

## MEA Telecoms

### Omantel to acquire 10% of Zain Group

- An auction of Zain's treasury shares will take place on the Kuwaiti exchange on 24 August at KWD 0.60/ share.
- Positive impact for Zain as cash injection reduces net debt by 0.4x (+14% to valuation) and helps dividend sustainability.
- Mixed bag for Omantel; new debt (38% of market cap) slightly improves valuation (+5%), but weighs on balance sheet
- Maintain Hold rating for Zain and Omantel as the deal hardly has an impact on our medium to long-term view or fundamentals

**Zain to sell treasury shares to Omantel by end of August 2017:** Omantel announced today signing an agreement to purchase the treasury shares of Zain Group (9.84% of total shares) at KWD 0.60/share (at a massive 33% premium to yesterday closing price). The deal is pending regulatory approval. An auction process will start on 24 August on the Kuwaiti stock exchange and Omantel will need to make the payment by 27 August.

**Positive impact for Zain TP (+14%); lowering net debt and providing a cushion for dividend sustainability:** Zain KK would benefit from KWD c.255m in cash (excl. transaction fees), which translates into KWD 0.059/share (+c.14% upside to TP) as we were utilizing total shares in our valuation. Zain net debt/ EBITDA would decline from 2x to 1.4x as a result (net debt reduction of 28%). EPS would also improve by c.5%, if sale proceeds are fully utilized to pay back debt. Additionally, we are expecting Zain to increase its DPS in FY 17e by 14% to KWD 0.04 (a yield of 8.5%). We expect dividend yield to average 8.5% in FY 18-20e.

**Mixed impact for Omantel; increased debt improves capital structure (+5% to TP), but weighs on balance sheet:** Omantel intends to fully finance the acquisition through debt (equivalent to 38% of market cap), which will lead to a net debt position of 1.3x up from 0.2x in net cash. Interest expense (assumed at 5.5%) will be more than offset by investment income from Zain Group. We expect EPS to improve post transaction by an average 4%. Omantel is unlikely to be able to completely repay such debt over the medium-term (constant ratio expected till 2021e). We are also skeptical of Omantel's justification for the premium paid on Zain's share price as Omantel's minority position (no BoD seats) hardly justifies synergies or guarantees their execution.

## Summary of recommendations

Bloomberg code	OTEL OM
Company name	Oman Telecom
Target Price	OMR 1.28
Rating	<b>Hold</b>

Bloomberg code	ZAIN KK
Company name	Zain Group
Target Price	KWD 0.50
Rating	<b>Hold</b>

## Oman–Telecom Services

### Omantel: Unjustifiable debt for diversity, largely neutral impact

- Omantel to finance acquisition through debt (38% of market cap) increasing net debt to 1.3x from a net cash of 0.2x
- Capital structure (30% debt to equity) positively impacts our TP (+5%) while associated interest expense is more than offset by investment income from Zain (average FY 18e-21e EPS +4%).
- We cut our TP by 14% on a higher risk premium for Oman and lower net cash (pre-deal).
- We maintain our Hold rating (+14% upside) as Omantel still offers the highest dividend yield in our coverage universe at 9.8%.

**Justification for deal premium is unconvincing, in our view:** Omantel justifies the acquisition as an opportunity to diversify away from the Omani market, which it describes as offering a slower growth profile. Additionally, it intends to benefit from Zain's expertise in the digital space. The company in today's call stressed on the extraction of synergies from the transaction, but has not quantified the potential impact. The stake to be acquired by Omantel however does not allow for BoD representation and hence would not guarantee execution, in our view. We are also skeptical of the justification of the 33% premium to be paid on yesterday's closing price as the benefits presented by management could have been reached through commercial agreements.

**The debt to be raised improves capital structure, yet weighs on balance sheet:** Omantel intends to fully finance the acquisition through debt, which will lead to a net debt position of 1.3x up from 0.2x in net cash. Investment income from Zain will more than offset interest expense (assumed at 5.5%) leading to an average 4% uplift to EPS in FY18-20e. Omantel is unlikely to be able to completely repay such debt over the medium-term (constant ratio expected until 2021e).

**Omantel's positive feature remains its dividend yield of 9.8%:** We forecast a constant DPS y/y at OMR 0.11/share as management guided that dividend policy should remain unchanged and the synergies from Zain should lead to higher dividends in the long-term (the latter we did not take into account). The stock trades at 4.5x FY 18e EV/EBITDA and 9.6x P/E, at c.20% discount to peers, which we view as partially justified by the operational weakness and, in our view, Omantel's vulnerability in comparison to Ooredoo to a third entrant. We were surprised that Omantel did not negotiate Zain's withdrawal from the bid on the third Omani license as part of the deal.

**HOLD**

**OMR 1.28**

#### Telecom Services / Oman

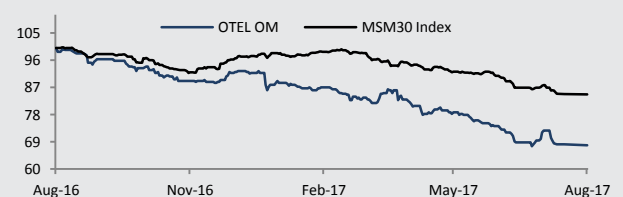
Bloomberg code	OTEL OM
Market index	MSM30 Index
Target Price	1.28
Upside (%)	14.0

