



**US\$3.380bn** Market cap  
**48.1%** Free float  
**US\$9.50mn** Avg. daily volume

Target price **8.00** -11.6% over current  
Consensus price **10.00** 10.5% over current  
Current price **9.05** as at 24/4/2010

Equity Research Department

**ARC Research Team**

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Underweight

Neutral

Overweight

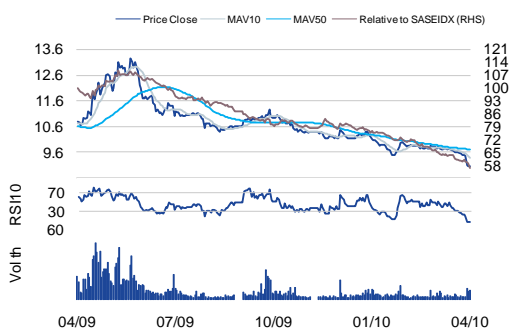
### Key themes

We expect mobile to continue to outperform fixed-line telecoms in Saudi Arabia over the next few years, driven by mobile data. We think that STC has slightly lost its way in the domestic mobile market, to the benefit of its competitors.

### Implications

Zain KSA is performing well on many measures and we expect it to achieve strong market share gains over the next decade, even though it is less strong in mobile data than Mobily. Unfortunately, Zain is hobbled by a high debt burden, which reduces the share of enterprise value attributable to equity shareholders.

### Performance

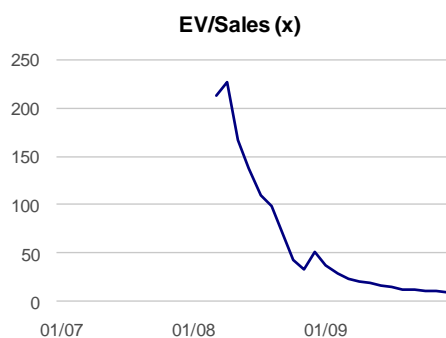


### Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	3,004	5,358	7,318	8,961
Revenue Growth	494.6%	78.4%	36.6%	22.5%
EBITDA (SARmn)	(1,073)	321	1,405	2,330
EBITDA Growth	-15.2%		337.6%	65.8%
EPS	- 2.21	- 1.49	- 0.81	- 0.20
EPS Growth	36.0%	-32.7%	-45.6%	-75.8%

Source: Company data, Al Rajhi Capital

### Valuation



Source: Company data, Al Rajhi Capital

## Zain KSA Not yet time to invest

*Zain's Q1 2010 results were not far below our forecasts and we think operating prospects will steadily strengthen. However, the key issue for Zain is debt: net debt is 2.2x our estimate of 2010 revenues. With financial restructuring plans still being worked out, we think investing in Zain now would be too early and too risky. It is even possible that restructuring plans will not be finalised, in which case we would expect the share price to continue drifting downwards. We retain our Underweight rating and our target price of SAR8.0.*

**Strong sales growth, operating loss reflects seasonality:** Revenues in Q1 2010 rose by 88% year-on-year, albeit from a low base; Zain KSA is a young operator in a stage of rapid growth. However, revenues were slightly below our forecast, probably indicating greater price pressures than we had assumed. The EBITDA loss of SAR70mn was below our estimate of EBITDA break-even. It is known that Zain achieved EBITDA break-even on a monthly basis by the end of 2009, and we had hoped that EBITDA would rise further in Q1. However, Q4 is the strongest quarter for the Saudi telecoms operators due to the additional revenue generated during the Hajj season, and with hindsight we should have expected EBITDA to slip back in Q1. The EBITDA loss and a 12% rise in combined depreciation and amortisation charges produced an operating loss of SAR435mn, compared to our estimate of an operating loss of SAR372mn.

**Net debt too high, financial costs rising:** Gross debt stood at SAR12,444mn at the end of Q1, up by 8% from the level of Q1 2009, while net debt stood at SAR11,970mn, up by only 6%. (We think that net debt would have been higher if capex in Q1 had not dropped to just 3% of sales.) However, financial costs more than doubled year-on-year to SAR227mn, reflecting the increased interest rates negotiated between Zain and its creditors over the course of 2009. We calculate that Zain is now paying an effective annualised interest rate on gross debt of 7.3% – well above the levels of STC and Mobily. The high financial costs pushed the Q1 net loss to SAR663mn, about SAR100mn below our optimistic forecast.

