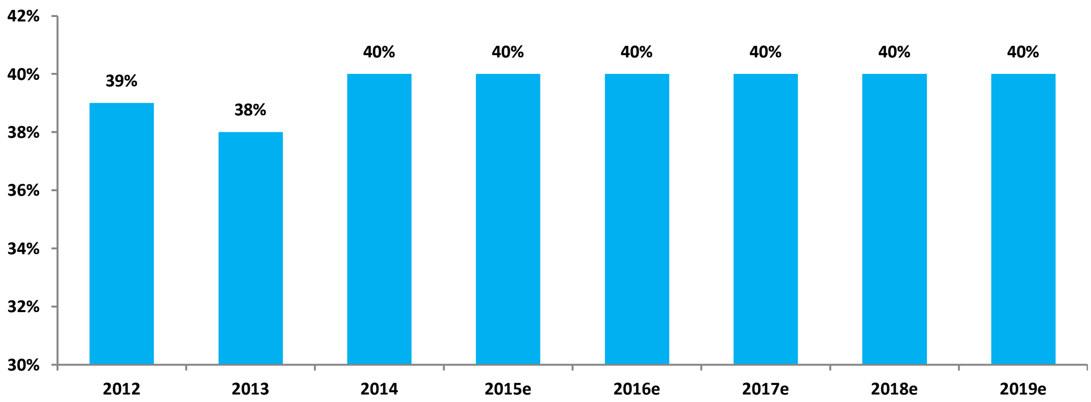
Source: KAMCO Research, Zain Financials

We expect the telecom penetration rate in Jordan to increase from 133% in 2014 to 143% in 2019. During the same period, Zain's subscriber base is expected to increase from 3.8 Mn to almost 4.2 Mn in 2019e. We believe that the February-15 launch of 4G LTE services would increase the total subscriber base by almost 70,000 customers as compared to an equal decline seen in 2014 from 2013.

Key Financial Indicators	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Revenues (Mn)	142.4	140.1	133.2	139.9	140.6	141.4	142.2	143.0
Rev. Growth (%)	2.1%	-1.7%	-4.9%	5.0%	0.5%	0.6%	0.6%	0.6%
ARPU (USD)	12.0	10.0	9.0	8.9	8.7	8.6	8.5	8.3
ARPU Growth (%)	-20.0%	-16.7%	-10.0%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%
EBITDA (Mn)	63.1	59.7	54.8	56.2	58.0	59.7	61.5	61.8
EBITDA Margin (%)	44.3%	42.6%	41.2%	40.2%	41.2%	42.2%	43.2%	43.2%
Capex (Mn)	1.4	3.6	101.7	14.8	15.9	16.9	17.9	18.0

In terms of market share, we expect the company to defend its turf after a marginal decline in the initial years. We expect the company to maintain a market leading subscriber share of almost 40% for the final years of our projections. We believe that Zain would have a first mover advantage in the market after it deployed the 4G services and this advantage would help it secure a greater number of postpaid subscribers.

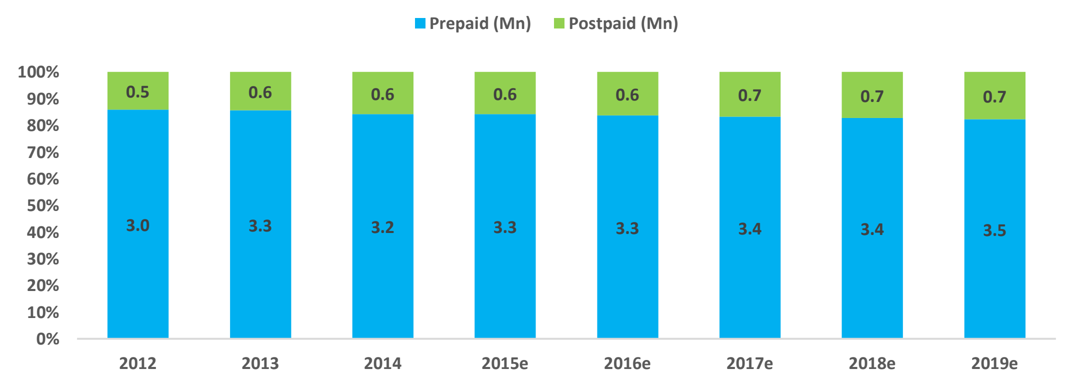
Market Share Trend



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, in line with what was seen in the Kuwaiti market. We expect ARPU to decline at a 5-Year CAGR of 1.5%. This coupled with the increase in subscriber count would result in a small rate of decline in total revenues.

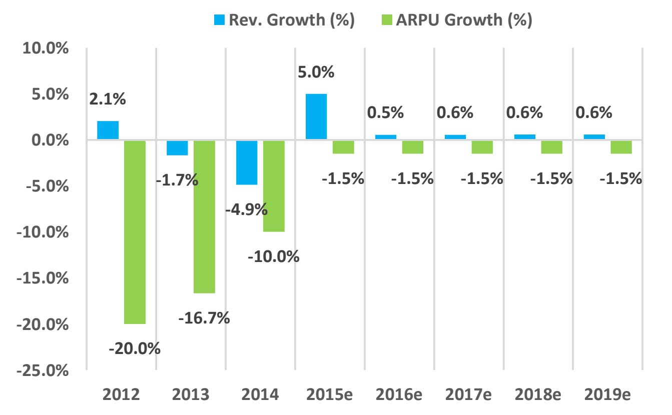
Subscriber Base Breakdown (Mn)



Source: KAMCO Research, Zain Financials

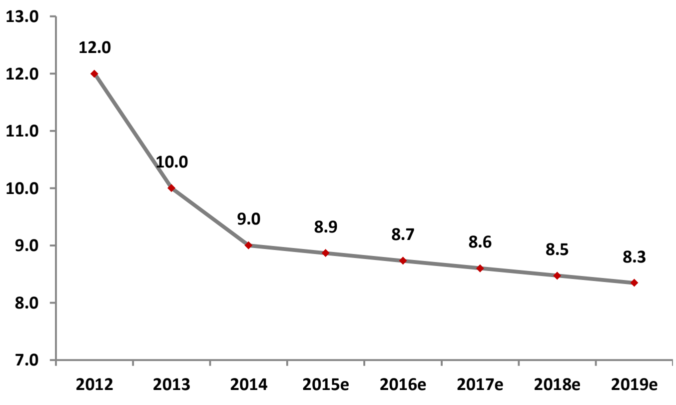
As shown in the below chart, both revenue and ARPUs are expected to have a declining trend over our forecast period. However, profitability in terms of EBITDA margin is expected to trend up after a brief period of decline.

Revenue vs. ARPU Growth



Source: KAMCO Research, Zain Financials

ARPU Trend (USD)



Source: KAMCO Research, Zain Financials

We expect an EBITDA margin of 40.2% during 2015e as compared to 41.2% during 2014 due to costs related to deployment of new services as well as higher customer acquisition costs. However, we expect EBITDA margin to improve during the remainder of our forecast period (2016e to 2019e) on the back of a smaller increase in operating expenses.

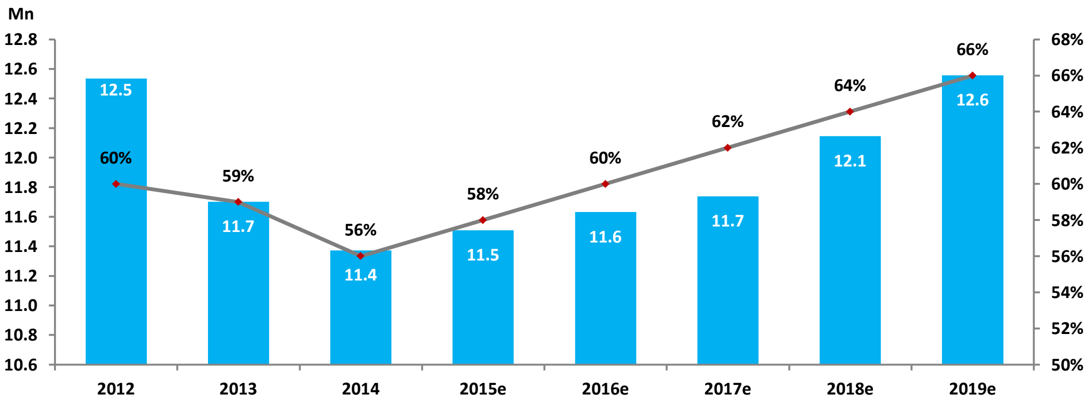
Zain Sudan

Similar to the operations in Iraq, Zain's operation in Sudan faces social instability that has led to severe operational issues for the operator. Moreover, the second devaluation of Sudanese Pound by the central government by almost 25%, the second such devaluation in little over a year, severely affected profitability of Zain at the consolidated level leading to significant foreign currency losses. This came as a double whammy for the company that was still struggling operationally as well as to improve pricing and profitability.

Key Operating Metrics	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Population (Mn)	33.5	34.4	35.3	36.2	37.1	38.1	39.1	40.1
Penetration Rate (%)	60%	59%	56%	58%	60%	62%	64%	66%
Subscribers (Mn)	12.5	11.7	11.4	11.5	11.6	11.7	12.1	12.6
New Additions (Mn)	-0.5	-0.8	-0.3	0.1	0.1	0.1	0.4	0.4
Market Share (%)	52%	43%	42%	41%	40%	39%	39%	39%
Prepaid (Mn)	12.4	11.6	11.3	11.3	11.3	11.3	11.5	11.8
Postpaid (Mn)	0.1	0.1	0.1	0.2	0.3	0.5	0.6	0.8

Nevertheless, on the positive side, Zain continues to be the market leader in Sudan and is expected to remain one during our forecast period. The company also witnessed strong financial indicators in terms of local currency. The company expects the situation in the country and the currency to stabilize which would have a direct impact on its contribution on the parent level.

Subscribers (Mn) vs. Penetration Rate



Source: KAMCO Research, Zain Financials

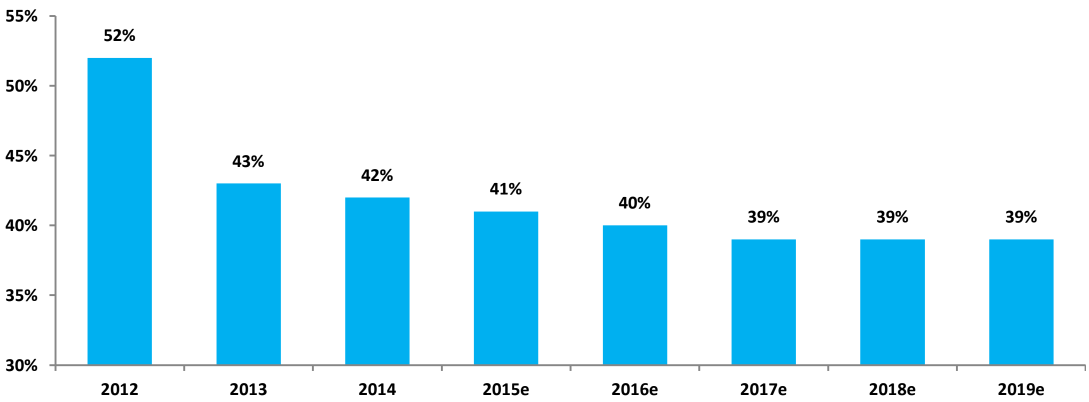
The country also represents significant opportunities as the current penetration level is way below as compared to the rest of the markets that Zain operates. We expect the overall telecom penetration levels in Sudan to increase from 56% in 2014 to 66% by 2019e. We are being conservative in our estimates as we believe that the oil-dependent economy that Sudan is would recover gradually from the current situation.

The population in Sudan is expected to increase at a 5-year CAGR of 2.6%. However, we expect Zain's subscriber base to increase at a more modest rate of 2.0% as we expect Zain to lose some market share over the forecast period due to aggressive competition. We expect Zain's subscriber base to achieve the 12 Mn mark by the end of 2018 and record at 12.6 Mn by the end of 2019.

Key Financial Indicators	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Revenues (Mn)	241.7	176.5	190.2	208.6	218.5	228.5	241.9	259.3
Rev. Growth (%)	-19.7%	-27.0%	7.8%	9.7%	4.7%	4.6%	5.9%	7.2%
ARPU (USD)	6.0	4.0	5.0	5.2	5.4	5.5	5.7	5.9
ARPU Growth (%)	-25.0%	-33.3%	25.0%	3.5%	3.5%	3.5%	3.5%	3.5%
EBITDA (Mn)	99.4	71.8	76.5	84.3	87.3	91.8	97.2	104.0
EBITDA Margin (%)	41.1%	40.7%	40.2%	40.4%	40.0%	40.2%	40.2%	40.1%
Capex (Mn)	56.5	29.2	52.9	58.0	57.7	57.1	57.1	57.6

As highlighted, we expect the company's market share to decline gradually to 39% over the next five years, but would maintain its leading position. In addition, Zain is also entering related business like the mobile financial service with Bank of Khartoum, one of the first such initiatives in Sudan. It is pertinent to note that similar mobile financial services in Nigeria have given Safaricom a significant competitive edge and such services are gaining strong acceptance in Africa.