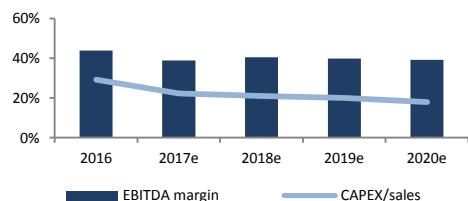
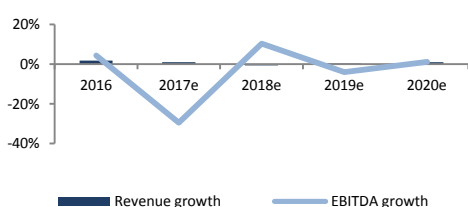
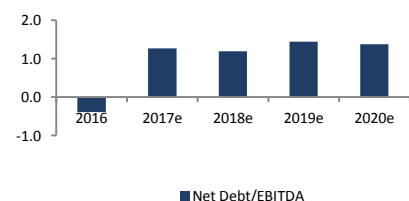
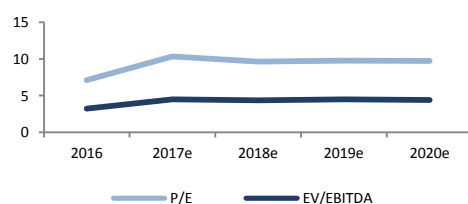
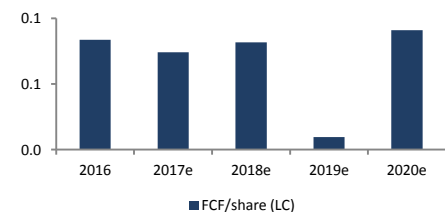
#### Market data 10/08/2017

Last closing price	1.12
52 Week range	1.1-1.7
Market cap (OMR m)	840
Market cap (USD m)	2,182
Average Daily Traded Value (OMR m)	0.3
Average Daily Traded Value (USD m)	0.8
Free float (%)	49%

Year-end (local m)	2016	2017e	2018e	2019e
Revenues	524	529	525	527
EBITDA	230	206	213	210
Net income	118	81	87	86
EPS	0.16	0.11	0.12	0.11
EPS growth (%)	143.7	(31.4)	7.4	(1.6)
P/E (current price)	7.1	10.3	9.6	9.8
DPS	0.1	0.1	0.1	0.1
Div. yield (%)	9.8	9.8	9.8	9.8
FCF/share	0.1	0.1	0.1	-
FCF yield (%)	7.5	6.6	7.3	0.8
CAPEX	153	118	110	105
CAPEX/sales (%)	29.2	22.3	21.0	20.0
Net Debt/EBITDA (x)	(0.4)	1.3	1.2	1.4
EV/EBITDA (x)	3.3	4.5	4.3	4.5
RoAE (%)	21.1	14.0	15.1	14.8
RoIC (%)	20.6	9.7	10.6	9.7

#### Price Performance



**Abacus** *Arqaam Capital Fundamental Data*
**Profitability**

**Growth**

**Gearing**

**Valuation**

**FCF**

**Oman Telecom**

Year-end	2015	2016	2017e	2018e	2019e	2020e
<b>Financial summary</b>						
Reported EPS	0.06	0.16	0.11	0.12	0.11	0.12
Diluted EPS	0.06	0.16	0.11	0.12	0.11	0.12
DPS	0.12	0.11	0.11	0.11	0.11	0.11
BVPS	0.72	0.78	0.77	0.77	0.78	0.78
Weighted average shares	750	750	750	750	750	750
Average market cap	840	840	840	840	840	840

Year-end	2015	2016	2017e	2018e	2019e	2020e
<b>Valuation metrics</b>						
P/E (x) (current price)	17.3	7.1	10.3	9.6	9.8	9.7
P/E (x) (target price)	19.7	8.1	11.8	11.0	11.2	11.1
EV/EBITDA (x) (current price)	3.5	3.3	4.5	4.3	4.5	4.4
EV/EBITDA (x) (target price)	4.1	3.8	5.0	4.8	4.9	4.8
EV/FCF (x)	9.3	11.9	19.8	17.8	160.1	16.5
Free cash flow yield (%)	9.7	7.5	6.6	7.3	0.8	8.1
Dividend yield (%)	8.9	9.8	9.8	9.8	9.8	-

Year-end	2015	2016	2017e	2018e	2019e	2020e
<b>Growth (%)</b>						
Revenues	6.9	1.8	1.0	(0.7)	0.4	1.0
EBITDA	1.7	6.9	(10.7)	3.3	(1.2)	(0.5)
EBIT	(6.4)	4.4	(29.5)	10.3	(4.0)	1.1
Net income	(60.3)	143.7	(31.4)	7.4	(1.6)	0.8

Year-end	2015	2016	2017e	2018e	2019e	2020e
<b>Margins (%)</b>						
EBITDA	41.9	44.0	38.9	40.5	39.8	39.3
EBIT	23.7	24.3	17.0	18.9	18.0	18.1
Net	2.6	22.4	15.1	16.4	16.0	16.0

Year-end	2015	2016	2017e	2018e	2019e	2020e
<b>Returns (%)</b>						
RoAA	6.0	14.6	8.2	7.5	7.3	7.2
RoAE	8.7	21.1	14.0	15.1	14.8	14.8
RoIC	21.0	20.6	9.7	10.6	9.7	9.9
FCF margin	15.9	12.0	10.5	11.7	1.4	12.8

Year-end	2015	2016	2017e	2018e	2019e	2020e
<b>Gearing (%)</b>						
Net debt/Capital	(14.0)	(15.4)	28.0	27.3	30.8	29.7
Net debt/Equity	(15.0)	(15.6)	45.3	43.6	51.7	48.8
Interest cover (x)	94.0	(82.6)	18.0	5.7	5.6	4.9
Net debt/EBITDA (x)	(0.4)	(0.4)	1.3	1.2	1.4	1.4

**Abacus** Arqaam Capital Fundamental Data

## Company profile

Omantel is the incumbent operator in the Omani market with a fixed-line market share of 78%. As of FY 16A Omantel's mobile market share has declined to match Ooredoo's at 41.3%. In FY 15A Omantel has fully impaired its Pakistani operation, WCL, and by Q4 16A it had accepted an offer to divest its 57% stake in the ISP. The transaction has not been concluded yet. In December 2016, the government transferred its 51% stake in the company held by the Ministry of Finance to the Oman Investment Fund (OIF), a sovereign wealth fund in Oman.

