Transcript

Zain KSA 1Q25 Results Conference Call

Thursday, 15 May 2025

Omar Maher

Good morning and good afternoon, everyone. This is Omar Maher from EFG Hermes. I would like to welcome everyone to Zain KSA's 1Q25 Results Conference call. As usual, the call will begin with a discussion of the key highlights of the quarter, 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 Alkahtani

Thank you, Omar. Good afternoon, everyone, and thank you for joining us today for the Zain KSA first Quarter 2025 Earnings call. I am Faisal Alkahtani, manager of IR. With me today, our acting CEO Eng. Saad Alsadhan and CFO Mr. Mehdi Khalfaoui.

We announced our results on Wednesday, May 7, 2025, and released our financial statement last Thursday, and you can find all related materials 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 execution of a plan and strategies that could cause actual results to differ materially from those anticipated in these forward-looking statements.

Now I will hand it over to Eng. Saad, who will provide an overview of our first quarter performance. After that, Mr. Mehdi will discuss our financial results in more detail, and we will then open the call for questions.

Mr. Saad, please go ahead.

Saad Alsadhan

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.

As we have reported in our latest financial results covering Q1 2025, we have achieved revenues of SAR 2.7 billion, which is 6.1% year-on-year growth. Net profit for the period amounted to be SAR 93 million marking almost 40% increase compared to Q1 2024. And it's worth mentioning that we have incurred additional SAR 30 million provisions for government receivables during this quarter.

In the EBITDA, we reached SAR 813 million, a 5.2% growth.

Tamam witnessed a successful Q1 2025 and expanded its product and services, resulting in revenues of SAR 108 million, reflecting a 31% year on year growth. Tamam also achieved 11% net profit growth reaching almost SAR 30 million in Q1 2025 compared to the same period in Q1 2024.

The financial results highlight Zain KSA's sustained operational performance and growth. The company's strategic 5G network expansion has shown increased demand for both individual and enterprise customers, cementing Zain KSA's position as the digital provider of choice.

Growth was further supported by the demand on "Yaqoot" digital service and the improved returns on investment in adjacent markets, especially in FinTech through Tamam. Our total number of active customers was 9 million by the end of Q1 2025, with an ARPU of SAR 61. Total CapEx investment in Q1 2025 was SAR 504 million used to further enhance the quality of services provided to our customers.

Zain KSA's download speed proudly ranked number one among all operators in Kingdom Saudi Arabia as per "Global Platform Specializing in Performance Measurements" with a remarkable 30% growth year on year, and improvement for user throughput. Additionally, we have seen a 9% year on year increase in overall attached subscribers across Zain's network, with a more than almost 30% growth in 5G subscribers, positioning us for sustained growth and value creation. Moreover, more than 56% of the total traffic is being carried by our 5G network. This is in line with our SAR 1.1 billion 5G investment strategy designed to scale our 5G footprint and meet escalating capacity demands.

Zain KSA wrapped up its successful participation at the Annual Lead Tech Conference. We signed more than 20 memorandums of understandings and agreements with leading global and local entities, including Atheer connectivity Huawei, Nokia, Oracle and Symantec. Another main event of the global ICT calendar is Mobile World Congress, MWC, where the Zain KSA participated and signed five strategic agreements with leading entities in the ICT industry.

Zain KSA continues to make a strong long-term strategic partnership with leading local, regional and international companies. Proudly, we have entered the strategic sponsorship with Inter Milan. We became the strategic sponsor of LEAP 2025, and Zain KSA continued to support the Kingdom's effort to localize the ICT sector. As such, we signed a new strategic partnership with leading universities and education institutes in order to empower Saudi talent with digital skills and real-world training. We are honored to have obtained a license from the digital government authority (DGA) to offer independent digital authentication services.

On the sustainability part, ESG goals are at the heart of our operations and organization, which allows us to remain champions of sustainability. During Ramadan, our employees took part in the distribution of Iftar meals on the CSR day, and this quarter, we launched a cybersecurity awareness campaign targeting university students. Also, we continue in supporting the national donation campaign "Ehsan".

Finally, we are delighted to see how our efforts have been recognized and how successful our world land strategic investments are. We are continuing our strategic plans to sustain our position as the digital services provider of choice and a proud enabler of Vision 2030.

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

Mehdi Khalfaoui

Thank you, Saad. Good afternoon, everyone. Welcome again to Zain KSA's Q1 2025 Earnings call.

In terms of Q1 performance, our revenue showed healthy growth of 155 million, or 6% reaching 2.7 billion, almost aligned with Q4 2024. A significant part of the revenue growth compared to Q1 last year is driven by the growth in 5G broadband revenues contributing nearly half of the overall increase, and the other segments like digital, prepaid revenue, showing a healthy uplift due to the increase in demand in our product portfolio, mainly from the successful Umrah season, leading to substantial growth in customer acquisition and values.

Further, our micro lending segment showed 31% increase in revenue during the first quarter, reaching SAR 108 million compared to SAR 82 million in Q1 last year, which is aligned with the higher sales and gross loan portfolio.