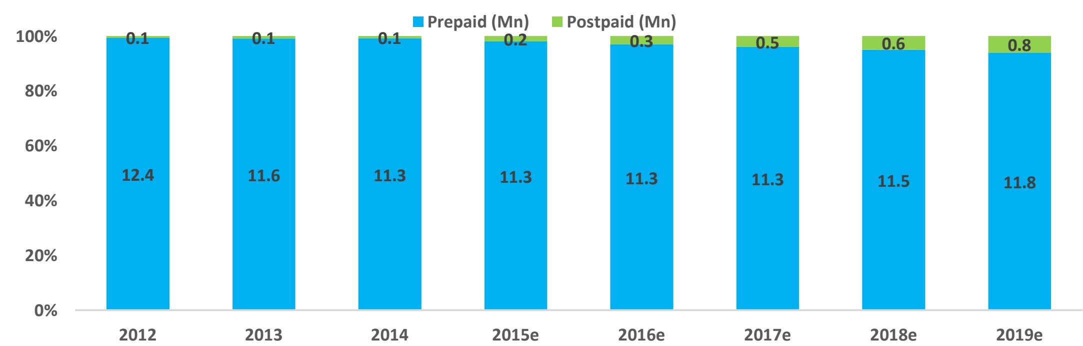
Market Share Trend



Source: KAMCO Research, Zain Financials

In terms of subscriber split, we believe that Zain Sudan would garner a greater share of postpaid subscribers driven by 3G mobile services. Sudan is predominantly a prepaid subscribers market with historically 99% of the subscribers owning prepaid mobile cards. We believe that there would be a secular shift in the market structure after the launch of 3G services and the proportion of postpaid subscribers would increase at a much faster pace.

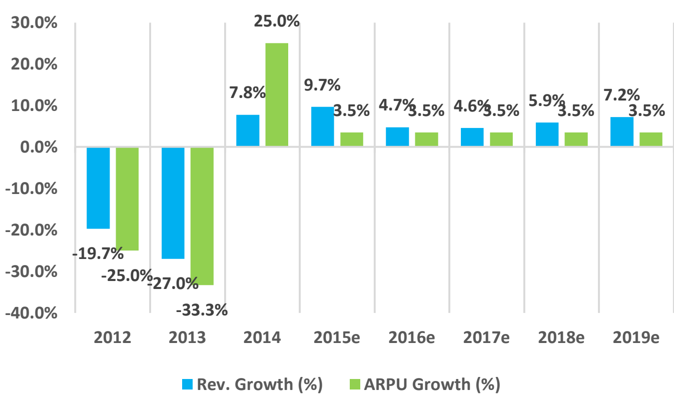
Subscriber Base Breakdown (Mn)



Source: KAMCO Research, Zain Financials

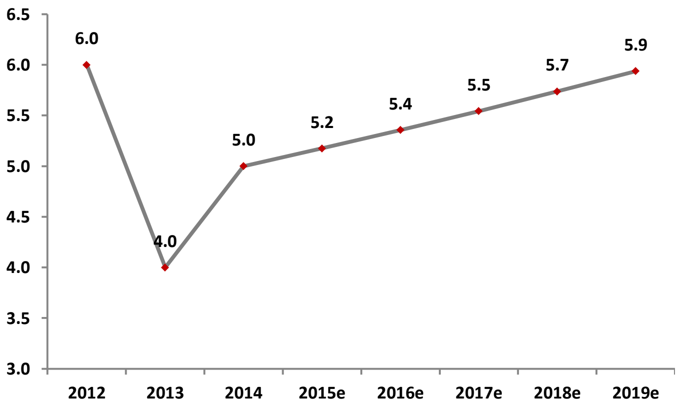
We expect revenues to increase at a much faster pace going forward as 3G mobile services gain traction. The revenue growth would be driven by both the factors i.e. APRU as well as subscribers additions. We expect at least 3.5% growth in ARPU each year during our forecast period that would result in a higher 6.4% 5-year CAGR increase in total revenues.

Revenue vs. ARPU Growth



Source: KAMCO Research, Zain Financials

ARPU Trend (USD)



Source: KAMCO Research, Zain Financials

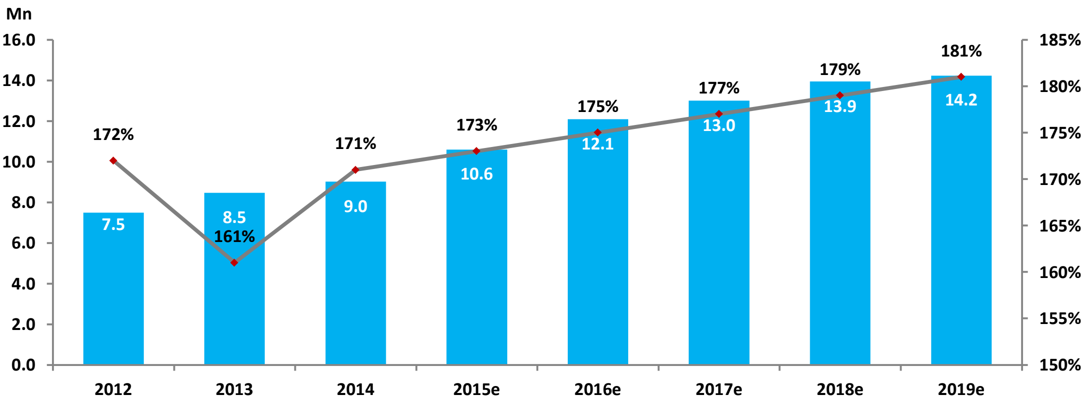
Zain Saudi Arabia

The company's Saudi Arabian operation, which is not consolidated and is accounted for using the equity method, remains a drag on overall profitability. Zain entered the Saudi Arabian market in 2008, almost at the same time as Viva, a subsidiary of STC, entered the Kuwaiti market, in what would otherwise appear as a quid pro quo deal. However, Zain KSA continues to make significant losses whereas Viva has already started reporting positive results. The primarily reason for this was the significantly low ARPUs offered in Saudi Arabia as compared to Kuwait.

Key Operating Metrics	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Population (Mn)	29.2	30.0	30.6	36.2	37.1	38.1	39.1	40.1
Penetration Rate (%)	172%	161%	171%	173%	175%	177%	179%	181%
Subscribers (Mn)	7.5	8.5	9.0	10.6	12.1	13.0	13.9	14.2
New Additions (Mn)	-0.1	1.0	0.6	1.6	1.5	0.9	0.9	0.3
Market Share (%)	15%	15%	17%	17%	19%	20%	21%	21%
Prepaid (Mn)	7.0	7.9	8.5	9.9	11.1	11.8	12.5	12.8
Postpaid (Mn)	0.5	0.5	0.6	0.7	1.0	1.2	1.4	1.4

The telecom penetration rate in Saudi Arabia was recorded at 171% at the end of 2014 and we expect it to gradually increase to 181% by the end of 2019. This increase would be primarily driven by higher competition. Moreover, the country's demography offers significant opportunities for Zain in the near term. The total population of Saudi Arabia is expected to increase at a 5-year CAGR of 5.5%, the highest in Zain's markets. On the other hand, with the expected marginal increase in telecom penetration rates, Zain's total subscriber base is expected to increase at a much faster pace.

Subscribers (Mn) vs. Penetration Rate



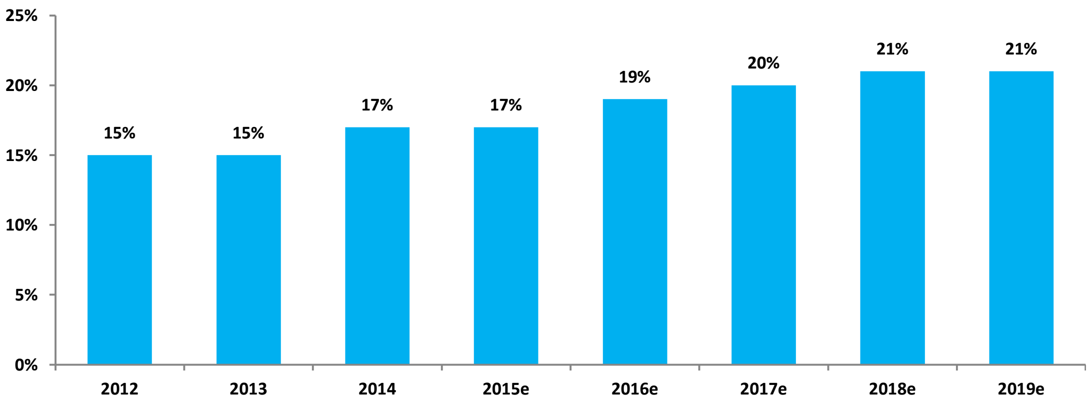
Source: KAMCO Research, Zain Financials

The pace at which the company added new subscribers has been slow historically due to competition. However, we expect the company to increase the pace of customer acquisition in the near term. We expect the company to add a cumulative 5.2 Mn subscribers over the next five years, resulting in a 5-year CAGR of strong 9.6% from 2015e to 2019e. This increase would be driven by market share gains in addition to the overall increase in the subscriber base in Saudi Arabia.

Key Financial Indicators	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Revenues (Mn)	477.6	509.9	487.6	570.1	645.3	719.7	787.3	839.5
Rev. Growth (%)	-3.1%	6.8%	-4.4%	16.9%	13.2%	11.5%	9.4%	6.6%
ARPU (USD)	18.0	18.0	16.0	15.7	15.4	15.5	15.8	16.1
ARPU Growth (%)	0.0%	0.0%	-11.1%	-2.0%	-2.0%	1.0%	2.0%	2.0%
EBITDA (Mn)	68.0	69.6	85.9	111.2	142.0	194.3	251.9	310.6
EBITDA Margin (%)	14.2%	13.7%	17.6%	19.5%	22.0%	27.0%	32.0%	37.0%
Capex (Mn)	88.0	69.5	60.1	72.5	69.4	66.4	63.4	60.4

The company has been making progress in terms of market share gains. The total market share increased from 15% in 2013 to 17% in 2014. Although, the share is still small as compared to Zain's other markets, we expect that the company would see gains in the near term as the penetration of data services increase. We expect to see a market share of almost 21% by 2018e as the company becomes more aggressive with its pricing plans.

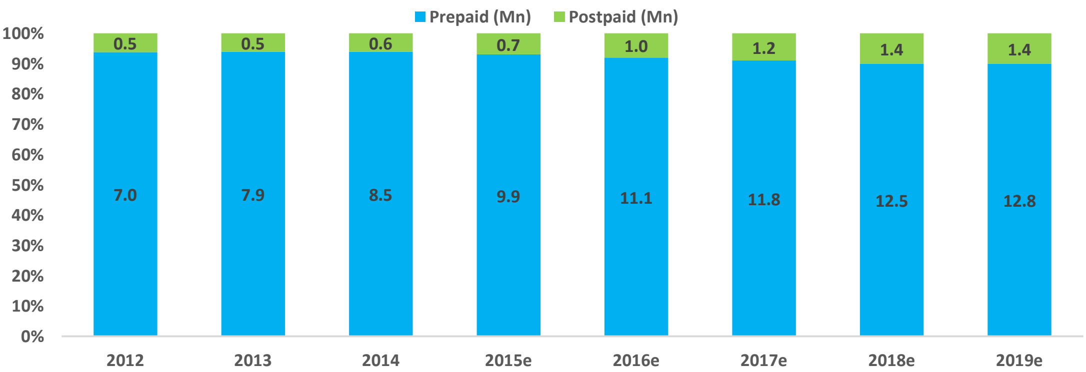
Market Share Trend



Source: KAMCO Research, Zain Financials

The company's subscriber base is expected to see a structural change as we expect it to add postpaid subscribers at a faster pace as compared to its prepaid subscribers. Postpaid subscribers as a percentage of total subscribers averaged at around 6% over the past three years (2012-2014). We expect the company this share to change to almost 10% by 2018.

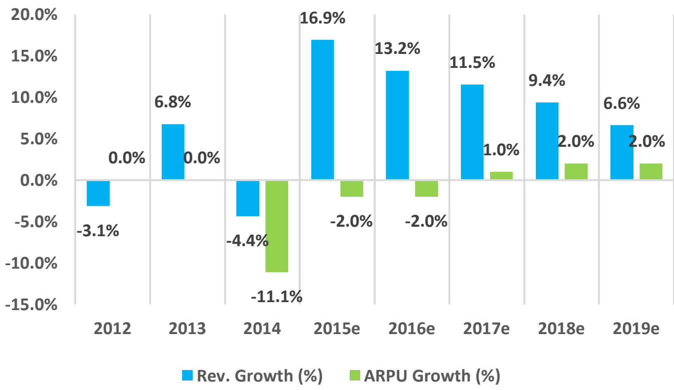
Subscriber Base Breakdown (Mn)



Source: KAMCO Research, Zain Financials

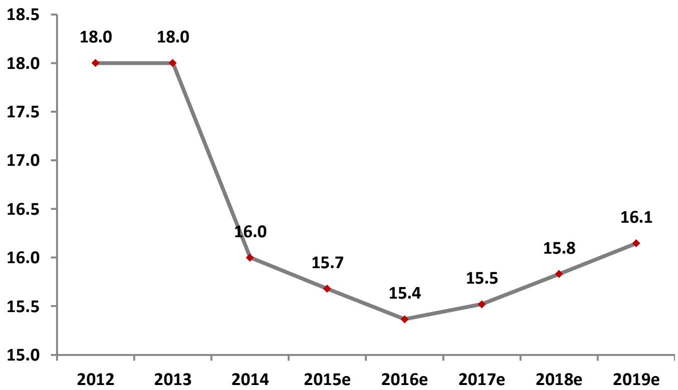
A higher proportion of postpaid subscribers coupled with a gradually increasing ARPU are expected to result in an increase in revenues. We expect the decline in ARPU to reverse starting 2017e and increase to USD 16.1 by the end of 2019e. On the other hand, revenue is expected to increase by 16.9% in 2015e after it declined by almost 4.4% in 2014. We expect to see consistent increase in revenues over the forecast period and result in 5-year CAGR of 11.5% till 2019e.

Revenue vs. ARPU Growth



Source: KAMCO Research, Zain Financials

ARPU Trend (USD)



Source: KAMCO Research, Zain Financials

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 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. The capital investment also resulted in higher depreciation and amortization charges as well as higher significant finance charges on deb that led to losses for the company. We expect losses to continue till 2018 after which the company is expected to record a positive bottom-line in 2019.

