Zain KSA FY Earnings Call

Thursday, 20 February 2025

Omar

Good morning and good afternoon, everyone. This is Omar Maher from EFG Hermes. I would like to welcome everyone to Zain KSA's Full Year 2024 Results conference call. As usual, the call will begin with a discussion of the key highlights of the period, and this will be followed by a Q&A session.

I will now hand the call over to Faisal Alkahtani, Investor Relations Manager at Zain KSA. Thank you very much.

Faisal

Thank you, Omar. Good afternoon, everyone, and thank you for joining us today for the Zain KSA Full Year 2024 Earnings call. I am Faisal Alkahtani, manager of Investor Relations, and with me today, our acting CEO Mr. Saad Alsadhan and CFO Mr. Mahdi Khalfaoui.

We announced our results last Tuesday and released our financial statement today, and you can find all the related material on our website. Before we begin, I would like to remind you that during this call, expectations and projections regarding future performance of the company referenced in this presentation are forward-looking statements within the meaning of applicable securities law and regulations. These are statements which the management believe are true at the time of the preparation, based on available data and information, and are subject to future events and uncertainties and to the successful and timely exclusion of plans and strategies that could cause actual results to develop materially from those anticipated in this forward-looking statement.

Now, I will hand it over to Mr. Saad who will provide an overview of our full year performance. After that, Mr. Mahdi will discuss our financial results in more detail. We will then open the call for questions. Mr. Saad, please go ahead.

Saad

Thank you, Faisal. Good afternoon, ladies and gentlemen. Thank you for attending the call and showing interest in Zain KSA. I'm happy to be with you all today on this earnings call.

As we have reported in our latest financial results covering the 2024 financial year, we have achieved revenues of SAR 10.4 billion, a 5% year-on-year growth. Profit stood at SAR 596 million compared to SAR 1.267 billion in 2023, which also included SAR 1.1 billion gained from the tower infrastructure sales transaction. Profits before interest, tax, depreciation and amortization (EBITDA) cost reached SAR 3.3 billion, a 12% growth. As a result, the Zain KSA board recommended distributing dividends for the third consecutive year at the nominal rate of 5%.

Before continuing, I would like to take a moment to remember my dear friend and one of the kingdom's most influential business leaders, our late Engineer Sultan Al-Deghaither who created a positive impact in a short period of time and left a legacy which we follow until this date. Allow me to go over some of his achievements as time will not be in our favor to go over all of them.

Under his leadership, we turned SAR 2 billion losses into profit and enabled first ever dividend distribution. We successfully closed the towerCo deal, which worths SAR 3 billion, led Zain KSA's capital restructuring and doubled the market value from SAR 4.8 billion to SAR 9.4 billion. Diversified revenue with Tamam, Yaqoot, Zain Drone and Zain Cloud. We led 5G by launching the largest 5G network at that time and implemented Zain KSA strategy into 5G applications and use cases.

We went beyond telecom by expanding our company's operations into adjacent markets, including FinTech, gaming and cloud computing. We became champions of sustainability. Last, but certainly not least, Sultan was a major advocate for the incredible talent and untapped potential of local youth and support of female roles and leadership in the ICT industry. Sultan transformed the company's HR efforts and tapped into the kingdom's generation youth. Thank you, Sultan, for your rich legacy and for continuing to inspire us towards greater heights.

For the operational performance this financial performance reflects Zain KSA's strategic focused on enhancing customer experience and expanding future technologies and 5G. The company saw significant growth in revenue from the enterprise sector and widespread adoption of Yaqoot digital services. In addition, it continued to see a higher return on investment in adjacent markets, particularly FinTech through Tamam.

For Tamam financials, Tamam delivered a very successful 2024 with strong demand for its innovative no documents finance to underserved consumer segment in the kingdom, resulting in revenue of SAR 367 million, corresponding to a 30% year-on-year growth. Tamam also delivered a second consecutive year of more than doubling net income, achieving 103% growth to SAR 105 million in 2024 versus 2023, demonstrating definitely a strong profitability momentum.

Our total active customers increased to 9.3 million by the end of 2024 with an ARPU of 62 Saudi riyal. Total capex investment for 2024 was SAR 1.5 billion, equivalent to 14% of revenue as compared to SAR 951 million equivalent to 10% of 2023 revenue. Used definitely to further enhance the quality of services provided to our customers.