In terms of gross margin, we reported SAR 1.58 billion, reflecting SAR 40 million or 3% growth compared to Q1 2024. Gross margin enhancement versus Q1 2024 is mainly attributable to the 5G revenue uplift, growth in micro lending segment and better margin on device installment with package sales. Gross margin percentage, however, declined from 61% in Q1 last year to 59% in Q1 this year, originating mainly from the cost of the fiber Open Access and the wholesale segment.

To conclude on the gross margin, we reported SAR 155 million additional revenue versus Q1 last year, translating into an additional margin of SAR 40 million mainly from consumer and micro lending segments.

In terms of OPEX, we reported SAR 772 million (29% of revenue), as compared to Q1 last year compared to 30% in Q1 last year. Total opex is flat yoy.
Despite booking additional Expected Credit Loss originating from comprehensive review of credit risk relating to old-aged receivables including government segment and inclusion of higher NW maintenance cost owing to additional BTS built during 2024 and its associated inflation.

Reduction in items such as advertising with more spending towards the revenue generating segment and lower support costs after transitioning to new billing system in 2025 and the decommissioning of the support from the legacy system.

Our reported EBITDA of SAR 813 million in Q1 2025 was higher than Q1 2024 by SAR 40 million, or 5%, attributable to the higher gross margin as OpEx was maintained at the same level of Q1-2024.
Margin-wise, we witnessed a slight decline versus last year, from 30.5 to 30.2 as a result of the gross margin percentage slight decline and the improvement during Q1 witnessed from the Umrah season along with its international costs.

In terms of quarterly EBIT, we reported SAR 274 million. That was higher than last year quarter by SAR 23 million due to the additional amortization of the new Spectrum of SAR 7 million, in addition to its impact on the financing cost of SAR 6 million. In total, SAR 13 million coming from the capitalization of the Spectrum this year (amortization and Financing cost)

Moving on to the financing cost, we have reported a decrease of SAR 7 million from SAR 182 million in Q1'24 to SAR 175 million in Q1'25; due to repayment of loans amounting to SAR 1.1 billion during Jun-24 and Sep-24 respectively along with lower average interest rates. As a result of the proactive hedging arrangement, we realized gains of SAR 8 Mn in P&L with an unrealized gain of SAR 21 million available as a reserve in equity at quarter end.

In terms of net profit, the company reported SAR 93 million in net profit, higher than Q1 last year by SAR 26 million, or almost 40%, aligned with higher EBIT and lower Zakat expense. To conclude on the net profit, we ended the quarter with SAR 93 million higher than last year as a result of the EBITDA growth.

Our CapEx for this quarter was SAR 504 million, equivalent to 19% as compared to SAR 52 million in Q1 last year. Q1 CapEx is including the capitalization of SAR 411 million Spectrum as intangible, being the present value of the total Spectrum value of SAR 624 million. In terms of CapEx commitment, we still have projects under implementation worth SAR 2.1 billion, as compared to SAR 2.46 billion as of December 2024.

In terms of cash flow, we started the year with SAR 839 million. We closed at SAR 311 million as of Q1 2025, following the major payments during the year of CapEx payment of SAR 419 million, including a payment of a new frequency of SAR 191 million, in addition to a CapEx of SAR 169 million, funded by the CapEx facility shown on the non-cash transaction. During the year, we have drawn a loan amounting SAR 1.9 billion relating to the MOF refinancing, and repaid SAR 2.1 billion, including the working capital payment. We also paid SAR 127 million as financing cost during the quarter.

In terms of free cash flow, despite the fact that we generated SAR 328 million of operating cash flow during the quarter, we have a negative free cash flow of SAR 91 million as compared to a negative free cash flow of SAR 182 million last year. This improvement, although still negative, came because of the CapEx financing facility amounting to SAR 1.2 billion, out of which SAR 747 million was used in 2024, SAR 915 million have been utilized so far.

The negative free cash flow resulting during the period was mainly from the increase in total receivables by SAR 785 million, and there is ongoing effort definitely to materialize the B2B collection and the payment of SAR 190 million of the previously acquired spectrum.

Finally, the company fulfilled its dividend payment obligation as announced during the last general assembly.

In terms of debt profile, our net debt for the period reached SAR 7.8 billion as a result of the drawdown from the CapEx financing. Our reported net debt to EBITDA, excluding any of this liability to a non-bank, reach 2.32x as compared to 2.2x at the end of 2024. Our debt as of Q1 2025 represents 48% of the capital structure.

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

Faisal Alkahtani: Thanks. We can start the questions now.

Omar Maher: Thank you for the presentation. We'll move to the Q&A. So as a reminder, if anyone would like to ask any questions, you can use the raise hand function to ask your question verbally, or you can simply put the question in the Q&A box, or rather the Slido for questions.

We'll take the first question from Thando Go ahead. Are you there?

Thando: Thank you. I'm Thando from UBS. I just wanted to say, I do apologize if I ask a question that's already been answered. I've been having some technical issues on my side. But I'll start off with three questions and then go back in line.

The first one is just on your customer base. I mean, it looks like you've lost a number of customers in Q1, which is quite surprising, versus your peers that have seen that strong momentum from Q4. So, it would be great to hear your thoughts on what you're seeing on the ground from a mobile side and also your fixed wireless side.