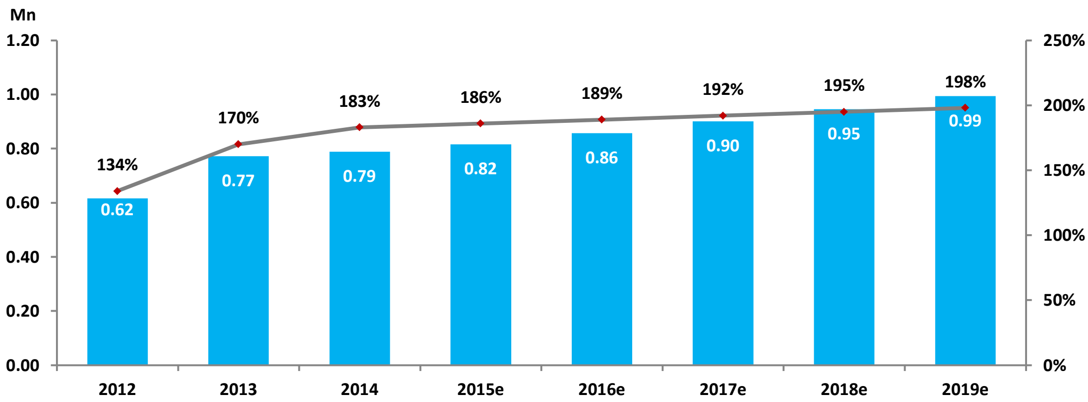
Zain Bahrain

One of the smallest operations in Zain's regional footprint, Zain Bahrain got listed on the Bahrain Stock Exchange during late 2014 as part of a regulatory requirement in the license agreement signed in 2003. The IPO and listing in 2014 was the first Bahraini IPO in almost four years. The company said that it would use the proceeds from the IPO to strengthen its network in the country.

Key Operating Metrics	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Population (Mn)	1.2	1.2	1.2	1.2	1.2	1.3	1.3	1.3
Penetration Rate (%)	134%	170%	183%	186%	189%	192%	195%	198%
Subscribers (Mn)	0.62	0.77	0.79	0.82	0.86	0.90	0.95	0.99
New Additions (Mn)	0.11	0.16	0.02	0.03	0.04	0.04	0.05	0.05
Market Share (%)	29%	35%	34%	35%	35%	36%	36%	37%

Zain Bahrain accounts for a small proportion of total Zain operations with merely 4.5% of consolidated revenues and even smaller 1.8% of total Zain subscriber base as at the end of 2014. Its share of EBITDA stood at 4.0% during 2014.

Subscribers (Mn) vs. Penetration Rate



Source: KAMCO Research, Zain Financials

Bahrain is a small market for Zain with a significantly high penetration rate of 183% at the end of 2014. The company has deployed 4G LTE network in Bahrain with an investment of almost USD 100 Mn during 2014. However, the investment did not had the desired results as total subscribers increased only at a marginal rate of 2.1% to reach 788,000 subscribers at the end of 2014, up from around 772,000 in the year-ago period.

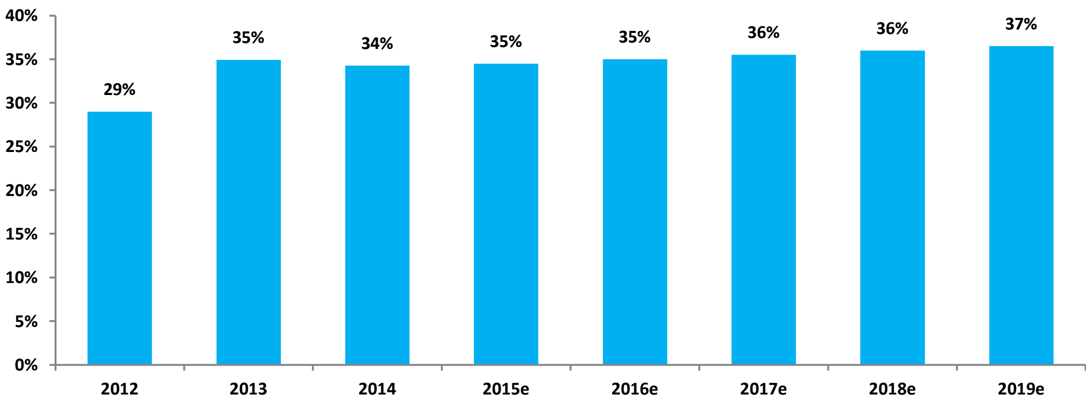
Moreover, during Q1-15, the company recorded marginal drop in total subscribers which we believe was primarily due to competitive pressures. We expect the subscriber base to grow at a 5-Year CAGR of 4.7% which would be primarily driven by data subscribers. This was also highlighted in the company's 2014 and Q1-15 which recorded 6% and 23% increase in broadband subscribers, respectively, despite the drop in overall subscriber count.

Key Financial Indicators	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Revenues (Mn)	55.9	60.4	55.2	58.5	59.8	61.6	63.4	65.2
Rev. Growth (%)	-5.4%	8.0%	-8.5%	6.0%	2.3%	3.0%	2.9%	2.9%
ARPU (USD)	27.0	23.0	19.0	18.4	18.1	17.7	17.3	17.0
ARPU Growth (%)	-3.6%	-14.8%	-17.4%	-3.0%	-2.0%	-2.0%	-2.0%	-2.0%
EBITDA (Mn)	20.7	22.0	20.4	21.4	22.1	22.8	24.4	24.8
EBITDA Margin (%)	37.1%	36.5%	36.9%	36.5%	37.0%	37.0%	38.5%	38.0%
Capex (Mn)	22.5	28.0	20.7	21.7	17.8	16.9	16.6	17.1

Source: KAMCO Research, Zain Financials

The company recorded a steep decline of 8.5% in full year 2014 revenues that stood at KWD 55.2 Mn due to a steep fall in ARPU. However, despite the additional costs associated with the deployment of the new 4G LTE network, the company's EBITDA margin saw a slight increase of 40 bps to reach 36.9%. We expect EBITDA to remain range bound over the next three years and slightly increase during the final years of our projection on the back of higher data revenues.

Market Share Trend

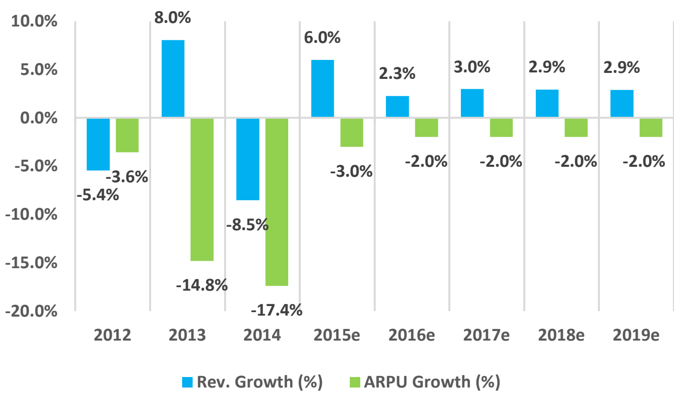


Source: KAMCO Research, Zain Financials

The company's subscriber market share declined from 35% in 2013 to 34% in 2014 due more aggressive competitors. However, we expect the company to scale back some losses in the coming years on the back of aggressive promotional activities and new data-centric products which has relatively higher demand than voice services in Bahrain.

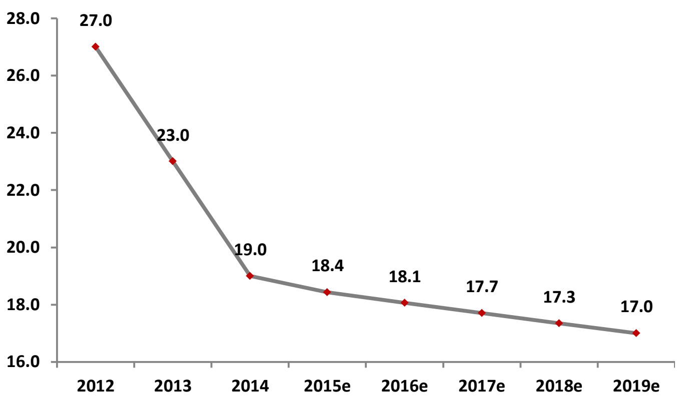
We believe that the market structure of Bahrain would replicate that of Kuwait with three players with almost equal market share going forward, although we expect Zain's share to increase marginally as it continues to capitalize on its network.

Revenue vs. ARPU Growth



Source: KAMCO Research, Zain Financials

ARPU Trend (USD)



Source: KAMCO Research, Zain Financials

We estimate revenues to grow at 6% during 2015 on the back of higher subscribers and a marginal decline in ARPU (3% in 2015e). We also expect positive revenue growth despite the continuous fall in ARPU for the remainder of our forecast period, driven by higher data subscribers.

Valuation and Recommendation

"Outperform" rating with a price target of KWD 0.533 per share resulting in an upside of 26.8%

Our fair value of KWD 0.533 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)	0.516	80%	0.412
EV/EBITDA	0.602	20%	0.120
Weighted Average Fair Value			**0.533**
Current Market Price			0.420
Upside / Downside			**26.8%**

Sources: KAMCO Research and Bloomberg

Discounted Cash Flow Method

Our DCF method values the stock at KWD 0.516 per share. The valuation methodology is based on explicit forecast of free cash flows for the next five years (2015e-2019e) and terminal value thereafter. We have assumed terminal growth rate of 3%, which we believe 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 (2015e - 2019e)	1,164	0.298
PV of Terminal Value	2,953	0.757
PV of Cash Flows	4,117	1.055
PV adjusted for Zain's Stake	2,455	0.629
Investments (Q1-15)	0	0.000
Cash (Q1-15)	315	0.081
Debt & Indemnity (Q1-15)	-759	-0.194
Enterprise Value	2,899	0.743
Equity Fair Value	2,011	0.516

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 10-year US treasury yield. Further, our risk premium ranges from 6.5% for Kuwait to almost 17.7% in the case of Iraq considering the risk associated in the market. Our resulting WACC ranges from 8.7% to almost 17.4%.

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	1,037	100.0%	1,037	0.266	42.2%
Jordan	DCF	Full	276	96.5%	266	0.068	10.8%
Sudan	DCF	Full	319	100.0%	319	0.082	13.0%
Iraq	DCF	Full	603	76.0%	458	0.117	18.7%
Bahrain	DCF	Full	59	56.3%	33	0.008	1.3%
KSA	DCF	Equity	853	37.1%	316	0.081	12.9%
Others	EV/EBITDA	-	26	-	26	0.007	1.1%
Total Value			**3,172**		**2,455**	**0.629**	**100%**

Deductions:	
Zain Kuwait - Book value of Debt as at valuation date	(759)
Others (Provision for end of Services Indemnity, etc)	-
Additions:	
Adjustments for Surplus Assets	-
Marketable Investments (FVTIS, AFS, HFT)	-
Surplus Cash (Time & Fixed Deposits)	315
Other Surplus Assets (i.e. Land)	-
Equity Value	**2,011**
Number of Shares outstanding (net of treasury shares) - Thousands	3,901
Value Per Share KWD	**0.516**
Zain Group Closing Price as of 16 June 2015	0.420
Premium / (Discount) %	**22.7%**

Sources: KAMCO Research and Zain Financials

Worst is already priced in…

We believe that the worst is already priced-in and it's time to have a relook at Zain which continues to trade at the lowest point in its history. The company is active in reacting to market changes in its key markets and we believe that there would be an upside to profitability going forward despite the fall in EBITDA with an aggressive focus on cost cutting strategies.

We take a critical look at Kuwait as its importance as a growth market diminishes…

Kuwait continues to account for the biggest pie of Zain's intrinsic value (36%). However, a critical analysis on Kuwait highlights 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.

All eyes on Iraq

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. 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

No major capex investments in the near term

We don't expect any major capex investments in the near term as a majority of the capex is already planned and implemented. 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.

Cost control strategies would be essential

It is critical to understand 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.

One of the most famous strategies to cut down costs and simultaneously extract greater value from existing asset is the monetization of tower assets. 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, although not confirmed by the company, is highly likely in the near term.

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 0.602 per share thus implying a significant upside potential of 43.3%. We have calculated enterprise value for Zain based on average EV/EBITDA multiple of 6.0x, which is typical of the telecom market, excluding the outliers.