## Ownership structure

### Major Shareholders

Oman Investment Fund	51.0%
Free float	49.0%

### Management

Sultan Hamdoon Al Harthi	Chairman
Talal Said Al Mamari	CEO
Martial Caratti	CFO

Source: Company Data, MSM

### Oman Telecom

Year-end	2015	2016	2017e	2018e	2019e	2020e
<b>Income statement (OMRm)</b>						
Sales revenue	514	524	529	525	527	532
Cost of sales	(183)	(174)	(183)	(186)	(190)	(195)
<b>Gross profit</b>	<b>331</b>	<b>350</b>	<b>345</b>	<b>340</b>	<b>337</b>	<b>338</b>
SG&A	(116)	(120)	(140)	(127)	(127)	(129)
<b>EBITDA</b>	<b>215</b>	<b>230</b>	<b>206</b>	<b>213</b>	<b>210</b>	<b>209</b>
Depreciation	(86)	(94)	(107)	(105)	(103)	(101)
Amortisation and other	(7)	(8)	(9)	(9)	(12)	(12)
<b>EBIT</b>	<b>122</b>	<b>127</b>	<b>90</b>	<b>99</b>	<b>95</b>	<b>96</b>
Net interest income(expense)	(1)	2	(5)	(17)	(17)	(20)
Associates/affiliates	1	1	6	18	20	22
Exceptionals/extraordinaries	(100)	3	1	2	2	2
<b>Profit before tax</b>	<b>22</b>	<b>134</b>	<b>92</b>	<b>101</b>	<b>99</b>	<b>100</b>
Taxes	(8)	(16)	(12)	(15)	(15)	(15)
<b>Net profit (group)</b>	<b>13</b>	<b>117</b>	<b>80</b>	<b>86</b>	<b>85</b>	<b>85</b>
Minorities	35	1	1	1	1	1
<b>Net profit (parent)</b>	<b>49</b>	<b>118</b>	<b>81</b>	<b>87</b>	<b>86</b>	<b>87</b>
<b>Arqaam Net profit</b>	<b>49</b>	<b>118</b>	<b>81</b>	<b>87</b>	<b>86</b>	<b>87</b>

Year-end	2015	2016	2017e	2018e	2019e	2020e
<b>Balance sheet (OMRm)</b>						
Cash and equivalents	119	99	93	93	93	93
Receivables	102	97	111	116	115	111
Inventories	8	9	10	10	10	11
Tangible fixed assets	463	517	524	530	532	527
Other assets including goodwill	101	104	426	411	454	441
<b>Total assets</b>	<b>793</b>	<b>826</b>	<b>1,164</b>	<b>1,160</b>	<b>1,205</b>	<b>1,183</b>
Payables	242	207	203	199	189	175
Interest bearing debt	38	8	354	346	395	380
Other liabilities	8	64	67	71	75	79
<b>Total liabilities</b>	<b>288</b>	<b>279</b>	<b>623</b>	<b>616</b>	<b>658</b>	<b>634</b>
Shareholders equity	540	582	576	580	584	588
Minorities	(35)	(36)	(34)	(36)	(37)	(38)
<b>Total liabilities &amp; shareholders equity</b>	<b>793</b>	<b>826</b>	<b>1,164</b>	<b>1,160</b>	<b>1,205</b>	<b>1,183</b>

Year-end	2015	2016	2017e	2018e	2019e	2020e
<b>Cash flow (OMRm)</b>						
Change in working capital	13	(5)	(14)	(4)	(5)	(6)
<b>Cashflow from operations</b>	<b>236</b>	<b>227</b>	<b>192</b>	<b>210</b>	<b>206</b>	<b>204</b>
Net capex	(129)	(153)	(118)	(110)	(105)	(96)
Other investing/financing cash flows	(13)	(26)	(406)	(9)	(67)	(11)
<b>Free cash flow</b>	<b>82</b>	<b>63</b>	<b>56</b>	<b>61</b>	<b>7</b>	<b>68</b>
Equity raised/(bought back)	-	-	-	-	-	-
Dividends paid	(98)	(75)	(83)	(83)	(83)	(83)
Net inc/(dec) in borrowings	-	(23)	348	(8)	49	(15)
<b>Net cash flow</b>	<b>(4)</b>	<b>(49)</b>	<b>(66)</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Exhibit 1: Valuation sheet**

Valuation summary (OMRm)				WACC calculation			
		Per share	Upside (%)	Weight (%)			
DCF target market capitalization	945	1.26	12%	40%	Debt to capital		30%
Multiple-based target market capitalization	1,011	1.35	20%	30%	Equity to capital		70%
DDM target market capitalization	920	1.23	10%	30%	Beta		0.95
Average	957				ERP		6.5%
# of shares (m)	750				RFR		6.0%
<b>Weighted average target value</b>	<b>1.28</b>				Cost of Equity		<b>12.2%</b>
Current market price	1.12				Effective interest rate		5.5%
<b>Upside (downside)</b>	<b>14.0%</b>				Effective tax rate		15%
					Cost of Debt after tax		<b>4.7%</b>
					WACC		<b>9.8%</b>
					LT WACC		<b>9.8%</b>
					LT growth rate		0.5%