**Operating prospects should improve:** In terms of market share, sales growth and pace of loss reduction, we think Zain is performing well for a no.3 mobile operator. We thus continue to expect operating prospects to improve steadily. Following the results, we have cut our forecasts for 2010 and 2011 sales by 4-5%, and raised our estimate of the net loss in those years by 8-18%. However, the upward trend in Zain's operating performance is unchanged. Higher financial charges are the key reason why we have increased our forecasts for net losses.

**No need to invest ahead of restructuring:** Zain is working with its advisers on plans for financial restructuring; there is no indication when these will be finalised. We comment on possible features of a recapitalisation overleaf. Let it suffice to say here that we think Zain needs to cut net debt by about SAR6bn, and that external investors face dilution and other risks. Once the restructuring has taken place, investors will hopefully be able to look at Zain afresh as a fast-growing operator which has resolved its financial problems. However, it may be that a restructuring plan cannot be worked out or agreed between all the parties. In this case, we would expect Zain's share price to drift further downwards.



Corporate summary	Share information	Valuation																																																							
Zain KSA is the third-placed telecoms operator in Saudi Arabia, with a market value of nearly US\$4bn; it launched service in Q3 2008. By our estimate Zain has a market share of mobile accounts of 13-14%, although its revenue share is lower at 9-10%. Zain has no presence in the fixed-line market. Zain KSA is an affiliate of the Zain group of Kuwait. Zain Kuwait is an emerging telecoms player operating in 24 markets in the Middle East and Africa, but it has now agreed to sell the majority of its African assets to Bharti.	Market cap (SAR/US\$) 12.67bn / 3.38bn 52-week range 9.05 - 13.25 Daily avg volume (US\$) 9.50mn Shares outstanding 1,400mn Free float (est) 45.0%  Performance: 1M 3M 12M Absolute -7.7% -10% -14.2% Relative to index -9.2% -18.8% -45.6%  Major Shareholder: Mobile Telecommunications Co. (Kuwait) 25% Saudi Plastic Factory 6.9% Faden Trading and Contracting 6.9% Source: Bloomberg, Al Rajhi Capital	<table border="1"> <thead> <tr> <th>Period End</th> <th>12/09A</th> <th>12/10E</th> <th>12/11E</th> <th>12/12E</th> </tr> </thead> <tbody> <tr> <td>Revenue (SARmn)</td> <td>3,004</td> <td>5,358</td> <td>7,318</td> <td>8,961</td> </tr> <tr> <td>EBITDA (SARmn)</td> <td>(1,073)</td> <td>321</td> <td>1,405</td> <td>2,330</td> </tr> <tr> <td>Net Profit (SARmn)</td> <td>(3,099)</td> <td>(2,087)</td> <td>(1,136)</td> <td>(275)</td> </tr> <tr> <td>EPS (SAR)</td> <td>- 2.21</td> <td>- 1.49</td> <td>- 0.81</td> <td>- 0.20</td> </tr> <tr> <td>DPS (SAR)</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>EPS Growth</td> <td>36.0%</td> <td>-32.7%</td> <td>-45.6%</td> <td>-75.8%</td> </tr> <tr> <td>EV/EBITDA (x)</td> <td>NA</td> <td>82.3</td> <td>20.0</td> <td>12.1</td> </tr> <tr> <td>P/E (x)</td> <td>NA</td> <td>NA</td> <td>NA</td> <td>NA</td> </tr> <tr> <td>P/B (x)</td> <td>1.5</td> <td>1.9</td> <td>2.3</td> <td>2.5</td> </tr> <tr> <td>Dividend Yield</td> <td>0.0%</td> <td>0.0%</td> <td>0.0%</td> <td>0.0%</td> </tr> </tbody> </table> Source: Company data, Al Rajhi Capital	Period End	12/09A	12/10E	12/11E	12/12E	Revenue (SARmn)	3,004	5,358	7,318	8,961	EBITDA (SARmn)	(1,073)	321	1,405	2,330	Net Profit (SARmn)	(3,099)	(2,087)	(1,136)	(275)	EPS (SAR)	- 2.21	- 1.49	- 0.81	- 0.20	DPS (SAR)	-	-	-	-	EPS Growth	36.0%	-32.7%	-45.6%	-75.8%	EV/EBITDA (x)	NA	82.3	20.0	12.1	P/E (x)	NA	NA	NA	NA	P/B (x)	1.5	1.9	2.3	2.5	Dividend Yield	0.0%	0.0%	0.0%	0.0%
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## Details of Q1 results: a mixed performance

Below we present the key details of Zain's Q1 2010 results, together with our comments.