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	EV / EBITDA	FCF (USD Mn)	FCF Yield
GCC	STC	Saudi Arabia	35,867	32,220	12,217	5,189	42.5%	3,315	27.7%	2,922	23.9%	12.1	1,866	5.8%	6.2	3,339	8.6%
	Etisalat	UAE	27,111	31,644	13,277	4,646	35.0%	2,779	22.0%	2,421	18.2%	11.0	1,507	5.6%	6.8	2,871	10.0%
	Ooredoo	Qatar	7,919	16,937	9,120	3,431	37.6%	1,334	13.5%	586	6.4%	16.5	352	4.4%	4.9	716	3.0%
	Mobily	Saudi Arabia	7,002	10,643	4,199	794	18.9%	-154	-10.2%	-244	-5.8%	NM	770	14.8%	13.4	389	5.5%
	Zain	Kuwait	6,374	8,961	4,262	1,780	41.8%	1,177	26.4%	683	16.0%	9.5	608	9.1%	5.0	1,011	16.6%
	Du	UAE	6,298	5,639	3,332	1,370	41.1%	1,012	30.7%	574	17.2%	11.0	398	6.4%	4.1	621	11.4%
	VOD Qatar	Qatar	3,748	3,707	544	279	51.2%	82	-8.1%	75	-9.4%	NM	40	1.0%	13.3	218	5.8%
	Omantel	Oman	3,331	3,096	1,250	550	44.0%	339	26.5%	318	25.4%	10.7	146	6.9%	5.6	193	6.4%
	Ooredoo Kuwait	Kuwait	2,169	2,799	2,629	792	30.1%	279	9.1%	161	6.1%	23.2	124	5.7%	3.5	-102	-2.4%
	Zain KSA	Saudi Arabia	1,759	4,393	1,665	293	17.6%	-142	-7.3%	-338	-20.3%	NM	0	0.0%	15.0	-35	-3.3%
	Batelco	Bahrain	1,491	1,604	1,034	384	37.1%	206	19.4%	131	12.7%	11.4	110	7.4%	4.2	244	24.4%
	Viva Kuwait	Kuwait	1,587	1,769	839	395	47.1%	158	18.8%	142	16.9%	11.5	0	0.0%	4.5	239	15.1%
	Ooredoo (Nawras)	Oman	1,332	1,479	588	286	48.6%	157	27.5%	98	16.7%	12.9	64	4.8%	5.2	72	4.3%
	Zain Bahrain	Bahrain	176	234	190	72	38.0%	15	7.0%	11	5.8%	1.4	5	2.8%	3.2	16	9.3%
	GCC-Peers		**106,164**	**125,123**	**55,146**	**20,261**	**36.7%**	**10,556**	**19.1%**	**7,539**	**13.7%**	**14.1**	**5,990**	**5.6%**	**6.2**	**9,792**	**9.2%**
	Excl. Outliers		**104,405**	**120,730**	**53,482**	**19,967**	**37.3%**	**10,698**	**20.0%**	**7,878**	**14.7%**	**13.3**	**5,990**	**5.7%**	**6.0**	**9,827**	**9.4%**
Non-GCC	MTN	South Africa	31,701	32,521	13,554	6,824	50.3%	4,839	30.6%	2,959	21.8%	14.1	2,114	5.8%	5.5	2,988	9.4%
	Vodacom	South Africa	15,140	16,323	7,508	2,701	36.0%	2,028	25.1%	1,313	16.4%	14.9	1,217	6.1%	7.6	1,274	4.8%
	Safaricom	Kenya	6,760	6,724	1,682	667	39.7%	409	24.3%	268	19.5%	20.4	219	2.9%	11.4	272	4.0%
	Telkom SA	South Africa	2,743	2,872	3,221	1,045	32.4%	456	9.5%	379	11.8%	15.5	0	0.0%	4.5	12	5.3%
	Telecom Egypt	Egypt	1,920	1,440	1,716	541	31.5%	317	18.5%	287	16.7%	6.9	128	6.7%	2.9	34	2.1%
	ECMS	Egypt	1,501	2,582	1,542	444	28.8%	74	5.5%	-56	-3.7%	NM	0	0.0%	6.1	24	1.5%
	Econet	Zimbabwe	722	894	753	323	43.0%	224	21.4%	119	9.4%	9.9	5	0.7%	3.1	174	7.2%
	Non-GCC Peers		**60,487**	**63,356**	**29,976**	**12,546**	**41.9%**	**8,347**	**27.8%**	**5,269**	**17.6%**	**11.5**	**3,683**	**6.1%**	**5.0**	**4,777**	**7.9%**
	Total MENA		**166,650**	**188,478**	**85,122**	**32,806**	**38.5%**	**18,903**	**22.2%**	**12,808**	**15.0%**	**13.0**	**9,673**	**5.8%**	**5.7**	**14,569**	**8.7%**

	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	Capital Employed (TA-CA)	ROCE
GCC	STC	24,203	2,077	1,626	13.3%	164	1.3%	1,791	14.7%	16,335	0.13	0.50	2.20	20,640	16.1%
	Etisalat	35,280	6,059	1,872	14.1%	555	4.2%	2,427	18.3%	16,588	0.37	0.38	1.63	25,091	11.1%
	Ooredoo	26,910	11,752	2,305	25.3%	645	7.1%	2,949	32.3%	8,366	1.40	0.34	0.95	20,125	6.6%
	Mobily	12,650	4,526	1,257	29.9%	61	1.5%	1,318	31.4%	5,174	0.87	0.33	1.35	5,599	-2.8%
	Zain	11,182	2,690	606	14.2%	494	11.6%	1,100	25.8%	6,121	0.44	0.38	1.04	9,040	13.0%
	Du	4,867	1,206	404	12.1%	42	1.3%	446	13.4%	2,134	0.57	0.68	2.95	3,416	29.6%
	VOD Qatar	2,114	261	67	12.3%	28	5.1%	95	17.4%	1,627	0.16	0.26	2.30	1,801	4.6%
	Omantel	2,167	92	382	30.5%	0	0.0%	382	30.6%	1,481	0.06	0.58	2.25	1,718	19.7%
	Ooredoo Kuwait	5,282	614	581	22.1%	21	0.8%	602	22.9%	2,912	0.21	0.50	0.74	3,355	8.3%
	Zain KSA	6,889	3,033	111	6.7%	27	1.6%	138	8.3%	1,455	2.08	0.24	1.21	5,992	-2.4%
	Batelco	2,543	468	94	9.1%	6	0.6%	100	9.7%	1,536	0.30	0.41	0.97	2,077	9.9%
	Viva Kuwait	730	292	60	7.2%	179	21.3%	239	28.5%	170	1.71	1.15	9.31	355	44.4%
	Ooredoo (Nawras)	1,003	120	182	30.9%	0	0.0%	182	30.9%	516	0.23	0.59	2.58	656	23.9%
	Zain Bahrain	296	58	45	23.6%	27	14.0%	72	37.6%	157	0.37	0.64	1.12	210	6.9%
	GCC-Peers	136,115	33,248	9,591	17.4%	2,249	4.1%	11,840	21.5%	64,572	0.51	0.41	1.64	100,075	**10.5%**
	Excl. Outliers	**129,226**	**30,216**	**9,480**	17.7%	**2,222**	4.2%	**11,702**	21.9%	**63,117**	**0.48**	**0.41**	**1.65**	**94,083**	**11.4%**
Non-GCC	MTN	21,962	4,613	1,805	13.3%	303	2.2%	2,107	15.5%	11,552	0.40	0.62	2.74		
	Vodacom	5,774	1,339	980	13.0%	0	NA	980	13.0%	2,257	0.59	1.30	6.71		
	Safaricom	1,558	146	323	19.2%	0	NA	323	19.2%	1,056	0.14	1.08	6.40		
	Telkom SA	3,746	450	632	19.6%	0	NA	632	19.6%	2,201	0.20	0.86	1.25		
	Telecom Egypt	4,525	65	224	13.0%	0	NA	224	13.0%	3,830	0.02	0.38	0.50		
	ECMS	2,087	1,120	308	20.0%	7	0.5%	316	20.5%	191	5.85	0.74	7.84		
	Econet	1,174	240	140	18.6%	142	18.8%	281	37.4%	604	0.40	0.64	1.20		
	Non-GCC Peers	40,825	7,973	4,411	14.7%	452	1.5%	4,862	16.2%	21,691	0.37	0.73	2.79		
	Total MENA	176,940	41,222	14,002	16.4%	2,701	3.2%	16,703	19.6%	86,263	0.48	0.48	1.93		

Financial Indicators

Balance Sheet (KWD '000)	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Assets								
Cash and Cash Equivalents	302,609	399,242	343,570	400,378	383,519	398,850	389,816	352,420
Trade & Other Receivables	319,109	350,300	358,377	369,224	392,636	392,098	393,623	397,038
Property & equipment	699,030	734,641	852,590	902,875	957,610	1,017,189	1,082,040	1,152,631
Intangible Assets	998,082	993,667	1,094,985	1,113,310	1,132,757	1,153,396	1,175,299	1,198,543
Investments in Associates and Joint Ventures	300,842	265,197	238,977	205,796	177,060	160,696	159,042	173,868
Due from Associates	231,875	271,952	309,298	334,241	334,241	334,241	334,241	334,241
Other Assets	79,444	81,941	79,266	75,499	76,274	77,060	78,157	79,567
Total assets	**2,930,991**	**3,096,940**	**3,277,063**	**3,401,323**	**3,454,097**	**3,533,531**	**3,612,217**	**3,688,309**
Liabilities								
Due to Banks	651,792	755,721	788,261	842,751	861,689	878,307	893,074	905,485
Trade and other payables	535,114	542,566	656,064	641,284	612,895	616,154	622,474	631,651
Other Liabilities	33,331	35,451	38,769	40,816	41,449	42,402	43,347	44,260
Total liabilities	**1,220,237**	**1,333,738**	**1,483,094**	**1,524,851**	**1,516,033**	**1,536,864**	**1,558,894**	**1,581,396**
Shareholders' Equity								
Share capital	431,527	432,268	432,706	432,706	432,706	432,706	432,706	432,706
Share Premium	1,705,387	1,706,779	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	490,189	509,296	512,780	558,370	596,246	629,482	659,015	683,838
Other Reserves	(468,632)	(459,852)	(459,413)	(444,904)	(444,904)	(444,904)	(444,904)	(444,904)
Total Shareholders Equity	**1,590,637**	**1,620,657**	**1,625,403**	**1,685,502**	**1,723,378**	**1,756,614**	**1,786,147**	**1,810,970**
Minority Interest	**120,117**	**142,545**	**168,566**	**190,971**	**214,686**	**240,053**	**267,176**	**295,943**
Total liabilities and equity	**2,930,991**	**3,096,940**	**3,277,063**	**3,401,323**	**3,454,097**	**3,533,531**	**3,612,217**	**3,688,309**

Income Statement (KWD '000)	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Revenue	1,281,903	1,240,035	1,213,229	1,218,440	1,256,435	1,293,924	1,338,319	1,389,632
Operating Expenses	(711,161)	(702,214)	(706,414)	(720,213)	(741,447)	(760,465)	(785,241)	(817,575)
EBITDA	**570,742**	**537,821**	**506,815**	**498,226**	**514,988**	**533,460**	**553,078**	**572,057**
Depreciation & Amortization	(193,047)	(194,566)	(171,749)	(173,869)	(187,259)	(201,712)	(217,314)	(234,159)
EBIT	**377,695**	**343,255**	**335,066**	**324,357**	**327,729**	**331,748**	**335,764**	**337,898**
Finance cost	(26,384)	(23,548)	(26,283)	(28,692)	(29,337)	(29,903)	(30,405)	(30,828)
Interest Income	16,994	18,095	18,691	12,011	11,506	11,966	11,694	10,573
Investment Income	(8,811)	1,972	(1,906)	-	-	-	-	-
Share of Results of Associates and JVs	(31,574)	(36,159)	(34,092)	(33,181)	(28,736)	(16,364)	(1,655)	14,826
Loss from Currency Revaluation	(8,517)	(24,911)	(43,358)	(15,175)	(12,140)	(9,712)	(7,770)	(6,216)
Other Expenses	14,158	(8,290)	(3,544)	(5,488)	(344)	(344)	(344)	(344)
Taxes	(53,369)	(26,473)	(30,419)	(29,784)	(31,525)	(33,720)	(36,054)	(38,239)
Minority Interests	(28,047)	(27,496)	(19,854)	(22,405)	(23,715)	(25,367)	(27,123)	(28,767)
Net Profit / (Loss)	**252,145**	**216,445**	**194,301**	**201,644**	**213,437**	**228,303**	**244,108**	**258,904**
EPS (KWD)	**0.065**	**0.056**	**0.050**	**0.052**	**0.055**	**0.059**	**0.063**	**0.066**

Cash Flow (KWD '000)	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Net Cash From Operating Activities	487,558	466,390	468,981	429,948	422,832	494,155	511,551	528,464
Net Cash (used in) from Investing Activities	(376,660)	(217,600)	(308,658)	(227,868)	(253,732)	(270,472)	(290,373)	(313,361)
Net Cash (used in) from Financing Activities	(257,459)	(154,590)	(229,147)	(155,199)	(185,959)	(208,352)	(230,213)	(252,497)
Net Change in Cash and Equivalents	(146,561)	94,200	(68,824)	46,881	(16,859)	15,331	(9,035)	(37,395)
Net Cash at end of the year	**302,609**	**399,242**	**343,570**	**400,378**	**383,519**	**398,850**	**389,816**	**352,420**