Zain KSA has secured the number one position among all operators in Saudi Arabia in download speed, as per Ookla Speed Test, with a remarkable more than 53% year-on-year improvement. Additionally, we have seen a 7% year-on-year increase in overall attached data subscribers across the Zain network, including Yaqoot and MVNOs with more than 36% growth in 5G subscribers, positioning definitely us as a sustained growth and value creation.

This is in line with our SAR 1.6 billion 5G investment strategy designed to scale our 4G and 5G footprint and meet escalating capacity demand.

Zain KSA is reinforcing its leadership in 5G with a coverage expansion to 70 cities by 2024. This strategic growth has driven a 30% year-on-year increase in download speed and 25% rise in 5G traffic. As a cornerstone of KSA's vision 2030, Zain KSA is proud to contribute to the Kingdom's Top 10 global ranking download speeds positioning us for sustained growth and value creation. This is in line with our SAR 1.6 billion 5G investment strategy designed to scale our 5G footprint and meet escalating capacity demand.

Zain KSA continues to earn top awards and recognition for its performance and is part of the recognition that we got in 2024. At the Annual Telecom Review Leader's Summit, we won the best 5G advanced user experience and best BSS/OSS solution award, Earned new international recognition for Excellence in Diversity and Inclusion and Excellence in Social Responsibility at the Society for Human Resources Management, SHRM awards. We received a recognition from the Ministry of Human Resource and Social Services for providing more than one thousand plus training opportunities to Saudi citizens and develop and empower our society, our ESG efforts at Zain KSA, the global award in the inaugural edition of the Ministry of Human Resource and Social CSR Award.

Zain KSA continues to pursue forging strong long term strategic partnership with leading local, regional and international companies. Salam Mobiles' fruitful partnership with us continues to prosper as we renewed our cooperation until 2030. Since launching the first zero emission 5G network in the world with Red Sea Global Development Company in 2023, our strategic partnership continues to create new achievements, including the first unified critical communication system. Zain KSA secured the new 600 MHz spectrum band for advancing 5G standalone services, bolstering our strategic investment to achieve the best user experience. We end all inclusive, digital authentication license advancing Zain KSA's efforts to localize its enterprise services.

ESG goals are at the heart of our operation, definitely, and organization, which allow us to remain champions of sustainability. Since being nominated as sustainability champion by the Ministry of Economy and Planning, Zain KSA is proud to start advising three local companies, (Thiqah, Unifonic, and 2P) on ESG best practices. Our annual Women in Tech Program is now on its fourth edition. This year in collaboration with Princess Nourah Bint Abdulrahman University, Zain KSA has partnered with MCIT and global tech providers Huawei and Nokia to upskill and mentor 150 PNU students. Also, Zain KSA continues to proudly collaborate with Child Helpline in Saudi Arabia.

On an end note, we reaffirm our ongoing commitment at Zain KSA to drive innovation, support Saudi vision 2030, and continuously enhance our services and infrastructure. Our goal is to elevate the quality of life and well-being of people and empower a wonderful world.

With that I would like to hand over to Mahdi Khalfaoui, our Chief Financial Officer.

Mahdi

Thank you, Saad. Good afternoon, everyone. Thank you again for your interest in Zain KSA.

In terms of full year performance, our revenue showed a healthy growth of SAR 483 million or 5% reaching SAR 10.4 billion in continuation of 5% growth achieved during the first 9 months of 2024.

The yearly uplift is reflective of the consistent quarterly growth observed during current year ranging from 2% to 7% with a solid 6% growth in Q4 compared to last year .A significant part of revenue growth compared to last year is driven by enterprise, 5G broadband and wholesale segments having combined contribution of almost 90% to the yearly uplift as a result of the last quarter solid 5G performance underlined with our strong marketing offering . Further the micro-lending segment showed a 30% increase in revenue during the current year reaching SAR 368 million, compared to SAR 283 million in 2023 in line with the higher sales and Gross Loan Portfolio (GLP) .

In terms of the Gross margin, we witnessed healthy growth of 10% with a reported gross margin reaching SAR 6.47 billion, reflecting an increase as percentage of revenue from 59% previous year to 62% this year.