Figure 1. Zain KSA: key features of Q1 2010 results

(SAR mn)	Q1'09 actual	Q4'09 actual	Q1'10 actual	% chg y-y	Q1'10 ARCE	Comment
Subscriptions (000s)	2,765	6,050	n/a	n/a	6,780	Not officially available yet for Q4'09 or Q1'10; both of these numbers are ARC estimates
Subscriptions market share (%)	7.2%	13.4%	n/a	n/a	14.3%	As above
<b>Revenues</b>	<b>582</b>	<b>895</b>	<b>1,094</b>	<b>88.1%</b>	<b>1,120</b>	Slightly below our forecast, perhaps indicating greater price pressure than we had assumed
Gross profit	146	356	384	163.2%	414	Below our forecast due to weak revenues
Gross margin (%)	25.1%	39.7%	35.1%	10.0pp	37.0%	Close to our forecast
<b>EBITDA</b>	<b>-330</b>	<b>-70</b>	<b>-70</b>	<b>-78.7%</b>	<b>0</b>	A slightly disappointing outcome; however, Q1 is seasonally weak
EBITDA margin (%)	-56.7%	-7.8%	-6.4%	-50.3pp	0.0%	As above
Deprn. & amortisation	-326	-367	-365	12.0%	-372	Close to our forecast
<b>Operating profit</b>	<b>-656</b>	<b>-437</b>	<b>-435</b>	<b>-33.6%</b>	<b>-372</b>	Pushed down by EBITDA outcome
Financing cost	-110	-221	-227	105.9%	-190	Sharply up year-on-year due to higher interest rates on Zain's debts; with hindsight our estimate of financial expenses should have been higher
Other	1	0	0	-90.0%	0	N/a
Net income before tax	-765	-658	-663	-13.4%	-562	Pushed down by EBITDA outcome and rising financial costs
Tax and zakat	0	0	0	n/a	0	As a loss-making company, Zain pays no tax or zakat
<b>Net profit</b>	<b>-765</b>	<b>-658</b>	<b>-663</b>	<b>-13.4%</b>	<b>-562</b>	Pushed down by EBITDA outcome and rising financial costs
Capex	-771	-727	-38	-95.1%	-235	Unsustainably low; we cannot yet explain this figure
Capex/sales (%)	132.5%	81.2%	3.4%	129.1pp	21.0%	As above
Net debt	11,241	11,902	11,970	6.5%	12,622	Net debt is 2.2x our estimate of this year's sales. We think Zain needs to cut debt by around 50%
Net debt/annualised EBITDA (x)	-9	-42	-43	399.7%	n/m	Not a meaningful ratio while EBITDA is still negative

Source: Company data, Al Rajhi Capital

### Subscriptions figures very hard to understand

We should add some extra comment here on subscriptions data. According to Zain's Q1 results announcement, subscriptions at the end of Q1 2010 were up by "more than 101%" compared to Q1 2009. At the end of Q1 2009, Zain had 2.77mn customers (source: investor presentations from last year). Therefore, the company should have had around 5.57mn customers at the end of Q1 2010. However, Zain announced in December in a press release through Tadawul that it had 6.0mn customers at the end of November. Even accounting for the loss of temporary Hajj customers (possibly a figure in the hundreds of thousands), we believe that the company ought to have seen some growth between the end of November and the end of March. Indeed, we were expecting quite strong growth: hence our estimate of a subscriber base of 6.78mn at the end of Q1.

We cannot explain this discrepancy. The Saudi telecoms operators use several definitions of subscribers; and we have found it very difficult to reconcile their figures with those provided by the national telecoms regulator. We assume that issues of definition underlie what to us looks like a substantial underestimate of Zain's customer base at the end of Q1; perhaps the



101% increase cited relies on the most conservative definition of subscriptions. We hope to comment further on this matter in due course.