Source : KAMCO Research and Zain Financials

Key Financial Ratios

Key Ratios	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Profitability Ratios								
Return on Average Assets	8.1%	7.2%	6.1%	6.0%	6.2%	6.5%	6.8%	7.1%
Return on Average Equity	15.3%	13.5%	12.0%	12.2%	12.5%	13.1%	13.8%	14.4%
EBITDA Margin	44.5%	43.4%	41.8%	40.9%	41.0%	41.2%	41.3%	41.2%
Net Profit Margin	19.7%	17.5%	16.0%	16.5%	17.0%	17.6%	18.2%	18.6%
Growth Rates								
Revenue Growth	-3.0%	-3.3%	-2.2%	0.4%	3.1%	3.0%	3.4%	3.8%
EBITDA Growth	-4.9%	-5.8%	-5.8%	-1.7%	3.4%	3.6%	3.7%	3.4%
Net Income Growth	-11.5%	-14.2%	-10.2%	3.8%	5.8%	7.0%	6.9%	6.1%
Total Assets Growth	-10.8%	5.7%	5.8%	3.8%	1.6%	2.3%	2.2%	2.1%
Liquidity Indicators								
Current Ratio (x)	0.8	1.0	0.9	1.0	1.1	1.1	1.1	1.0
Quick Ratio (x)	0.8	1.0	0.8	1.0	1.0	1.1	1.0	1.0
Working Capital (KWD Mn)	-169.5	25.4	-107.0	22.1	54.3	63.4	47.8	3.4
Free Cash Flow (KWD Mn)	297.6	239.9	155.9	187.5	161.4	212.2	207.5	200.5
Leverage Ratios								
Interest Coverage Ratio (x)	14.3	14.6	12.7	11.3	11.2	11.1	11.0	11.0
Debt-to-EBITDA (x)	1.1	1.4	1.6	1.7	1.7	1.6	1.6	1.6
Debt-to-Equity (x)	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Market Data and Valuation Ratios								
Closing Share Price (KWD)	0.780	0.690	0.530	0.420	0.420	0.420	0.420	0.420
Shares Outstanding (Mn)	3,889.6	3,897.0	3,901.3	3,901.3	3,901.3	3,901.3	3,901.3	3,901.3
Market Capitalization (KWD Mn)	3,033.9	2,688.9	2,067.7	1,638.6	1,638.6	1,638.6	1,638.6	1,638.6
EPS (KWD)	0.065	0.056	0.050	0.052	0.055	0.059	0.063	0.066
Book Value Per Share (KWD)	0.409	0.416	0.417	0.432	0.442	0.450	0.458	0.464
Dividend Per Share (KWD)	0.050	0.050	0.040	0.040	0.040	0.040	0.040	0.040
Price to Earnings Multiple (X)	12.03	12.42	10.64	8.13	7.68	7.18	6.71	6.33
Price to Book Value Multiple (X)	1.91	1.66	1.27	0.97	0.95	0.93	0.92	0.90
Dividend Yield (%)	6.4%	7.2%	7.5%	9.5%	9.5%	9.5%	9.5%	9.5%

Key Operational Indicators	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
CAPEX to Sales	14.8%	18.3%	25.8%	19.9%	20.8%	21.8%	22.7%	23.6%
Receivables Turnover	3.9	3.7	3.4	3.2	3.3	3.3	3.4	3.5
Days in Receivables	93	99	107	114	111	111	107	104
Inventories Turnover	22.1	26.2	21.2	16.3	22.2	22.8	23.3	23.6
Days in Inventory	17	14	17	22	16	16	16	15
Current Assets Turnover	1.8	1.8	1.6	1.6	1.6	1.6	1.7	1.8
Current Liabilities Turnover	1.6	1.6	1.5	1.5	1.7	1.7	1.8	1.8

Source : KAMCO Research and Zain Financials

Note : Forward Valuation ratios are based on current market prices

Kuwait Telecommunications Co. (Viva)

Investment Thesis

We initiate coverage on Viva with an 'Outperform' rating and a fair value of KWD 1.104 per share resulting in an upside of 16.2%: *The typical telecom market phenomenon of a new challenger taking up market share from the incumbent operator with aggressive pricing strategy can be seen in Kuwait with Viva challenging the incumbents Zain and Ooredoo. Viva has been very successful with this strategy that resulted in almost one third share of the total Kuwaiti telecom market. However, we believe that growth beyond this point would be difficult for all the operators as each one of them have similar products, and almost identical pricing strategies. For a sustainable future growth, Viva needs to challenge Zain for a bigger pie of postpaid subscribers which we believe is its ongoing strategy.*

Moderating subscriber growth: *We see a moderating subscriber growth for Viva primarily due to high penetration rate in Kuwait as well as due to competitors coming up with identical product offerings. We expect the growth in subscriber base to decline from 5.2% in 2015 to 2.8% during the last two years of our forecast. This growth is expected to be driven by both marginal subscriber additions in Kuwait (i.e. marginal increase in penetration rate) as well as led by market share gains from competitors.*

Revenue growth to slow down but EBITDA margin set to increase: *We expect a more normalized revenue growth in the future, in line with growth in subscribers of Viva as well as the total subscriber base in Kuwait. We expect revenue to grow at a CAGR of 5.7% over the next five years until 2019 to reach KWD 315.2 Mn on the back of a marginal increase in subscriber base and ARPU as well as a higher proportion of postpaid subscribers. EBITDA has been on an uptrend since 2012 and was reported at 47.2% during 2014. We expect marginal growth in EBITDA margin over the forecast period and normalize at around the 50% mark by 2019 backed by higher ARPU and a higher postpaid subscriber base as we believe that the next phase of competition in the Kuwaiti telecom market, like the rest of the mature telecom markets globally, would be to grab the higher ARPU postpaid subscribers.*

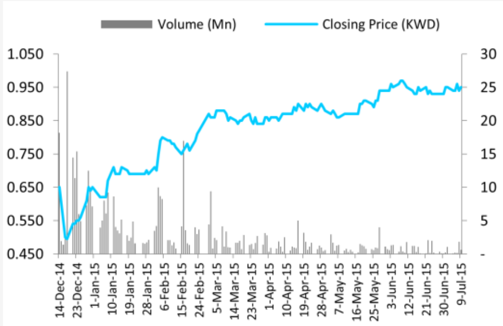
Dividend Payment: *We expect Viva to pay dividends in 2016 from 2015 profits. We have factored in a dividend payout ratio of 50% for the forecast period resulting in a total cash outlay of KWD 25.7 Mn during 2016 and an aggregate outlay of KWD 136.9 Mn for the year 2016-2019.*

	2014	2015e	2016e	2017e	2018e	2019e
Subscribers (Mn)	2.4	2.5	2.6	2.7	2.8	2.9
Revenue (KWD Mn)	239.0	259.9	274.5	288.7	300.6	312.1
EBITDA (KWD Mn)	112.7	122.6	131.7	139.2	147.3	156.0
Net Profit (KWD Mn)	40.4	51.6	58.8	65.8	71.2	76.2
EBITDA Margin (%)	47.2%	47.2%	48.0%	48.2%	49.0%	50.0%
P/E (x)	8.0	9.2	8.1	7.2	6.7	6.2
Div. Yield (%)	0.0%	0.0%	5.4%	6.2%	6.9%	7.5%
FCF Yield(%)	5.8%	8.1%	9.4%	9.9%	10.6%	11.1%

Sources: KAMCO Research, Bloomberg and Viva

Viva Kuwait : 'Outperform'

CMP 9-July-2015	**0.950**
Target Price	**1.104**
Upside/Downside	**16.2%**



Price Perf.	1M	3M	12M
Absolute	-2.1%	9.2%	46.2%
Relative	-0.7%	10.9%	58.1%

Stock Data	
Bloomberg Ticker	VIVA KK
Reuters Ticker	VIVA.KW
Last Price (KWD)	0.950
MCap (KWD Mn)	474.4
MCap (USD Mn)	1,566
EV (KWD Mn)	527.7
Stock Perfromance - YTD (%)	46.2%
PE - 2015e (x)	9.2
EV/EBITDA - 2015e (x)	4.3
Dividend yield - 2015e (%)	0.0%
52-Week Range (KWD)	0.970/0.475
52-Week ADVT (KWD Mn)	1.7

Sources: KAMCO Research and Bloomberg

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Company Background

A subsidiary of Saudi Telecom Company (STC), Kuwait Telecommunications Co. (Viva) started commercial telecom operations in Kuwait in December 2008 as the third player in the highly competitive space. The company started offering mobile services starting 2009 with the help of the technical knowledge from its parent company. The company started offering 3G services in the 900/1800 MHz frequency and during 2012. the Ministry of Telecommunications allowed Viva and the rest of the telecom players to offer 4G services by making an additional payment of KWD 250,000 as license fee for the new services. The regulator also redistributed spectrum allocation within the three players favoring Viva and Ooredoo by allocating 10 MHz of spectrum to each of the two players and reduced Zain's spectrum holding to 14 MHz

Viva partnered with Chinese telecom equipment manufacturer Huawei for deploying its network in Kuwait as against European network vendors chosen by Zain and Ooredoo. The company deployed world's first All IP network solutions for Viva which enabled them to quickly manage their day to day telecom operations more efficiently. This partnership identified data as the key driver for the next phase of growth in the telecom market and subsequently introduced many attractive data-specific offers in Kuwait. The demand for Viva's product was so high that according to Huawei, Viva carried more data traffic on its network than the two other competitors combined.

Viva's parent company, STC, is one of the largest telecom service providers in the MENA region with subsidiaries and associates spread across nine countries. STC reported a cash balance of SAR 3.2 Bn (KWD 260 Mn) with consolidated revenues of SAR 12.5 Bn and a relatively strong reported EBITDA margin of 41.4%.

Management Team

Name	Position
Dr Mahmoud Ahmad Abdulrahman	Chairman
Dr Khalid Hussein Bayari	Vice Chairman
Salman Bin Abdulaziz Al Badran	Chief Executive Officer

Source: KAMCO Research and Viva Financials

Viva has a pretty stable and experienced management team with relevant experience in the telecom domain. The CEO possesses more than fifteen years of experience in Telecommunications and GSM cellular networks, and extensive expertise in infrastructure implementation and operations management.

Shareholding Structure and Share Price Performance

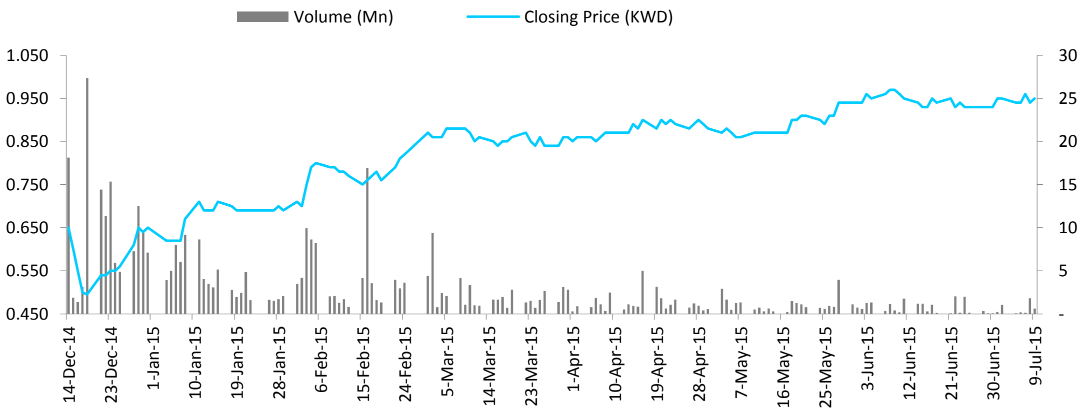
Name	Position
Kuwait Investment Authority	6.00%
Public Institute for Social Security	7.31%
Saudi Telecommunication Company	26.00%
Public Shareholding	60.69%

Source: KAMCO Research and Kuwait Stock Exchange

Viva has a total share capital of KWD 49.94 Mn with almost 61% of the shares listed as free float shares. Trades in company's shares have been pretty robust since it got listed in December 2014 with an average 3.4 Mn shares traded on a daily basis since listing whereas the average daily value traded stood at KWD 2.4 Mn. Moreover, according to the latest announcement from the Kuwait Stock exchange, Viva would also be included as constituent of the KSE-15 index, rendering an even higher liquidity in the company's shares.

Share Performance

Share Price and Volume



Source: KAMCO Research, Kuwait Stock Exchange

As with most of the new IPOs, shares of Viva received tremendous response when it got listed on the Kuwait Stock Exchange, although for the initial 10 days the shares trended downward due to overall decline in the equity markets. However, investors were particularly interested in Viva owing to its strong operational performance and its emergence of a near equal competitor to the rest of the telecom players in Kuwait. Consequently, its shares are up by 46.2% for both YTD-15 and since it got listed. It reached a highest intraday peak of KWD 0.960 since listing and touched a low of KWD 0.480.

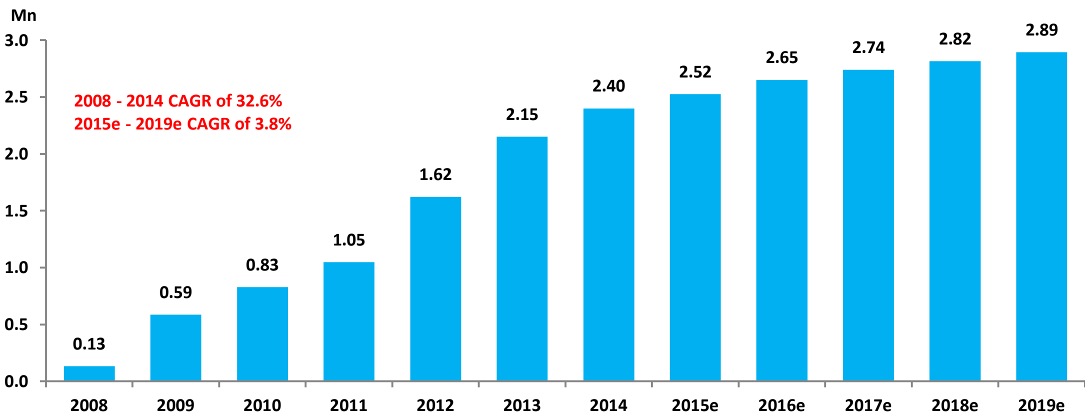
Operating Performance and Forecasts

Viva had a pretty sturdy performance since the time it started operation in Kuwait. The company's balance sheet has expanded considerably and on the operational front it has one of the most modern infrastructures for offering telecom services that gives it an edge over competitors.

Gaining foothold in the market...

Viva entered the two-player wireless telecom market in Kuwait as a challenger for the incumbents which at the end of 2008 was a 55/45 split market between Zain and Ooredoo Kuwait (erstwhile Wataniya). It was not at all difficult for Viva to quickly garner a sizable market share with new innovative product offerings and significant promotional and marketing activities. Moreover, with Kuwait's average ARPU being one of the highest in the world, offering new products at below market rates was not difficult for Viva. As a result, within the first year of operations, the company garnered almost 586,000 subscribers or 15% of subscriber market share. However, these subscriber additions were basically existing mobile users as the penetration rate in Kuwait was already above the 100% mark (118% at the end of 2008 and 133% at the end of 2009). Moreover, the new subscribers were almost equivalent to the overall increase in subscriber base in Kuwait from 2008 to 2009 indicating minimal subscriber acquisition from the existing competitors at the time. In addition, it is pertinent to note that a majority of these subscribers were and continue to be high-churn prepaid subscribers.