DCF (OMRm)						
	2017e	2018e	2019e	2020e	2021e	2022e
Revenues	529	525	527	532	539	545
EBITDA adjusted	206	213	210	209	208	207
EBIT	90	99	95	96	99	99
Tax rate	(13%)	(15%)	(16%)	(16%)	(16%)	(17%)
Tax on EBIT	(12)	(15)	(15)	(15)	(16)	(17)
WC change	(15)	(8)	(9)	(10)	(10)	(9)
CAPEX	(118)	(110)	(161)	(96)	(97)	(98)
<b>Free cash flow to the firm</b>	<b>61</b>	<b>79</b>	<b>24</b>	<b>88</b>	<b>86</b>	<b>84</b>
Compounding period	0.39	1.39	2.39	3.39	4.39	5.39
Discount factor	0.96	0.88	0.80	0.73	0.67	0.60
Discounted FCF	58	69	19	64	57	51
PV of discounted FCF	319					
PV of terminal value	549					
<b>Total EV</b>	<b>868</b>					
-Net debt (cash)	(254)					
+Investments	47					
+Stake in Zain KK	286					
-Minorities	(1)					
<b>DCF target market capitalization</b>	<b>945</b>					
<b>Number of shares (m)</b>	<b>750</b>					
<b>Fair value per share</b>	<b>1.26</b>					

Multiple-based valuation (OMRm)			
	Omantel	Stake in Zain	Total
<b>Target EV/EBITDA 2018E</b>	<b>5.0x</b>	<b>6.0x</b>	<b>5.2x</b>
EBITDA including royalty 2018E	213	55	268
Target EV	1,063	332	1,395
Less net debt and other adjustments	(301)	(83)	(384)
Target market capitalization	762	250	1,011
<b>Multiple-based valuation per share</b>	<b>1.02</b>	<b>0.33</b>	<b>1.35</b>
Net profit 2018	64	23	87
<b>Implied 2018 P/E</b>	<b>11.8</b>	<b>10.9</b>	<b>11.6</b>

Discounted dividend model (OMR)							
	2017e	2018e	2019e	2020e	2021e	2022e	2023e
<b>DPS</b>	<b>0.110</b>	<b>0.110</b>	<b>0.110</b>	<b>0.110</b>	<b>0.110</b>	<b>0.110</b>	<b>0.110</b>
Discount factors	0.96	0.88	0.80	0.73	0.67	0.60	0.55
Present value of DPS	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Sum of DPS	0.6						
<b>Terminal value of DPS</b>	<b>0.65</b>						
<b>DDM target equity value per share</b>	<b>1.23</b>						

Source: Arqaam Capital Research, Company Data

**Exhibit 2: Estimates revision**

OMRm	FY 17e			FY 18e			FY 19e		
	New	Old	% Δ	New	Old	% Δ	New	Old	% Δ
Mobile subscribers ('000)	2,944	3,011	-2.2%	2,928	3,041	-3.7%	2,942	3,102	-5.1%
Mobile ARPU	8.4	8.2	3.1%	8.1	7.9	3.3%	8.0	7.6	4.3%
Mobile revenue	292.9	287.3	2.0%	286.0	285.5	0.2%	280.1	281.0	-0.3%
Fixed line revenue	138.3	132.3	4.5%	146.7	140.3	4.5%	155.4	148.5	4.6%
Wholesale revenue	97.6	97.9	-0.3%	92.4	88.4	4.5%	91.7	87.6	4.6%
<b>Revenue</b>	<b>529</b>	<b>518</b>	<b>2.2%</b>	<b>525</b>	<b>514</b>	<b>2.1%</b>	<b>527</b>	<b>517</b>	<b>1.9%</b>
EBITDA	264	259	1.6%	271	267	1.4%	268	265	1.1%
EBITDA margin (%)	50%	50%	(26 bps)	52%	52%	(38 bps)	51%	51%	(41 bps)
<b>EBITDA incl. royalty</b>	<b>206</b>	<b>200</b>	<b>2.7%</b>	<b>213</b>	<b>208</b>	<b>2.0%</b>	<b>210</b>	<b>206</b>	<b>1.7%</b>
EBITDA margin incl. royalty (%)	39%	39%	20 bps	40%	41%	(5 bps)	40%	40%	(8 bps)
<b>Net profit</b>	<b>81</b>	<b>84</b>	<b>-3.8%</b>	<b>87</b>	<b>87</b>	<b>0.3%</b>	<b>86</b>	<b>84</b>	<b>2.5%</b>
Net profit margin (%)	15%	16%	(95 bps)	17%	17%	(31 bps)	16%	16%	9 bps
<b>DPS</b>	<b>0.110</b>	<b>0.110</b>	<b>0.0%</b>	<b>0.110</b>	<b>0.110</b>	<b>0.0%</b>	<b>0.110</b>	<b>0.110</b>	<b>0.0%</b>

Source: Arqaam Capital Research, Company Data

## Kuwait–Telecom Services

### Zain Group: Cash injection for debt relief

- Zain will benefit from KWD c.255m in cash flow injection (+14% to TP) from the sale of its treasury shares.
- Kuwait has underperformed on i) intense competition and ii) network associated costs (c.-5% to TP).
- We maintain our Hold recommendation on Zain Group and increase our TP by 11% to KWD 0.50 (5.5% upside)

**Zain gets the sweet deal, at a 33% premium to the market price:** Omantel will be buying Zain treasury shares at a whopping 33% premium to yesterday's closing price (putting the tender price at KWD 0.60/share). Following the transaction, Omantel will become a "strategic investor" owning 9.84% of Zain Group, but would not have any control over the business or in decision making, with no seats assigned on the BoD.