## Likely structure of financial restructuring

For detailed discussion of this issue, we refer investors to our report on Zain of 23rd February, *Zain KSA: Good news but hard work ahead*. Here we recap regarding the key points and add certain new observations.

### Equity issues and par value

By law the nominal or par value of all shares in Saudi Arabia is SAR10.0, and new shares cannot be offered at a discount to nominal value. For as long as Zain's share price was just under SAR10.0, we had assumed that the company would be able to push up its share price through intensive investor roadshows or related IR activity. However, with the share price now close to SAR9.0 that hope looks forlorn. We wondered for a while whether one possible solution to the problem would be for Zain to stage a share consolidation (the reverse of a share split), in which investors would probably end up owning 1 share for every 2 that they currently hold. However, while a consolidation would raise Zain's par value to SAR20.0, the share price would only rise to around SAR18.0, so the problem would remain.

An alternative to a share consolidation would be a capital reduction. A company can choose to reduce its paid-up share capital and return the capital to its shareholders. Capital reductions may be used to eliminate large accumulated losses (like Zain's) or to increase the proportion of shareholders' equity on the balance sheet available for distribution. However, we have not yet explored the implications of a capital reduction for Zain in Saudi Arabia in detail, and will need to comment further on this issue at a later date.

Ultimately, it may not prove feasible for Zain to stage an equity issue unless its share price rebounds sharply to above SAR10.0. In this case, the discussion below on the likely structure of a recapitalisation plan will prove incorrect, and the way forward may have to be an even larger (and more dilutive) debt-for-equity swap than we currently envisage.

### Structure of recapitalisation

We maintain our view that Zain needs to reduce its net debt of just under SAR12.0bn by around one-half, i.e. SAR6.0bn; this would bring net debt down towards 1.0x sales or around 25% of enterprise value (from the current level of 49%). Since this sum also represents nearly one-half of Zain's present market capitalisation of SAR12.7bn, raising SAR6.0bn through an equity issue alone seems implausible. As explained in our report of 23rd February, we think that the most practical way for Zain to reduce net debt by SAR6.0bn is to combine an equity issue with a debt-for-equity swap targeted at both the company's founding shareholders and its external banks. We think that Zain should aim to swap the entire SAR2.9bn of loans from its founding shareholders on its balance sheet for equity, together with about SAR1.0bn of the total Murahaba financing of SAR9.4bn provided by external banks. Assuming that the founding shareholders and the banks agree to such a swap (which is not a foregone conclusion), this would leave around SAR2.1bn to be raised in an equity issue.

The sum of SAR2.1bn is only 17% of Zain's market capitalisation of SAR12.7bn, and so probably can be raised. However, it should be noted that Zain's founding shareholders hold 50% of its shares; external or "minority" shareholders also own 50%, or 45% excluding one large holding. A debt-for-equity swap targeted at the funding shareholders and at external banks would entail huge dilution for minority shareholders unless any equity issue were reserved for the latter. Since the market value of the minority shareholders' aggregate stake in the company is SAR6.35bn, this means that Zain would need to call on minority shareholders to contribute 33% of the aggregate value of their holding. This is by no means a foregone conclusion either. Moreover, raising the SAR2.1bn will become more difficult if Zain's share price falls further, since the sum will increase as a proportion of both market capitalisation and the aggregate value of minority investors' holdings.

### What if restructuring fails?

In our opinion, Zain does not face significant liquidity risk, largely because it has no short-term debt; bankruptcy is therefore very unlikely. Zain's problem is rather that for a publicly listed company it has too much debt in comparison to enterprise value and revenues, i.e. to the size of its operations. This is why we regard a financial restructuring plan as essential.

The par value problem complicates an equity issue

We think Zain will have to combine an equity issue with a large debt-for-equity swap

Raising the equity portion will not be easy

Liquidity risk is very small



We had thought that Zain Kuwait might try to privatise Zain KSA, taking Maxis in Malaysia as an example...