Subscriber Growth (Mn)



Source: KAMCO Research and Viva Financials

In one of the first by a wireless operator in Kuwait, Viva waived off the incoming call charges and also introduced calls to subscribers of its parent company in Saudi Arabia at local call rates. The telco also introduced several other introductory offers like free Viva-to-Viva calls, freedom to select a number and various other schemes to attract customers. This led to the phenomenal growth in subscriber count over the last five years. Total subscribers grew at a robust 5-CAGR of 32.6% although competitors did catch up but the majority of the new subscribers as well as subscriber deflections from the competitors was tapped by Viva.

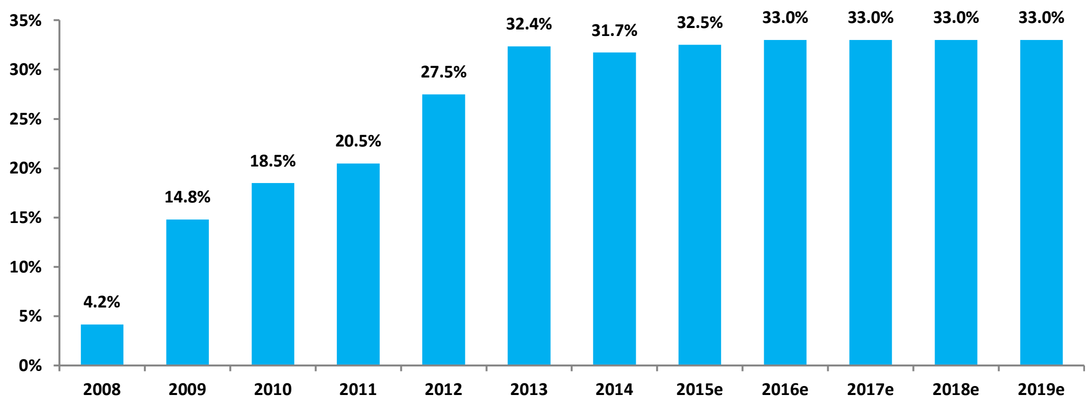
During Q1-15, total subscribers stood at 2.51 Mn coupled with a 20% y-o-y increase in revenues. For the forecast period (2015-2019) we expect a moderation of subscriber growth primarily due to the high penetration rate (of more than 200%) in Kuwait as reported by the end of 2014.

Moreover, competitors have become relatively more aggressive which would make it difficult for Viva to expand its subscriber base at historical pace. As a result, we expect Viva's subscriber base to reach 2.52 Mn by the end of 2015 and grow at a 5-year CAGR of 3.8% for the next five year to reach 2.89 Mn subscribers by the end of 2019.

An ever growing market share for Viva…

A focus on data services and innovative mobile plans helped Viva in acquiring a sizable market share in the market. The company saw increasing market share until 2013, however, during 2014, the competition became too aggressive which led to a slight decline in Viva's market share. Nevertheless, Viva continues to remain the second largest wireless operator in Kuwait with a market share of 31.7% by the end of 2014.

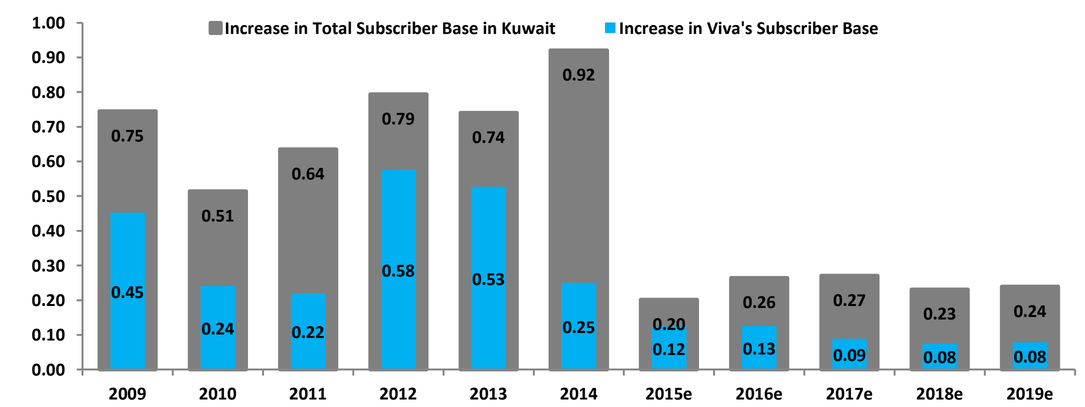
Market Share Trend



Source: KAMCO Research and Viva Financials

The entry of Viva was instrumental in expanding the overall market for mobile services in Kuwait. A majority of the new subscribers were grabbed by Viva. After Viva started operations in Kuwait, the size of the wireless telecom market grew from 3.2 Mn subscribers in 2008 to almost 7.6 Mn subscribers at the end of 2014, at a much faster pace than what was seen historically.

Increase in total subscribers vs. Viva's share in the increase



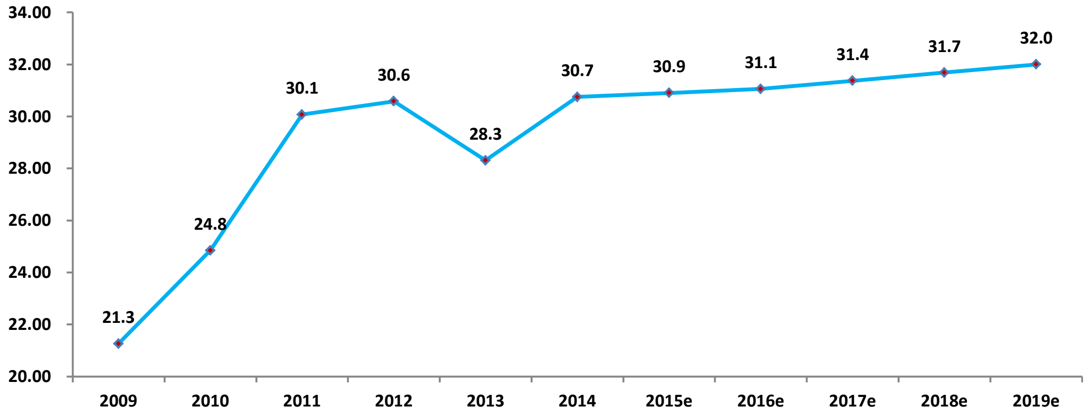
Source: KAMCO Research and Viva Financials

As shown in the above chart, Viva grabbed more than 50% of the new subscriber additions during the years 2009, 2012 and 2013 whereas for the remaining historical periods the proportion was marginally less. However, for the forecast period, we have factored in a significantly lower growth of market expansion owing to the already high penetration levels as well as limited share of Viva for the new subscribers.

Pricing set to stabilize with marginal growth in the future…

The Kuwaiti telecom market boasts one of the highest levels of telecom ARPUs in the world. Moreover, reported ARPU by the three telecom operators have consistently increased over the years only to decline in 2013. However, it once again trended upward in 2014 to USD 30.75 on the back of higher proliferation of data services products like portable routers as well as higher smartphone postpaid subscribers.

ARPU Trend – USD as reported



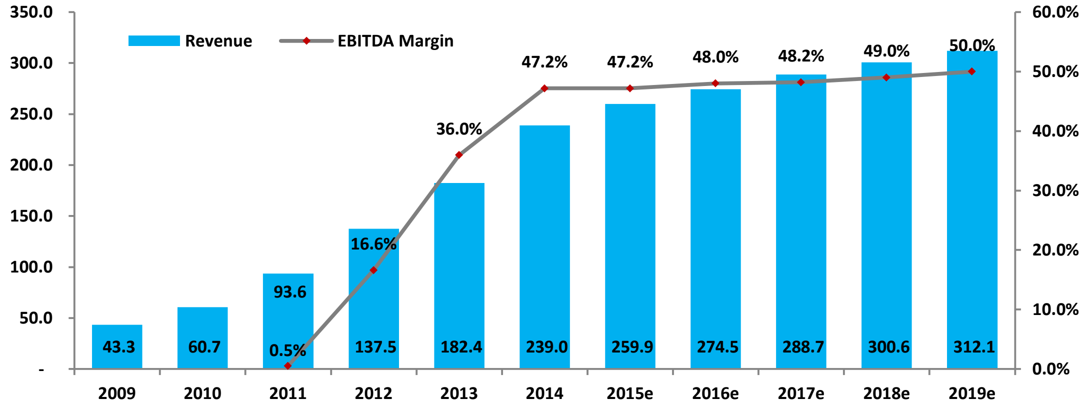
Source: KAMCO Research and Viva Financials

Moreover, the percentage of postpaid subscribers has been slowing increasing due to a number of bundled offers being rolled out by operators. In the case of Viva, although the company does not specify the breakdown of its prepaid/postpaid subscribers, we expect the same phenomenon of increasing postpaid subscribers. Consequently, we have forecasted a slight increase in ARPU during 2015-2019. Although aggressive pricing could result in pressure on ARPU, we believe that a higher share of data centric products and smartphone offerings would result into higher ARPUs for Viva as well as its competitors.

Revenue growth to slow down but EBITDA margin set to increase…

Total revenue increased at a 5-year CAGR of 40.7%, higher than the rate of increase in the subscriber base on the back of higher historical ARPU. However, we expect a more normalized revenue growth in the future, in line with growth in subscribers of Viva as well as the total subscriber base in Kuwait. We expect revenue to grow at a CAGR of 7.3% over the next five years until 2019 to reach KWD 339.3 Mn on the back of a marginal increase in subscriber base and ARPU as well as a higher proportion of postpaid subscribers.

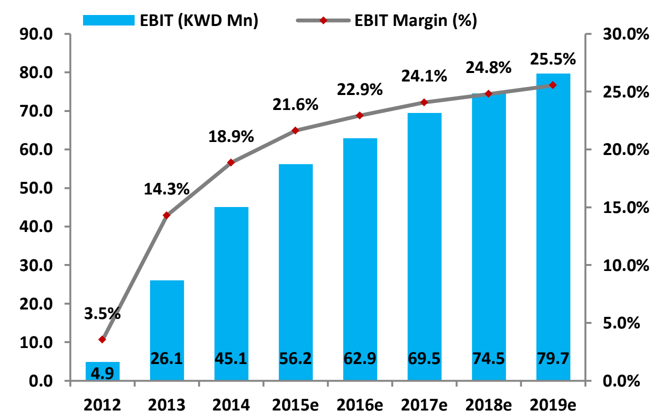
Revenue Growth vs. EBITDA Margin



Source: KAMCO Research and Viva Financials

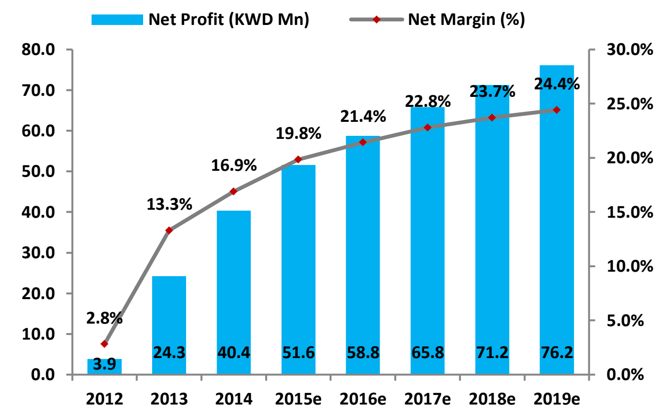
The company became EBITDA positive in 2011 and finally achieved breakeven during 2012 when it recorded a full year profit of KWD 3.9 Mn. During the initial years of operation, the company incurred higher promotional expenses that resulted in losses for the first three year of operations. Meanwhile, EBITDA has been on an uptrend since 2012 and was reported at 47.2% during 2014. We expect marginal growth in EBITDA margin over the forecast period and normalize at around the 50% mark by 2019 backed by higher ARPU and a higher postpaid subscriber base as we believe that the next phase of competition in the Kuwaiti telecom market, like the rest of the mature telecom markets globally, would be to grab the higher ARPU postpaid subscribers.

EBIT and EBIT Margin



Sources: KAMCO Research and Viva Financials

Net Profit and Net Margin



Sources: KAMCO Research and Viva Financials

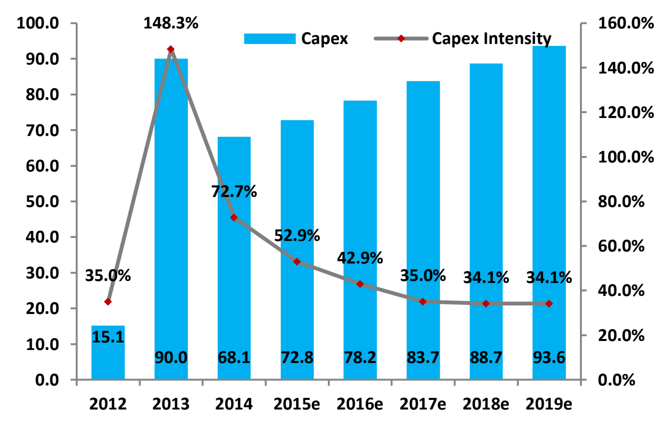
The trend in EBITDA and revenue is expected to directly translate to better EBIT and net margin. As highlighted, the gradual shift toward high ARPU and high margin postpaid subscribers would result into higher EBIT and net profit margins. Operating expenses as a percentage of revenue is expected to decline as compared to historical levels owing to revenue expansion at a higher rate. Moreover, selling and marketing expenses, administrative expenses are expected to remain stable over the forecast period. We expect operating expenses to average at 50.9% over the forecast period. We forecast EBITDA margin to average 49.1% during 2015-2019 compared to last four-year average of

25.1%. We forecast EBIT margin to average 19.5% during 2015-2019 compared to last three-year average of 12.2%. We forecast net profit to grow at a 5-year CAGR of 11.8%.