Gross margin enhancement vs 2023 is mainly resulting from the revenue uplift, better margin from enterprise and micro-lending segment, device sales, and reduction in subscriber acquisition costs.

Further, there were certain one-off adjustments during the current year, mainly the reversal of WHT international for an amount of SAR 157 million which if normalized would result in gross margin having growth of 7% equivalent to 457 million (60.9% of revenue)

To conclude on the gross margin, we reported SAR 483 million in additional revenue vs last year translating into additional margin +614 million mainly owing to the increase in high margin revenue segments and the WHT adjustment of SAR 157 million.

In terms of OPEX we reported SAR 3.1 Billion (30% of revenue), higher than last year OPEX of SAR 2.9 Billion (29% of revenue) by 269 Million or 9% mainly due to additional Expected Credit Loss (ECL) originating from comprehensive review of credit risk relating to old-aged receivables, inclusion of higher NW maintenance cost from TowerCo transaction, additional technical support owing to coo-existence of 2 billing system . Yet we continue with our cost optimization initiatives mainly coming from lower staff cost, advertising, and lower legal provision subsequent to favorable decision. Further 2023 OPEX had benefit of ECL reversal of SAR 120 million.

Our reported EBITDA reached SAR 3.3 billion in 2024, higher than 2023 by 345 million or 12% as a combination of higher gross margin 483 million and higher OPEX of 269 million as. EBITDA Margin witnessed an improvement vs last year from 30.1% to 32.1%.

If normalized for one-off transactions, EBITDA margin would be at 30.5% compared to normalized EBITDA margin of 30% last year with a growth of 6%.

In terms of yearly EBIT, the company reported SAR 328 million or 38% over last year in line with higher EBITDA offset by slightly higher depreciation and amortization in line with the asset capitalization of SAR 1.5 billion.

Moving to the financing cost, we have reported an increase of SAR 16 million from SAR 719 million in 2023 to SAR 735 million in 2024 due to an increase in interest rates. However, As a result of the pro-active hedging arrangement, we have an unrealized gain of SAR 28 million recognized in the Other Comprehensive Income (OCI) at the year end.

In terms of net profit, the company reported SAR 596 million profit, lower than last year by SAR 671 million or 53% , however if both the years are adjusted for one-off transactions mainly the impact of tower-co transaction gain amounting to SAR 1.135 billion, Zakat provision reversal in 2024 by 76 million, then the current year adjusted profit will be SAR 297 million higher than last year adjusted profit of SAR 131 million by 127%.

To conclude, the net profit and as communicated during the previous earnings call. We ended the year with SAR 596 million higher than 2022 Net profit. Yet with the new company cost structure including TowerCo . maintain the ability to pay divided without the TowerCo gain as a result of the EBITDA growth.

The CAPEX for this year is SAR ~ SAR 1.5 billion equivalent to 14% of revenue as compared to SAR 951 million last year. Yet in terms of Capex commitments related to projects under implementation we still have projects under implementation worth of SAR 2.46 billion (including SAR 624 million for new 600MHz spectrum recently acquired) as compared to SAR 662 million as of 31st December 2023.

In terms of cash flow, we started the year with SAR 946 million, and we closed at SAR 840 million at the end of 2024 following the major payments during the year of:

CAPEX payment SAR 747 million fully funded by the CAPEX facility, dividend of SAR 448 million, Debt service including interest payments of SAR 1.8 billion relating to MOF and MFA loans with the latest payment being in September of SAR 633 million towards the MFA facility. As a subsequent event. We have also concluded the refinancing of the remaining SAR 1.9 billion MoF facility with better commercial terms and 5-year bullet payment in 2030 that would have a positive cash flow impact on the company.

Further, we generated SAR 2.2 Bn from operations during the year as compared to SAR 1.7 Bn in prior year, witnessing a YoY growth of 26%.

In terms of free cash flow, we reached SAR 1.5 billion as compared to SAR 187 million (excluding TowerCo proceeds). The improvement of cash flow mainly resulting from the CAPEX financing facility amounting to SAR 1.2 billion out of which SAR 747 million was used in 2024.

In terms of Debt profile, our net debt for the period reached SAR 7.3 billion because of the new facilities in place in terms of CAPEX financing and B2B receivables discounting.