**Impact on Zain Group valuation: largely positive, cash injection implies a +14% upside to our old TP:** At the tender price, Zain KK would benefit from KWD c.255m in cash flow (excluding transaction fees). This translates into KWD 0.059/share and implies a c.14% upside to our old target price. Zain could also benefit from Omantel expertise in the fixed line, especially if the regulator in Kuwait privatizes the fixed line service. Another potential upside would be a strategic partnership in the tower portfolio. The market has positively reacted to the news with Zain Group share price climbing up to 12% d/d today, before closing at +4.4% d/d. This to us however also shows that the market remains largely reluctant to assign Omantel's valuation to the stock.

**Sale proceeds are likely to be deployed for debt service. Special dividends could be in the cards, though the magnitude is likely to be minimal unless a tower deal follows.** Zain is considering using the proceeds for debt reduction and increased CAPEX, according to Bloomberg. We believe the priority will be towards debt service. Zain net debt stands at KWD 921m (2x net debt/EBITDA) and could decline by up to c.28% to KWD 666m (1.3x net debt/EBITDA) if sale proceeds are fully utilized to pay back debt, which would have a c.5% positive impact on EPS (FY 18e+) due to lower interest costs. We model for a minor one-off dividend (+1.5% yield on top of 7%) in 2017e, though Zain is likely to consider a more sizeable one-off dividend, if tower sales follow.

**Accounting treatment should have no impact on Zain Group's P&L:** The treasury shares were mostly purchased in 2008 with an average price of KWD 1.34/ share. Treasury shares are not entitled to dividends. Once the sale occurs at the price of KWD 0.60, Zain KK will be incurring c.KWD 315m in effective investment losses (c.2x yearly net income) on the transaction. Accounting wise however, the loss should be bypassing the P&L and going into paid in capital treasury stock and retained earnings directly impacting stockholder equity.

HOLD

KWD 0.50

#### Telecom Services / Kuwait

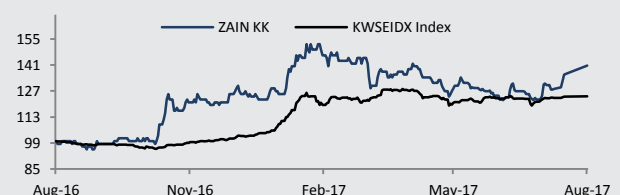
Bloomberg code	ZAIN KK
Market index	KWSEIDX Index
Target Price	0.50
Upside (%)	5.6

#### Market data 10/08/2017

Last closing price	0.47
52 Week range	0.3-0.5
Market cap (KWD m)	2,038
Market cap (USD m)	6,752
Average Daily Traded Value (KWD m)	1.4
Average Daily Traded Value (USD m)	4.6
Free float (%)	53%

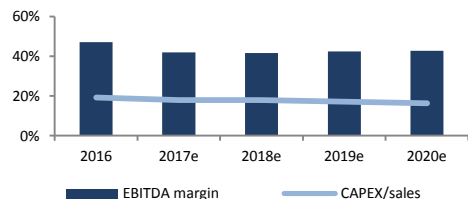
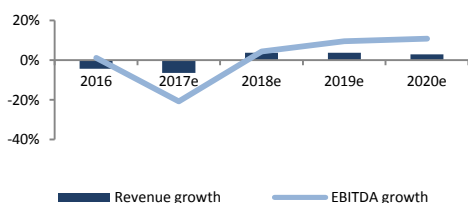
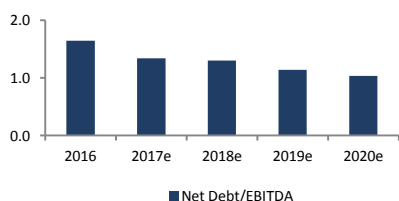
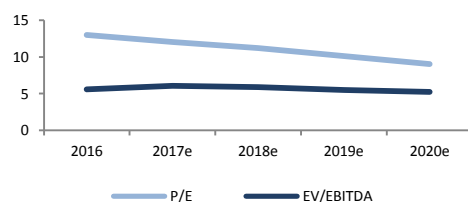
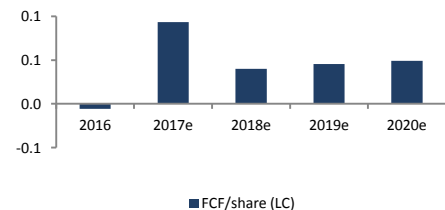
Year-end (local m)	2016	2017e	2018e	2019e
Revenues	1,088	1,018	1,055	1,095
EBITDA	512	428	440	465
Net income	157	169	182	201
EPS	0.04	0.04	0.04	0.05
EPS growth (%)	1.5	8.0	7.3	10.9
P/E (current price)	13.0	12.0	11.2	10.1
DPS	0.035	0.040	0.035	0.040
Div. yield (%)	7.4	8.5	7.6	8.9
FCF/share	-	0.1	0.04	0.05
FCF yield (%)	(1.2)	19.8	8.5	9.7
CAPEX	209	182	190	187
CAPEX/sales (%)	19.2	17.8	18.0	17.1
Net Debt/EBITDA (x)	1.6	1.3	1.3	1.1
EV/EBITDA (x)	5.6	6.1	5.9	5.5
RoAE (%)	9.9	10.8	10.7	11.6
RoIC (%)	11.3	9.2	9.5	10.3