Capex and Spectrum/License Fee

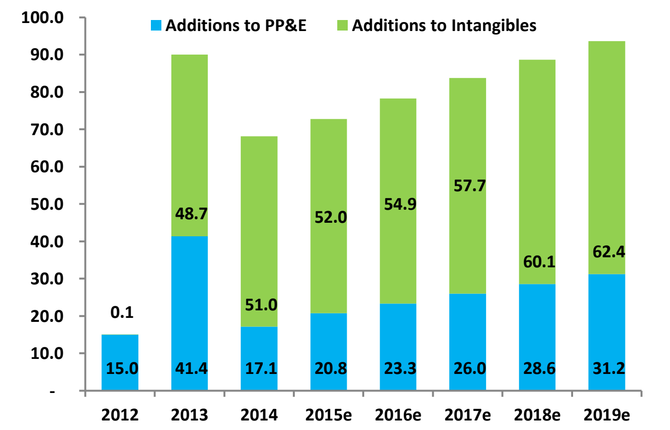
We have projected a gradual increase in capex from the current level to reach KWD 91.4 Mn by end of 2019e. We believe that this increase would adequately capture investment in upgrading infrastructure to the next level. Moreover, it would be too preliminary to comment on the capex requirement the next generation technology although we expect it to be in line with the expenses related to the adoption of 4G technology with the bulk of capex going into upgrading the equipment and minimal investment in mobile sites.

Capital Expenditure



Sources: KAMCO Research and Viva Financials

Composition of Total Capex



Sources: KAMCO Research and Viva Financials

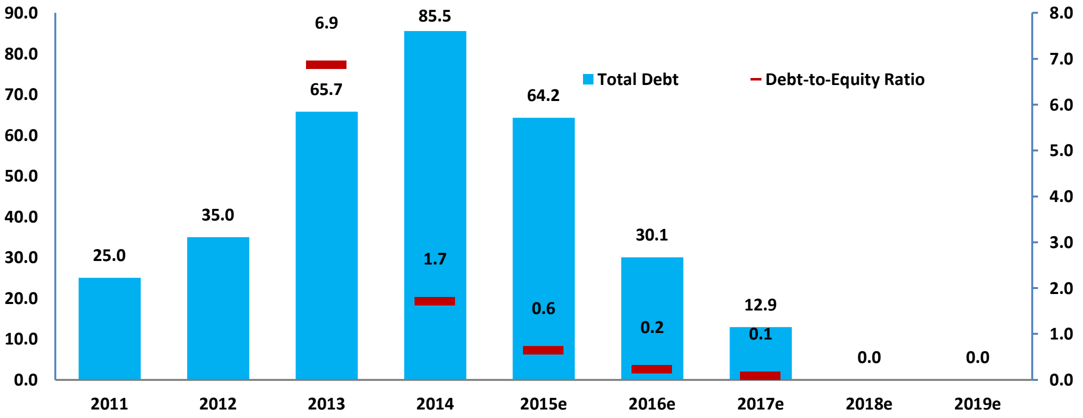
Capex intensity (the ratio of capex to revenue) is expected to remain elevated in the near term and normalize to 33% by 2019e. The ratio has remained elevated historically primarily due to capex investment. However, considering only maintenance capex for the near term and minimal spectrum fees, the ratio would trend downward only to rise in the later part of our forecast period on the back of the expected new investment in technology.

Leverage and Return Ratios

The company carries minimal debt on its balance sheet and finances majority of its operating expenses using cash generated from operations. Moreover, since Viva is a sharia compliant company, its uses Islamic financier facilities from time to time in order to finance investment in infrastructure and license fee. During 2013, Viva signed a USD 270 Mn multi-currency financing agreement with NBK and its subsidiary Boubyan Bank to finance the company's plans to upgrade its network and expand in Kuwait.

Moreover, due to the losses incurred during the initial years of operation, Viva had negative equity until 2012. The profits generated during 2013 enabled it to turn equity positive by the end of 2013.

Total Debt and Debt-to-Equity Ratio



Source: KAMCO Research and Viva Financials

Leverage remained significantly high during the initial years; however, we expect it to remain below 1.0x in the near term as the company starts repaying its existing debt. We expect the company to remain debt free by 2018 and believe it would finance future capex investments using the cash available on the balance sheet.

Expected to make dividend payments…

We expect the company to declare dividends from 2015 and start distributing it in 2016. We have factored in a dividend payout ratio of 50% for the forecast period resulting in a total cash outlay of KWD 25.7 Mn during 2016 and an aggregate outlay of KWD 136.9 Mn for the year 2016-2019. We believe that the company's expected cash flows should be sufficient to finance future dividend payments.

Valuation and Recommendation

"Outperform" rating with a price target of KWD 1.104 per share resulting in an upside of 16.2%

Our fair value of KWD 1.104 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)	1.035	80%	0.828
EV/EBITDA	1.380	20%	0.276
Weighted Average Fair Value			**1.104**
Current Market Price			0.950
Upside / Downside			**16.2%**

Sources: KAMCO Research and Bloomberg

Discounted Cash Flow Method

Our DCF method values the stock at KWD 1.035 per share. The valuation methodology is based on explicit forecast of free cash flows for the next five years (2015e-2019e) and terminal value thereafter. We have assumed terminal growth rate of 3%, which is we believe 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)
Present Value of FCF (2015e - 2019e)	175.139	0.351
Present Value of Terminal Value	388.351	0.778
Present Value of Cash Flows	563.490	1.128
Investments (Q1-15)	0.000	0.000
Cash (Q1-15)	41.684	0.083
Debt & Indemnity (Q1-15)	-88.058	-0.176
Enterprise Value	609.864	1.221
Equity Fair Value	**517.116**	**1.035**

Sources: KAMCO Research and Viva Financials

DCF Assumptions	
Risk Free Rate	3.0%
Risk Premium	6.5%
Terminal Growth Rate	3.0%
Cost of Equity (Incl. Size Premium)	11.4%
Cost of Debt	3.3%
Average Equity (2015e - 2019e)	87.2%
Average Debt (2015e - 2019e)	12.8%
Weighted Average Cost of Capital	**10.4%**

For the DCF valuation, our weighted average cost of capital (WACC) assumption depends on the changing composition of debt and equity over the forecast period. It ranges from 8.3% for 2015e where we forecast a debt to equity ratio of 39:61 to 10.9% during 2017e when debt expected to decline significantly and account for merely 6.6% of equity (i.e. a debt to equity ratio of 6.6 : 93.4) Our assumption that the company would be debt-free starting 2018e, the cost of equity for the years 2018e and 2019e basically reflects only the cost of equity i.e. 11.4%.

The typical telecom market phenomenon of a new challenger taking up market share from the incumbent operator with aggressive pricing strategy can be seen in Kuwait with Viva challenging the incumbents Zain and Ooredoo. Viva has been very successful with this strategy that resulted in almost one third share of the total Kuwaiti telecom market. However, we believe that growth beyond this point would be difficult for all the operators as each one of them have similar products, and almost identical pricing strategies. For a sustainable future growth, Viva need to challenge Zain for a bigger pie of postpaid subscribers which we believe would be its next strategy.

We have highlighted five primary drivers for our DCF valuation:

Subscriber Growth: We see a moderating subscriber growth for Viva primarily due to high penetration rate in Kuwait as well as due to competitors coming up with identical product offerings. We expect the growth subscriber base to decline from 5.2% in 2015 to 2.8% during the last two years of our forecast. This growth is expected to be driven by both marginal subscriber additions in Kuwait (i.e. marginal increase in penetration rate) as well as led by market share gains from competitors.

DCF Valuation – Primary Drivers

	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Subscribers	1,623,000	2,150,000	2,400,000	2,523,966	2,649,912	2,739,127	2,815,459	2,894,315
Growth	55.0%	32.5%	11.6%	5.2%	5.0%	3.4%	2.8%	2.8%
ARPU	30.6	28.3	30.7	30.9	31.1	31.4	31.7	32.0
Growth	1.7%	-7.4%	8.6%	0.5%	0.5%	1.0%	1.0%	1.0%
Revenue	137,466,000	182,422,000	238,974,000	259,908,450	274,465,373	288,738,057	300,583,965	312,071,700
Growth	46.9%	32.7%	31.0%	8.8%	5.6%	5.2%	4.1%	3.8%
Capex	15,141,000	90,047,000	68,090,000	72,774,366	78,222,631	83,734,036	88,672,270	93,621,510
Debt	35,000,000	65,734,000	85,524,000	64,247,417	30,079,583	12,891,250	-	-

Sources: KAMCO Research and Viva Financials

ARPU: With the proliferation of smartphones and data services products, we have forecasted a positive trend in ARPU for Viva, inching towards the level reported by the key competitor Zain. We have forecasted a 1% increase in ARPU for the forecast period.

Revenue: Revenue is expected to grow at a declining pace, however, with the increase in efficiently, costs are expected to decline at a faster pace resulting in higher margins for the company.

Capex: we have considered a capex level of close to KWD 30 Mn during 2015e-2017e which would primarily include maintenance capex for PP&E and amortized subscriber acquisition cost. For 2018e and 2019e, we have factored in a significant spike in capex on the back of an expected additional investment in spectrum and technology upgrade.

Debt: The Company is expected to have significant cash balance by the end of the forecast period. Consequently, we expect the company to be debt free by 2018e as well as use the excess cash for dividend payments starting 2015e (paid in 2016e).

Sensitivity Analysis

We show below a sensitivity analysis to highlight changes in our fair value with respect to changes in cost of equity and terminal growth rate.

Sensitivity Analysis

		Cost of Equity				
		9.4%	10.4%	11.4%	12.4%	13.4%
Terminal Growth Rate	2.00%	1.227	1.070	0.946	0.846	0.764
	2.50%	1.301	1.125	0.988	0.879	0.791
	3.00%	1.387	1.187	**1.035**	0.916	0.820
	3.50%	1.487	1.259	1.089	0.957	0.852
	4.00%	1.605	1.342	1.149	1.003	0.887

Source: KAMCO Research

Relative Valuation

We have compared Viva 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 1.380 per share thus implying a significant upside potential of 45.2%. We have calculated enterprise value for Viva based on average EV/EBITDA multiple of 6.0x (refer Appendix for peer valuation multiples), which is typical of the telecom market, excluding the outliers.

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	EV / EBITDA	FCF (USD Mn)	FCF Yield
GCC	STC	Saudi Arabia	35,867	32,220	12,217	5,189	42.5%	3,315	27.7%	2,922	23.9%	12.1	1,866	5.8%	6.2	3,339	8.6%
	Etisalat	UAE	27,111	31,644	13,277	4,646	35.0%	2,779	22.0%	2,421	18.2%	11.0	1,507	5.6%	6.8	2,871	10.0%
	Ooredoo	Qatar	7,919	16,937	9,120	3,431	37.6%	1,334	13.5%	586	6.4%	16.5	352	4.4%	4.9	716	3.0%
	Mobily	Saudi Arabia	7,002	10,643	4,199	794	18.9%	-154	-10.2%	-244	-5.8%	NM	770	14.8%	13.4	389	5.5%
	Zain	Kuwait	6,374	8,961	4,262	1,780	41.8%	1,177	26.4%	683	16.0%	9.5	608	9.1%	5.0	1,011	16.6%
	Du	UAE	6,298	5,639	3,332	1,370	41.1%	1,012	30.7%	574	17.2%	11.0	398	6.4%	4.1	621	11.4%
	VOD Qatar	Qatar	3,748	3,707	544	279	51.2%	82	-8.1%	75	-9.4%	NM	40	1.0%	13.3	218	5.8%
	Omantel	Oman	3,331	3,096	1,250	550	44.0%	339	26.5%	318	25.4%	10.7	146	6.9%	5.6	193	6.4%
	Ooredoo Kuwait	Kuwait	2,169	2,799	2,629	792	30.1%	279	9.1%	161	6.1%	23.2	124	5.7%	3.5	-102	-2.4%
	Zain KSA	Saudi Arabia	1,759	4,393	1,665	293	17.6%	-142	-7.3%	-338	-20.3%	NM	0	0.0%	15.0	-35	-3.3%
	Batelco	Bahrain	1,491	1,604	1,034	384	37.1%	206	19.4%	131	12.7%	11.4	110	7.4%	4.2	244	24.4%
	Viva Kuwait	Kuwait	1,587	1,769	839	395	47.1%	158	18.8%	142	16.9%	11.5	0	0.0%	4.5	239	15.1%
	Ooredoo (Nawras)	Oman	1,332	1,479	588	286	48.6%	157	27.5%	98	16.7%	12.9	64	4.8%	5.2	72	4.3%
	Zain Bahrain	Bahrain	176	234	190	72	38.0%	15	7.0%	11	5.8%	1.4	5	2.8%	3.2	16	9.3%
	GCC-Peers		**106,164**	**125,123**	**55,146**	**20,261**	**36.7%**	**10,556**	**19.1%**	**7,539**	**13.7%**	**14.1**	**5,990**	**5.6%**	**6.2**	**9,792**	**9.2%**
	Excl. Outliers		**104,405**	**120,730**	**53,482**	**19,967**	**37.3%**	**10,698**	**20.0%**	**7,878**	**14.7%**	**13.3**	**5,990**	**5.7%**	**6.0**	**9,827**	**9.4%**
Non-GCC	MTN	South Africa	31,701	32,521	13,554	6,824	50.3%	4,839	30.6%	2,959	21.8%	14.1	2,114	5.8%	5.5	2,988	9.4%
	Vodacom	South Africa	15,140	16,323	7,508	2,701	36.0%	2,028	25.1%	1,313	16.4%	14.9	1,217	6.1%	7.6	1,274	4.8%
	Safaricom	Kenya	6,760	6,724	1,682	667	39.7%	409	24.3%	268	19.5%	20.4	219	2.9%	11.4	272	4.0%
	Telkom SA	South Africa	2,743	2,872	3,221	1,045	32.4%	456	9.5%	379	11.8%	15.5	0	0.0%	4.5	12	5.3%
	Telecom Egypt	Egypt	1,920	1,440	1,716	541	31.5%	317	18.5%	287	16.7%	6.9	128	6.7%	2.9	34	2.1%
	ECMS	Egypt	1,501	2,582	1,542	444	28.8%	74	5.5%	-56	-3.7%	NM	0	0.0%	6.1	24	1.5%
	Econet	Zimbabwe	722	894	753	323	43.0%	224	21.4%	119	9.4%	9.9	5	0.7%	3.1	174	7.2%
	Non-GCC Peers		**60,487**	**63,356**	**29,976**	**12,546**	**41.9%**	**8,347**	**27.8%**	**5,269**	**17.6%**	**11.5**	**3,683**	**6.1%**	**5.0**	**4,777**	**7.9%**
	Total MENA		**166,650**	**188,478**	**85,122**	**32,806**	**38.5%**	**18,903**	**22.2%**	**12,808**	**15.0%**	**13.0**	**9,673**	**5.8%**	**5.7**	**14,569**	**8.7%**