Our reported Net Debt / EBITDA reached 2.66x as compared to 2.71x in 2023 Yet excluding any leases liabilities related to a non-bank debt reached 2.2x as compared to 2.3x at the end of 2023.

Our debt as at YE'2024 represents 48% of the capital structure.

With this I would like to end the financial part and hand over to Faisal.

Faisal — Thanks. We can't start the questions now.

Omar — Thank you very much for the presentation. We will begin the Q&A. As a reminder, if anyone would like to ask questions, you can either use the raise hand function to ask your questions verbally or put your questions in writing in the Q&A box.

The first question comes from Thandos Cosano. Please go ahead.

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Thandos

Hi. Good afternoon, everyone. Hopefully you can hear me properly, and congratulations on the results. I'll start with three questions, please. The first one is just on the operational trends that you guys have seen in Q4, if you could just talk us through what are you seeing in the consumer, so your mobile and your fixed business? And then also, it looks like your ARPU sort of improved in the fourth quarter versus what you saw in Q3. Is this because you are now focusing on higher value customers or is competition now easing in Saudi? That's the first one.

The second question is just on accounts receivables. I see it declined for the first time I think since 2020 if you look at it from a quarterly basis. Any commentary there around collection between your consumer, B2B and B2C? That will be helpful, please.

And then the last one, just following the Spectrum allocation last year, and also your investments heading into 5G, what can we expect in terms of the capex bill this year or capex intensity? Thank you.

Saad

Thank you very much for your questions. Definitely, in the operation in Q4 we found that we have to focus on our core products, like the consumer products, as you mentioned, the postpaid, the prepaid, the fixed wireless access as well. So, we start creating a task force to look after the newly expanded site and to make sure that we are monetizing them positively. So, we did some action in the shops. We did a lot of actions on the ground, with the people, with the direct partner, with the indirect partner, with our people on the retail and the indirect retail as well, pushing all the channels in order to sell more and more, especially on the strong coverage area and the area that just being upgraded to the newest technology, which is 5G.

For the second question about the collection, please leave it to Mahdi to focus on that.

Mahdi

Good afternoon. Thank you very much. Thank you again for your interest and your questions.

So, in terms of account receivable, the drop basically that you see is a combination of two things. The first one is following the additional provision that we took for more than three years. The regulator allowed us to write-off of any old debt more than three years and to recover the royalty that was paid on it. Therefore, that was a write-off of SAR 486 million at the end of 2024, which is fully covered by the provision.

Also, we have seen an improvement on the collection when it comes to consumer, definitely following the revamp of the collection business model that we have within the company, and basically by going, I would say, more aggressive on the commission side when it comes to consumer. However, now just the increase is being referenced towards the government receivables that increased from 2023/2024, which we believe it's, I would call it, working capital requirement at this stage, but it would end up being paid given the absence of risk when it comes to collection of such a category of receivables. Thank you.

Omar Thank you. And then next, we have a few questions from Maddie Singh in the Q&A box. I'll read them out one by one. First one is, “What was the recurring EBITDA for 4Q, and can you spell out the one-off items in EBITDA and net income?”

Mahdi In terms of EBITDA, basically what we have as a one-off for the full year is the, I would say, the SAR 157 million that was disclosed as the withholding tax. In terms of net profit and net income, the net income basically what we had in Q4 is the reassessment of the Zakat provision that has led to SAR 76 million. Be assured that any one-off that is being done, it’s being announced basically to the public. Thank you.

Omar Thank you, Mahdi. Second question is, “What kind of impact is expected from losing the MVNOs contract?”

Saad Hello, Maddie. We already renewed our contract with one of theMVNOs, and we are containing one of the MVNOs. The other MVNOs still they are in our network. We don't know till when they will be in our network till, they decide to cut off and move 100%, because currently we are containing their surfaces, and they are run on top of our 4G and 5G network on their kingdom.

Omar Thank you. And the last question is whether you can provide any guidance for 2025 for EBITDA or dividends.

Mahdi As you know, we don't provide guidance. However, we don't expect neither to slow down the growth, nor to reduce the efficiency that we are working with today, nor to basically reduce the capex intensity.