...but this would contravene the law and the terms of Zain's licence

If no restructuring plan is worked out, we expect Zain's share price to continue drifting downwards

We have trimmed our estimate of long-run fair value to SAR7.84, but retain our target price of SAR8.0

But what will happen if Zain and its financial advisers fail to work out a recapitalisation plan? In this case, we initially thought that Zain Kuwait, together perhaps with the other founding shareholders, might look to take Zain KSA private and to relist the company once it had become profitable and its early huge investment in the Saudi telecoms market had been completed. This would have been comparable to the situation of the Maxis group. The Maxis group is the largest mobile operator in Malaysia; it also owns large operations in deep emerging markets, notably India and Indonesia. Maxis's wealthy largest shareholder decided to take the group private in early 2007, since he considered that external investors would balk at the major investments and long payback period that it faced in the deep emerging markets. In 2009, the Maxis group relisted the mature and profitable Malaysian operation on the Kuala Lumpur Stock Exchange; the overseas businesses remain part of the unlisted parent entity.

Following the agreed sale of the majority of Zain Kuwait's African assets to Bharti of India, we expect Zain KSA to be the Zain group's most important asset. This fact means that Zain KSA is probably worth more to Zain Kuwait than to any other company or investor, and so would have given the parent an incentive to act. Moreover, as a result of the Africa sale Zain should receive US\$9.0bn (SAR33.8bn) from Bharti. This figure is nearly 3x Zain KSA's market capitalisation, so Zain Kuwait would have had ample funds to utilise.

Unfortunately, our initial supposition overlooked the fact that foreign investors cannot own more than 50% of Saudi listed public companies. Zain Kuwait cannot, therefore, acquire majority control of Zain KSA. Moreover, it was a condition of the granting of Zain's telecoms licence that it become a public company with 50% of its shares in Saudi public hands. While full privatisation is, therefore, probably impossible, we would not rule out attempts by Zain Kuwait at least to increase its current 25% holding.

Further share purchases by Zain Kuwait and possibly other founding shareholders might help to support Zain KSA's share price. Barring this possibility, however, we see very few potential catalysts to boost the share price in the near term. In the event that a restructuring plan is not worked out, therefore, we think that the most likely scenario for Zain's share price is that it simply continues drifting downwards. This is an uninspiring prospect for minority investors in the company.

### Long-run fair value and target price

As mentioned, following the Q1 results, we have cut our forecasts for Zain's 2010 and 2011 revenues by 4-5%, and raised our estimate of the net loss in those years by 8-18%. However, in our long-run discounted economic profit model we have slightly reduced our estimated WACC from 8.93% to 8.87%; this reflects an updating of assumptions about risk-free rate, cost of equity, long-run gearing target and related factors. This reduction largely compensates for lower near-term forecasts. In consequence, we have only reduced our estimate of long-run fair value per share for Zain by 2%, from SAR7.98 to SAR7.84. Given the margin of error involved in long-run forecasting for a young and loss-making company, we have felt justified in leaving our target price unchanged at SAR8.0.



We have lowered our sales estimates for 2010 and 2011 by 4-5%

We do not expect net profit and a dividend till 2013

The EBITDA margin should swing upwards rapidly from now on

Zain is not cheap on EV/sales, which is the simplest valuation measure for a loss-making company