My second question is on gross margin. I think you did mention something along the lines of the fiber Open Access and wholesale, is 59% the norm, or what you saw in Q1 in terms of gross margin development sort of one-off in your opinion?

And then the last one is just on EBITDA margins. I know consensus, we're expecting 32% in Q1 of this year, but it will be nice to get sort of guidance, or some sort of directional guidance, in terms of what margins you guys are expecting for 2025. I do appreciate you don't guide on this, but any color you could provide in terms of EBITDA margins. Thank you.

Saad Alsadhan: Thank you for your question. Let me answer the first question, which is about the customer base. The customer base here is inclusive of all B2B and B2C. And as you know, some of the B2B customers like the end to end, machine to machine SIMs, it's up and down. So sometimes we lose a couple of customers because of machine to machine, then we retain back with another deals. But usually, the end to end is go to 1000 SIMs, 2000 SIMs, so this is why we can see a huge change on the number of customers. However, we call it a clean up on SIMs, because some of the SIMs with no identity, so we keep cleaning up, and our aim is to have the high value customers, instead of having customers with low value.

Mehdi Khalfaoui: Thank you, Saad. Good afternoon. On the gross margin, the 59% had two components during the first quarter, the growth that came from the Umrah season, which is associated with its international costs. Two, basically what we had is the cost from the Open Access today that, for example, any customer who is churning on the FTTH within a certain period, there is a termination fee that should be paid. So, this hurt somehow the gross margin. I would say, it's containable. However, 59% is not the norm. Our aspiration is to go for 60% and more. This is basically what we have. And what we can say for the going forward today, 60% and more, this is in terms of gross margin, so the more contribution we have, especially from the 5G segment, from Tamam, from the high margin segments, the higher the gross margin would be. But definitely, any customer that we acquired, even throughout international products, is leading to a healthy gross margin.

In terms of EBITDA margin, we announced during the last quarter, or during the last earnings call, that our normalized EBITDA for last year was 30.5%. It's still 30.2%. the additional bad debt based on qualitative assessment especially when it comes to the B2B receivables that are growing specifically from the government customers. Upon collection, this would be basically reflected back on the financials. But we have to take conservative, especially when it comes to any long due aging within the receivables.

So, to conclude, on the EBITDA margin, we don't expect to go below 30.2%, yet it will not move to 33% or 34% overnight. This would depend on the materialization of the growth of the high margin setting. Thank you.

Thando: Okay, thank you. If I can follow up on that margin. So, the 30.5%, do you still expect an improvement in the 30.5% EBITDA margin? And then just in terms of expected credit losses, they came down to 2% of sales. Is this what we should be looking at for the rest of the year? Thank you.

Mehdi Khalfaoui: For the ECL, yes, I would say, until you see a drop in trade receivable from the outstanding use that are mainly B2B. So, we continue building on qualitative assessment, and then we recover, or we collect money. This is on ECL Thando.

Thando: Thank you.

Omar Maher: Thank you. So once again, as a reminder, if you have any questions, you can use the raise hand function or put your question in the Q&A box. We'll pause for a moment. There's a follow up from Thando. Go ahead.

Thando: Thank you for that. Maybe I can just ask probably two more questions. You spoke about you are putting in some efforts now to start collecting in terms of the trade receivables balance, particularly in the B2B. Just wondering if you also taking steps in the B2G, and whether you're seeing any, since April, any improvements in terms of collections, or any early signs in terms of collections for the trade receivables balance?

And then I think you've got about SAR 6 billion that's in current liabilities for September 2025. What's the plan around that? Are you looking to refinance this? And how far are you in terms of the process? Thank you.

Saad Alsadhan: Thank you. Regarding the collection, yes, we are putting huge efforts. Currently, the process is much easier than before from the Ministry of Finance and the government, because it is through a platform called "Etimad" Previously, you have to submit your paper as paperwork to them. Nowadays, you need to upload all the documents. Some of the government entities they are requesting a contract to be signed where it was not there before, because now we are going through a governance and very strong governance platform.

The good news is that most of those accounts that they used to pay and some delay on the payment because of such a new process, so this is why we are updating all the documentation. We are visiting them. We have teams on their offices to make sure that we are bridging the communication between the Ministry of Finance and the government and the ministries and the government customers as well.

Mehdi Khalfaoui So in terms of debt, yes, we started, definitely, since beginning of the year to refinance the SAR 4.7 billion syndication loan and we are in very good shape to conclude it within the required timeline. There is very high appetite, and we are in a very good shape. Thank you.

Omar Maher Thank you. Next, we have a question from Pradyumna from HBC. It says, "Was there any tax reversal book in 1Q25?"

Mehdi Khalfaoui No tax reversal, nothing.

Omar Maher Thank you. It looks like those are all the questions we have for today, so I'll hand it back to you, in case you would like to make any concluding remarks.

Faisal Alkahtani 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 Relations 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. Thank you.

Omar Maher Thank you very much, everyone, for your participation. This concludes the call and have a nice day. Thank you.