Omar Thank you, Mahdi. And just as a follow up, just to make sure the one-offs that you mentioned in answer to the first question, were these for 2024 or for 4Q only?

Mahdi For full 2024, just one second. So, for full 2024, for full year 2024, we had the SAR 157 million withholding tax. We had SAR 21 million basically the sale of the towers. We had SAR 7 million one-off, but it's on the negative side. It's showing under Other Expense which is related to an impairment of a very old brand. And the SAR 52 million USF grant that we had during the year. So, if we have to take this from SAR 576 or from the reported the SAR 596, it would give us the SAR 298 that I just mentioned on the call.

Omar Got it. Thank you.

And the next question, we have a question from Nishit lakotia. Please, go ahead.

Nishi I have basically a question on the debt side. You have refinanced your Ministry of Finance loan with a bullet payment, so it helps you on the cash flows. But if I'm not wrong, this Ministry of Finance loan that was there was at a lower interest rate, less than 4%. So technically, the interest rate could be much higher on the bullet payment that you have refinanced it with? And also, you have close to SAR 6 billion in current debt now, so should we expect more refinancing to happen, given the stress on the cash flow otherwise? Thank you.

Mahdi Yes. Thank you for the question. So basically, MOF loan, as you know, it was given to the company a long time ago. The company, since then, improved its performance, improved its leverage. Today, the interest rate that we have, or the margin that we are refinancing to deal with, is much lower than what we have today on the MOF facility. So, definitely, there will be a saving on the interest as we announced in Tadawul.

More importantly is the impact on the cash flow. So basically, the MOF loan has a yearly installment that should continue being paid. However, we have a new loan now with the five-year bullet, voluntary repayment, partial or fully at any point in time. So definitely, the facility is at a lower interest rate than the MOF, and when it comes to cash flow is more positive, I would say. Thank you.

Nishit So what about the current liabilities, the SAR 6 billion debt? How will you manage that? Thanks.

Mahdi Absolutely. So, we have the MFA facility that basically we paid the last installment back in September. Its maturity is during September this year. Definitely, we will go for further refinancing after reducing it from an initial six plus one billion. Now it's 4.6 billion. That we will refinance it before its maturity.

Nishit Thank you so much.

Omar Thank you. And then next question is from Hamad, three questions. I'll take them one by one. First one is, “Where do you believe the revenue growth will come from in the next few years?”

Saad We'll start with the first question, definitely. We are expecting positive economy. We are expecting more visitors, we are expecting more pilgrims, Hajj and Umrah season is booming. In terms of verticals, definitely we will continue on the same verticals that we are focusing and building the infrastructure, which is the B2C and B2B and adjacent market, and also the new

	ICT focusing on the cloud computing. All the new products in the market we are building now our product to make sure that we are ready to cater all the demand. Thank you.
Omar	Thank you. And the second question is, "How do you see Tamam growing in the future?"
Saad	Sorry, the connect?
Omar	No. "How do you see Tamam growing in the future?" That's the second question.
Saad	For the FinTech product and for Tamam, we are not only a micro financing supplier, we are entering more, we are adding more products to Tamam, as much as we can. We are enhancing the customer experience, we are launching open banking, we are launching credit card; we are launching a lot more services to Tamam and it is evolving. And we have multiple ideas versus still it is under more evaluation in order to discuss the verticals that we can focus, either B2B, B2C, where to go more, but it is in our top priority.
Omar	Thank you. And the last question from Hamad is, "Any plans to reduce debt?"
Mahdi	Yes, absolutely. I mean, we continue our natural deleveraging. We have the capex facility in place whereby the first installment will start after two years. This is a 10-year capex facility. We have the receivable discounting of SAR 500 million that basically the moment it comes to maturity, whether we refinance it or we will repay part of it. Now it's just about the excess cash after investment, after fulfilling the obligations that we have, definitely it will continue towards, I would say, the natural deleveraging, rather than a forced one. It will all depend on the free cash flow that the company would generate.
Omar	Thank you. And the next question is from Yash James, so a couple of questions in writing. First one is, "Could you provide color on the drivers behind the decline and accounts receivable balance in the fourth quarter, which is the first decline since 2020?"
Mahdi	Okay. Very good. So, on the receivable side, as I mentioned, we took the bad debt to cover more than three years that triggered or that resulted in a write-off of the uncollected receivables for more than three years. This is when it comes to consumers, especially because the regulator here allowed us to recover any royalty paid for this that resulted in a positive outcome. And the combination of improvement on the collection during the last quarter, this is when it comes to receivable consumer. B2B, the increase there is from the government that represents basically the biggest majority of the increase receivable today. Here I'm being very specific. I'm talking about the net