	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	Capital Employed (TA-CA)	ROCE
GCC	STC	24,203	2,077	1,626	13.3%	164	1.3%	1,791	14.7%	16,335	0.13	0.50	2.20	20,640	16.1%
GCC	Etisalat	35,280	6,059	1,872	14.1%	555	4.2%	2,427	18.3%	16,588	0.37	0.38	1.63	25,091	11.1%
GCC	Ooredoo	26,910	11,752	2,305	25.3%	645	7.1%	2,949	32.3%	8,366	1.40	0.34	0.95	20,125	6.6%
GCC	Mobily	12,650	4,526	1,257	29.9%	61	1.5%	1,318	31.4%	5,174	0.87	0.33	1.35	5,599	-2.8%
GCC	Zain	11,182	2,690	606	14.2%	494	11.6%	1,100	25.8%	6,121	0.44	0.38	1.04	9,040	13.0%
GCC	Du	4,867	1,206	404	12.1%	42	1.3%	446	13.4%	2,134	0.57	0.68	2.95	3,416	29.6%
GCC	VOD Qatar	2,114	261	67	12.3%	28	5.1%	95	17.4%	1,627	0.16	0.26	2.30	1,801	4.6%
GCC	Omantel	2,167	92	382	30.5%	0	0.0%	382	30.6%	1,481	0.06	0.58	2.25	1,718	19.7%
GCC	Ooredoo Kuwait	5,282	614	581	22.1%	21	0.8%	602	22.9%	2,912	0.21	0.50	0.74	3,355	8.3%
GCC	Zain KSA	6,889	3,033	111	6.7%	27	1.6%	138	8.3%	1,455	2.08	0.24	1.21	5,992	-2.4%
GCC	Batelco	2,543	468	94	9.1%	6	0.6%	100	9.7%	1,536	0.30	0.41	0.97	2,077	9.9%
GCC	Viva Kuwait	730	292	60	7.2%	179	21.3%	239	28.5%	170	1.71	1.15	9.31	355	44.4%
GCC	Ooredoo (Nawras)	1,003	120	182	30.9%	0	0.0%	182	30.9%	516	0.23	0.59	2.58	656	23.9%
GCC	Zain Bahrain	296	58	45	23.6%	27	14.0%	72	37.6%	157	0.37	0.64	1.12	210	6.9%
	GCC-Peers	136,115	33,248	9,591	17.4%	2,249	4.1%	11,840	21.5%	64,572	0.51	0.41	1.64	100,075	**10.5%**
	Excl. Outliers	**129,226**	**30,216**	**9,480**	17.7%	**2,222**	4.2%	**11,702**	21.9%	**63,117**	**0.48**	**0.41**	**1.65**	**94,083**	**11.4%**
Non-GCC	MTN	21,962	4,613	1,805	13.3%	303	2.2%	2,107	15.5%	11,552	0.40	0.62	2.74		
Non-GCC	Vodacom	5,774	1,339	980	13.0%	0	NA	980	13.0%	2,257	0.59	1.30	6.71		
Non-GCC	Safaricom	1,558	146	323	19.2%	0	NA	323	19.2%	1,056	0.14	1.08	6.40		
Non-GCC	Telkom SA	3,746	450	632	19.6%	0	NA	632	19.6%	2,201	0.20	0.86	1.25		
Non-GCC	Telecom Egypt	4,525	65	224	13.0%	0	NA	224	13.0%	3,830	0.02	0.38	0.50		
Non-GCC	ECMS	2,087	1,120	308	20.0%	7	0.5%	316	20.5%	191	5.85	0.74	7.84		
Non-GCC	Econet	1,174	240	140	18.6%	142	18.8%	281	37.4%	604	0.40	0.64	1.20		
	Non-GCC Peers	40,825	7,973	4,411	14.7%	452	1.5%	4,862	16.2%	21,691	0.37	0.73	2.79		
	Total MENA	176,940	41,222	14,002	16.4%	2,701	3.2%	16,703	19.6%	86,263	0.48	0.48	1.93		

Financial Indicators

Balance Sheet (KWD '000)	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Assets								
Cash and Cash Equivalents	9,047	6,705	32,260	47,372	30,399	30,118	34,667	51,709
Trade & Other Receivables	9,889	12,777	21,168	23,628	24,951	26,249	27,326	28,370
Property & equipment	98,862	118,961	113,078	111,926	112,311	114,343	117,955	121,680
Intangible Assets	131	30,576	36,291	43,857	52,883	64,918	77,239	90,806
Other Assets	8,660	9,971	11,165	10,289	10,899	11,505	12,032	12,554
Total assets	**126,589**	**178,990**	**213,962**	**237,072**	**231,443**	**247,133**	**269,219**	**305,119**
Liabilities								
Islamic Financing Facilities	35,000	65,734	85,524	64,247	30,080	12,891	-	-
Trade and other payables	93,691	93,567	75,913	68,397	63,829	60,154	56,714	52,012
Other Liabilities	12,568	10,107	2,579	2,910	3,024	3,169	3,248	3,306
Total liabilities	**141,259**	**169,408**	**164,016**	**135,554**	**96,933**	**76,214**	**59,962**	**55,318**
Shareholders' Equity								
Share capital	49,940	49,940	49,940	49,940	49,940	49,940	49,940	49,940
Retained Earnings	(64,610)	(40,358)	5	46,169	73,001	102,517	133,396	174,890
Other Reserves	-	-	1	5,409	11,569	18,461	25,920	24,970
Total Shareholders Equity	**(14,670)**	**9,582**	**49,946**	**101,518**	**134,510**	**170,919**	**209,256**	**249,800**
Total liabilities and equity	**126,589**	**178,990**	**213,962**	**237,072**	**231,443**	**247,133**	**269,219**	**305,119**

Income Statement (KWD '000)	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Revenue	137,466	182,422	238,974	259,908	274,465	288,738	300,584	312,072
Operating Expenses	(114,631)	(116,827)	(126,261)	(137,322)	(142,722)	(149,566)	(153,298)	(156,036)
EBITDA	**22,835**	**65,595**	**112,713**	**122,587**	**131,743**	**139,172**	**147,286**	**156,036**
Depreciation & Amortization	(17,969)	(39,503)	(67,620)	(66,360)	(68,811)	(69,668)	(72,738)	(76,330)
EBIT	**4,866**	**26,092**	**45,093**	**56,226**	**62,932**	**69,504**	**74,548**	**79,706**
Finance cost	(783)	(1,406)	(2,211)	(2,189)	(1,379)	(628)	-	-
Other Expenses	(155)	(156)	(1,992)	45	45	45	45	45
Taxes	(62)	(278)	(526)	(2,510)	(2,820)	(3,123)	(3,357)	(3,589)
Net Profit / (Loss)	**3,866**	**24,252**	**40,364**	**51,572**	**58,778**	**65,797**	**71,236**	**76,162**
EPS (KWD)	**0.008**	**0.049**	**0.081**	**0.103**	**0.118**	**0.132**	**0.143**	**0.153**

Cash Flow (KWD '000)	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Net Cash From Operating Activities	32,891	83,486	87,024	111,352	122,582	130,659	139,011	146,282
Net Cash (used in) from Investing Activities	(15,125)	(90,047)	(67,915)	(72,774)	(78,223)	(83,734)	(88,672)	(93,622)
Net Cash (used in) from Financing Activities	(19,623)	4,219	6,446	(23,466)	(61,333)	(47,206)	(45,790)	(35,618)
Net Change in Cash and Equivalents	(1,858)	(2,342)	25,555	15,112	(16,973)	(281)	4,549	17,042
Net Cash at end of the year	**9,047**	**6,705**	**32,260**	**47,372**	**30,399**	**30,118**	**34,667**	**51,709**

Key Financial Ratios

Key Ratios	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Profitability Ratios								
Return on Average Assets	3.1%	15.9%	20.5%	22.9%	25.1%	27.5%	27.6%	26.5%
Return on Average Equity	NM	NM	135.6%	68.1%	49.8%	43.1%	37.5%	33.2%
EBITDA Margin	16.6%	36.0%	47.2%	47.2%	48.0%	48.2%	49.0%	50.0%
Net Profit Margin	2.8%	13.3%	16.9%	19.8%	21.4%	22.8%	23.7%	24.4%
Growth Rates								
Revenue Growth	46.9%	32.7%	31.0%	8.8%	5.6%	5.2%	4.1%	3.8%
EBITDA Growth	NM	187.3%	71.8%	8.8%	7.5%	5.6%	5.8%	5.9%
Net Income Growth	NM	527.3%	66.4%	27.8%	14.0%	11.9%	8.3%	6.9%
Total Assets Growth	0.4%	41.4%	19.5%	10.8%	-2.4%	6.8%	8.9%	13.3%
Liquidity Indicators								
Current Ratio (x)	0.2	0.2	0.6	0.9	1.0	1.1	1.3	1.8
Quick Ratio (x)	0.2	0.2	0.5	0.8	0.9	0.9	1.1	1.5
Working Capital (KWD Mn)	-89.8	-96.0	-46.0	-4.8	1.6	6.8	16.3	39.5
Free Cash Flow (KWD Mn)	17.7	-6.6	18.9	38.6	44.4	46.9	50.3	52.7
Leverage Ratios								
Interest Coverage Ratio (x)	6.2	18.6	20.4	25.7	45.6	110.7	-	-
Debt-to-EBITDA (x)	1.5	1.0	0.8	0.5	0.2	0.1	-	-
Debt-to-Equity (x)	NM	6.9	1.7	0.6	0.2	0.1	-	-
Market Data and Valuation Ratios								
Closing Share Price (KWD)	NA	NA	0.650	0.950	0.950	0.950	0.950	0.950
Total Issued Shares (Mn)	499.4	499.4	499.4	499.4	499.4	499.4	499.4	499.4
Market Capitalization (KWD Mn)	NA	NA	324.6	474.4	474.4	474.4	474.4	474.4
EPS (KWD)	0.008	0.049	0.081	0.103	0.118	0.132	0.143	0.153
Book Value Per Share (KWD)	(0.029)	0.002	0.100	0.203	0.269	0.342	0.419	0.500
Dividend Per Share (KWD)	NA	NA	0.000	0.000	0.052	0.059	0.066	0.071
Price to Earnings Multiple (X)	NA	NA	8.04	9.20	8.07	7.21	6.66	6.23
Price to Book Value Multiple (X)	NA	NA	6.50	4.67	3.53	2.78	2.27	1.90
Dividend Yield (%)	NA	NA	0.0%	0.0%	5.4%	6.2%	6.9%	7.5%

Source : KAMCO Research and National Bank of Kuwait

Note : Forward Valuation ratios are based on current market prices

Key Operational Indicators	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Total Subscribers	1,623,000	2,150,000	2,400,000	2,523,966	2,649,912	2,739,127	2,815,459	2,894,315
ARPU (KWD)	8.58	8.06	8.75	8.80	8.84	8.93	9.02	9.11
Market Share	27.5%	32.4%	31.7%	32.5%	33.0%	33.0%	33.0%	33.0%
Kuwait Population	3,785,000	3,890,000	3,999,000	4,110,000	4,225,000	4,342,000	4,463,000	4,588,000
Telecom Penetration Rate (Kuwait)	183.0%	198.0%	221.0%	221.0%	221.0%	221.0%	221.0%	221.0%
CAPEX to Sales	10.9%	22.7%	7.2%	8.0%	8.5%	9.0%	9.5%	10.0%
Receivables Turnover	13.9	14.3	11.3	11.0	11.0	11.0	11.0	11.0
Days in Receivables	26	25	32	33	33	33	33	33
Inventories Turnover	62.5	36.9	41.4	60.0	60.0	60.0	60.0	60.0
Days in Inventory	6	10	9	6	6	6	6	6
Payables Turnover	1.7	2.0	3.1	3.8	4.3	4.8	5.3	6.0
Days in Payables	210	180	114	95	84	75	68	60
Current Assets Turnover	11.4	10.3	8.9	9.3	9.3	9.3	9.3	9.3
Current Liabilities Turnover	1.7	2.0	3.1	3.8	4.3	4.8	5.3	6.0

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