#### Price Performance



**Abacus**

 Arqaam Capital Fundamental  
Data

**Profitability**

**Growth**

**Gearing**

**Valuation**

**FCF**

**Zain Group**

Year-end	2015	2016	2017e	2018e	2019e	2020e
<b>Financial summary</b>						
Reported EPS	0.04	0.04	0.04	0.04	0.05	0.05
Diluted EPS	0.04	0.04	0.04	0.04	0.05	0.05
DPS	0.03	0.03	0.04	0.04	0.04	0.05
BVPS	0.40	0.33	0.39	0.39	0.41	0.42
Weighted average shares	4,325	4,327	4,327	4,327	4,327	4,327
Average market cap	2,038	2,038	2,038	2,038	2,038	2,038

Year-end	2015	2016	2017e	2018e	2019e	2020e
<b>Valuation metrics</b>						
P/E (x) (current price)	13.2	13.0	12.0	11.2	10.1	9.0
P/E (x) (target price)	13.9	13.7	12.7	11.8	10.6	9.5
EV/EBITDA (x) (current price)	5.3	5.6	6.1	5.9	5.5	5.2
EV/EBITDA (x) (target price)	1.2	1.6	1.3	1.3	1.1	1.0
EV/FCF (x)	36.3	(118.2)	6.4	15.0	13.0	11.9
Free cash flow yield (%)	3.6	(1.2)	19.8	8.5	9.7	10.5
Dividend yield (%)	6.4	7.4	8.5	7.6	8.9	10.1

Year-end	2015	2016	2017e	2018e	2019e	2020e
<b>Growth (%)</b>						
Revenues	(6.2)	(4.4)	(6.4)	3.7	3.8	2.9
EBITDA	(1.5)	2.6	(16.5)	2.8	5.7	3.8
EBIT	(14.7)	1.2	(20.8)	4.4	9.5	10.9
Net income	(20.6)	1.5	8.0	7.3	10.9	12.2

Year-end	2015	2016	2017e	2018e	2019e	2020e
<b>Margins (%)</b>						
EBITDA	43.9	47.1	42.0	41.7	42.4	42.8
EBIT	25.1	26.6	22.5	22.7	23.9	25.8
Net	14.6	14.6	17.1	17.7	18.8	20.5

Year-end	2015	2016	2017e	2018e	2019e	2020e
<b>Returns (%)</b>						
RoAA	4.6	4.8	5.5	6.0	6.7	7.5
RoAE	8.8	9.9	10.8	10.7	11.6	12.7
RoIC	10.9	11.3	9.2	9.5	10.3	11.2
FCF margin	6.4	(2.2)	39.6	16.5	18.0	18.9

Year-end	2015	2016	2017e	2018e	2019e	2020e
<b>Gearing (%)</b>						
Net debt/Capital	22.5	34.0	23.4	23.5	21.5	20.0
Net debt/Equity	35.0	59.1	33.7	33.5	30.2	27.7
Interest cover (x)	9.8	8.9	9.9	12.8	14.4	16.4
Net debt/EBITDA (x)	1.2	1.6	1.3	1.3	1.1	1.0



**Abacus** Arqaam Capital Fundamental Data

**Company profile:**

Mobile Telecommunications Company (Zain Kuwait) is the leading mobile operator in Kuwait (c.38% market share), as well as operating internationally, with assets in Iraq, Sudan, Jordan, Saudi Arabia, and Bahrain. The largest contribution to the company's equity value (as per our DCF SoTP exercise) stems from its Kuwait operation at 56% followed by Iraq and Jordan at 18% and 12% respectively.

**Ownership structure:**
**Major Shareholders**

Kuwait Investment Authority	25%
Al-Khair National Company	12%
Treasury shares	10%
Free float	53%

**Management**

Muhannad Al Kharafi	Chairman
Scott Gegenheimer	CEO
Osama Michael Matta	CFO

Source: Company Data, Bloomberg

**Zain Group**

Year-end	2015	2016	2017e	2018e	2019e	2020e
<b>Income statement (KWDm)</b>						
Sales revenue	1,138	1,088	1,018	1,055	1,095	1,127
Cost of sales	(288)	(267)	(277)	(296)	(304)	(315)
<b>Gross profit</b>	<b>849</b>	<b>821</b>	<b>741</b>	<b>759</b>	<b>791</b>	<b>812</b>
SG&A	(350)	(309)	(313)	(320)	(326)	(330)
<b>EBITDA</b>	<b>499</b>	<b>512</b>	<b>428</b>	<b>440</b>	<b>465</b>	<b>482</b>
Depreciation	(213)	(222)	(198)	(200)	(202)	(192)
Amortisation and other	-	-	-	-	-	-
<b>EBIT</b>	<b>286</b>	<b>289</b>	<b>229</b>	<b>239</b>	<b>262</b>	<b>291</b>
Net interest income(expense)	(29)	(33)	(23)	(19)	(18)	(18)
Associates/affiliates	(62)	(69)	(3)	(2)	(2)	(2)
Exceptionals/extraordinaries	7	6	1	1	1	1
<b>Profit before tax</b>	<b>202</b>	<b>194</b>	<b>205</b>	<b>219</b>	<b>243</b>	<b>272</b>
Taxes	(35)	(35)	(31)	(33)	(36)	(41)
<b>Net profit (group)</b>	<b>166</b>	<b>159</b>	<b>174</b>	<b>186</b>	<b>206</b>	<b>231</b>
Minorities	(12)	(2)	(4)	(5)	(5)	(5)
<b>Net profit (parent)</b>	<b>154</b>	<b>157</b>	<b>169</b>	<b>182</b>	<b>201</b>	<b>226</b>
<b>Arqaam Net profit</b>	<b>154</b>	<b>157</b>	<b>169</b>	<b>182</b>	<b>201</b>	<b>226</b>