	receivable when it comes to customers. And if any other questions, I'm here to answer. Thank you.
Omar	Thank you, Mahdi. The second question is, "How do you foresee allocating incremental cash flow in 2025 till 2027 between dividend growth and debt repayment?"
Mahdi	For 2025, debt repayment, we announced the dividend. We announced it's exactly the same amount. As I mentioned, in terms of debt repayment, now it's depending on the cash flow. If we have excess cash flow, then definitely we will settle, and we'll reduce further the debt. However, as I mentioned earlier, we have a debt of SAR 4.6 billion, which is a Murabaha with eight banks. Appetite is very high, definitely, and we will refinance it, and we'll go into the further or natural deleveraging, I would say.
Omar	Thank you. And we have a follow up from Thandos. Please go ahead.
Thandos	Hi, thank you. I think that there was a question I asked about capex. I don't think it was answered. Just with regards to what you guys are expecting, whether from a capex bill or from a capex intensity perspective in 2025, just following the Spectrum allocation, and also your investments into 5G. And then I just wanted to ask a second question, also just on EBITDA margin, normalized is 30.5. That's about 40 basis points improvement. If we think about 2025, are you feeling more confident that you can do the same or more? Or it could vary between less and more? Just any color there would be appreciated. Thank you.
Mahdi	Okay, thank you. Just coming back to the capex, there is a clear indication on the financials that shows how much capex today is under implementation or under commitment not yet basically deployed, which is amounting today SAR 2.5 billion out of which there is SAR 624 million for the Spectrum. We are not expecting to reduce the capex intensity. We continue to monetize the existing investment as well as any new investment that will be deployed. This is on the capex.
Omar	Thank you, Mahdi. The next question from Chikkaparappa is, "Do you have any plans to take Tamam public?"
Mahdi	Omar, the EBITDA margin for Thandos.
Omar	Oh, sorry.

Mahdi	As I mentioned earlier, the OPEX for 2024, I would say double support paid due to coexistence of legacy and new billing system. And now that we are fully live with our new BSS, with Net cracker, whether in terms of billing or CRM, definitely the cost of legacy would no longer be there. Plus, the continuation of the improvement of the operation in terms of 5G high margin segment, definitely it would help us to continue delivering the EBITDA margin that is requested, if not higher. Thank you.
Omar	Thank you, Mahdi. Would you like me to repeat that question again?
Mahdi	Yes, please.
Omar	So the question is whether you have any plans to take Tamam public.
Mahdi	At this stage, we continue focusing on growing the operation. We do believe that there is still value to capture on the market. We continue to grow the value, continue to grow the business. At this stage, I wouldn't say that we have a very short-term plan for an IPO. We are studying. and continuing growing the operation, but we would say not at this point in time.
Omar	Thank you. And the second question is, "What is driving margins growth on an adjusted basis?"
Mahdi	What is driving the margin growth, especially during Q4, is the growth of the 5G consumer segment. 5G is a high margin segment where there is no interconnection and lower cost structure than the prepaid or postpaid, higher lifetime as well; growth on the enterprise segment, basically, along with its reduction in cost; and finally, the reduction on the subscriber acquisition cost that I mentioned earlier. Thank you.
Omar	Thank you. As a reminder, if anyone has any questions, you can use the raise hand function or the Q&A box. All right, it looks like those are all the questions in the Q&A box, so I guess back to you if you'd like to make any concluding remarks.
Faisal	Thank you all for joining us today, and for your continued interest in Zain KSA. Should you have any additional questions or require further information, please do not hesitate to reach out to our investor relation team. We look forward to updating you on our progress in the next quarter. Thank you again for your time and support. Have a great day.
Mahdi	Thank you very much.
Omar	Thank you. Thank you to the Zain Saudi team and thank you everyone for your participation. This concludes the call. Have a nice day.