Income Statement (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
<b>Revenue</b>	<b>505</b>	<b>3,004</b>	<b>5,358</b>	<b>7,318</b>	<b>8,961</b>
Cost of Goods Sold	(489)	(2,127)	(3,164)	(3,727)	(4,212)
<b>Gross Profit</b>	<b>16</b>	<b>877</b>	<b>2,194</b>	<b>3,591</b>	<b>4,749</b>
Government Charges	-	-	-	-	-
S.G. & A. Costs	(1,281)	(1,950)	(1,873)	(2,186)	(2,420)
<b>Operating EBIT</b>	<b>(1,700)</b>	<b>(2,467)</b>	<b>(1,203)</b>	<b>(274)</b>	<b>570</b>
Cash Operating Costs	(1,770)	(4,077)	(5,037)	(5,913)	(6,631)
<b>EBITDA</b>	<b>(1,265)</b>	<b>(1,073)</b>	<b>321</b>	<b>1,405</b>	<b>2,330</b>
Depreciation and Amortisation	(435)	(1,394)	(1,524)	(1,679)	(1,760)
<b>Operating Profit</b>	<b>(1,700)</b>	<b>(2,467)</b>	<b>(1,203)</b>	<b>(274)</b>	<b>570</b>
Net financing income/(costs)	(226)	(634)	(884)	(867)	(852)
Forex and Related Gains	-	-	-	-	-
Provisions	-	-	-	-	-
Other Income	65	1	-	-	-
Other Expenses	(418)	-	-	-	-
Minority Interests	-	-	-	-	-
<b>Net Profit Before Taxes</b>	<b>(2,278)</b>	<b>(3,099)</b>	<b>(2,087)</b>	<b>(1,141)</b>	<b>(282)</b>
Taxes	-	-	-	5	7
<b>Net Profit</b>	<b>(2,278)</b>	<b>(3,099)</b>	<b>(2,087)</b>	<b>(1,136)</b>	<b>(275)</b>
Dividends	-	-	-	-	-
Transfer to Capital Reserve	-	-	-	-	-
	<b>12/08A</b>	<b>12/09A</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>
Adjusted Shares Out (mn)	1,400	1,400	1,400	1,400	1,400
CFPS (SAR)	(1.317)	(1.218)	(0.402)	0.387	1.061
EPS (SAR)	(1.627)	(2.214)	(1.491)	(0.812)	(0.196)
DPS (SAR)	0	0	0	0	0
	<b>12/08A</b>	<b>12/09A</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>
<b>Growth</b>					
Revenue Growth		494.6%	78.4%	36.6%	22.5%
Gross Profit Growth		5228.5%	150.2%	63.7%	32.3%
EBITDA Growth		-15.2%		337.6%	65.8%
Operating Profit Growth		45.1%	-51.2%	-77.3%	
Net Profit Growth		36.0%	-32.7%	-45.6%	-75.8%
EPS Growth		36.0%	-32.7%	-45.6%	-75.8%
	<b>12/08A</b>	<b>12/09A</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>
<b>Margins</b>					
Gross profit margin	3.3%	29.2%	41.0%	49.1%	53.0%
EBITDA margin	-250.4%	-35.7%	6.0%	19.2%	26.0%
Operating Margin	-336.4%	-82.1%	-22.5%	-3.7%	6.4%
Pretax profit margin	-450.9%	-103.2%	-39.0%	-15.6%	-3.1%
Net profit margin	-450.9%	-103.2%	-39.0%	-15.5%	-3.1%
	<b>12/08A</b>	<b>12/09A</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>
<b>Other Ratios</b>					
ROCE	-12.5%	-11.7%	-5.9%	-1.3%	2.7%
ROIC		-10.7%	-5.7%	-1.3%	2.6%
ROE	-38.9%	-30.5%	-27.5%	-19.0%	-5.2%
Effective Tax Rate	0.0%	0.0%	0.0%	0.4%	2.5%
Capex/Sales	5130.5%	63.0%	22.0%	21.0%	19.0%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%
	<b>12/08A</b>	<b>12/09A</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>
<b>Valuation Measures</b>					
P/E (x)	NA	NA	NA	NA	NA
P/CF (x)	NA	NA	NA	23.4	8.5
P/B (x)	1.1	1.5	1.9	2.3	2.5
EV/Sales (x)	46.3	8.2	4.9	3.8	3.2
EV/EBITDA (x)	NA	NA	82.3	20.0	12.1
EV/EBIT (x)	NA	NA	NA	NA	49.6
EV/IC (x)	1.0	1.2	1.3	1.3	1.3
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital



Shareholders' equity is shrinking due to high losses

Balance Sheet (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Cash and Cash Equivalents	583	506	250	250	250
Current Receivables	317	1,007	1,702	2,373	2,688
Inventories	60	39	91	119	134
Other current assets	369	312	578	578	578
<b>Total Current Assets</b>	<b>1,182</b>	<b>1,850</b>	<b>2,621</b>	<b>3,319</b>	<b>3,651</b>
Fixed Assets	2,409	3,847	4,505	5,373	6,323
Investments	-	-	-	-	-
Goodwill	-	-	-	-	-
Other Intangible Assets	23,075	22,133	21,132	20,124	19,116
Total Other Assets	-	-	-	-	-
<b>Total Non-current Assets</b>	<b>25,484</b>	<b>25,980</b>	<b>25,636</b>	<b>25,496</b>	<b>25,439</b>
<b>Total Assets</b>	<b>26,665</b>	<b>27,830</b>	<b>28,257</b>	<b>28,816</b>	<b>29,090</b>
Short Term Debt	9,479	-	-	-	-
Trade Payables	3,055	6,247	7,102	7,079	7,525
Dividends Payable	-	-	-	-	-
Other Current Liabilities	556	543	610	610	610
<b>Total Current Liabilities</b>	<b>13,090</b>	<b>6,789</b>	<b>7,712</b>	<b>7,689</b>	<b>8,136</b>
Long-Term Debt	1,849	12,408	13,998	15,716	15,818
Other LT Payables	-	-	-	-	-
Provisions	4	10	12	12	12
<b>Total Non-current Liabilities</b>	<b>1,854</b>	<b>12,418</b>	<b>14,009</b>	<b>15,727</b>	<b>15,830</b>
Minority interests	-	-	-	-	-
Paid-up share capital	14,000	14,000	14,000	14,000	14,000
Total Reserves	(2,278)	(5,378)	(7,464)	(8,601)	(8,876)
<b>Total Shareholders' Equity</b>	<b>11,722</b>	<b>8,622</b>	<b>6,536</b>	<b>5,399</b>	<b>5,124</b>
<b>Total Equity</b>	<b>11,722</b>	<b>8,622</b>	<b>6,536</b>	<b>5,399</b>	<b>5,124</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>26,665</b>	<b>27,830</b>	<b>28,257</b>	<b>28,816</b>	<b>29,090</b>

Net debt currently stands at 2.2x our estimate of 2010 sales

Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
Net Debt (SARmn)	10,745	11,902	13,748	15,466	15,568
Net Debt/EBITDA (x)	-	8.49	11.10	42.82	11.01
Net Debt to Equity	91.7%	138.0%	210.4%	286.4%	303.8%
EBITDA Interest Cover (x)	(5.6)	(1.7)	0.4	1.6	2.7
BVPS (SAR)	8.37	6.16	4.67	3.86	3.66

A large positive movement on working capital supported cash flow in 2009. This may not be sustainable

Cashflow Statement (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Net Income before Tax & Minority Interest	(2,278)	(3,099)	(2,087)	(1,141)	(282)
Depreciation & Amortisation	435	1,394	1,524	1,679	1,760
Decrease in Working Capital	796	2,060	(202)	(722)	115
Other Operating Cashflow	-	638	261	5	7
<b>Cashflow from Operations</b>	<b>(1,048)</b>	<b>994</b>	<b>(503)</b>	<b>(179)</b>	<b>1,600</b>
Capital Expenditure	(25,919)	(1,892)	(1,181)	(1,539)	(1,703)
New Investments	1	-	-	-	-
Others	65	3	0	-	-
<b>Cashflow from investing activities</b>	<b>(25,853)</b>	<b>(1,889)</b>	<b>(1,180)</b>	<b>(1,539)</b>	<b>(1,703)</b>
<b>Net Operating Cashflow</b>	<b>(26,901)</b>	<b>(895)</b>	<b>(1,684)</b>	<b>(1,718)</b>	<b>(102)</b>
Dividends paid to ordinary shareholders	-	-	-	-	-
Proceeds from issue of shares	14,000	-	-	-	-
Increase in Loans	13,710	1,393	1,622	1,718	102
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	(226)	(575)	(194)	-	-
<b>Cashflow from financing activities</b>	<b>27,484</b>	<b>818</b>	<b>1,428</b>	<b>1,718</b>	<b>102</b>
Total cash generated	583	(78)	(256)	-	0
Cash at beginning of period	-	583	506	250	250
<b>Implied cash at end of year</b>	<b>583</b>	<b>506</b>	<b>250</b>	<b>250</b>	<b>250</b>

We expect the capex/sales ratio to decline steadily

Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
Capex/Sales	5130.5%	63.0%	22.0%	21.0%	19.0%

Source: Company data, Al Rajhi Capital



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### Additional disclosures

#### 1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

**"Overweight"**: Our target price is more than 15% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

**"Neutral"**: We expect the share price to settle at a level between 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

**"Underweight"**: Our target price is more than 5% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

#### 2. Definitions

**"Time horizon"**: Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

**"Fair value"**: We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

**"Target price"**: This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if /a company's profits or operating performance exceed or fall short of our expectations.



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