Year-end	2015	2016	2017e	2018e	2019e	2020e
<b>Balance sheet (KWDm)</b>						
Cash and equivalents	360	209	177	158	180	192
Receivables	407	450	421	437	453	467
Inventories	-	-	-	-	-	-
Tangible fixed assets	2,700	2,415	2,398	2,388	2,373	2,364
Other assets including goodwill	28	16	15	16	17	17
<b>Total assets</b>	<b>3,495</b>	<b>3,092</b>	<b>3,013</b>	<b>2,999</b>	<b>3,023</b>	<b>3,040</b>
Payables	762	571	514	511	509	501
Interest bearing debt	965	1,049	750	730	710	690
Other liabilities	40	49	49	49	49	49
<b>Total liabilities</b>	<b>1,767</b>	<b>1,669</b>	<b>1,313</b>	<b>1,290</b>	<b>1,268</b>	<b>1,240</b>
Shareholders equity	1,728	1,422	1,700	1,709	1,755	1,800
Minorities	-	-	-	-	-	-
<b>Total liabilities &amp; shareholders equity</b>	<b>3,495</b>	<b>3,092</b>	<b>3,013</b>	<b>2,999</b>	<b>3,023</b>	<b>3,040</b>

Year-end	2015	2016	2017e	2018e	2019e	2020e
<b>Cash flow (KWDm)</b>						
Change in working capital	61	(181)	(27)	(18)	(20)	(21)
<b>Cashflow from operations</b>	<b>439</b>	<b>200</b>	<b>345</b>	<b>368</b>	<b>389</b>	<b>401</b>
Net capex	(365)	(209)	(182)	(190)	(187)	(183)
Other investing/financing cash flows	89	133	(4)	(4)	(4)	(4)
<b>Free cash flow</b>	<b>72</b>	<b>(24)</b>	<b>403</b>	<b>174</b>	<b>197</b>	<b>213</b>
Equity raised/(bought back)	-	-	-	-	-	-
Dividends paid	(156)	(118)	(136)	(173)	(154)	(181)
Net inc/(dec) in borrowings	177	84	(299)	(20)	(20)	(20)
<b>Net cash flow</b>	<b>184</b>	<b>90</b>	<b>(276)</b>	<b>(18)</b>	<b>24</b>	<b>13</b>

**Exhibit 3: Valuation sheet**

Valuation summary (KWDm)					WACC calculation		
		Per share	Upside	Weight			
DCF target market capitalization	2,268	0.52	11%	33%	Debt to capital		25%
Multiple-based target market capitalization	1,982	0.46	-3%	33%	Equity to capital		75%
DDM target market capitalization	2,213	0.51	9%	33%	Beta		1.00
Average	2,152				ERP		6.0%
# of shares (m)	4,327				RFR		6.9%
<b>Weighted average target value</b>	<b>0.50</b>				Cost of Equity		12.9%
Current market price	0.471				Effective interest rate		5.0%
<b>Upside (downside)</b>	<b>5.6%</b>				Effective tax rate		11%
					Cost of Debt after tax		4.4%
					<b>WACC</b>		<b>10.8%</b>
					LT WACC		10.8%
					LT growth rate		2.0%

SotP DCF valuation	Kuwait	Iraq	Sudan	Jordan	Bahrain	KSA	Total
PV of sum of FCF	331	311	98	141	21	727	1,630
PV of continuing value	892	386	110	241	56	1,036	2,722
EV	1,223	697	209	382	77	1,764	4,352
Net debt	(45)	171	79	106	19	1,313	1,643
Equity value	1,268	526	130	276	58	451	2,709
Stake (%)	100%	76%	100%	97%	63%	37%	84%
Stake in Equity value	1,268	400	130	266	36	167	2,268
<b>Equity value per share</b>	<b>0.29</b>	<b>0.09</b>	<b>0.03</b>	<b>0.06</b>	<b>0.01</b>	<b>0.04</b>	<b>0.52</b>
2018e EBITDA	129	127	60	70	17	267	669
2018e EV/ EBITDA	9.5	5.5	3.5	5.4	4.4	6.6	6.5
% of TP	56%	18%	6%	12%	2%	7%	100%

Multiple-based valuation (KWDm)	
<b>Target EV/EBITDA 2018E</b>	<b>6.0x</b>
EBITDA 2018	440
Target EV	2,638
Less net debt and other adjustments	(656)
Target market capitalization	1,982
<b>Multiple-based valuation per share</b>	<b>0.46</b>
<b>Net profit FY 18e</b>	<b>181.8</b>
<b>Implied FY 18e P/E</b>	<b>10.9</b>

Discounted dividend model (KWD)						
	2017e	2018e	2019e	2020e	2021e	2022e
<b>DPS</b>	<b>0.03</b>	<b>0.04</b>	<b>0.04</b>	<b>0.04</b>	<b>0.04</b>	<b>0.05</b>
Discount factors	0.95	0.84	0.75	0.66	0.59	0.52
Present value of DPS	0.03	0.03	0.03	0.03	0.03	0.03
Sum of DPS						0.2
<b>Terminal value of DPS</b>						<b>0.3</b>
<b>DDM target equity value per share</b>						<b>0.51</b>

Source: Company Data, Arqaam Capital Research

**Exhibit 4: Segmental analysis**

Revenues (KWDm)	2015	2016	2017e	2018e	2019e	2020e	2021e
Kuwait	323	323	322	321	327	332	337
Iraq	366	328	329	358	380	396	413
Republic of Sudan	215	218	130	141	152	161	169
Jordan	138	148	145	148	151	155	158
Bahrain	57	54	59	53	51	49	47
South Sudan	20	7	6	6	6	6	6
Eliminations	18	9	27	28	28	29	29
<b>Total</b>	<b>1,138</b>	<b>1,087</b>	<b>1,018</b>	<b>1,055</b>	<b>1,095</b>	<b>1,127</b>	<b>1,158</b>
Revenue growth y/y							
Kuwait	-6.7%	-0.1%	-0.4%	-0.1%	1.6%	1.5%	1.5%
Iraq	-19.5%	-10.4%	0.1%	9.0%	6.0%	4.2%	4.3%
Republic of Sudan	13.2%	1.2%	-40.3%	8.4%	7.3%	6.3%	4.8%
Jordan	3.5%	7.6%	-2.5%	2.0%	2.7%	2.2%	2.2%
Bahrain	6.3%	-6.1%	9.6%	-10.7%	-3.5%	-3.9%	-3.9%
South Sudan	-0.7%	-63.8%	-8.9%	-1.4%	-1.4%	-1.4%	-1.4%
Eliminations	21.5%	-50.0%	203.1%	2.0%	2.0%	2.0%	2.0%
<b>Total</b>	<b>-6.2%</b>	<b>-4.4%</b>	<b>-6.4%</b>	<b>3.7%</b>	<b>3.8%</b>	<b>2.9%</b>	<b>2.8%</b>
EBITDA (KWDm)							
Kuwait	159	161	137	129	135	141	147
Iraq	144	121	115	127	135	142	149
Republic of Sudan	93	89	51	60	69	73	76
Jordan	73	74	69	70	72	73	75
Bahrain	22	20	19	17	17	16	15
South Sudan	2	1	0	1	1	1	1
Eliminations	10	48	36	36	36	36	36
<b>Total</b>	<b>499</b>	<b>512</b>	<b>428</b>	<b>440</b>	<b>465</b>	<b>482</b>	<b>499</b>
EBITDA margin							
Kuwait	49.1%	49.9%	42.5%	40.0%	41.2%	42.5%	43.7%
Iraq	39.4%	36.9%	35.1%	35.4%	35.6%	35.9%	36.1%
Republic of Sudan	43.3%	41.0%	39.3%	42.3%	45.3%	45.1%	44.9%
Jordan	52.8%	49.7%	47.7%	47.6%	47.5%	47.4%	47.3%
Bahrain	38.0%	37.1%	31.8%	33.0%	32.9%	32.8%	32.7%
South Sudan	-11.3%	-18.3%	1.7%	12.5%	15.0%	15.0%	15.0%
Eliminations	54.6%	536.3%	134.9%	132.2%	129.6%	127.1%	124.6%
<b>Total</b>	<b>43.8%</b>	<b>47.1%</b>	<b>42.0%</b>	<b>41.7%</b>	<b>42.4%</b>	<b>42.8%</b>	<b>43.1%</b>
CAPEX (KWDm)							
Kuwait	37	31	24	45	44	43	42
Iraq	56	29	42	45	48	50	52
Republic of Sudan	64	65	26	31	32	32	30
Jordan	18	20	31	30	29	28	27
Bahrain	26	9	11	13	11	9	7
South Sudan	2	2	2	2	1	1	1
Eliminations	96	72	46	25	22	20	18
<b>Total</b>	<b>299</b>	<b>228</b>	<b>182</b>	<b>190</b>	<b>187</b>	<b>183</b>	<b>177</b>
CAPEX to sales							
Kuwait	11%	9%	8%	14%	14%	13%	13%
Iraq	15%	9%	13%	13%	13%	13%	13%
Republic of Sudan	30%	30%	20%	22%	21%	20%	18%
Jordan	13%	13%	21%	20%	19%	18%	17%
Bahrain	46%	17%	19%	24%	22%	18%	14%
South Sudan	13%	25%	25%	25%	18%	18%	15%
Eliminations	541%	805%	172%	90%	79%	70%	62%
<b>Total</b>	<b>26%</b>	<b>21%</b>	<b>18%</b>	<b>18%</b>	<b>17%</b>	<b>16%</b>	<b>15%</b>
EBITDA - CAPEX (KWDm)	2015e	2016	2017e	2018e	2019e	2019e	2019e
Kuwait	122	131	113	84	91	98	105
Iraq	89	92	74	81	87	92	97
Republic of Sudan	30	24	25	29	37	40	45
Jordan	55	54	38	41	43	45	48
Bahrain	(5)	11	7	5	6	7	9
South Sudan	(5)	(3)	(2)	(1)	(0)	(0)	0
Eliminations	(87)	(24)	(10)	12	14	16	18
<b>Total</b>	<b>200</b>	<b>284</b>	<b>246</b>	<b>250</b>	<b>277</b>	<b>299</b>	<b>322</b>

Source: Company Data, Arqaam Capital Research

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Hold	0-15%
Sell	Total return <0%

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